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ANNEX VI

**to the Commission Implementing Decision approving the Reform Agendas and the
multiannual work programme under the Reform and Growth Facility for the Western
Balkans**



Government of the Republic of North Macedonia

REFORM AND GROWTH FACILITY FOR THE WESTERN BALKANS

REFORM AGENDA OF NORTH MACEDONIA 2024-2027

September, 2024

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LIST OF ABBREVIATIONS

AADT - Annual average daily traffic
AAJP - Academy for judges and public prosecutors
ACCMIS - Automated Court Case Management Information System
AEP - Automated Entry Processing
AES - Automated Export System
AFCOS - Anti-Fraud Coordination Unit
AI - Artificial Intelligence
AQHE - Agency for Quality of Higher Education
ARO - Public Prosecution Office/Asset Recovery Office
BBP - Basic Public Prosecutor
BBPPOCC - Basic Public Prosecutor's Office for Prosecuting Organized Crime and Corruption
BC - Border control
BCBS - Basel Committee on Banking Supervision
CA - Custom Administration
CDS - Customs Decisions System
CEFTA - Central European Free Trade Agreement
CEPEJ - European Commission for the Efficiency of Justice
CERT - Computer Emergency Response Team
CHU - Central Harmonization Unit
COE - Centres of Excellence
COM - Commission Report on North Macedonia
COTIF - Convention concerning International Carriage by Rail
CPC - Commission for Protection of Competition
CPF - World Bank's Country Partnership Framework
CPI - Consumer Price Index
CPP - Council of Public Prosecutors
CS/RD2 - Common Services / Reference Data 2
CSIRT - Cyber Security Incident Response Teams
CVD - Coordinated Vulnerability Disclosure
DA - Data Act
DBNM - Development Bank of North Macedonia
DEU - Delegation of the European Union to North Macedonia
DG TAXUD - Directorate General for Taxation and Customs Union
DIH - Digital Innovation Hubs
DMS - Driver Monitoring Systems
DNSH - Do no significant harm
DSO - Distribution System Operator

EBP - Evidence-Based Practice
EBRD - European Bank for Reconstruction and Development
EC - European Commission
EC MIS - Management Information System
ECFIN - Economic and Financial Affairs
eCMR - Road international convention
ECOFIN - Economic and Financial Affairs
EDIH - European Digital Innovation Hubs
EDP - Entrepreneurial Discovery Process
EE - Energy and Environment
e-FTI - Digitalising freight transport across European Union
EIC - European Innovation Council
eIDAS - Enhanced Data Protection Measures
EIP - Economic and Investment Plan
EIT - European Institute of Innovation & Technology
ENER - Single National Electronic Register of Regulations
ENS - Entry Summary Declarations
ENTSO - European Network of Transmission System Operators
ENTSO-E - European Network of Transmission System Operators for Electricity
EPBD - Energy Performance of Buildings Directive
EPC - Energy Performance Certificate
EPT - Expert project team
ERA's - European Union Agency for Railways
ERC - Energy Regulatory Commission
ERP - Economic Reform Programme
ESA - Employment Service Agency
ESCO - Energy Service Company
ESM - Enterprise Service Management
ETS - Emissions Trading System
ETS - Emission Trading Scheme
EU - European Union
EUCDM - EU Customs Data Model
EVR- European Vehicle Register
FDI - Net Foreign Direct Investment
FITD - Fund for Innovation and Technology Development
GAP III - Gender Action Plan
GDP - Growth Domestic Product
GEF - Geo-Economic Fragmentation
GHG - Greenhouse gases
GOV - Government
GRB - Gender Responsive Budgeting
GRECO - The Group of States against Corruption
GS - General Secretariat
GUM - Guarantee Management System
GVC - Global Value Chain
HAZMAT - transport of hazard material - dangerous goods

IA - Impact Assessment
IBWT - Italian Border Working Table
ICS2 - Customs and the Import Control System
ICT- Information and Communication Technologies
ICT Strategy - Information and Communications Technology Strategy
IFMIS - Integrated Financial Management Information System
IG - Implementation Group
ILO - International Labour Organization
IMF - International Monetary Fund
INTOSAI - International Organization of Supreme Audit Institutions
IPA - Instrument for Pre-accession Assistance
IPARD - Instrument for Pre-Accession Assistance for Rural Development
IT- Information Technology
IT systems - Information Technology System
IT IS - Integrated Tax Information System
ITS - (European) Intelligent Transport Systems
IVET - Initial vocational education and training
JC - Judicial Council
JSC - Joint Steering Committee
JTAP - Just Transition Action Plan
JTR - Just Transition Roadmap
KPIs - Key Performance Indicators
LAS - Law on Administrative Servants
LCA - Law on Climate Action
LGUs - Local Governmental Units
LOSAB - Law on the Organization and Operation of the State Administration Bodies
MASP-C - The Multi-Annual Strategic Plan for Taxation
MEA - Ministry for European Affairs
MEAT - Most Economically Advantageous Tender
MEMO - National Electricity Market Operator
MEPSO - Macedonian Transmission system operator
MFA - Macro-Financial Assistance
MIMIC - Motive, Intent, Mistake, Identity
MISA - Ministry of Information Society and Administration
MIZ - Municipal Industrial Zones
MoEPP - Ministry of Environment and Physical Planning
MoF - Ministry of Finance
MoI - Ministry of Interior
MRA - Mutual Recognition Agreement
MRVA - Monitoring, Review, Verification and Accreditation
MS - Member State
MW – Megawatt
NCTS - New Computerized Transit System
NDI - National Democratic Institute
NEAR - Directorate-General for Neighbourhood and Enlargement Negotiations
NECP - National Energy and Climate Plan

NEMOs - Nominated Electricity Market Operators
NIPAC - National IPA Coordinator
NIS - Network and Information Systems
NPL - Non-Performing-Loans
NQF - National Qualifications Framework
NRA - National Regulatory Authorities
NSE - Non-standard forms of employment
NTMC - National Traffic Management Centre
NTTO - National Technology Transfer Office
OBL - Organic Budget Law
OCCTR - Organised Crime and Corruption Track Record Platform
ODIHR - Office for Democratic Institutions and Human Rights
OECD - Organisation for Economic Co-operation and Development
OLAF - Office Europeen de Lutte Anti-Fraude
OSCE - Organization for Security and Cooperation in Europe
PAR - Public Administration Reform
PESR - Public Enterprise for State Roads
PFM - Public Finance Management
PIFC - Public Internal Financial Control
PIM - Public Investment Management
PIMD - Public Investments Management Department
PIU - Project Implementation Unit
PLL - Precautionary and Liquidity Line
PP - Public Prosecutors
PPO - Public Prosecution Office
PPP - Public Private Partnership
PRO - Public Revenue Office
PX - Power Exchanges
QA - Quality Assurance
RA - Reform Agenda
RCC - Regional Cooperation Council
RES - Renewable Energy Sources
RFB - Request for bids
RGF - Reform and Growth Facility
RIS - Regional Innovation Scheme
RoL - Rule of Law
SAA - Stabilization and Association Agreement
SAMIS - State Aid Management Information System
SAO - State Audit Office
SCM - Standard Cost Model
SDAC- Single Day-ahead Coupling
SDR - international reserve asset
SEC- State Election Commission
SEO - Search Engine Optimization
SIM - Security Incident Management
SLCP - Short-Lived Climate Pollutants

SLI - State Labour Inspectorate
SME - Small and Medium-sized Enterprises
SOCs - State Owned Companies
SOE - Special Operations Executive
SOV - Source of Verification
SPP - Single Project Pipeline
SSPF - Sector Single Project Pipeline
SSS - Smart Specialization Strategy
STP - Science and Technology Parks
SUPRAE - Project for Support for Policy Reforms, Accession and Effectiveness
SW - EU Single Window Environment for Customs
TA - Technical Assistance
TAD - paper transit accompanying document
TAIEX - Technical Assistance and Information Exchange
TBD - to be determined
TCM - Terms, Conditions and Methodologies
TEN-T - Trans-European Transport Network
TIDZ - Technological Industrial Development Zones
TIR - Transports Internationaux Routiers, International Road Transport
TPP - Thermal Power Plant
TSI - Infrastructure structural subsystem
TSO - Transmission System Operator
TVET - Technical Vocational Education and Training
UCC - The Union Customs Code
UN - United Nations
UNDP - United Nations Development Programme
UNECE - United Nations Economic Commission for Europe
UNFCCC - United Nations Framework Convention on Climate Change
USO - Universal Service Obligation
VET - Vocational Education and Training
WB - Western Balkan, World Bank
WBIF - Western Balkans Investment Framework
WBTFP - Western Balkans Trade and Transport Facilitation
WHO - World Health Organization
WIM - Weight In Motion

PART 1: OBJECTIVES AND COHERENCE OF THE REFORM AGENDA

The European Commission on 8 November 2023 proposed the Reform and Growth Facility 2024-2027 (RGF) that should provide key support to the implementation of the new Growth Plan for Western Balkans Countries and its four pillars. The Facility serves as a temporary instrument in the form of loans and grants that aim to address the insufficient socio-economic convergence between the WB and the EU, exacerbated by the economic impact of COVID-19 pandemic and Russia war of aggression against Ukraine.

The RGF is foreseen to support implementation of reform agendas (RA) that identify comprehensive package of a coherent and prioritized set of targeted reforms and investment areas.

This RA outlines the strategic approach of North Macedonia to accelerate fundamental reforms for progressive integration with the Union single market and socio-economic convergence, as well as alignment with Union laws, rules, standards, policies, and practices as per general objectives as stated under Article 3 of the RGF Regulation. **In short, the Reform Agenda outlines the commitments of the Republic of North Macedonia to successfully implement the reforms necessary to complete the EU integration.**

1. MAIN CHALLENGES (PROBLEM ANALYSIS)

Convergence is a natural companion of the EU accession process, and the main driving force of coming together and supporting the national strategic priority of the Republic of North Macedonia, i.e., obtaining fully-fledged EU membership. North Macedonia has been a candidate for EU membership for 15 years. The process of bilateral screening, with the opening of negotiations for accessions was initiated in 2022, putting the country to the test to identify all possible challenges on its path towards EU membership. Although the country has accomplished a lot in aligning its policies and strategies with those of the EU, there are several challenges remaining.

Experience from previous enlargements shows that approximation process leads to improved institutional reforms, which then lead to increased foreign direct investments. Considering the need to modernise the public administration and increase its efficiency, and at the same time cutting on regulations that hamper the economic development calls for strong institutions and competent staff.

Harmonisation and adjustments of policies related to the economy, increases the competitiveness of the small and medium companies. With greater access to finance, they can increase their productivity and have access to the EU single market.

Accelerating socio-economic convergence with the European Union and integration into the Union's single market presents a significant challenge for North Macedonia, demanding overreaching reforms, not least structural changes, enhancing effectiveness and efficiency of the public administration and of managing the public finances, scaling up sustainable finance, labour market restructuring, strengthening private sector development and ensuring environmental sustainability. Each of these areas requires focused and targeted efforts to overcome challenges impeding economic and social transformation, and strategic interventions to address existing vulnerabilities and align more closely with EU standards and practices.

Higher unemployment rates are one of the major factors that affect the development of the country. The link among the labour market, the education and employment is essential, and implementing the reforms in these areas can assist the country and hold off the big brain drain of highly-educated persons.

Pursuing market friendly reforms that will improve the connectivity infrastructure will contribute further to increased export and diversification of the industrial production.

Though North Macedonia has achieved considerable progress in income convergence, its average GDP per capita (measured by the purchasing power standard) was 42.0% in 2022, still well below the EU 27 average. This reform agenda contributes to narrowing the income gap and accelerating income convergence.

The country's real GDP growth has been adversely affected by two consecutive external shocks, notably the COVID-19 pandemic and the surge in energy prices triggered by the war in Ukraine and the broader geopolitical tensions. These shocks have highlighted the vulnerability of the small and open economy to sharp falls of external demand, global supply-chain disruptions, and volatility of energy prices. The multiple crises underscored the need for a more resilient economic and fiscal framework that can withstand future shocks and ensure an upward trajectory of sustainable growth and development.

To a certain level, these shocks have created the need for the systems in the country to be reliable and withstand future shocks. Thus, in areas like Energy and Green Transition, the programme focuses on strengthening the Energy Market, decarbonisation, investing in capacities for energy storage and battery. At the same time, ensuring high security of the critical infrastructure and increased level of cyber security are the challenges that the country will try to meet with the reforms in the Digitalisation policy area.

Public Finance Management (PFM)

Effective public finance management (PFM) is pivotal not only for enhancing fiscal discipline and strategic allocation of scarce public resources but also for ensuring transparency, accountability, and efficiency in budgetary spending and in provision of high-quality public services, which are essential for gaining public trust and increasing the overall domestic support for implementing challenging reforms.

Modest economic growth and moderately high public debt – primarily to tackle the adverse impact of the pandemic and the energy crisis - contributed to a limited fiscal space. More public resources are needed for strengthening investments in infrastructure, education, healthcare, and digital transformation that are essential for boosting productivity, enhancing competitiveness, and improving citizens' quality of life. Hence, accelerating reforms for enhancing revenue mobilization, optimizing, and reprioritizing public expenditure, and promoting investment in productivity-enhancing capital projects is essential for creating a conducive environment for accelerating economic growth and facilitating convergence with the EU.

In June 2022, the government adopted a new Public Financial Management Reform Programme for 2022-2025. The Programme consists of 19 priorities spread across eight pillars, namely: Economic analysis, macroeconomic and fiscal framework (Revenue forecasting and reporting, Economic analysis and macroeconomic forecasting, Strengthened debt management); Revenue mobilization (Tax and customs policy, Tax administration, Customs); Planning and Budget (Budget planning, PIM management, Accounting of budgets and budget users); Public Procurement (Policy, PPPs and Concessions on goods of public interest); Horizontal PFM processes (IFMIS, Public finance academy); PIFC (Financial management and control, Internal audit); External control and Parliamentary oversight (External audit, Parliamentary oversight); PFM at Local level (Fiscal decentralization, Financial discipline, transparency and accountability).

In April 2023, the government published the first annual monitoring report for 2022 and draft action plan for 2023. This report revealed implementation problems and unsatisfactory results, suggesting the need for a more realistic planning and accelerated implementation of stipulated reforms.

The PFM reform agenda gained momentum after the adoption of the Organic Budget Law (OBL) in September 2022, but progress is still slow in several key reform areas.

Namely, the adoption of the OBL marks a significant step towards aligning the country's fiscal framework with the EU's fiscal rules and budget practices. The Law includes provisions for fiscal rules, monitoring of fiscal risks and establishment of the fiscal council, and provides a legal foundation for several key PFM reforms, including for strengthening medium-term budgeting, revising budget classifications, and putting in place an Integrated Financial Management Information System (IFMIS). The timely and effective implementation of these reforms is seen as a precondition for strengthening the institutional framework for PFM, enhancing the capacity of public institutions for managing the public finances, and fostering a culture of accountability that are critical for achieving fiscal sustainability and building public trust.

The Ministry of Finance continued to improve the transparency of public finance management by publishing data on the revenue and expenditure of public institutions, local governments, and state-owned companies on

a quarterly basis. It also maintains an Open Finance website with granular data on budget transactions. However, the human resources' capacity of the Ministry of Finance remains limited, with significant challenges in terms of recruiting and retaining highly professional administrative servants.

Public Administration Reform (PAR)

The strategic vision for an agile, innovative, and continuously improving public administration is crucial for responding to new challenges, delivering services efficiently and managing public spending effectively. However, the implementation of reforms in this area has been inconsistent, with political instability and the COVID-19 pandemic impeding progress.

North Macedonia is assessed by the European Commission to be moderately prepared in the reform of its public administration, with limited progress made in 2023 with the adoption of the new public administration reform strategy and the accompanying action plan. The country has yet to adopt the revised legislative framework for human resources management, which includes the revised law on administrative servants and the law on public sector employees and new legal provisions applicable to top level management. The new framework should improve human resources management across the administration and help ensure merit-based recruitments, promotions, and dismissals at all levels, including senior management. The current legislation has not yet taken on board the State Commission for the Prevention of Corruption's recommendations on nepotism, cronyism, and political influence in the recruitment of public sector employees and in the appointment of members of supervisory and management boards. Improvements in accountability in the public administration depend on the adoption of the new law on state organisation and other related laws in line with the recommendations on the new organisation of state administration bodies. The country also needs to ensure full implementation of the law on general administrative procedures by completing the digitalisation of institutions' registers and data exchange and simplifying electronic procedures.

There are ongoing dispersed efforts to improve delivery of public services to citizens and businesses. Ensuring the successful implementation of the PAR Strategy requires a concerted effort to enhance administrative capacity, streamline processes, and foster a culture of transparency and accountability.

Energy /Green transition

The sustainability of the energy sector is a pressing concern, due to country's reliance on fossil fuels and energy-intensive growth model contributing to environmental degradation and public health issues. Transitioning to a cleaner energy mix, improving energy efficiency, and investing in renewable energy sources are imperative for reducing environmental impact, ensuring energy security, and supporting environment-friendly economic development.

The assessment of the EC for ERP 2023-2025 of North Macedonia indicates that the economy of North Macedonia is characterised by high dependence on energy imports, high energy intensity, inefficiencies and aging of energy production systems, continued reliance on highly polluting coal, and inefficient energy use. The strategic framework for the transition to green energy is well developed, but progress in implementation is limited. The transition to a low-carbon, clean-energy economy requires significant investment in energy infrastructure. According to the Government's Intervention Investment Plan 2021-2027, a total of EUR 3.1 billion is expected to be invested in the energy sector, mostly in renewable energy sources (EBRD, 2021). This is in line with the EU Economic and Investment Plan and the Green Agenda for the Western Balkans for the development of renewable energy sources and the use of less polluting energy sources, using the common platform for gas procurement by coordinating demand and the use of infrastructure and negotiations with international partners.

In June 2023, the Government adopted the Just Transition Roadmap. The main objectives of the roadmap are to (a) Diversify the economic model in the affected regions to become more knowledge-intensive and resource-efficient, (b) Make the regions more attractive for young people and enterprises, (c) Detach the power production sector of North Macedonia from increasingly cost-inefficient fuels and (d) Support people and communities affected by the coal phase out. The following pathways, which include short-term, mid-term and long-term projects, interventions, investments, have been identified to deliver the objectives: (1)

Private Investments and Startup Economy Pathway, (2) Green and Smart Infrastructure Pathway, (3) Clean Energy Pathway, and (4) Skills Development Pathway.

To support the energy transition in the country, the Republic of North Macedonia has been selected by the Climate Investment Fund to participate in the Accelerating Coal Transition Programme and to develop an Investment Plan with an initial funding of USD 85 million (loan and grant component). The investment plan was adopted by the Government in January 2024 and was approved by the Investment committee of the Climate Investment Fund on 20 March 2024.

The Republic of North Macedonia, through the Ministry of Economy, the Ministry of Finance, in coordination with the Ministry of Environment and Physical Planning together with Multilateral development banks signed a Joint Declaration on 3 December 2023 at COP 28 in Dubai, based on which a Just Energy Transition Investment Platform of North Macedonia will be established.

The Platform intends to holistically facilitate the country's rapid and just low carbon energy transition, in line with its climate and development goals, the Nationally Determined Contribution to Climate Change and the Strategy for Energy Development of the Republic of North Macedonia up to 2040. The Platform's financing needs are estimated at EUR 3 billion. The Platform intends to mobilise financing and resources, including grants and concessional resources to support its implementation. The inaugural North Macedonia Just Energy Transition Partners' Platform Meeting was held on the 27 March 2027 and the main objective was to discuss and agree with all partners on the Platform work areas for 2024 including the governance structure and how the operations and implementation will follow.

As a signatory country that is not included in Annex I of the United Nations Framework Convention on Climate Change (UNFCCC) and the Paris Agreement, and as a signatory country of the Kyoto Protocol, North Macedonia undertakes regular activities to reduce greenhouse gas emissions and limit global warming. In 2022, the country adopted the National Energy and Climate Plan (NECP), as well as other plans and strategies, but there is still limited progress in implementing green policies, resulting in poor air quality, limited waste and wastewater management, and low use of renewable energy sources (IMF, 2022).

The issued licences for renewable energy sources' (RES) production in 2023 recognized significant progress in installed capacity of RES. By the end of 2024, the Climate Action Law is expected to be adopted, establishing a legal framework for a national system of carbon inventories and prices, encouraging emission reductions in high-emitting sectors and supporting the transition to a low-emission economy.

Another significant challenge is country's limited progress towards achieving a circular economy, with the recycling rates being extremely low at less than 1% of solid waste being recycled and almost 99% going to landfill (Eurostat, 2020). However, an increase from 27.08% in 2014 to 47.21% in 2018 has been observed in the recycling of packaging waste, despite the limited economic incentives to promote recycling (MAKStat, 2020). North Macedonia currently generates 456 kg of municipal waste per capita, which is less than the EU average of 492 kg per capita, but it has been increasing since 2014 (Eurostat, 2020).

Several bodies are responsible for waste management, but there are issues with communication, highlighting the need for more effective coordination mechanisms. Lack of staff and financial resources among these bodies impede the implementation of measures. These are recognised issues which the government intends to tackle in the new National Waste Management Strategy 2024-2036, to be developed (the previous one was for 2008-2020). There is a need to enforce measures to establish regional waste management system, in particular in the East and Northeast region (EC, 2020).

Improving the ambient air quality has been a high priority for a long period of time. There are high concentrations of fine particulate matter (PM 2.5), which during the winter period greatly exceed the national limits, as well as those set by the WHO and EU. For instance, the annual mean exposure to PM 2.5 is 33 µg/m³, which is more than three times the recommended highest levels by WHO, significantly above the EU average of 13.1 µg/m³ and higher than the WB6 average of 25.77 µg/m³ (World Bank, 2020). Air pollution has a high economic cost associated with mortality from exposure to air pollution, estimated at 5.2–8.5% of GDP in North Macedonia in 2016. The capital, the City of Skopje, is most affected by air pollution.

Another problem that the country suffers from is the underdeveloped water supply and sanitation system. Water pollution, because of an insufficiently treated industrial and municipal wastewater, is a major concern. There were 24 wastewater treatment plants under operation in 2019, which accounts for 24.5% of the required capacity (UNECE, 2019). Skopje, as the country's capital still lacks a wastewater treatment plant, although construction contract was signed in 2023.

Furthermore, the country is highly exposed to natural hazards - there is a high risk of floods and landslides and a medium risk of earthquakes, water shortages, and extreme heat. Over the past 20 years, losses from disasters and extreme climate events in North Macedonia have been significant, in a total value of over USD 645 million and affecting various sectors such as agriculture, forestry and tourism (Emergency Events Database, EM-DAT, 2023).

All the mentioned challenges are significant and do require immediate actions.

Digital Transition

Digitalization brings many benefits that make life better. It simplifies public services, saving time and money for both citizens and businesses. This makes the public sector work more efficiently and helps the economy grow. Digital tools also promote transparency and reduce corruption by making information easy to access and processes clear and trackable. Digitalization improves services, supports fair practices, and helps build a stronger, more innovative society.

As stated in the EC Progress Report 2023 on North Macedonia, the reorganisation of state institutions at central level was launched and the digital transformation of the country advanced. Digitalisation of the private sector is also advancing, but the competitiveness of domestic businesses could be improved through a richer offer of public e-services. On the other hand, the capacity to access digital services and digital literacy should be significantly enhanced. The digitalisation of the economy is still at low level compared to the EU. The percentage of households with internet access at home increased by 10.1 pps. between 2017 and 2021, to 83.6%. A fixed broadband connection to the internet is used by 88% of household users, and by 92% of businesses with 10 or more employees, but smaller companies still face obstacles. Of the total number of enterprises, 54.5% had a website/homepage. Overall, there is a particular need to increase access to broadband, expand e-government services and develop digital skills. This should also be considered with regard to further implementation of the digital agenda for the Western Balkans and the Regional Roaming Agreement, as initiatives that could unleash the human and business potential of the country.

With the adoption of amendments to the Law on the Organization and Operation of State Administrative Bodies, the Ministry of Digital Transformation became the leading authority for cybersecurity, focusing on policy development for network and information system security. The country urgently needs to prepare and adopt a comprehensive national cybersecurity strategy, which will be a key document for developing a more cyber-resilient society. This strategy should set strong standards for digitalization, ensuring they are implemented across public sector institutions. As highlighted in the EC Progress Report 2023 on North Macedonia, there is an immediate need to adopt a Law for network security of information systems (transposing the NIS2 Directive). Strengthening institutional and human capacities through targeted capacity building and improving international collaboration in line with international cybersecurity norms are all essential steps. There is also a need to enhance the functionality and capacities of the National Computer Incident Response Team (MKD-CIRT). These measures will fortify the nation's defences against cyber threats and ensure a secure digital environment for all citizens and businesses.

In line with EC recommendations, the authorities should fully implement the Law on General Administrative Procedures by completing the digitalization of institutions' registers and data exchanges and simplifying electronic procedures. An ICT strategy and a feasible action plan for modernizing and digitalizing the public sector are necessary, requiring better cooperation between institutions. Strengthening integrity, asset declarations, and digitalization are key tools for preventing corruption, which has been harming the market economy and competitiveness.

To enhance the digitalization process, it is an imperative for the country to align the national legislation with new regulations for digital electronic identity and to adopt a strategy and action plan for establishing

electronic identities for all citizens. Additionally, the country needs to establish a national platform for e-archiving and record management across all public sector institutions, including an e-storage data centre and the adoption of necessary regulations and bylaws. This is a key element for delivering complex public services.

The National e-portal (uslugi.gov.mk) should be improved to offer more complex e-services for citizens and businesses. Currently, it provides services like enrolment in primary education, statements with employment and pension data, certificates of non-conviction, population register statement, various social security certificates, labour and employment data, recognition of diplomas, and many others. Setting-up of the e-Portal has been integrated into the previous Economic Reform Programmes (ERPs), and its further development could be considered as a matter of continuous efforts, i.e., the reform interventions should get a more cross-sectoral approach. In this context, reform intervention such as: Modernisation of the road infrastructure with an introduction of the intelligent transport system (ITS) along the Corridor X; Setting of a management information system on state aid and Establishing of an integrated tax information system in Public Revenue Office (PRO), provide a systemic approach to digitization in other areas of public policies that are of particular importance.

Introducing intelligent transport system (ITS) along the Corridor X (it stretches on 114 km highway in North Macedonia, at the direction North-South, connecting Northern Europe through Serbia and North Macedonia with the ports in Greece) is of outmost importance for the country. This will enable a modern and sustainable approach toward connectivity with the other countries, provided its small size and good geostrategic position. Corridor X is integral part of the TEN-T system of transport which is expected to have considerable impact on the economic and social development of the country. The intelligent transport system (ITS) is envisaged to contribute to the preservation of the environment and to secure higher sustainability of the transport routes.

EC assessment of ERP 2023-2025 states that the transparency and effectiveness of state aid remained deficient. Such situation is affected by the high number of state aid providers and users, lack of an updated comprehensive register and marginal competences of the Commission for the Protection of Competition in the supervision of state aid. As a prerequisite for establishing a register for state aid, the Government should set up a management information system that connects different institutions. Such an approach will enable more effective targeting and streamlining of the state aid in line with the EU rules.

The digitalisation of the PFM system is driven by the technological developments that impose the necessity to expand the functions of the current systems. This particularly refer to the development of a new Treasury System and a new Integrated Tax Information System (ITIS). Considering that the government plans to scale up public investment, strengthening the Public Investment Management should be given particular importance. A PFM reform programme should combine an in-depth diagnostic on cash management, development of new integrated IT systems, and an improved Public Investment Management (PIM).

The inherited systems, which were used, and some are still used by the Public Revenue Office (PRO), are limited in their functionality, and have not evolved to meet the changing needs of the tax administration. The key weakness of the PRO information system is the lack of real-time information, as well as a reliable and clear picture of the taxpayer compliance status. In addition, there are several ongoing reforms and initiatives aimed at promoting voluntary taxation, improving the effectiveness of taxpayer services, and improving the business environment. These initiatives require the strengthening of IT systems and the development of appropriate functionalities to make effective use of these efforts. In this context, the implementation of the new tax system should not only address the current requirements of the tax authorities but also the most critical questions and limitations of existing systems, thus eliminating (or reducing) current shortcomings.

Apart of the mentioned ones, there are other digital challenges that should be addressed in the future, such as the use of Artificial Intelligence (AI) for detection of undeclared taxes and for tax forecasting purposes.

Human Capital

The human capital as a key growth driver in every development model has a vital role in providing sustainable and inclusive development. It holds strong potential to contribute to the well-being of the

citizens of North Macedonia and is a basis for equal opportunities. However, the disparities between the education outcomes and the needs of the labour market in North Macedonia prolong the transition from school-to-work, nourish the informal economy and support emigration. The shortcomings in the education system stretch from primary to tertiary education, despite continuous and vigorous efforts for reforms. There is also a system of vocational education and training (VET), aiming to develop market-oriented curricula focusing on competencies that would enable students to integrate more easily on the labour market. Since the 2007/2008 academic year, the secondary education became mandatory for every citizen, and the horizontal and vertical mobility of students were enabled. The State Matura exam was introduced in 2008.

The Education Strategy for 2018-2025 entails the initiative for legislative changes in the segment of vocational education and training. Namely, the Strategy states the following "The number of VET subjects in the curriculum is the lowest in Europe, about 52% (versus 70% in Europe) and the number of general subjects is the highest (about 42%), which makes the VET education more general. At the same time, the number of hours of practical training is extremely low, on average 20-30% against the European trend of over 60%."

The Education Strategy 2018-2025 sets the following priorities: 1) Harmonization of vocational education and training with the needs of the labour market, 2) Improvement of the learning environment and the quality of vocational education and training, 3) Increasing the coverage in vocational education and training and 4) Improvement of the capacities of human resources.

The adoption of a new Law on Vocational Education and Training is foreseen with the Annual Operational Plan of the Ministry of Education and Science. For the first time, this Law will introduce career counselling, career advisors and coordinators for practical education, digital skills and qualifications acquired after completing secondary education. At the same time as an EU candidate, the country follows the recommendations of the EU Council, particularly:

- Recommendation of the Council of November 24, 2020, for Vocational Education and Training (VET) for sustainable competitiveness, social equity, and resilience
- Council resolution on a new European agenda for adult learning 2021-2030
- Council Recommendation of 29 November 2021 on hybrid innovative learning approaches for high-quality and inclusive primary and secondary education
- Council Recommendation of 16 June 2022 on a European approach to micro-credentials for lifelong learning and employability 2022/C 243/02.

On the side of the labour market, structural labour market challenges persist. In Q2 2023, the participation rate was 52.4%. The female participation rate (42.5%) remains 20 pps lower than that for men (SSO, 2023). Care for children and the elderly is cited as one of the primary reasons for inactivity of women and hence the need to promote flexible working arrangements among companies. The employment rate (15-89) reached 45.5% while the unemployment rate was 13.1%. The youth unemployment rate (15-29) declined to 24.5%, but it has been still significantly higher than the EU average. Non-standard forms of employment (NSE) are a common feature of the labour markets worldwide, and North Macedonia is no exception. While the world of work has changed, labour legislation and collective bargaining did not. This has left many new types of workers jobs non-regulated and out of the social protection system. Also, this leads to lost tax revenues, foregone output and missed economic opportunities. Increasing the labour market flexibility should therefore be one of the medium-term priorities. Gender gaps are also prevalent among young workers, and in 2022 the youth unemployment rate was far higher for women (38%) than for men (28.6%). Serious long-term issues, such as the loss of human capital from emigration and inactivity, are brought on by the lack of economic opportunities for young people.

A skills mismatch analysis framework is in place. It reveals pattern of easier employment of the persons with higher levels of education, along with the tendency of filling the job posts with overqualified persons. The people with low education are more likely to be formally unemployed, while, at the same time, bearing higher risk of being employed in the informal sector. Several attempts have been made to improve skills matching, including the introduction of a web-based Occupational Outlook to inform young people about the

career prospects of selected occupations and sectors in the medium term¹ (ILO, 2018). Furthermore, many jobs are still concentrated in sectors characterized by low value added and low wages (World Bank, 2023).

According to the EC Country Report 2023, progress in reforming education curricula and reducing skills mismatches is hampered by lack of funding and human capacity. While North Macedonia has progressed well in terms of the number of people with higher education qualifications, curricula are not well suited to equipping graduates with skills to match labour demand. State financial support for education is insufficient and coordination between the education sector and businesses is weak. In 2022, public spending on education and training amounted to 3.7% of GDP, about the average of the preceding 5 years. This is below both the EU-level (5%) and peer-country averages and impedes implementation of the 2018-2025 education strategy. The percentage of adults participating in learning was 2.6% in 2020, which is significantly below the EU-27 average of 10.8% (2021). Further development of qualifications is key to bringing medium-skilled and low-skilled individuals into the labour market (World Bank, 2023)².

Private Sector Development and Business Environment

The latest ranking of North Macedonia in the Global Competitiveness Report 2019 3 shows 82nd place out of 141 countries. The lowest scores have been related to the size of the market, product market and innovation capacity. Overall, the rise of the competitiveness of the economy of North Macedonia has been hindered by several major obstacles, which include large informal economy, a complex legal and regulatory environment and skills shortages, lack of full compliance with the EU market requirements, unfavourable structure of the domestic industry with prevalence of the low(er) value added branches, low total factor productivity (including low labour productivity), skills mismatch on the labour market, limited access to finances to the domestic companies, low level of integration of the Macedonian business entities into the global supply and value chains, as well as neglected public and corporative investment in technology and innovation.

The informal economy is regarded to be among the most significant obstacles to competitiveness. Official estimates of the State Statistics Office (SSO) reveal that informal employment represented 17% of GDP and 18% of total employment in 2018. Also, there are other estimates surging up to 37.6% of GDP in 2018 (IMF). The informal employment marked significant decrease during the pandemic, from 16.1% in 2019 to 13.6% in 2020, mainly because of government support measures for safeguarding jobs, some of them related to formalization of labour relations. It is positive that this trend continued in 2021 (12.1%) and was contained in 2022 (12.2%), which is early sign of sustainability of formalized jobs. Despite the decrease of the latest estimated indicator over the period 2018-2022, the problem of informality remains grave. Most of the informal workers, around 68.8% were men. The informal sector creates unfair competition from unregistered enterprises and shadow workforce, implying undeclared income and informal employment seriously threaten public revenue collection. In that manner, informal economy jeopardises functioning of the formal economy and causes irrevocable damage to the public interests of the taxpayers and citizens, in general.

The citizens' perception of informal economy ranges between 20-40% of the GDP in 2022, according to the UNDP qualitative survey on the subject (UNDP, 2022). This shows rather well understanding of the presence of the shadow economy by the citizens, while the implications of the informality, as well as mechanisms how it could be decreased, along with the effects of formalisation, are to be further articulated and implemented by the policy makers.

Another obstacle that needs to be urgently addressed to improve the competitiveness of the Macedonian business entities refers to the compliance with the EU market requirements. EU has been a major trade partner of North Macedonia for over two decades, with share of over 78% in the total export of North Macedonia in 2022 (SSO, 2023)⁴. At the same time, exports are mainly driven by the small number of

¹ <https://zanimanja.mk>

² <https://www.worldbank.org/en/country/northmacedonia/brief/consultations-scd-update-2023>

³ https://www3.weforum.org/docs/WEF_TheGlobalCompetitivenessReport2019.pdf

⁴ https://www.stat.gov.mk/pdf/2023/7.1.23.02_mk.pdf

foreign companies that are largely specialised in technology-intensive sectors. There is a necessity to increase the competitiveness of the domestic companies and to force expansion of their exports, as a precondition for faster GDP growth. Export improvements link to compliance with EU market requirements, support for product innovation and diversification, finding appropriate business partners from other countries and promotion of local products on international markets. Compliance to the EU market requirements, particularly regarding free movement of goods and services is also very important with regards to the further integration of the Macedonian companies into the global supply and value chains.

What also undermines the competitiveness of domestic companies is insufficient innovation and technology development that hinders productivity and integration into GVCs. The country remains an emerging innovator according to the EU innovation scoreboard, but innovation activity remains low overall. At 0.4% of GDP (including a small share from the private sector), the economy's expenditure on RDI remains significantly below the EU average. In particular, the private sectors' participation in overall research spending remains low at 0.1% of GDP (EC Assessment of ERP 2023-2025). To create favourable environment for research and innovation-based growth, in December 2023 the government adopted the Smart Specialization Strategy - S3), which implementation will provide impetus for inclusive and smart growth and strengthened institutional support infrastructure for RDI. Thus, the policy area Private Sector Development and Business Environment consists of measures that aim, directly and indirectly, to improve the business environment in the country, cut red-tape, stimulate innovation, investments, and competitiveness of the economy, thus leading to smart, sustainable and inclusive economic growth.

The level of strategic alignment of the different policies are presented in the extended strategic framework related to encouraging a business-friendly environment and private sector development. Considering the priorities set in the Smart Specialization Strategy and the Industrial Strategy 2018-2027, the country is going to develop a new SME Strategy that will aim at building the capacity and support SMEs in their transition to sustainability. Thus, the priorities and steps identified in the Reform Agenda are the first step addressing some of the uncertainties that will reduce regulatory burden and improve market access, as well as expand the use of E-customs services and increase the efficiency of customs procedures and deploy an Intelligent Transport Systems (ITS) on TEN-T road network and e-freight.

Fundamentals/Rule of Law, including the fight against corruption and organized crime

The Copenhagen criteria, serving as the bedrock for EU accession negotiations, emphasize the necessity of institutional stability to ensure democracy, the rule of law, within the rule of law domain, including judicial reform, the fight against corruption and organised crime, the protection of fundamental rights. However, the efforts of North Macedonia to meet these criteria have been with varying degrees of success and challenges.

The European Commission's 2023 Report, alongside recommendations from the OSCE/ODIHR, the Venice Commission, and GRECO, underscores the urgent need for North Macedonia to implement comprehensive reforms in these areas. The 2024-2028 Judicial Sector Development Strategy and its accompanying Action Plan are pivotal in this regard, aiming to overhaul the jurisprudence system to align with EU standards.

The electoral process in North Macedonia is another area of concern. Recommendations from the OSCE/ODIHR Election Observation Mission highlight the need for review of the Electoral Code to ensure free, fair, and transparent elections. Issues such as voter pressure, accessibility for persons with disabilities, Voter's List accuracy, and financial transparency are among the key challenges that need to be addressed to strengthen democracy in the country.

Based on EC recommendations, including the relevant peer review mission findings, the role of the Judicial Council should be further strengthened in order to protect the integrity and independence of judges and institutions and should resist any external influence. It should aim at improved performance of institutions. Implementation of the human resources strategies for the judiciary and prosecution services will be stepped up. Work continued upgrading the automated court case management information system (ACCMIS) for random distribution of cases in courts. A similar system was introduced in the Public Prosecutor's Office.

Corruption remains prevalent in many areas and is an issue of concern. Resource constraints and a lack of cooperation between national authorities hamper the effective prosecution of corruption and hinder the

establishment of a robust track-record of high-level corruption cases. Delays and reversals in trials of high-level corruption cases increased, resulting in some cases in the expiration of the statute of limitations. It is necessary to take regulatory and non-regulatory measures, including capacity building and resources, for proactivity in conducting investigations, in particular financial investigations, application and overcoming obstacles to effective application of confiscation measures and asset recovery, as well as to mitigate the risks that may influence the success of the proceedings in the corruption cases.

The fight against corruption and organised crime remains a persistent challenge. In that regard, the enactment of the Law on Assets Confiscation in Civil Procedure, and the Law on the Asset Recovery Office, (13 March 2024), regulates the establishment, competences, organizational structure and financing of the Asset Recovery Office, cooperation with domestic authorities and institutions, cooperation with foreign countries and the electronic integrated database, in accordance with Council Decision 2007/845/JHA.

2. OBJECTIVES OF THE REFORM AGENDA

The overarching objective of the Reform Agenda of the Republic of North Macedonia is enhanced implementation of reforms by accelerating the alignment with Union values, laws, rules, standards, policies and practices of public sector, ensuring its transparent governance, the development of competitive and green economy, and support the accession process with a view to future EU membership. The overarching objectives of the Reform Agenda of North Macedonia are clustered in 5 policy areas:

- 1. Governance/PAR and PFM*
- 2. Energy/Green Transition*
- 3. Human Capital*
- 4. Private Sector Development and Business Environment*
- 5. Fundamentals/Rule of Law, including fight against corruption and organized crime*

By focusing on selected reforms in five priority policy areas, North Macedonia aims to unlock the potential benefits of progressive integration into the Union single market, even prior to accession. This approach is in line with the general objectives of the Reform and Growth Facility for the Western Balkans, emphasizing accelerated regional economic integration and progressive integration into the Union single market, accelerated socio-economic convergence of the country's economy with the Union and support to enlargement process.

Planned reforms and investments included in the Reform Agenda are in line with the specific objectives of the RGF, stipulated under Article 3 of RGF Regulation. Namely, the country commits to undertaking reforms aimed at accelerated regional economic integration and progressive integration with the Union single market, through active contribution to the establishment of the Common Regional Market and improved connectivity in the region in line with Trans-European Networks, as well as by accelerating the transition to a sustainable, and inclusive economy, and stable investment environment capable of withstanding competitive market pressures of the Union single market.

The country commits to undertaking reforms aimed at accelerating the socio-economic convergence of its economy with the Union by boosting innovation, particularly for SMEs and in support of the green and digital transitions, enhancing the quality of its education system, training, reskilling, and upskilling, and employment policies, as well as promoting the digital transformation as an enabler for sustainable development and inclusive growth. It will accelerate alignment with Union values, laws, rules, standards, policies, and practices with a view to EU membership by facilitating green transition in line with the 2020 Green Agenda for the Western Balkans, including the transition towards de-carbonised climate-neutral, climate-resilient and circular economy.

The country is committed to reinforcing the effectiveness of public administration and support transparency, structural reforms, and good governance at all levels, including in the areas of public financial management,

public procurement and state aid control, as well as to supporting initiatives and bodies involved in supporting and enforcing international justice in the Western Balkans Beneficiaries.

The reforms are also aimed at further strengthening of the fundamentals of the enlargement process, including the rule of law related activities addressing democracy, judiciary, Judicial Council, fight against corruption and organised crime and money laundering, terrorism, tax evasion, tax fraud we well as asset recovery.

Governance/Enhancing Public Finance Management (PFM)

The Reform Agenda of North Macedonia targets the comprehensive enhancement of PFM as a critical pathway to achieving fiscal sustainability, ensuring transparency, and optimizing the strategic allocation of public resources. At the heart of this endeavour is a commitment to reforming the institutional and procedural landscape of public finance, guided by the principles of efficiency, accountability, and strategic foresight.

Central to the agenda's objectives is the modernization of public investment management, ensuring that resources are channelled into projects with highest potential for social, economic, and environmental benefits. This is complemented by a strategic overhaul of internal financial controls within public institutions, aimed at enhancing the efficiency of budget execution and minimizing fiscal mismanagement. The agenda also places a strong emphasis on leveraging technology to streamline financial management processes, from budgeting to tax administration and state aid management. By adopting digital solutions, North Macedonia seeks to reduce administrative burdens, improve service delivery, and foster a culture of transparency and accountability in public finance operations.

Moreover, the agenda advocates for a more competitive and transparent public procurement system, emphasizing the selection of tenders that offer the best value for money, not just in financial terms but also in qualitative, environmental, and social dimensions. The implementation of the Organic Budget Law will further enhance responsible fiscal management and establish legal framework that promotes fiscal discipline, budget transparency, and the strategic allocation of resources in alignment with national development goals and EU standards.

Strengthening Public Internal Financial Control, public procurement system and implementing the Organic Budget Law will directly contribute to the achievement of objectives of RGF addressing transparency, accountability, structural reforms and good governance at all levels, including in the areas of public financial management and public procurement.

Governance/Accelerating Public Administration Reforms (PAR)

Targeting the acceleration of PAR, focusing on the modernization and professionalization of public administration as a pivotal strategy for enhancing service delivery, efficiency, transparency, and accountability is one of the main pillars of the reform agenda of North Macedonia. These reforms are not only foundational for bolstering the administrative capacity necessary for the effective implementation of the EU acquis, but also critical for facilitating the integration of North Macedonia into the EU. At the heart of this transformative agenda is the recognition of the need for a streamlined, coherent, and efficient administrative framework that can respond adeptly to the needs of citizens and businesses alike, fostering an environment of trust and reliability in government institutions.

Central to achieving these objectives is the reorganization of the state's administrative machinery to eliminate redundancies and clarify roles and responsibilities, ensuring a leaner, more effective governance structure. This reorganization is complemented by targeted efforts to make public administration a more attractive and rewarding career path. By instituting merit-based recruitment, offering flexible working conditions, and ensuring fair and competitive compensation, the agenda aims to attract and retain the high-calibre talent essential for driving forward the nation's development and integration goals.

Moreover, the reforms' focus extends to the harmonization of salary systems and job classifications, ensuring that remuneration reflects the responsibilities and expertise required by various roles within the

public sector. This reform is crucial for maintaining a motivated workforce that is both capable of and committed to delivering high-quality public services. Additionally, the introduction of new legislative procedures and the enhancement of regulatory impact assessments underscore a commitment to improving the legislative framework, ensuring that it supports effective policy implementation and fosters greater transparency and accountability in government operations.

The abovementioned efforts will be supplemented by modern ICT solutions for human resources, documents management and public service delivery and further developments of interoperability among public bodies.

Energy/Green transition

Fostering sustainable development presents a cornerstone for stimulating economic growth, fostering innovation, and enhancing competitiveness. By channelling efforts and resources into alleviating the traditional financial constraints, the agenda sets the stage for a vibrant entrepreneurial ecosystem, including the citizens that can drive forward the nation's economic ambitions.

Investments in connectivity, digital transformation, and green energy emerge as the linchpins of this sustainable development strategy. These sectors are identified as critical for ensuring that North Macedonia can leverage the full spectrum of benefits associated with closer integration into the European Union's single market. Enhancing connectivity through improved physical and digital infrastructure as well as cybersecurity is seen as essential for facilitating market integration, improving market access, and fostering regional cooperation. Similarly, the push towards digital transformation is aimed at harnessing technological advancements to streamline business operations, modernize public services, and unlock new avenues for growth and innovation.

The market reforms will introduce structural reforms in the Macedonian electricity market, bringing it closer to the European electricity market. Through these reforms there will be an increase of competitiveness, efficiency, and sustainability of the electricity market. The reduction of energy subsidies aims primarily towards phasing out inefficient fossil fuel subsidies, decreasing the fiscal burden on the state budget and redirecting financial support towards sustainable energy solutions. By reducing energy subsidies, the country aims to level the playing field for different energy sources, increase the number of electricity consumers participating on the liberalized electricity market, promote market-based pricing mechanisms, and encourage investments in renewable energy and energy efficiency technologies.

Acceleration of the transition to a low-carbon economy across all sectors, including energy, transport, industry, and agriculture is one of the main objectives of the Green/Energy transition under this Reform and Growth Facility. This involves reducing the carbon intensity of energy production, promoting renewable energy sources, enhancing energy efficiency, and fostering sustainable practices across industries. Enabling just transition and leaving no one behind is in the focus of the decarbonisation of the energy sector. Preparing the workforce currently engaged in energy production from fossil fuels for the green transition is pivotal, in order for the country to be able to use this experienced workforce. Retraining and re-employment of the workforce in Bitola and Oslomej/Kichevo coal regions needs to be done in continuation, with a detailed plan for the number of employees which will be considered, for the next several years.

The decarbonisation of the energy sector will be stimulated further through the long-term introduction of a country model of ETS. The first step towards the ETS adoption is the implementation of Monitoring, Reporting and Verification and Accreditation (MRVA). Primary goal is to establish a system and practice in the country for accurate measurement and reporting of greenhouse gas emissions from installations in the country. Accurate monitoring, reporting, and verification improve the quality and reliability of emissions data. This will in the future support evidence-based policy-making and decision-making processes.

Furthermore, the focus on green energy investments underscores a commitment to sustainability and environmental stewardship. Transitioning towards renewable energy sources and enhancing energy efficiency not only addresses the urgent need for climate action but also positions North Macedonia as a forward-looking economy that prioritizes sustainable and resilient growth. These green investments are anticipated to yield long-term benefits, including reduced energy dependency, increased energy security, lower operational costs for businesses, and improved public health outcomes.

Human Capital

The reforms in the area of human capital aim at reinforcing the education system. By improving the access, quality, and inclusiveness (including gender equality) of secondary education, a learning environment will be created that will enhance employability and productivity of future graduates as well as address the skills mismatch on the labour market. In primary and secondary schools, qualified career guidance professionals shall help students in their process of professional orientation and career choice, based on relevant primary and secondary legislation that shall be adopted and enter into force beforehand. When the new Law on VET will be adopted, the number of both private companies involved in dual education students provided with the possibility of acquiring practical knowledge directly at an employer, shall be increased. In addition, new Regional VET Centres shall be established and the number of students in these centres increased.

The reforms are also focusing on increased participation in adult education and improved recognition of non-formal and informal learning, by developing programmes in VET for validation of non-formal and informal learning. Professional development of digital and green skills will be ensured based on revised secondary school curricula integrating the European Digital Competences Framework. At the level of primary schools, “smart” operability of primary schools will be established by equipping the schools with new and modern network equipment.

Private Sector Development and Business environment

The policy area 'Business environment' consists of measures that aim, directly and indirectly, to improve the business environment, stimulate SME growth, boost innovation, green and digital transition, investments and the competitiveness of the economy, thus leading to smart, sustainable and inclusive growth.

Also, the reforms include activities for formalization of informal economy, digitalization and widening of public e-services, expand the use of E-customs services and efficient customs procedures, stimulation of anti-corruption measures in public procurement, including development a transparent and efficient state aid regime.

Strategic framework related to encouraging a business friendly environment and private sector development by strengthening the competitiveness is consisted of few existing strategies: Industrial strategy 2018-2027, SME Strategy 2018-2023, Plan for Economic Growth, Strategy for Formalization of the Informal Economy, The Growth Acceleration Plan 2022-2026, Smart specialization strategy as framework for boosting innovation and smart specialization, Export promotion strategy supporting internationalization and integration in GVC. Relevant document further development of entrepreneurship and SMEs is expected to be the new SME Strategy that should be drafted within 2024.

Strengthening the Rule of Law

The Reform Agenda for North Macedonia is designed with the overarching goal of aligning the country's socio-economic and legislative frameworks with those of the European Union, thereby facilitating its integration into the EU single market. This agenda, underpinned by the objectives of the Reform and Growth Facility for the Western Balkans, places a significant emphasis on the rule of law as a critical area for reform. This chapter outlines the main objectives of the Reform Agenda and how its implementation will contribute to the broader goals of enhancing democracy, judicial integrity, and the fight against corruption and organised crime.

The primary objective of the Reform Agenda is to enforce an independent, efficient, and credible judicial system capable of upholding justice and ensuring the rule of law. This involves implementing the 2024-2028 Judicial Sector Development Strategy and its Action Plan, which detail specific measures for judicial reform in line with European Commission recommendations. By addressing the challenges identified in the problem analysis, such as the influence of the executive and political parties on the judiciary, internal influence, the low public trust in judicial institutions, and the need for legislative improvements, North Macedonia aims to significantly enhance its legal security and democratic governance.

Another critical objective is to reform the electoral process, ensuring that elections are free, fair, and transparent. This involves amending the Electoral Code to incorporate recommendations from the

OSCE/ODIHR, thereby eliminating ambiguities and creating a more equitable electoral environment. Such reforms are essential for strengthening democracy and ensuring that the electoral process reflects the will of the people without undue influence or irregularities.

Furthermore, the Reform Agenda targets the pervasive issue of corruption, with specific objectives aimed at enhancing transparency, accountability, and the effectiveness of anti-corruption measures. This includes the implementation of the newly adopted Law on the Asset Recovery Office and the revision of existing legislation to increase penalties for corruption and abuse of official duties. By tackling corruption head-on, North Macedonia seeks to restore public trust in its institutions and create a more conducive environment for economic growth and development.

With regards to the organized crime, the Government has adopted multiple national strategies, including the National Strategy for the Prevention of Money Laundering and Financing Terrorism 2021-2024, the National Strategy for Capacity Building for Financial Investigations and Property Confiscation 2021-2023, and the National Strategy for Combatting Trafficking in Human Beings and Illegal Migration 2021-2025. Steps for drafting the National Strategy and Action Plan for Organised Crime in North Macedonia are foreseen in 2024. The Reform agenda includes steps for further alignment with EU standards in combating organised crime, including amendments to the Law on Weapons, and establishment of national early-warning system for drugs.

3. CONSISTENCY WITH THE OVERALL POLICY FRAMEWORK

During the preparation of the Reform Agenda, the compliance of reforms and goals with key strategic documents, development policy and recommendations resulting from the dialogue with the EU in the context of the process of North Macedonia's accession to the EU was carefully analysed.

Bearing in mind the future impact on economic growth, compliance with the goals and measures from the Economic Reform Program (ERP) for 2024-2026 was carefully analysed, given the fact that the ERP was also a basis for the preparation of the Reform Agenda, which aims to support and accelerate the process of access of the countries of the region to the EU single market by implementing the necessary reforms in the country in that direction.

During the preparation of the ERP, the appropriate EU Guide for the preparation of the ERP 2024-2026 was followed. ERP 2024-2026 was prepared on the basis of the Revised Fiscal Strategy 2024-2028, Revised Public Debt Management Strategy 2024-2026 (with prospects until 2028), the medium-term budget framework for the period 2024-2028 and national sector strategies, regional strategies and documents, and is closely linked to the recommendations in the EC Country Progress Report of October 2023, the EC Evaluation of the ERP 2023-2025, as well as the EU Economic Investment Plan for the Western Balkans.

The reforms in RA also reflect the actions the Government commits to undertake to respond to country specific recommendations from the EU progress report for the country from October 2023 and joint conclusions of the ECOFIN Dialogue from May 2023, based on Economic Reform Program 2023-2025 within European semester light process for candidate countries.

The new RGF instrument will be complementary to and mutually reinforcing with the current financial assistance under IPA III.

North Macedonia has been part of the EU integration process for decades, being the first country in the region to sign the Stabilization and Association Agreement (SAA) in 2001, in force since 2004. EU single market over the time has become more complex, with voluminous acquis that is evolving all the time. Nevertheless, the Government has worked on the internal market requirements in continuity. As a result of the work done over the past years to harmonize the national legislation, our compliance with the EU acquis is at a generally good level. According to our analyses, the degree of compliance is about 45-50 %, and in some chapters maybe even more, which is an excellent basis for greater harmonization with the EU acquis,

particularly the seven priority areas of the European single market. The SAA institutional bodies have been and will continue to be the mechanism to ensure full and correct implementation of the SAA.

Moreover, the opening of the accession negotiations in July 2022 has provided new momentum for our EU path. We have successfully completed the screening process in a period of around 15 months starting from September 2022 to December 2023. The Government has committed the country to be fully prepared for full-fledged EU membership by 2030. The priorities under the Reform Agenda especially the areas of Governance/PAR and PFM and Fundamentals/RoL are also fully complementary to the two Roadmaps on RoL and PAR, which are opening benchmarks for Cluster Fundamentals.

4. KEY POLICY PRIORITIES

4.1. Fundamental sectors, including the fight against corruption and organized crime

Implementing the 2024-2028 Judicial Sector Development Strategy and its Action Plan, which has specific measures in line with EC recommendations, will promote independent, efficient, and credible judicial system capable of upholding justice and ensuring the rule of law. By addressing the challenges identified in the problem analysis, such as the influence of the executive and political parties on the judiciary, the low public trust in judicial institutions, and the need for legislative improvements, North Macedonia aims to significantly enhance its legal security and democratic governance.

The protection of the financial interests of North Macedonia was strengthened by adopting the Decree on determining the structure of the system for the protection of the financial interests of the European Union (“Official Gazette no.264/22”). In accordance with the Decree, the System for protection of the European Union financial interests is established and it consists of the IPA structures, AFCOS Network (the key institutions responsible for managing IPA funds and the institutions responsible for combating fraud of EU Funds in North Macedonia) and the AFCOS Unit. For better protection of the financial interests of the EU, regular and ad hoc meetings are held within the AFCOS network where specific cases of determined irregularities are considered through exchanging the experience and best practices among the responsible institutions regarding the management of irregularities. The AFCOS Unit leads the creation and implementation of the strategies to protect the financial interests of the European Union Funds.

Regarding visa policy, North Macedonia commits to introduce additional security measures to better screen visa-free arrivals (June 2027).

4.2 Digital transformation and Digital security issues

The country is committed to improving the digital environment to enhance administrative efficiency. The focus is to simplify work processes, minimizing errors, and providing citizens with a unified electronic identity. Improving electronic communication channels, introducing a SMART environment, and enhancing the institutional and legal framework for ICT and to ensure cybersecurity, resilience, and protection of digital infrastructure in the country. These efforts involve updating systems like Human Resources Management Information Systems and Document management System, implementing electronic signing, and creating a unified system for social insurance. Additionally, the text mentions developing policies, monitoring costs, and ensuring legal compliance to facilitate digital transformation.

The country needs to fully align with the Directive on measures for a high common level of cybersecurity across the Union (NIS2 Directive). Its objective is to promote a culture of cybersecurity resilience, by encouraging organizations to prioritize cybersecurity and establish robust measures to protect their networks and information systems.

4.3 Education, training, employment and social objectives

The Reform Agenda will contribute to reducing the differences between the results of education and the needs of the labour market in North Macedonia. They will reduce the transition time from school to work,

the informal economy and emigration will decrease. With the measures foreseen in the system of vocational education and training (VET) in the Reform Program, the completed students/participants will be able to integrate into the labour market more easily.

In the context of comprehensive social changes and development goals, the segment "Education, training, employment and social goals" occupies a crucial role in the Reform Agenda of North Macedonia. The goal is to create a solid foundation for long-term social and economic development through improving the education system, increasing opportunities for training and professional development, as well as improving the labour market. These reforms are aimed at increasing employment, reducing unemployment, and promoting social inclusion, thereby contributing to building a more inclusive, fairer, and more resilient society. Also, the aim is to provide all citizens with access to quality education and professional training, which is the basis for their active participation in the social and economic life of the country.

One of the objectives is to reduce the mismatch between the skills offered by the education system and those required by the modern labour market. By introducing work training into the educational process, especially through professional education and training, North Macedonia plans to directly improve the employability of its graduates, thereby creating the prerequisites for more dynamic economic development.

Also, special emphasis is placed on increasing the participation of women in the labour market through developed programmes that are adapted to their specific needs and potential. By expanding the capacity for education and training, it is possible for women to achieve greater economic independence and social equality.

Investments in education and skills are the basis for long-term social and economic progress. Modernizing the educational infrastructure, improving the curriculum, and training teachers for green and digital competences are among the priorities that will enable young people to participate effectively in the digital economy. These initiatives will not only improve the quality of education but will also ensure that North Macedonia remains competitive on the global market, ready for the challenges ahead.

Through the planned reforms, North Macedonia demonstrates its commitment to building a strong, inclusive and educated nation, ready to face dynamic changes in the global context. By implementing the reforms to which North Macedonia has committed itself in this Reform Agenda, the goals defined in Article 3 of the Regulation will be achieved.

4.3.1 'Do no significant harm' principle

In line with the Reform and Growth Facility Regulation, "**Do no significant harm**" (DNSH) principle is deriving from the Green Deal, a new overarching principle for the use of the European Union's **Reforms and Growth Funds for the period of 2024-2027**, and it applies to all areas of activity.

Regarding compliance with the principle of DNSH, the activities proposed by the Reform Agenda will be guided by the principle of "do no significant harm", i.e., not supporting or carrying out economic activities that do significant harm to any environmental objective, where relevant, within the meaning of Article 17 of Regulation (EU) 2020/852.

Considering the fact that the Republic of North Macedonia has obliged to closely implement the Green Agenda for the Western Balkans, and follows the National Energy and Climate Plan, the elements of mitigation and of climate change, sustainable use of natural resources, protection and restoration of biodiversity and ecosystems, as well as pollution prevention are elements which are introduced as criteria especially when preparing the indicative investment pipeline and complement the reforms in key policy areas like Green Transition and Energy, Digitalisation, Sustainable Transport and Private Sector Development.

Streamlining and increasing the usability of the DNSH will continue to upsurge as North Macedonia gets closer to the EU Single Market and completes the reform steps linked to decarbonisation targets, and implementation of the Monitoring, Reporting, Verification and Accreditation reforms related to the Carbon Adjustment Board Mechanism and the EU Taxonomy.

The process is challenging, and the transition costs associated with it is grave, which can affect people, companies and economic processes. A crucial element to this process is how the countries react to these challenges and enable the green transformation of the society in a just manner. Thus, DNSH elements are imbedded in the proposed reforms and investments under this Reform Agenda from the angle of the sustainable green transition that will foster socio-economic convergence of the country in the EU on the level of legislation, but also investments in infrastructure, private sector and the human capital.

If, during the implementation of the reform agenda, it is determined that an individual reform or part of the reform requires a comprehensive assessment, the same will be prepared before the start of implementation, and the Commission will be informed about it. North Macedonia's Reform Agenda is going to be bound with the DNSH principles and rules, deriving from the relevant EU acquis, adequate to the level in which North Macedonia is in the process of EU integration.

For the investment part of the Reform Agenda, WBIF will inform the European Commission directly.

5. MAINSTREAMING

The Reform Agenda will be implemented with the aim of promoting gender equality as a horizontal principle, contributing to the empowerment of women and girls and ensuring the protection and improvement of their rights in accordance with the EU Gender Action Plan (GAP III) and the UN Sustainable Development Goals.

In this sense, specific reforms have direct and indirect impacts on gender equality. For example, direct impacts come from human capital reforms that take into consideration the promotion of gender equality. Imbalances to be addressed and the achievements of reforms are measured by gender disaggregated data. In this regard, the reforms and the steps that are people-related are sex disaggregated. Their implementation sets as a goal, e.g., % of women in IVET benefitting from exposure to work-based learning during their vocational education and training, number of female students enrolled in the new education programmes offered by the regional VET centres, number of programmes in VET for validation of non-formal and informal learning that will be developed for women and female entrepreneurship, number of female adults that will be awarded qualifications based on the procedure for completed programmes with validation of non-formal and informal learning, and the % of female teachers trained in digital and green skills.

At national level, the legal framework to ensure gender equality is in place through the adoption of the Law on equal opportunities for women and men and the Law on prevention of and protection from discrimination. The current legal framework prohibits discrimination on the grounds of gender and stipulates basic and specific measures for ensuring equal opportunities of women and men.

The Strategy on Gender Equality for 2022-2027⁵ complemented by the National Strategy on Equality and Non-Discrimination 2022-2026⁶ provide a set of measures to address the gender equality. It aims at establishing an effective and efficient system for promotion of gender equality on central and local level. It further strives to improve the place of women in all areas of public and private life as well as to fight the gender stereotypes and fight gender-based violence.

The Ministry of Labour and Social Policy (specifically, its Department for equal opportunities) implements the competencies for promotion of gender equality under the law in cooperation with the competent state institutions, the civil society and social partners, as well as through the implementation of the Strategy on Gender Equality for 2022-2027.

⁵ https://www.mtsp.gov.mk/content/pdf/2022/strategija/2022_2027.pdf

⁶ <https://www.mtsp.gov.mk/content/pdf/2022/strategija/2022-2026.pdf>

The Department for equal opportunities in the Ministry cooperates with the coordinators for equal opportunities in the line ministries, as well as with the equal opportunities coordinators and commissions established in the local self-government units, ensures their coordination, and provides guidance and recommendations to achieve the goals emanating from the Law on equal opportunities of women and men.

The Law (Article 4) clearly defines gender mainstreaming as integration of the gender perspective in every phase of the policy making, with a view to promote equality between women and men.

The national mechanism for gender equality requires the equal opportunities coordinators from the line ministries participate when the measures of the Growth Plan and the reform agenda are created and implemented to incorporate the gender perspective.

In the PFM sector, the Organic Law on Budgets adopted in 2022, integrates the gender responsive budgeting (GRB) for the first time. The GRB provisions will become applicable in 2025. The law now provides a precise definition of the GRB, GRB indicators and GRB reporting, commitments to include gender indicators and GRB statement(s) in draft financial plans; listing all GRB statements / initiatives in the draft budget; as well as publication of all GRB statements / initiatives on the websites of budget users. In addition, gender equality is considered one of the 11 main principles of the Budget (Article 3), where it is stated that the principle of gender equality implies gender-responsive budgeting, that is, ensuring gender equality in the planning and execution of budget inflows and outflows. A Rulebook on gender-responsive budgeting is yet to be prepared in accordance with this law.

By 2025, a Methodology for strategic planning and preparation of the annual work program of the Government will be amended to introduce a mechanism for incorporation of gender equality perspective in the strategic plans and annual programs and related monitoring. This change will enable inclusion of the gender perspective and gender-responsive budgeting in all sectors by 2028.

Public procurement on its own has great potential to promote gender equality. Integrating the gender perspective into public procurement contracts can lead to improved efficiency in government spending.

With relevance to all policy areas and the PAR sector, in particular, the Resource Centre for Gender Responsive Policymaking and Budgeting of the Ministry of Labour and Social Policy will continue to deliver trainings for building the basic competencies and skills of civil servants, which will enable the inclusion of gender perspective in the policy making and professional development of the equal opportunities coordinators at the central and local level as well as the administrative officers in charge of strategic planning, finance, violence, equality and non-discrimination, etc.

Apart from the Governance area, the Growth Plan will support the country in implementing its equal opportunity and gender mainstreaming agenda in other areas as well.

A priority in the area of green transition should be to include the gender perspective in policies and measures carried out at the national and local level. The crises and shocks in recent years threaten to create new challenges and reverse progress achieved on women's rights and gender equality. Therefore, it is especially important to consider the differences in the needs and requirements of women and men in energy, water resources, telecommunications, transportation, etc.

Energy poverty is high on the agenda. Women are more affected by the energy poverty, which is linked to the division of labour between men and women. Women spend more times on care responsibilities. Spending more time working at home makes them more susceptible to the adverse effects of energy poverty. Thus, the measures aiming at protecting vulnerable customers will improve living conditions and will have positive impact on the quality of life of women and children.

On the other hand, digital transformation provides new possibilities for the economic empowerment of women and can contribute to greater gender equality. The Internet, digital platforms, and public digital services offer opportunities for all and can help bridge the divide by giving women the possibility to earn additional income, increase their employment opportunities, and access knowledge and general information.

Considering gender equality and social inclusion is also essential for delivering effective and robust cyber security.

In the field of business environment, the transition “from informal to formal” can lead to a significant reduction in employment insecurity and to new opportunities for decent work. Although around 2/3 of the informal jobs have been carried by men, the reform aims towards the impact that is gender balanced.

The enhanced access to lending for SMEs will encourage women entrepreneurship. Gender equality will be mainstreamed in the implementation of the activities and gender segregated data will be incorporated in the monitoring.

Accessibility will be ensured in accordance with the United Nations Convention on the Rights of Persons with Disabilities and the National Strategy for the Rights of the Persons with Disabilities 2023-2030, adopted in December 2023⁷. Special attention will be paid to ensuring digital accessibility. People with disabilities face significant obstacles in accessing public services and the need for Internet access to services is particularly high among people with disabilities. The principle of digital accessibility will be respected. A comprehensive design principle should be considered in relation to buildings and infrastructure included in the Reform Agenda.

⁷ <https://www.mtsp.gov.mk/predlog-zakoni1.nspix>

PART 2: DESCRIPTION OF POLICY AREAS AND RELATED REFORMS

This section of the Reform Agendas includes a comprehensive presentation of the measures (qualitative and quantitative steps) that North Macedonia shall implement over the duration of the implementation of the Reform and Growth Facility in line with the detailed specifications and timetable in Annex I to the Reform Agenda.

The timetable of the planned implementation of measures is established over six-month periods starting on 31 December 2024 and ending on 31 December 2027. According to Regulation (EU) 2024/1449, the final implementation date of 31 December 2027 for the fulfilment of the payment conditions related to the final set of measures includes the time necessary for the Commission to evaluate the successful fulfilment of the payment conditions concerned and the subsequent adoption of the release decision by the Commission. Accordingly, and as prescribed by Article 13(1), point (i) Regulation (EU) 2024/1449, North Macedonia must implement the agreed qualitative and quantitative steps by 31 August 2027 at the latest, and submit a duly justified request for the release of funds in respect of fulfilled payment conditions related to these quantitative and qualitative steps without delay.

Pursuant to Article 21(5) Regulation (EU) 2024/1449, in case the Commission has negatively assessed the fulfilment of the payment conditions, North Macedonia may take the necessary measures to ensure satisfactory fulfilment of the corresponding conditions within a period of 12 months from the initial negative assessment referred to in Article 21(4) Regulation (EU) 2024/1449. During the first year of implementation, a deadline of 24 months applies, calculated from the initial negative assessment. In any event, and as established in Article 21(6) Regulation (EU) 2024/1449, any amount corresponding to payment conditions that have not been fulfilled by 31 December 2028 shall not be due to North Macedonia.

6. POLICY AREA 1: GOVERNANCE/PAR AND PFM

SUB-AREA 1.1: Public Finance Management (PFM)

All reform activities are planned to be introduced with the new PIFC Law and the associated bylaws, as well as through implementation of the activities and measures planned in the [Public Financial Management Reform Programme](#), in coordination with implementation of the OBL.

Reform 1.1.1: Strengthen Public Internal Financial Control

Challenges: Strengthening internal financial controls within the public sector plays a crucial role in promoting accountability, by preventing fraud and misuse of funds, enhancing transparency, and enabling effective use of public resources. The reform also aims at improving the accountability of heads of budget users towards the parent budget users, as well as the accountability of heads of publicly owned enterprise towards the supervisory boards, while being obligated to follow the procedures and directions of their parent budget user. From the aspect of institutional setup in the internal audit domain, specific criteria are to be stipulated for establishing internal audit units of budget users at the central level, as well as new criteria for establishing internal audit at other entities, which will consider the average execution of the respective budgets in the last three years and the number of employees. Also, through the reform activities, will be defined the minimum number of employees in the internal audit units and the model of conducting training and examination for obtaining a certificate for an authorized internal auditor in the public sector.

Targeted beneficiaries: Under the scope of these activities will be included all entities from the public sector, including all legal entities that are directly or indirectly established by the state or municipalities, as well as the public enterprises and trading companies that are majority owned by the central government, local government units or the City of Skopje.

Induced output: Strengthened Public Internal Financial Control to ensure higher accountability, effectiveness, and efficiency of public sector resources. The revised institutional set-up, scope, and capacity of Public Internal Financial Controls – aiming to enable effectiveness and efficiency of budget execution - will establish a functional system of internal financial control in the public sector, which includes financial management, financial control, internal audit, central coordination, and harmonization.

Reform indicators and steps with a timeline:

All these reform activities are planned to be introduced with the new PIFC Law and the associated bylaws, as well as through implementation of the activities and measures planned in the [Public Financial Management Reform Programme](#), in coordination with implementation of the OBL. The implementation of this reform in the period 2024 to 2027 is foreseen through the following indicators and steps:

Step: PIFC Law is adopted by the Parliament (by December 2024).

Baseline (2024) is 0. PIFC Law has not been adopted. By-laws will be adopted after of the adoption of the law.

Step: Full implementation of the PIFC law (by December 2027), including:

- i) At least 80% of Internal Audit Units of parent budget users meet the staff requirements established in the PIFC Law
- ii) Minimum of 70% of Internal Auditors will be certified by December 2027

Baseline (2024) is 0. PIFC Law and related by-laws have not been adopted. The targets to assess “full implementation” are: strengthening the human resource capacities of internal audit units, so that at least 80% of Internal Audit Units of parent budget users meet the staff requirements established in the PIFC Law and at least 70% of Internal Auditors will be certified by December 2027.

After adoption of PIFC Law, CHU will prepare an Action Plan for full implementation of the PIFC Law. Adoption of all by-laws is considered full implementation. CHU in cooperation with the Delegation of the European Union will follow the implementation of the Action Plan, ensuring proper monitoring of the implementation.

Step: At least 80% of budget users at central level and 75% at local level submit a report on performed internal audits (related to Fiscal Year 2024) (by December 2025)

Baseline (2022) is share of 54% of budget users at central and local level (total 95 budget users out of total 177 at both levels). Out of a total 177 budget users at the central and local level, 95 budget users, or 54%, submitted a report on performed audits and on internal audit activities. At the central level, out of 96 budget users, 53 budget users submitted a report, i.e., 55.2%. At the local level, out of 81, 42 budget users submitted a report that is 51.8%. Submitted report on performed audits and internal audits activities. Data processing by CHU for the 2023 PIFC Annual Report is ongoing.

Step: A minimum of 70% of parent budget users at central level have a risk management document, including anti-corruption risk and record the identified risks in mitigation plans (by December 2025).

Baseline (2023) is share of about 60% budget users at the central level have documented the risks without inclusion of anti-corruption risks.

Responsible institution for monitoring and reporting on the steps achievement is the **Ministry of Finance** (Central Harmonization Unit). Other responsible institutions for the implementation of the reform are Parliament of the Republic of North Macedonia as well as all entities from the public sector responsible for application of the provisions of the PIFC Law (all budget users and Public owned enterprises).

Reform 1.1.2: Strengthen the public procurement system

Challenges: In 2022, the public procurement market of North Macedonia amounted to 8.6% of the country's GDP. It represented 25% of the state budget. The proportion of the overall value of public procurement awarded to SMEs is 57%. The public procurement system has to secure that the public funds are spent in effective, efficient, transparent, and reasonable manner. Although the national legal framework for public procurement is substantially compliant with the 2014 EU Directives and provides a sound basis for ensuring transparency and increasing value for money in public procurement, the use of the "Most Economically Advantageous Tender" (MEAT) criteria is still limited i.e., the share of the value of public procurement contracts awarded by using MEAT criteria amounts to approximately 9% in 2023, preventing the country to fully exploit the opportunities introduced with the new legislation. Increasing the use of MEAT criteria is expected to contribute to efficient and reasonable spending of public funds as well as inducing market competitiveness and fairness.

Targeted beneficiaries: Economic operators from the private sector offering the best overall value for money.

Induced output: Improving transparency of the public procurement system, encouraging stronger competition and level-playing field for economic operators, and achieving best value for money with effective and efficient use of public funds in the award of public contracts. Limited use of e-auctions, as well as increased use of e-market and MEAT criteria lead to efficient use of resources and achieving best value for money.

Reform indicators and steps with the timeline:

Strengthening the public procurement system is influenced by various factors. In order to achieve this reform objective, with a view to ensure transparency and competitiveness of public procurement system, the following steps are foreseen:

Step: Use of auctions in Tenders in Fiscal Year 2025 decreased to maximum 40% of Tenders (by December 2025).

Baseline (2023) is share of 62% procurement procedures used E-auctions.

Step: The e-market system is used to award at least 800 tender procedures (by December 2026).

Baseline (2023) is number of 259 contracts awarded by using the e-marketplace system.

The aim of the step is conducting low value procurement procedures using E-marketplace favours gaining best value for money and efficient use of resources.

Step: At least 25% of tenders in value use most economically advantageous tender (MEAT) criteria as best price-quality ratio or the cost-effectiveness approach for award (by December 2027).

Baseline (2023) is share of 9.18% of the value of public procurement contracts awarded by using the corresponding MEAT criteria in the total value of procurement contracts.

Increase of the use of corresponding MEAT criteria as a value of public procurement contracts awarded indicates the efficient and reasonable spending of public funds.

Responsible institutions for monitoring and reporting on the steps achievement is the state administration body **Public Procurement Bureau** responsible for coordinating and monitoring the public procurement system in North Macedonia under the umbrella of **Ministry of Finance**.

Reform 1.1.3: Full implementation of the 2022 Organic Budget Law, including reform in Public Investment Management

Challenges: The new Organic Budget Law (OBL) provides a comprehensive framework for conducting sound, predictable and sustainable fiscal policy and increase budget discipline and accountability. Improving the management of public finances and strengthening the medium-term budget planning is one of the highest priorities of the Government of the Republic of North Macedonia in the process of EU accession. The OBL covers all reform activities and processes, which would significantly improve the annual and medium-term budget processes through adoption of new budget classifications with harmonized definitions with international methodologies, developing and monitoring measurable performance indicators, and increased quality of the budget document and fiscal strategy, both in terms of scope, structure and content. Strengthening the process of planning and execution of the Budget will be based on adoption of revised budget classifications, namely: organizational, economic, functional, program and classification by sources of financing. The revision of the administrative (organization) classification is also aimed at reducing the number of primary (“parent”) budget users by at least 40%. The fiscal strategy, developed in accordance with the provisions of the OBL, is to include more information, qualitative and quantitative data and comparative analysis of macroeconomic projections, revenue and expenditure execution and public debt, as well as a sectoral analysis of expenditures in the medium term, identification and analysis of tax expenditures, macro-fiscal risks, and maximum appropriations (expenditure limits) by parent budget user at central level for a five-year period. Fiscal rules have to be strictly applied in accordance with the Organic Budget Law during the period 2025-2027 and thereafter. The Fiscal Council is fully operational and has provided independent assessments of the Fiscal Strategy and Annual Budgets, including monitoring of compliance with the fiscal rules.

A comprehensive risk register must be operational including efficient systems to monitor risks from SOEs, large capital projects and PPPs, climate change and legal claims against the state. The 2028-2031 Fiscal Strategy must be timely submitted in accordance with OBL requirements, including an analysis of fiscal risks and ceilings for parent budget users for 5 years, as well as assessment of tax expenditures. OBL also introduces numerical fiscal rules regarding the deficit and the total debt of the general government. Namely, the deficit of the general government of the corresponding year must not exceed the level of 3% of the nominal gross domestic product (GDP), and the total debt of the general government may not exceed the level of 60% of the nominal GDP, and the guaranteed public debt may not exceed 15% of the nominal GDP.

The importance of adequate management of fiscal risks is also being highlighted with the new OBL, which stipulates requirements for strengthened processes of identification, assessment, analysis, monitoring and disclosing of the fiscal risks steaming from various sources of risks that have the potential to significantly affect the fiscal position of the government budget in a medium and long-term. The OBL also regulates the establishment of the Fiscal Council and its role in providing independent assessments of the macroeconomic and budget projections and opinions on the Fiscal Strategy and Annual Budget, including monitoring of the compliance with the fiscal rules.

The process of preparation of the OBL associated bylaws, guidelines, manuals, etc., has already commenced, under the EU Twinning Project “Strengthening Budget Planning, Execution and Internal Control Functions” and is supported by a technical assistance from the US Treasury. For the purpose of improving the planning, the allocation and the implementation of public infrastructure projects, the Government has committed to reforms that would be gradually introduced for strengthening the public investment management framework. These reforms are expected to contribute to increased efficiency in the provision of public infrastructure assets.

Efforts to improve PIM are integrated with the new Organic Budget Law, which support the role of Ministry of Finance as gatekeeper of public finances throughout the public investment cycle. The new OBL provides better support to PIM by including specific articles on strategic planning, fiscal strategy, medium-term priorities and procedure for selection of new projects and project and multiyear part of the Budget, among others. Similarly, the development of the new Integrated Financial Management System (IFMIS) considers PIM information requirements through a separate PIM module.

To perform its functions related to managing public investments, the Ministry of Finance has established a new Public Investments Management Department (PIMD), in charge of duties related to public infrastructure

project independent appraisal (review), primarily from the point of view of the fiscal impact, the risks and sustainability, giving opinions and recommendations on the projects, preparing summary list of proposed and appraised new public infrastructure projects, consolidating the list of prioritised public infrastructure projects, central oversight of the national public investment portfolio, including monitoring and management of the overall delivery risks, as well as developing and updating methodologies for project appraisal and review of pre-investment studies.

The Ministry of Finance (PIMD) has drafted a new Decree on managing public investment projects, yet to be adopted by the Government, aimed to establish a structured and comprehensive approach to decision making for the proposed public investment projects. The Decree prescribes the procedures for defining, preparing, reviewing, appraising and prioritizing new infrastructure projects, monitoring, reporting and ex – post review of public investment projects, as well as regulates the roles and responsibilities of the institutions involved in the PIM processes.

In order to create a database of projects from which to select budget candidates and monitor financial implementation of projects, the Ministry of Finance shall develop excel-based transitory IT solution.

Following adoption of the PIM Decree by the Government, all budget users shall have to prepare and submit to the Ministry of Finance project concept notes for new public investment projects in accordance with the provisions stipulated in the Decree.

As a final point, Single Project Pipeline (SPP) for all capital projects regardless of the sources of funding shall be put in place by the Government and operational. All capital investment projects enlisted in the SPP shall be prepared in line with the PIM Decree. The list of evaluated and accepted project proposals by the Government (Single Project Pipeline) shall be published by the Ministry of Finance and there shall be a track record for projects enlisted in the SPP.

Targeted beneficiaries: All primary budget users, including the local government units.

Induced Output: Public finances are managed in a way that ensures effective policy implementation, improved financial discipline, and sound management of fiscal risks, strengthened fiscal sustainability and fiscal transparency.

Reform indicators and steps with timeline:

Step: Adoption of at least 17 bylaws foreseen in the Organic Budget Law, including establishing of the registry of public entities (Art 4), revision of the budget classification (art 5) and reduction of the number of primary (“parent”) budget users by at least 40% in the administrative classification and Public Investment Management Decree (art 20) (by December 2024).

Baseline (2024) is 0 since the status of OBL bylaws is that they have not been adopted. Organic Budget Law has been adopted in 2022.

Step: Increased analytical capacity to improve efficiency in budget allocations: Ministry of Finance has carried out spending reviews covering at least 20% of the budget are implemented (cumulative number since beginning of the Growth Plan) (by December 2026).

Baseline (2024) is 0. The Ministry of Finance is currently carrying out activities for the preparation of by-laws, including budget classifications, Statement on fiscal policy, mid-term fiscal projections, by-laws in the field of treasury operations with the aim of implementing the best practices in the area of budget planning and execution.

Step: Reforms foreseen in the OBL are fully implemented (by December 2027).

Baseline (2024) is 0 (qualitative indicator).

Fully implemented reforms foreseen in the OBL are resulting in:

(i) fiscal rules are applied in accordance with the OBL during the period 2025-2027;

The implementation of fiscal rules will be supported by a phased approach to fiscal consolidation, though addressing improving revenue collection by tackling the grey economy and corruption, while also reducing and restructuring budget expenditures by cutting non-essential costs that will lead to a reduction of the budget deficit, and, accordingly, a reduction of the public debt.

Focus of public finances in coming period remains to achieve the main priorities of the Government and keeping public spending within sustainable limits.

Also, strengthening of fiscal risk management which can reduce the government's exposure to shocks that could affect budget deficit and total debt, thereby strengthening the credibility of its budget and fiscal strategy.

(ii) Fiscal Council is fully operational and has provided independent assessments of the Fiscal Strategy and Annual Budgets, including monitoring of compliance with the fiscal rules, and

- Macroeconomic and fiscal assumptions applied when preparing the State Budget and the Fiscal Strategy;
- Fiscal Strategy, State Budget, Supplementary Budget, Semi-Annual Report on Budget Execution, Annual Financial Statement and other documents submitted to the Parliament of the Republic of North Macedonia;
- Fiscal risks and probability as regard State Budget execution and implementation of the Fiscal Strategy;
- Fulfilment of fiscal rules prescribed in the OBL, as well as risks arising from exception from the respective fiscal rules;

To be fully operational, the Fiscal council needs to have supported staff for uninterrupted performance of the tasks falling within the scope of operations. For the purpose of preparing the analyses and the opinions within its mandate, the Fiscal Council shall have the right to access all relevant information and data of the budget users and other public entities at national and local level.

As regards the performance of the tasks stipulated by this Law, the Fiscal Council and each of its members shall be responsible to the Parliament of the Republic of North Macedonia.

The Fiscal Council shall submit a report on its operations to the Parliament of the Republic of North Macedonia at least once a year by the end of May in the current year for the previous year. The report, which shall also include a report on managing the funds, shall be published on the website of the Fiscal Council.

(iii) A comprehensive risk register is operational including efficient systems to monitor risks from SOEs, large capital projects and PPPs, climate change and legal claims against the state.

(iv) The 2028-2031 Fiscal Strategy is timely submitted in accordance with OBL requirements, including an analysis of fiscal risks and ceilings for parent budget users for 5 years, as well as assessment of tax expenditures.

State-owned enterprises play a key role in providing social value and stimulating economic growth, but at the same time they represent a potential source of fiscal risk that could result in certain deviations from the basic medium-term scenario.

The Ministry of Finance continues to strengthen the country's fiscal transparency, including in the area of reporting fiscal risks of state-owned enterprises. The goal is to provide a clearer and more comprehensive view of the financial situation and efficiency in the operation and management of state-owned enterprises, which will help in making the right decisions and building a sound foundation on which the State-owned Enterprises Sector will be able to positively contribute to sustainable economic growth in the state.

Step: All budget users have prepared and submitted to the Ministry of Finance project concept notes for new public investment projects in accordance with the PIM Decree (by December 2026).

Baseline (2023) is 0. Budget users do not prepare and submit to the MoF project concept notes for the public investment projects.

Step: A Single Project Pipeline for all capital projects regardless of the sources of funding is put in place and operational (by December 2027).

Baseline (2023) is 0. No Single Project Pipeline based on standard methodology.

Following the adoption of the new PIM Decree by the Government and once it becomes applicable, budget users are to prepare and submit new public investment projects to the Ministry of Finance in accordance with the provisions stipulated in the Decree. In the first phase, project concept notes for new public investment projects are to be prepared and submitted. Next, detailed appraisal of the feasibility of the new public investment projects is to be conducted, followed by selection and prioritisation of the public investment projects by the Government based on pre-defined criteria. The list of project proposals evaluated and accepted by the Government is to be published by the Ministry of Finance. Thus, the Single Project Pipeline (SPP) for all capital projects, regardless of the sources of funding, is to be put in place by the Government, and the budget candidates (new project initiatives) are to be selected therefrom. This will be done in direct co-relation with the Ministry for European Affairs in line with their legal mandate, ensuring complementarity and coordination with the ongoing WBIF investment methodologies, including all EU and other foreign assistance.

Step: Developed adequate level (excel based) transitory IT solution that will provide the Ministry of Finance with a database of projects from which to select budget candidates and monitor financial implementation of projects (by December 2025).

Baseline (2023) is 0. No IT solution for registering proposed infrastructure projects that will serve to creating a single pipeline of projects is in place.

Responsible institution for monitoring and reporting on the steps achievement is the **Ministry of Finance**.

SUB-AREA 1.2 Public Administration Reform (PAR)

Reform 1.2.1: Reorganisation reform

Challenges: The basis for the reorganisation and optimisation of the state administration will be the new systemic law on the organisation and operation of the state administration bodies, which will clearly define the role of each type of state administration bodies: ministries as policy makers, agencies as implementers of policies, and the inspectorates as implementers of inspection supervision over the implementation of policies developed by the ministry within which the inspectorate is located. The law will lay down the new organisational setup, competences, work principles and clear lines of accountability and responsibility of all state administration bodies and will also define the uniformity of the names of subordinated bodies within their management structures. The reorganisation of the state administration will first start through piloting in the three ministerial systems of MISA, the Ministry of Economy and the Ministry of Agriculture, Forestry and Water Economy, which means verification of the recommendations from the Integrated Report on State Reorganisation and the need for a structural change thereof. The whole process will also be implemented gradually in phases in the rest of the ministerial systems and in the GS. Through an established methodological framework, i.e., a procedure for the establishment, merger and abolition of state administration bodies, the overlap of competences will be avoided, and clear lines of accountability and responsibility will be defined, as well as clear hierarchical subordination, which will result in a regular review of the state administration and reconsidering of the need for certain organisational changes.

Targeted beneficiaries are citizens and businesses that will receive high-quality public services in a reasonable timeline.

Induced Output: Comprehensive reform of the organisational and operational setting of state administrative bodies to streamline the institutional framework, eliminate overlapping competences, improve administration's efficiency, and clarify the lines of accountability. Complete the reorganisation of and optimization of the administrative system and decrease the number of state administrative bodies.

Reform indicators and steps with timeline:

Step: Adoption of the new Law on the Organization and Operation of the State Administrative Bodies (LOSAB) (by December 2025).

Baseline (2024) is 0.

Step: Harmonisation of 65 sectoral laws that establish administrative bodies with the new law on organisation and operation of state administrative bodies (by December 2026).

Baseline (2024) is 0.

Step: Complete the state reorganisation reform resulting in: (by December 2027)

- i) Clarified lines of accountability and reporting between ministries and subordinated bodies.*
- ii) Clarified mandates for each existing administrative body and clarified responsibilities, while eliminating duplication, for policy making, policy implementing and enforcement, evaluation and reporting.*

Responsible institution for monitoring and reporting on the steps achievement is the Ministry of Public Administration in cooperation with the General Secretariat of the Government.

Reform 1.2.2: Civil service reform

Challenges: The EC progress reports consistently emphasize the need to improve human resources management across the administration, particularly in ensuring merit-based practices in recruitment, promotions, and dismissals, including at senior management levels. To bolster this, a comprehensive retention policy is important to make the public administration a more attractive employer, capable of retaining talent and professional experience. Implementing a single salary system for public sector employees, along with introducing flexible work arrangements, regulating teleworking, and enabling horizontal promotion, would further contribute to attractiveness of public sector employment. Additionally, professionalizing the public administration necessitates creating conditions for the career growth and development of every employee, prompting the need for activities such as promoting mobility among institutions, developing motivation tools, and engaging expert staff as trainers. Collaborating more closely with universities to attract promising young talent through practical teaching and volunteering initiatives is also vital. Cultivating a culture of professionalism within the public sector, emphasizing continuous development and ethical standards, is another pillar of civil service reform. By investing in staff development and fostering professionalism, the goal is to improve administrative efficiency, effectiveness, and integrity, ultimately advancing good governance objectives, enhancing service delivery, and strengthening public trust.

The salary system is inconsistent, salaries are uneven and regulated by different regulations because the Law on Administrative Servants (LAS) defines the salaries of administrative servants only, and the salaries of other public sector employees are regulated by special laws and collective agreements. In the past period, there was a fragmented increase in salaries of various categories of public sector employees, which increased the inequality of the system, but also causes the demotivation of employees in the public service, which results in their leaving. A unified and coherent salary system in the public sector would be important for promoting fairness, transparency, and efficiency in compensation practices across public institutions. This

initiative involves the development of a standardized framework for determining salaries and related benefits for employees working in various roles within the public sector.

Implementing reforms to decrease the number of resignations from the administration by 60% in the public sector offers numerous advantages. Reducing resignations enhances the public sector's workforce stability and preserves institutional memory. The civil service reform, among the other objectives, aims to professionalize and enhance the public service's efficiency. By capping the number of senior roles occupied by acting managers at 10%, the reform ensures leadership positions are filled by permanent and committed individuals, improving decision-making and organizational consistency. Moreover, ensuring at least 45% of employees receive salaries according to the new system promotes fairness and transparency in compensation. The goal is to increase public sector employees' satisfaction and retention. Finally, eliminating the practice of paying employees who do not report to work addresses accountability issues and prevents misuse of public funds.

Targeted beneficiaries are current and future public administration employees.

Induced Output: Developed a comprehensive retention policy to make the public administration a more attractive employer, capable to retain talent and professional experience; Introduce flexible working arrangements, regulated and introduced teleworking; Introduced horizontal promotion; Ensured recruitments, promotions and dismissals are based on merit; Harmonised the job classification system in order for the grade and the salary to correspond to the level of responsibility; Established a single salary system for public sector employees.

Responsible institution for monitoring and reporting on the steps achievement is the **Ministry of Public Administration** in cooperation with the General Secretariat of the Government, Ministry of Finance and Ministry of Economy and Labour

Reform indicators and steps with timeline:

Step: Adopt laws and bylaws to increase staff motivation and reduce staff turnover, to allow faster career progression based on merit, recruit at a grade that corresponds to qualification and previous working experience of candidates, facilitate later promotion, improve working conditions, i.e. flexible working arrangements, promote mobility, teleworking possibilities, etc. Data will be published on grounds for dismissal of public servants for 100% of dismissals (by December 2025).

Baseline (2024) is 0.

Step: A new salary system with an adequate job classification is in place (by December 2026).

Baseline (2024) is 0.

Introduction of the new salary system with an adequate job classification by the December 2026 considers preparation of the Methodology for the analysis and classification of jobs positions in the public sector institutions that will harmonize the salary subsystems in the areas determined by the law on the salary system in the public sector; and preparation of the form and content of salary tables in the salary subsystems in the areas regulated by the new Law on the salary system in the public sector. All salary regulation will be harmonized with the new Law on Salary system.

Responsible institution for monitoring and reporting on the steps achievement is the Ministry of Public Administration.

Step: At least 90% of vacant managerial positions (Directors and Secretaries) per year are filled in following a competitive and transparent recruitment procedure, including ensuring that for each of these recruitment procedures there are at least 3 eligible candidates (by December 2025).

Baseline (2024) 0.

Step: Civil service reform implemented (by December 2026), resulting in:

i) Decrease the overall number of departures (people resigning) from the administration by 60%;

Baseline (2023): for overall departures (people resigning) from the administration according to data in HRMIS data is 418 administrative servants.

Step: Ongoing Civil service reform implemented (by December 2027), resulting in:

i) Maximum 10% of the total number of senior positions are occupied by acting senior managers.

ii) At least 45% of employees are receiving salaries according to the new salary system.

iii) No public service employees receiving a salary without having to show up to work.

Baseline (2024) 0.

To achieve indicators and steps set under reform, a number of activities need to be implemented. One of the first activities in 2024 to be implemented are to conduct analysis of the number, profiles and levels of employees leaving the public administration and to allocate sufficient national funding and mobilize donor support for implementation of the Strategy for public administration reform 2023-2030 and its Action Plan. Further activities will be to perform a due diligence to prepare a document with established measures for retention of personnel in the public administration, followed by the preparation and adopt of the competitive and transparent recruitment procedures for vacant managerial positions in the public administration. New competitive and transparent recruitment procedure for senior managers will be introduced, that will reduce the number of acting senior managers.

Responsible institution for monitoring and reporting on the steps achievement is the Ministry of Public Administration in cooperation with the General Secretariat of the Government, Ministry of Finance and Ministry of Economy and Labour.

7. POLICY AREA 2: ENERGY/DIGITAL TRANSITION

SUB-AREA 2.1 ENERGY TRANSITION

SUB-AREA 2.1.1 Market reforms

Reform 2.1.1.1: Align with electricity integration package to enable electricity market coupling of the EU and North Macedonia: establish the day ahead electricity market, operationalise the package in line with the market coupling operator integration plan by the end of 2025.

Challenges: Greater electricity market integration will provide all marketplaces known to the stakeholders for electricity trading (long term, day-ahead, intraday, and balancing market).

The Complete Transposition of the Electricity Integration Package entails fully adopting and integrating EU electricity market directives and regulations into national legislation, ensuring that the national electricity market aligns with the principles and standards established by the EU. This process aims to foster market competition, enhance operational efficiency, and facilitate seamless integration with the European energy market. Continuing the implementation of the electricity integration package, in accordance with Energy Community requirements, involves adhering to a defined timeline for adoption, ensuring robust regulatory compliance, improving market transparency, and enabling efficient cross-border electricity trade. Continuing the implementation of the electricity integration roadmap by the Transmission System Operator (TSO) and the Nominated Electricity Market Operators (NEMOs) involves their active participation in the day-ahead market coupling with the EU. This process ensures the synchronization of electricity trading and market operations, enhancing the efficiency and competitiveness of the electricity market.

Targeted beneficiaries Transmission System Operator (TSO) and the Nominated Electricity Market Operators (NEMOs).

Induced Output: Creating a suitable playing field in aspects of the market is key for attracting new stakeholders to manage their investments in North Macedonia. Promoting electricity trading on short-term markets is key in increasing investment from renewable energy sources (RES) and lowering imbalance costs of market participant. Thus, the country will increase the reliance on RES in the electricity sector (without incentives) leading to lowering GHG emissions.

Reform indicators and steps with timeline:

Step: Complete transposition of the electricity integration package and continue its implementation, in line with Energy Community requirements (by June 2025).

Baseline (2024) is 0.

Complete transposition will be achieved with the adoption of new Energy Law, which will include the electricity integration and relevant bylaws arising from the Energy Law.

When legal framework is in place, AD MESPO will continue with the implementation of the relevant rules and procedures.

Step: Continue the implementation of the electricity integration roadmap by the Transmission System Operator (TSO) and the Nominated Electricity Market Operators (NEMOs) joining day ahead market coupling with the EU, in line with Energy Community requirements (by December 2025).

Baseline (2023) is day ahead market is functional since 10 of May 2023 in line with European practice. New NEMO designation is in line with CACM regulations. This designation should be performed in a way that our NEMO (MEMO) will be recognized by European Commission as NEMO in North Macedonia.

In order to enable the integration of ours with the European electricity market, i.e. market coupling in 2023, a memorandum of understanding was signed between PXs, TSO and NRA from the countries North Macedonia, Albania, Kosovo and Greece. According to MoU, market coupling will be implemented on the borders of MK-GR, AL-GR and AL- Kosovo.

It is important to be mentioned that the process of establishing market coupling it is to define a CCR configuration that must have all TSO's approval and ACER decision. From operational aspect the Macedonian Transmission system operator (MEPSO) in collaboration with ENTSO-E is in process of definition of CCRs in the region which is expected to be finalized no later than November 2024.

According to the first estimates, SDAC market coupling at the MK-GR border should be realized by January 2026.

DISCLAIMER: *The deadlines stipulated in this section are without prejudice to the obligations under and the deadlines set by the *acquis communautaire* of the Energy Community Treaty, and do not affect the applicability and enforceability of the latter.*

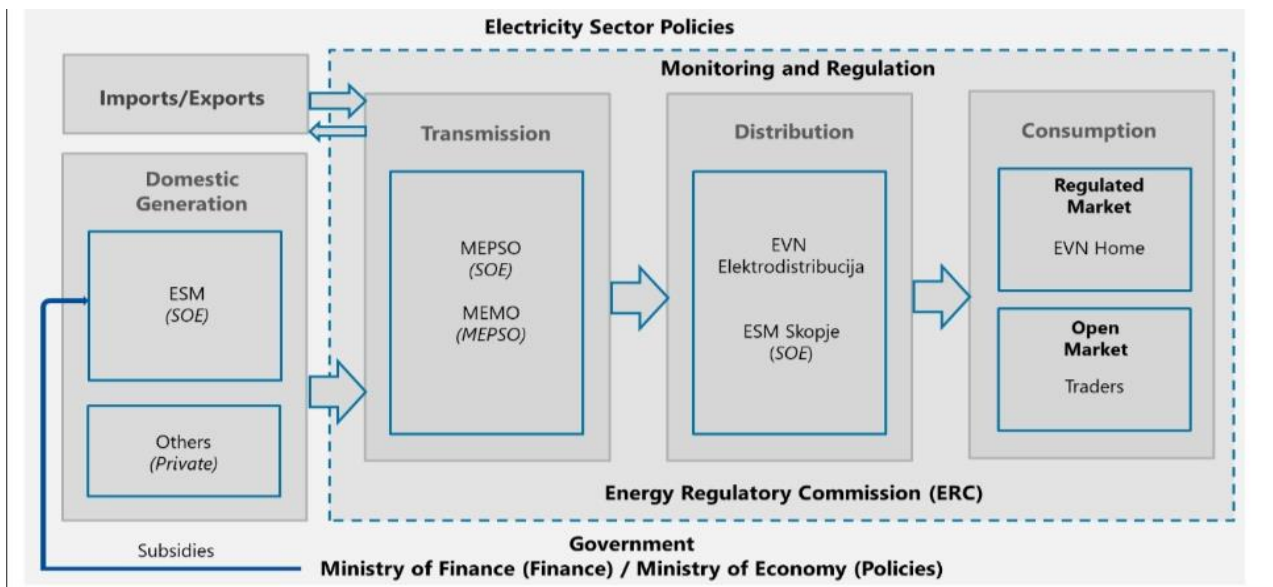
Responsible institutions for monitoring and reporting on the steps achievement is the National Electricity Market Operator (MEMO) in coordination the Ministry of Energy, Mining and Mineral Resources.

Reform 2.1.1.2: Gradual electricity price adjustments to market level accompanied with measures to address energy poverty

Challenges: The 2018 Energy Law deregulated the electricity market, granting consumers the right to select their electricity provider. However, to protect households and small consumers from price volatility, two markets were allowed to co-exist: an open market with market-driven pricing and a regulated market where a universal supplier provided electricity to households and small consumers (SMEs). Over a five-year transition period, the state-owned electricity generator, ESM, was intended to gradually decrease its supply of electricity to the universal supplier thereby reducing its share in meeting the demand of the regulated market.

Starting from July 1st, 2022, the Energy Regulatory Commission introduced block tariffs for electricity, a substantial reform aimed at promoting reduced energy consumption among households. These tariffs are structured into four blocks defined by energy consumption, with gradually increasing rates from the lowest to the highest energy consumption block, particularly during peak usage periods. Most electricity is consumed in the first two blocks, and close to 50 percent of total electricity is consumed during the non-peak hours, allowing households to benefit from subsidized prices. The heavily subsidized electricity prices pose significant fiscal challenges and introduce vulnerability to the system. From a supply-side perspective, the domestic electricity production is predominantly from fossil fuels, mainly coal, but also from hydro power plants, as well as a small share from other renewables such as photovoltaics. Network losses are also high by international standards as a result of both technical and commercial losses in the distribution system.

Figure 1. Overview of the electricity sector in North Macedonia



Source: IMF (2024, p. 10).

As part of the green transition agenda, the Government committed to gradual reduction of the electricity subsidies and to incentivizing energy efficiency. The state-owned electricity generator, ESM, has been selling electricity to the regulated market at below its cost-recovery (during the pick of the energy crises, the ESM sale price was approximately 40% below its cost-recovery level). Furthermore, the below-cost-recovery prices are not promoting cost awareness, energy savings and efficient use of the electricity. Heavily subsidized electricity also discourage investment in energy-efficient technologies. Until the end of 2023, the mandatory provision of electricity by the ESM to the regulated market was 100 percent of demand in 2023. In line with the Precautionary and Liquidity Line (PLL) arrangement with the IMF, as of January 1st, 2024, the threshold was lowered to 95% of the demand. Moreover, the Government committed to further lowering the mandatory provision to 85% of the demand as of July 1st, 2024. Narrowing the gap between administrative and the market price for electricity requires addressing the impact on vulnerable households to reduce energy poverty.

Targeted beneficiaries for the gradual decrease of public intervention are the state-owned electricity generating company ESM, and the Ministry of Finance.

Targeted beneficiaries for Methodology addressing energy poverty are Ministry of Energy, Mining and Mineral Resources in cooperation with the Ministry of Social Policy, Demography and Youth.

Induced output: The reform aims to reduce the need to purchase expensive electricity imports and, second, to sell excess electricity in the open market at more advantageous prices, or to reduce non-competitive production, as it is gradually exposed to competition. In addition, vulnerable customers need to be targeted for subsidies instead of subsidizing all consumers, which will decrease the budget burden.

Reform indicators and steps with timeline:

Step: Gradual decrease of public intervention in the price-setting for the supply of electricity in line with Article 5 of the Directive 2019/944 on common rules for the internal market for electricity:

Baseline (2024) 85%.

No more than 70% (in June 2025), 50% (in June 2026) and 30% (in June 2027) of the needs of the universal electricity supplier to receive public intervention in price setting (linking bilateral supply contracts between the generator and the supplier of electricity to annual average of the day-ahead market price). The aim is to continue the trajectory of decreasing public intervention in the price –setting by 10% every semester.

The Universal supplier opens a tendering procedure for supply of electricity two times per year for the following six months (in December and June). ESM should follow the agreed percentage by the Government for the upcoming tendering procedures.

Responsible institutions for monitoring and reporting on the steps achievement is the Ministry of energy, mining and mineral resources, in cooperation with the Ministry of Finance and ESM- the state owned electricity generation company.

Step: Implement measures aimed at protecting vulnerable customers with a methodology in place to measure energy poverty levels (by December 2025).

Baseline (2024) is 0.

Review the experience with block tariffs, identify the opportunities for protecting vulnerable customers in coverage and adequacy, and implement measures aimed at protecting vulnerable customers with a methodology in place to reduce energy poverty.

In order to reach this step on implementing measures aimed at protecting vulnerable customers with a methodology in place to measure energy poverty levels the following activities should take place:

- Establishing a working group with representatives from relevant stakeholders that deal with energy poverty, including but not limited to: Ministry of Energy, Mining and Mineral Resources, and Ministry of social affairs. (January 2025).
- Working group prepares analysis and suggestions on the need for amending relevant laws and bylaws related to energy poverty and supporting vulnerable energy consumers and relevant Ministries submit to the Government proposals on amending this legislation (June 2025)
- Parliament adopts the proposals for amending relevant Laws based on the proposal of the relevant Ministries. (October 2025)
- Implement measures aimed at protecting vulnerable customers based on the methodology in place to measure energy poverty levels. The Methodology will define who are vulnerable consumers and what measures should be implemented to support these consumers. (December 2025)

Responsible institutions for monitoring and reporting on the steps achievement is the Ministry of Energy, Mining and Mineral Resources in cooperation with the Ministry of Social Policy, Demography and Youth.

SUB-AREA 2.1.2 Decarbonisation

Reform 2.1.2.1: Implementation of climate and energy policies and measures as foreseen in the National Energy and Climate Plan (NECP)

Challenges: As a Contracting Party of the Energy Community, North Macedonia was required to develop an integrated National Energy and Climate Plan (NECP). NECP was approved in May 2022 and covers the period from 2021 to 2030. It covers all five dimensions of the Energy Union: (1) decarbonisation, addressing two segments: GHG emissions and renewable energy sources (RES), (2) energy efficiency, (3) security of energy supply, (4) internal energy market, and (5) research, innovation, and competitiveness. Moreover, it includes a perspective until 2040 to ensure consistency with long-term relevant policy objectives at EU, UNFCCC, and Energy Community level.

According to the Governance Regulation, the adopted NECP needs to be revised to incorporate the adopted targets of the 20th Ministerial Council of Energy Community (15 December 2022), to embark on a fast-paced development of RES and energy efficiency in the country, to include coal phase out date and to include the recommendations of the needed investments to ensure energy security. In addition, since the development and adoption of the NECP, there have been considerable changes in the Energy Community acquis – such as the update of the Renewable and Energy Efficiency Directives, the adoption of the Clean

Energy Package with new rules regarding the electricity and gas markets and security of supply, as well as the rules for the monitoring, reporting, and verification of GHG emissions at the installation level.

The revised NECP, currently being developed with IPA support will include plans for the practical implementation of the updates and measures defined in the document. Recommendations on NECP implementation will include on the establishment of a data collection, monitoring and evaluation mechanism led by the Ministry of Economy and Ministry for Environment and Physical Planning with all institutions involved in line with the Governance Regulation. For successful reporting on implementation of the NECP it is crucial to have precise templates for the NECP Annual Implementation Plan and provide training to the employees of the responsible ministries.

North Macedonia takes a comprehensive approach in the process of just transition, involving retiring coal-fired TPPs, investing in renewables, grid, and storage, promoting energy efficiency, clean heating, economic regeneration and just transition for affected workers and communities, guided by strong governance structures, which are expected to contribute toward coal transition and reduce emissions and local air pollution, while ensuring energy security, fostering climate-smart and inclusive economic regeneration of mostly affected regions with a skilled green workforce, and empowering local communities to participate in and benefit from green transition.

The NECP provides an overview of the status of the country's climate and energy sectors, including existing policies, regulatory frameworks, and socioeconomic conditions. This assessment helps identify areas that require attention and intervention to achieve climate and energy targets. Based on the analysis conducted in the NECP, specific goals, targets, and objectives related to emissions reduction, renewable energy deployment, energy efficiency, and other key areas are established. At the same time, the NECP assesses the vulnerabilities and opportunities associated with climate change impacts, energy transition challenges, and socioeconomic disparities, which will be used as a guidance for the development of strategies and measures to address vulnerabilities and capitalize on opportunities in a just and equitable manner. The NCEP is also important to be considered as it outlines the policy and regulatory framework necessary to support the transition to a low-carbon economy and achieve climate and energy targets. This framework provides guidance for the development of specific policies, measures, and initiatives within the framework of the Just Transition Roadmap developed with IPA support and approved by the Government of North Macedonia in June 2023, and it also includes sectoral analyses of key sectors such as energy, transportation, industry, agriculture, and buildings that inform the development of tailored strategies and measures in the just transition action plan. In terms of resource allocation, the NECP estimates the financial resources and potential sources of funds required to implement climate and energy policies and measures, which helps prioritize investments and funding sources for initiatives outlined in the Just Transition Roadmap. Finally, the NCEP establishes a monitoring framework to track progress towards climate and energy goals and targets, including key performance indicators (KPIs), data collection requirements that will be used also to measure the implementation of the Just Transition Roadmap.

The Just Transition Roadmap, developed with the support of the EU Delegation, and the EBRD through IPA funds, provides socio-economic input as well as concrete suggested projects to be implemented in the short term, medium term and long-term supporting the Just Transition. JTR introduces scenarios and socio-economic measures to ensure the transition benefits are shared and to support vulnerable regions, communities, and workers from falling behind. As a guiding document for the just transition in North Macedonia, it envisions an institutional infrastructure to coordinate and implement the just transition-related activities. Furthermore, the JTR presents four pathways for a just transition, each containing specific project ideas that will serve as departing point for developing the JTAR components, including: 1) private sector investments and start-up economy, 2) green and smart infrastructure, 3) clean energy, 4) skills development.

The JTR also envisions the establishment of the Just transition Secretariat as an intra-ministerial working body comprising the heads of the three working groups on (1) re-skilling and training, (2) economic transition, and (3) renewable energy and storage created by the Ministry of Economy. The Ministry of Economy has already established the working groups and discussions on certain project ideas within the groups have already been initiated. At the same time, the Ministry of Economy organized the establishment

of the regional forums for just transition in Bitola and Kichevo (as the most affected regions), to encourage the regions to be inclusive and comprise various stakeholders to address and reflect on the specific municipality/region's needs. The regional forum in Bitola is already established and is operational as of March 2024. Second meeting with the regional fora in Bitola was held beginning of May. Official government adoption of the just transition action plan with allocation of budgetary resources and establishment of implementation mechanisms to contribute toward accelerated energy transition so that can effectively translate the goals and strategies of the just transition action plan into concrete actions and outcomes that contribute to a fair, inclusive, and sustainable transition to a low-carbon economy.

Creation of a Just Transition Council at the Ministerial Level was foreseen in the approved Just Transition Roadmap. This Council will meet regularly and steer the Just Transition with support of the interministerial working groups and regional fora. The implementation of the Just Transition Roadmap will be monitored with reports in occasion of each regular meeting of the Just Transition Council, annual implementation reports and annual implementation plans for the coming year. During the implementation of the Reform Agenda, short term and most medium-term measures foreseen in the Just Transition Roadmap will be implemented and reported upon.

In terms of the key stakeholders, the Ministry of Energy, Mining and Mineral Resources, is the leading institution responsible for the coal transition mandating over: energy policy, including investments in the energy sector, fossil fuels, energy efficiency, and renewable energy sources; internal market policies under which the standards and policies for road transport vehicles and technical conformity are regulated; mining policies and geological aspects, and industrial and investment policies. The Law amending the Law on the Organization of the bodies of state administration defines a transitional period for reorganization, the delineation of responsibilities is underway, including the responsible entity for achieving the Sustainable Development Goals and is a National Designated Entity for the Green Climate Fund (GCF). The Ministry of Finance (MoF) manages the Treasury Single Account, receives all revenues, from which all payments are made on behalf of budget users at the central and local government levels. It is also responsible for accessing concessional finance. The Ministry of Environment and Physical Planning (MoEPP) is responsible for climate change policymaking; it is a focal point for the UNFCCC, and a nationally designated entity for the Kyoto Protocol. The Ministry of Economy and Labour and the Ministry of Social Policy, Demography and Youth are responsible for social policies, labour policies and policies that tackle unemployment, vulnerable groups, women and youth and social transfers. The Ministry of Education and Science (MoES) sets education policies, training, lifelong learning, and vocational education. The Ministry of Agriculture, Forestry and Water Economy (MAFWE) is responsible for designing and implementing agricultural and forestry-related policies and for economically using water resources. The Ministry of Transport (MOT) is responsible for transportation licenses for freight and passenger transport, aviation activities, and railways. In addition, the Ministry is responsible for physical planning and the management of construction land. Local Governmental Units (LGUs) or municipalities, especially in the affected regions of Pelagonija and Southwest regions play a central role in the just energy transition. They are responsible for local policy making such as urban planning, environmental protection, local economic development, and have their own and shared revenues with central government. LGUs are eligible for sub-sovereign borrowing, depending on the financial condition of the municipality. The Directorate for Technological Industrial Development Zones (TIDZ) organize and manage the zones and attract investors, creating economic opportunities. The Municipal Industrial Zones (MIZ) are local development zones which can be established and managed by municipalities and can offer specific incentives such as low land purchase prices and lower communal fees for potential investors. The Energy Regulatory Commission (ERC) is an independent regulator established in 2003, regulating energy sector, including gas and district heating; it sets energy and water supply tariffs and tariffs for sewerage and wastewater treatment services. The ERC is self-financing based on a levy on sector participants.

The role of the private sector is crucial for the accelerated coal transition. Private sector actors are important as they need to provide training needs and skills gaps in the industry including, where relevant, to coal value chain employees. The education service providers are vital in delivering reskilling and upskilling programs, designed based on assessments of local skills gaps and skills development opportunities. It is also needed to provide the technical expertise for various projects related to the accelerated coal transition. Finally, the civil society sector is one of the most critical stakeholders, as they work with different constituencies in the

affected regions, including women and other vulnerable groups. Trade Unions also play a pivotal role in workers' rights protection and labour policies.

Targeted beneficiaries are ESM including the two TPPs – Bitola and Oslomej as the most directly affected beneficiaries. Additional beneficiaries are Ministry of Energy and mining, Ministry of Economy and Labour, Deputy Prime Minister in Charge of Economic Affairs, Ministry of Finance, Ministry of Environment and Physical Planning, Ministry of Agriculture and Water Management, Ministry of Transport, Ministry of Education, Ministry of Social Policy, Demographics and Youth, Ministry of Local Self-Government, MEPSO, NOMAGAS, and local municipalities in the two regions: Pelagonija and Southwest region.

Induced Output: Achieving a just transition towards a sustainable economy by ensuring long-term economic stability, social equity, and environmental sustainability. This will be accomplished by empowering the workforce with new skills, creating equitable job opportunities, and fostering community well-being and resilience. Effective governance and oversight of the transition process is crucial, as well as coordinated and strategic execution of transition activities leading to transparent and accountable implementation of Just Transition initiatives, and increased stakeholder trust and engagement. Immediate mitigation of job loss impacts and enhanced employability of affected workers will lead to reduced unemployment and social disruption in the short term. Additionally, sustainable employment opportunities and long-term economic stability for workers in the Bitola and Oslomej/Kichevo coal regions, will foster a resilient workforce equipped for the evolving job market.

Reform indicators and steps with timeline:

Step: Governance structures foreseen in the Just Transition Roadmap are operational and have approved the annual implementation plan for 2025 (by December 2024).

Baseline (2024) is the current governance structure based on the Just Transition Roadmap with already established and operational working groups and the regional forum in Bitola, as well the Just Transition Council.

The foreseen activities are the following:

- Formulation of annual implementation plan, including detailed action items, timelines and resource allocation and list of projects/pipeline with input from all relevant stakeholders;
- Establish monitoring and reporting system to monitor progress against workplan milestones;
- Governance structure fully operational with defined roles, responsibilities, and decision-making processes. Coordination, meetings and approvals to be obtained by the Just Transition Council.

Step: Short-term human capital development measures focusing on retraining and re-employment of the workforce in Bitola and Oslomej/Kicevo coal regions are completed in line with the Just Transition Roadmap; 550/100 employees currently in the power plants in Bitola/Kichevo re-trained; 300/50 employees currently in the power plants in Bitola/Kichevo re-employed (by December 2026) (does not include outcomes of EBRD support/other support).

Baseline (2024) is the number of employees in ESM as of 21 March 2024 in TPP Bitola and TPP Oslomej, being total 2,428 employees in TPP Bitola and 845 employees in TPP Oslomej, out of which 850 employees to be retrained from TPP Bitola and 150 employees from TPP Oslomej by 2027 and 530 employees from TPP Bitola to be re-employed and 150 employees re-employed from TPP Oslomej by 2027.

The following activities will be undertaken:

- Conduct a needs assessment to understand the specific needs and skill gaps of the affected workers, gathering data on their current skills, employment history, and career aspirations, and analyzing the local labour market to identify in-demand skills and job opportunities.

- Establish partnerships and collaborations with relevant stakeholders, such as local educational institutions, vocational training centres, industry associations, and businesses, to design and deliver training programs.
- Design tailored programs to develop skill-enhancing workshops, resume assistance services, and upskilling/reskilling training programs that cater to the specific needs of the workers, including training in areas such as renewable energy, advanced manufacturing, and the services sector.
- Train support staff to effectively assist the affected workers, including career counsellors, job search support staff, and trainers, with a focus on the specific needs of the workers and local labour market dynamics.
- Deliver training to TPP employees as outlined in the training programs.
- Establish job search support centres, prioritizing Bitola and Kichevo, where affected workers can access job search support services, staffed with career counsellors.
- Develop and implement communication strategies to ensure that affected workers are aware of the available support services.

Step: Medium-term human capital development measures focusing on retraining and re-employment of the workforce in Bitola and Oslomej/Kicevo coal regions are completed in line with the Just Transition Roadmap; 300/50 employees currently in the power plants in Bitola/Kichevo re-trained; 230/50 employees currently in the power plants in Bitola/Kichevo re-employed (by December 2027) (does not include outcomes of EBRD support/other support).

Baseline (2024) is the number of employees in ESM as of 21 March 2024 in TPP Bitola and TPP Oslomej, being total 2,428 employees in TPP Bitola and 845 employees in TPP Oslomej, out of which 850 employees to be retrained from TPP Bitola and 150 employees from TPP Oslomej by 2027 and 530 employees from TPP Bitola to be re-employed and 150 employees re-employed from TPP Oslomej by 2027.

The following activities will be undertaken:

- Evaluate and improve training programs through gathering feedback from participants to identify areas for improvement and consequently, adjust and enhance the training curriculum based on feedback and changing market demands.
- Expand training offerings in emerging industries and technologies. Consequently, establishing partnership with additional educational institutions and businesses to broaden the scope of training.
- Identify new collaborations with national and international organizations to bring in more resources and expertise.
- Enhance job placement services to connect trained workers with employers. Through organized job fairs and networking events to facilitate direct interaction between job seekers and employers.

All related activities under Just Transition will be coordinated with the ongoing EBRD support/other support.

Responsible institutions for monitoring and reporting on the steps achievement is the Ministry of Energy, Mining and Mineral Resources in cooperation with ESM and TPP Bitola and TPP Oslomej.

SUB-AREA 2.1.3 Renewables

Reform 2.1.3.1: Deployment of renewable energy: Implementation of the Renewable Energy Directive (permitting, guarantees of origin,) and transparent and competitive procedures for the deployment of renewable energy

Challenges: Renewable energy is at the heart of the clean energy transition necessary to achieve the objectives of the country and have multiple benefits for the citizens: contributing to the efforts to deal with climate change, helping to protect our environment, creating growth and jobs as well as contributing to the country's technological and industrial challenges. As stated in the National Energy and Climate plan of

Republic of North Macedonia, in the Dimension Internal energy market, Market integration part, the objective for 2030 is to have 250 MW photo-voltaic roof-top systems – either prosumers or systems from which the overall produced electricity will be used for own purposes or will be stored. One of the possibilities for increasing the installed capacity of solar roof-top systems is through renewable energy communities. The objective is to make favourable conditions for these communities along with raising public awareness.

North Macedonia as a member of the Energy community has an obligation to transpose RED II Directive into national legislation. Presently, Law on Renewable energy sources has been drafted. Also, a new Energy Law transposing Clean Energy Package legislation is drafted. In May 2023, the Parliament has adopted the Law on Cooperatives where it is stated that, according to the activity, the type of cooperative can be agricultural, housing, workers, craft, youth, construction, energy, and other types of cooperatives. For the issues that are not regulated by this law, and refer to the energy sector, the regulations in the field of energy apply accordingly. Energy cooperatives are reflected in the draft laws on energy and renewables.

The legal framework should provide a favourable environment for the development and operation of communities and removal of administrative and regulatory barriers, as well as support the purposes of renewable energy communities.

Renewable energy projects are in principle required to receive an authorization so that they can perform their intended activity. Permit-granting procedures help to ensure that the projects are safe and secure. However, the complexity, variety and excessive duration of those procedures constitutes a major barrier to the swift necessary deployment of renewable energy and to achieving a more affordable, secure, and sustainable energy system. The objective is to achieve at least 0.8 GW of new renewable energy (solar and wind) capacities installed in line with the NECP and the targets agreed within the Energy Community (by June 2027).

Delays in processing project authorizations put at risk the timely reaching of energy and climate targets and increase the cost of the projects necessary to do so. Delays can also lead to the installation of less efficient renewable energy installations due to dynamic innovation.

In order to achieve faster deployment of renewables, the country should establish clearly defined, accelerated and as short as possible deadlines for all the steps required for the granting of permits to build and operate renewable energy projects.

Those barriers have been defined in the RES EU legislation, including the RED II, which North Macedonia as a member of the Energy community has an obligation to transpose into national legislation and we have drafted a Law on Renewable energy sources including the provisions on simplifying permitting procedures.

Stable and streamlined policy and legislation is crucial to better deployment of RES as it gives potential investors certainty and possibilities to invest in new RES power plants. In this regard, the country needs to develop the legal framework in the energy policy but also Intervention is needed in each individual law relevant to investments in RES (urban planning, construction, and environment) in terms of administrative procedures, regulations, and rules, make them more specific, including where possible further simplification and acceleration of procedures.

Keeping up with the trends that promote investment from RES as well as supplying end consumers with sustainable renewable energy is key for successful economic growth. The only way to declare that electricity is produced by renewable energy sources is with guarantee of origin. For that purpose, we need to establish a national electronic registry/domain for administering GOs. This registry is managed by the issuing body in the country. MEMO Ltd as defined in the Energy Law is the relevant entity in North Macedonia. MEMO must establish reliable national domain for issuing GOs that follow European standards for issuing GOs.

The only suitable candidates for providing this type of service are international vendors with already defined products who are willing to rent these services to MEMO. The services include registrations of market members, RES producers, traders etc.; managing trading of GOs; issuing and cancellation of GOs; connecting of different domains of registries; and signing contract with reliable vendor who has experienced and know-how of management of GOs.

Trading the GOs represents different markets that is not in line with long-term and short-term markets of electricity. One way of trading GOs is by auction organized by the competitive body on a transparent and non-discriminatory basis.

Targeted beneficiaries are MEMO as responsible institution for establishing market for Guarantees of origin and all RES producers and potential consumers which will purchase guarantees of origin. Regarding the measure for simplifying permitting will be all future investors in construction of RES power plants.

Induced output: The utilization of renewable technology by Renewable Energy Communities (REC) yields environmental benefits, notably in terms of reducing air pollutants and GHG emissions. This contributes to fostering energy transition, achieving carbon neutrality, and meeting renewable energy targets.

Reform indicators and steps with timeline:

Step: Trading platform on guarantees of origin is fully operational and trading with guarantees of origin is taking place (by June 2026).

Baseline (2024) is 0. Currently there is a legal basis in the Energy Law, bylaws are under preparation.

First activities will be focused on the preparation of assessment of the existing regulatory and administrative barriers that should be removed with recommendations for improvements that will be reflected in the draft Energy Law under preparation which adoption is expected in the end of 2024. Based on this, further activities will be focused on the development of register of guarantees of origin as prerequisite for development of trading platform on guarantees of origin.

Step: Simplify permit issuance procedures for renewables by reduce the timespan elapsed from the request to the permit issuance:

- i. *Reduce the timespan elapsed from the request to the permit issuance by 18 months for large installations (by **June 2026**).*

Baseline (2022) is 42 months.

- ii. *Reduce the timespan elapsed from the request to the permit issuance by 6 months for households, public buildings and small consumers (by **June 2026**).*

Baseline (2022) is 12 months.

To reach these steps on simplifying permit issuance procedures for renewables the following activities should take place:

- Establishing a working group with representatives from relevant stakeholders that deal with permit issuance procedures, including: Ministry of Energy, Mining and Mineral Resources, Energy Regulatory Commission, Ministry of Environment and Physical Planning, Ministry of Agriculture, Forestry and Water Management, Ministry of Transport, Ministry of Local Self-Government, Agency for Cadastre, MEPSO, EVN. (January 2025).
- Working group prepares analysis and suggestions on the need for amending relevant laws and bylaws related to permit issuance procedures for renewables in order to reduce the permitting deadlines where possible and relevant Ministries submit to the Government proposals on amending this legislation (June 2025)
- Parliament adopts the proposals for amending relevant Laws based on the proposal of the relevant Ministries. (December 2025)
- Adoption of amended and new bylaws according to the adopted Laws, including functioning monitoring mechanism. (June 2026). The monitoring mechanisms will be prescribed in the legislation including the entities responsible for monitoring.

Step: At least 0.8 GW of new renewable energy (solar and wind) capacities installed in line with the NECP, and the targets agreed within the Energy Community (does not include capacities built with EU/WBIF/IFI support) (June 2027).

Baseline for this activity is the total installed capacity from renewables at the end of 2023, according to the Annual report for 2023 of the Energy Regulatory Commission. According to this report the total installed capacity from renewables up to 2023 is 1.3 GW.

Related to the latest information provided by the Transmission system operator (TSO) and the Distribution system operator (DSO) the installed capacity from RES un the upcoming years, based on the most mature requests for connection to the grid, should be:

- 100 MW installed capacity connected to the transmission grid.
- 700 MW installed capacity connected to the distribution grid.

The progress on the installed capacity can be verified through the annual reports of the Energy Regulatory Commission.

Responsible institutions for monitoring and reporting on the steps achievement is Ministry of Energy, Mining and Mineral Resources and depending on the step in cooperation with Regulatory Energy Commission, Ministry of Environment and Physical Planning, Ministry of Agriculture, Forestry and Water Management, Ministry of Transport, Ministry of Local Self-Government and National Electricity Market Operator (MEMO) (only for the register and trading platform on guarantees of origin).

SUB-AREA 2.1.4 Emissions Trading Scheme (ETS) Adoption

Reform 2.1.4.1: Work on carbon pricing with the aim of having an ETS in place by 2030: development, adoption and full implementation of the Monitoring, Reporting, Verification and Accreditation (MRVA) package

***DISCLAIMER:** The deadlines stipulated in this section are without prejudice to the obligations under and the deadlines set by the *acquis communautaire* of the Energy Community Treaty, and do not affect the applicability and enforceability of the latter.*

Challenges: As precondition for joining the EU's Emissions Trading Scheme is the adoption of the MRVA obligations which include parts of the EU ETS Directive 2003/87 and the Monitoring, Reporting, and Verification (MRVA) regulations (Regulation 2018/2067 and Regulation 2018/2066) into the legal system of North Macedonia. These regulations, aligning with European Union standards, are crucial for laying the groundwork for the future ETS. Effectively implementing the MRVA package is essential for several reasons: (a) accurate data collection: This allows for precise calculations of emission caps, ensuring the system functions efficiently; (b) fraud prevention: Robust data verification helps to prevent fraudulent reporting and maintain system integrity; and (c) credibility: Reliable emissions data strengthens public trust in the effectiveness of the ETS.

The transposition of parts of these legal obligations has been done with the Draft Law on Climate Action which provides a Chapter on MRVA and leaves room for the adoption of secondary legislation. While the timeline of the EU ETS activities depends on the date of accession. The introduction of CBAM requests a proper system be in place before January 2026.

The draft LCA currently foresees actions for the requirements of GHG emission permits – for industrial installations - and monitoring and reporting obligations according to an approved monitoring plan which applies to both, industry activities and aviation. This will help identify the GHG emissions in the country from these sectors. What the law has not yet established is the regime for assigning allowances for GHG emissions and the participation in the trade of allowances at the EU level. These rules must be established,

and they must be in place and operational at the date of accession. An on-going IPA project supports this process.

Since North Macedonia hasn't identified emission caps, free allowances, or eligible sectors for emissions trading (subject to the same IPA project mentioned above), now a carbon pricing mechanism is the more straightforward and practical solution. It can be implemented without the need to build a complex emissions trading system from the ground up. The Draft Law on Climate Actions provides a carbon-pricing mechanism for the following industries: electricity production based on fossil fuel, cement, iron and steel, aluminium, fertilizers, and hydrogen. The details on the methodology, calculation of carbon pricing and the dynamic of introduction will be part of the upcoming by-laws. This is considered a transitional measure which will be in force until the country joins the European Union or other ETS established in the meantime. As these industries are also targeted by CBAM, addressing these will also support the set-up of the mechanism needed for implementation of the CBAM in the country.

Another key objective, to establish a fully functioning MRVA, is to properly train the staff in all of the institutions involved in the National inventory system and in the System for policies, measures and projections, especially at the MoEPP, in order to fulfil all the tasks provided by the Law.

The Draft Law on Climate Action identifies the need to develop several by-laws within a period of 3 years after the adoption of the Law on Climate Action (2024), in accordance with the Action Plan for the implementation of the first phase of the Long-Term Strategy on Climate Action and the Action Plan for administrative capacities (both product of IPA project).

Reform steps are without prejudice to the legally binding deadlines established under the Energy Community Treaty and do not affect the applicability and enforceability of the latter. To address the accreditation part of MRVA, EU legislation and guidelines on accreditation will be followed. Once all measures described above will be developed and implemented, the road towards setting the MRVA by the end of December 2025 is paved.

Targeted beneficiaries are primarily the Ministry of Environment and Physical Planning, Ministry of Energy, Mining and Mineral Resources, Ministry of Foreign Affairs and Foreign Trade, Ministry of Economy and Labour, Ministry of Finance, Customs Administration, chambers of commerce, economic operators. At later stage the Institute for accreditation.

Induced Output: Aligning with EU MRVA obligations and preparing for Emissions Trading Scheme (ETS) accession in North Macedonia would have a favorable environmental impact. It will facilitate accurate data collection for emission caps, crucial for the efficient functioning of the system, prevent fraud, and enhance the credibility of emissions data. The establishment of a carbon-pricing mechanism will serve as a practical interim measure until full ETS integration, providing a transitional solution for industries without the need for an immediate complex trading system. Finally, proper training and institutional coordination are essential for effective implementation, ensuring preparedness for the obligations outlined in the Draft Law on Climate Action and subsequent regulatory changes. The draft law on climate action envisages possibility for both, to use EU accredited verifiers or MK accredited verifiers.

Reform indicators and steps with timeline:

Step: Full implementation of Monitoring, Reporting and Verification and Accreditation (MRVA) (by December 2025).

Baseline (2024) is 0.

Full implementation of the MRVA package required a number of action to be implemented.

Induced outputs:

In a course of one year (June 2024-June 2025), the actions to be implemented are:

1. Adoption of the Law on Climate Action, Q4/2024
2. Restructuring the organisational structure of the Ministry of Environment and Physical Planning by incorporating a unit on monitoring and reporting, most probably within the existing organisational structure of the ministry as a part of the Macedonian information centre. Further one, additional unit on GHG permitting need to be established as a fully new organisational structure within the Administration on Environment.
3. Capacity building activities on new staff and private sector will be implemented.
4. The following secondary legal acts will be prepared and adopted until Q3/2025:
 - i. Determination of the categories of activities requiring GHG emission permits and resulting GHG
 - ii. Methodology for preparing monitoring plans
 - iii. Methodology for preparing annual emission reports
 - iv. Form and detailed content of the application for GHG emission permit as well as the manner of application and supporting documents accompanying the application;
 - v. Rulebook on detailed procedure for issuing the permits, content and format of the permits
 - vi. Methodology for verification of annual reports;
 - vii. Revision of the Law on Accreditation and drafting of the related implementing legislation.

Data on GHG emissions from installations provided by their annual emission reports and monitoring plans will be part of the overall national inventory report. Data from the national inventory report will be used as a baseline for assessment of the GHG projections and assessment of mitigation potential on different policies and measures with potential for mitigation of GHG emissions.

Responsible institutions for monitoring and reporting on the steps achievement is the Ministry of Environment and Physical Planning.

SUB-AREA 2.1.5 Energy Efficiency and Air Pollution

Reform 2.1.5.1: Implementation of the Energy Performance in Buildings and Energy Efficiency Directives

Challenges: Energy-inefficient buildings require more energy for heating, cooling, lighting, and other purposes, leading to higher energy bills for occupants and increased demand for fossil fuels or other energy sources, which contributes to resource depletion and environmental degradation. Energy-efficiency investments could reduce energy consumption among firms in North Macedonia by about 30 percent while cutting GHG emissions and generating as much as 1.7 percent in total cost savings (World Bank, 2023). The potential for energy efficiency gains construction and renovation of buildings is therefore substantial, as energy costs are major expenses for households, firms, and public entities. Their reduction can increase resources available for other economic and social priorities. The public sector is visible for the whole of society and it can influence other sectors by example. Being a big market by itself, it can also influence and even transform markets for energy efficiency services and products.

In terms of public buildings, there will be a Renovation Plan for Central Government Buildings, which on an annual level includes renovation of at least 3% of the total useful floor area from the inventory of public buildings with a total useful floor area over 250 m². The inventory of public buildings published on the website of the Ministry of Economy includes 20 public administrative buildings owned and occupied by line ministries and several government institutions, out of which five public buildings are exempted from renovation based on legal grounds. Public buildings have different conditions and different levels of inefficient use of energy. The Renovation Plan analyses technical and financial performance criteria

including energy and monetary savings and investment costs for refurbishment of each public building. It also provides potential sources of financing and implementation arrangements.

The Renovation Plan is expected to be completed by the end of a three-year period. The distribution of efforts and resources throughout the buildings' renovation period will substantially depend on several potential challenges:

- the mobilisation of public entities to participate throughout the whole renovation period
- the immediate setting up of the mechanism for support of energy audits
- the timely establishment of the financial mechanisms for support of EE investments and their smooth operation
- timely establishment of the PIU and its speedy mobilisation for undertaking its tasks.

Targeted beneficiaries are public institutions under the Central Government that implement energy efficiency improvements of the public buildings and the public in general that use services of the ministries, including Ministry of Energy, Mining and Mineral Resources, Ministry of Justice, Ministry of Foreign Affairs, Ministry of Finance, Ministry of Economy, Ministry of Agriculture, Forestry and Water Economy, Ministry of Health, Ministry of Education and Science, Ministry of Labor and Social Policy, Ministry of Local Self-Government, Ministry of Information Society and Administration, Ministry of Transport, Ministry of Environment and Physical Planning, Youth and Sports Agency, Food and Veterinary Agency, Real Estate Cadastre Agency, and State Statistical Office.

Induced Outputs: By promoting energy efficiency and reducing carbon emissions, alignment contributes to environmental sustainability goals, supporting efforts to mitigate climate change and improve air quality. Energy performance assessments would accurately reflect the energy efficiency of buildings, consistent certification would provide transparent information to buyers, tenants, and investors, and builds investor confidence. Full alignment ensures adherence to EU regulations, would also enhance compliance with EPBD requirements and facilitate international cooperation and benchmarking.

Reform indicators and steps with timeline:

Step: Energy Performance Certification of Buildings is fully aligned with the Energy Performance of Buildings Directive (EPBD) resulting in (December 2026):

(i) Energy Performance Certificates (EPCs) are issued for all newly constructed buildings (by December 2026).

Baseline (2024) is 0. There are no submitted nor recorded energy performance certificates in the EPC registry at the Ministry of Energy, Mining and Mineral Resources in 2024 although there are legal requirements for EPC issuance for all newly constructed buildings stipulated in the Law on Energy Efficiency and the Law on Construction. The source of verification will be the EPC registry at the Ministry of Energy, Mining and Mineral Resources for the number of issued EPCs and the Real Estate Cadastre Agency for the number of issued construction permits for new buildings in the country.

(ii) Number of energy performance certificates issued for buildings and building units that have been subject to major renovation, sale or lease – at least 30% of the total number of major renovations (by December 2026).

Baseline (2024) is 0. There are no submitted nor recorded energy performance certificates in the EPC registry at the Ministry of Energy, Mining and Mineral Resources in 2024 although there are legal requirements for EPC issuance for all major renovations of buildings stipulated in the Law on Energy Efficiency and the Law on Construction. The source of verification will be the EPC registry at the Ministry of Energy, Mining and Mineral Resources for the number of issued EPCs and municipalities for the number of issued consents for buildings renovation and State Statistical Office/Internal Revenue Service for the number of sold or leased buildings and building units in the country.

In order to reach these steps on implementing the Energy Performance Certification of buildings the following activities should take place:

- Establishing a working group with representatives from relevant stakeholders that are related with Energy Performance Certification of buildings procedures, including: Ministry of Energy, Mining and Mineral Resources, Ministry of Transport and communication, representatives of Municipalities, Ministry of Local Self-Government, Agency for Cadastre. (January 2025).
- Working group prepares analysis and suggestions, based on the results on the analysis, on the need for amending relevant laws and bylaws related to Energy Performance Certification of buildings procedures in order to increase and implement the issuance of EBP Certificates in line with EPBD. (June 2025)
- Parliament adopts the proposals for amending relevant Laws based on the proposal of the relevant Ministries. (December 2025)
- Adoption of amended and new bylaws according to the adopted Laws. (June 2026)

In addition, this will be followed by the preparation of a curriculum and selection of training centres for the implementation of training for future energy auditors, after which they will take a professional exams and will finalize the certification process

Transposition and implementation of the EU acquis on energy efficiency in relevant national legislation for issuance of building permits and registration in the Agency of Cadastre, along with the adoption of bylaws for implementing the Energy Efficiency legislation to incorporate the requirements of the EPBD, ensuring consistency with EU regulations regarding energy performance certification.

Training and capacity building programs for professionals involved in energy performance assessment, certification, and enforcement to ensure they understand and can implement EPBD standards effectively.

Adoption of standardized methodologies and guidelines for energy performance assessment and certification, including protocols for data collection, calculation procedures, and reporting formats.

Establishment of mechanisms for quality assurance and control to ensure the accuracy and reliability of energy performance certificates, such as certification of assessors, regular audits, and enforcement of penalties for non-compliance.

Targeted beneficiaries: citizens and construction sector

Responsible institution for monitoring and reporting on this step achievement is the Ministry of Energy, Mining and Mineral Resources. Other involved and responsible institutions in the implementation of this step are the Energy Agency, Ministry of Finance, Ministry of Transport, Energy Regulatory Commission, and Agency of Cadastre.

Step: Three-year Renovation Plan for Central Government Buildings to be adopted aligned with the annual 3% renovation target (by June 2025).

Baseline (2023) is 0. No plan in place, and no renovated public buildings under the Central Government in 2023.

The Ministry of Energy, Mining and Mineral Resources, supported by a Project Implementation Unit (PIU) will be responsible for the implementation of the Renovation Plan of Central Government Buildings and will provide technical support to municipalities on street lighting refurbishment.

A project implementation unit (PIU) will be established under and housed within the Ministry of Economy to help administer the project. The PIU will be composed of four members, including a Project Manager, Senior Technical Energy Efficiency Advisor, Financial Expert and a Junior Expert.

The PIU will concentrate its efforts on project management, technical assistance for energy efficiency improvement in public buildings, and implementation of renovation measures. It will also provide technical assistance to municipalities on street lighting refurbishment. The TA for the Renovation Plan will include: (i) screen buildings for renovation; (ii) organize tendering process for selection of consulting companies to

prepare energy audit reports and technical project designs; (iii) conduct supervision of construction and commissioning, including verification of energy savings; and (iv) development of public energy consumption statistics, coordination with other ministries and government institutions, and organize and/or participate in awareness raising activities. The TA for municipal street lighting refurbishments will focus on (i) helping municipalities to conduct tendering procedure for selection of design/build contractors or ESCO companies to propose best possible solution for street lighting refurbishment; and (ii) assistance in monitoring the implementation of street lighting projects.

The implementation of the Renovation Plan will be governed by a Supervisory Board, comprising of authorized representatives of the Ministry of Energy, Mining and Mineral Resources, and other respective ministries and government institutions whose public buildings are subject to renovation. The Ministry of Energy, Mining and Mineral Resources will act as Supervisory Board Chairman. The Supervisory Board will be responsible for the overall management of the Renovation Plan. The Board may need to have regular sessions on a bi-monthly basis.

Targeted beneficiaries: central government

Responsible institution for monitoring and reporting on the step achievement is the Ministry of Energy, Mining and Mineral Resources. Other involved and responsible institutions in the implementation of this step are the Ministry of Justice, Ministry of Foreign Affairs, Ministry of Finance, Ministry of Economy, Ministry of Agriculture, Forestry and Water Economy, Ministry of Health, Ministry of Education and Science, Ministry of Labour and Social Policy, Ministry of Local Self-Government, Ministry of Information Society and Administration, Ministry of Transport a, Ministry of Environment and Physical Planning, Youth and Sports Agency, Food and Veterinary Agency, Real Estate Cadastre Agency, and the State Statistical Office.

Step: For consumption-based metering and billing at individual-level, individual meters shall be installed where technically feasible and cost effective in terms of being proportionate in relation to energy savings in line with Directive 2023/955:

- *All newly constructed buildings (by December 2025). Baseline (2018) is 0.*

In relation with the Energy Law, article 159 every new building with multiple consumers that is connected to the district heating system is supposed to have installed devices (calorimeters) for measuring the local distribution of thermal energy for each individual consumer. This obligation applies for construction of new buildings for which the procedure for obtaining building approval has started after the entry into force of Energy Law. Every new investor who is building objects and connecting to the district heating system has to proceed in line with the Energy Law. The licensed distributor of heat energy is supposed to control and verify that the equipment is installed properly.

- *Up to 30 buildings of the existing building stock (by December 2027). Baseline (2024) is 0.*

Up to 30 old household buildings (objects) will be considered for additional implementation of (calorimeters) by The Distributer of heat energy for measuring the local distribution of thermal energy for each individual consumer and by December 2025 techno-economic analysis will be processed to better understand the cost effective values and energy savings in line with EU Directive 2023/955.

Responsible institutions for monitoring and reporting on the step achievement is the Ministry of Energy, Mining and Mineral Resources

Step: Increase annual rate of building renovation and street lighting in accordance with the NECP indicative milestones of the long-term building renovation strategy by implementation of 3-year renovation plan for central government buildings (June 2025 - December 2027):

- *Floor area renovated: 89.000 square meters (by December 2027).*

Baseline (2023) is 0 m2 floor area renovated. The source of verification will be the issued energy performance certificates (EPCs) for the renovated buildings that are submitted to the Energy Agency and recorded into the EPC registry.

- *Street lighting: 81 municipalities refurbish street lighting (by June 2027).*

Baseline (2023) is 27 municipalities. The aggregated report is prepared based on the submitted annual plans of municipalities, which include information on implementation progress of the three-year municipal energy efficiency programs, in accordance to Article 7 of the Law on Energy Efficiency.

Activities that will be implemented and the process that will take place are aligned with the activities of step 2 under the reform of Implementation of the Energy Performance in Buildings and Energy Efficiency Directives.

Targeted beneficiaries: municipalities, citizens

Responsible institutions for monitoring and reporting on the step achievement is the Ministry of Energy, Mining and Mineral Resources Other involved and responsible institutions in the implementation of this step are the municipalities that will implement street lighting refurbishment, and other institutions including the Ministry of Justice, Ministry of Foreign Affairs, Ministry of Finance, Ministry of Economy, Ministry of Agriculture, Forestry and Water Economy, Ministry of Health, Ministry of Education and Science, Ministry of Labour and Social Policy, Ministry of Local Self-Government, Ministry of Information Society and Administration, Ministry of Transport, Ministry of Environment and Physical Planning, Youth and Sports Agency, Food and Veterinary Agency, Real Estate Cadastre Agency, and the State Statistical Office.

SUB-AREA 2.2 DIGITALISATION

SUB-AREA 2.2.1 Cybersecurity

Reform 2.2.1.1: Setting up a comprehensive framework for cyber resilience (introducing requirements of NIS2 Directive and strengthening relevant institutions)

Challenges: The reform aims to tackle several key challenges, including strengthening cybersecurity resilience against evolving threats enhancing capacities to quickly recover from cyber incidents, and ensuring compliance with EU acquis (NIS2 Directive). It also focuses on modernizing ICT infrastructure, closing the digital skills gap, and fortifying the legal and institutional framework for ICT to protect critical infrastructure and uphold data privacy. These efforts will significantly strengthen the capacity of the Ministry for Digital Transformation to lead effective implementation across these areas.

The country established Disaster recovery centre, that would ensure redundancy of operational and communication systems in case of large-scale cyber incidents. However, only three institutions collocated some equipment in the centre. Individualized and fragmented efforts for the digitalization of institutions, without any common standards and safety protocols, have resulted in some serious incidents in previous years. In 2023, there were approximately 170 reported incidents, 12 of which were considered serious. This hinders the digitalization efforts of the country, as citizens' trust in digital tools decreases. The administrative servants, citizens, and other public sector professionals have a limited understanding of cybersecurity, with only a basic awareness of the potential risks and protective measures. This lack of knowledge can be attributed to the insufficient integration of Information and Communication Technology (ICT) into the educational curriculum. ICT-related subjects and trainings are largely absent from study programs, meaning students do not receive formal education on this critical topic. This gap in education extends to the public sector, where employees do not receive the necessary training to recognize and respond

to cyber threats. As a result, both the general public and those in positions of administrative responsibility remain ill-prepared to deal with the challenges posed by an increasingly digital world.

Targeted beneficiaries: Critical entities for the Macedonian economy and society and thus include providers of public electronic communications services, digital services, wastewater and waste management, manufacturing of critical products, postal and courier services, and public administration, both at central and regional level. The final beneficiaries are the citizens and businesses operating in the country.

Induced Output: Adoption and full implementation of cybersecurity legislative framework that is fully aligned with EU cybersecurity policy and EU cybersecurity acquis, as well as associated frameworks.

Reform indicators and steps with timeline:

Step: Adopt and implement cybersecurity legislative framework that is fully aligned with EU cybersecurity policy and EU cybersecurity acquis, i.e. the Law on security of networks and information systems and updated cybersecurity strategy (by June 2025).

Baseline (2024) is 0.

Activities planned to be implemented to reach this step are: Review of the existing cybersecurity legislation and policies to ensure alignment with EU cybersecurity policy and the NIS2 Directive; gap analysis; good EU practices; Regulatory impact assessment and update or adoption of regulations to reflect the requirements of the NIS2 Directive and the adopted a new National Cybersecurity Strategy and action plan However it will promotes the use of standards and certification to improve the level of cybersecurity.

The new legislation will establish a formal list of operators of essential services, ensuring these critical entities adhere to stringent cybersecurity measures and reporting requirements.

Targeted beneficiaries: Direct beneficiaries are all state administrative bodies and public sector institutions dealing with citizens' data. Indirect beneficiaries include critical entities for the Macedonian economy and society and thus include providers of public electronic communications services, digital services, wastewater and waste management, manufacturing of critical products, postal and courier services, and public administration, both at central and regional level.

Responsible institutions: Ministry of Digital Transformation, in cooperation with Agency for Electronic Communications, Ministry of Interior and Ministry of Defense.

Step: National and governmental CERTs operational in line with NIS2 requirements and with a SIM 3 model FIRST membership maturity profile (by June 2026).

Baseline (2024) is 0.

Activities planned to be implemented to reach this step are: Establishment and enhancement of national and governmental Computer Emergency Response Teams (CERTs) to meet the requirements of the NIS2 Directive; Ensuring that CERTs operate in accordance with the Security Incident Management (SIM) 3 model and have membership in FIRST (Forum of Incident Response and Security Teams) with a maturity profile that reflects best practices; Provision of necessary resources, training, and collaboration mechanisms for CERTs to effectively respond to cybersecurity incidents.

Targeted beneficiaries: Direct beneficiaries are all state administrative bodies and public sector institutions dealing with citizens' data. Indirect beneficiaries include critical entities for the Macedonian economy and society and thus include providers of public electronic communications services, digital services, wastewater and waste management, manufacturing of critical products, postal and courier services, and public administration, both at central and regional level.

Responsible institutions Ministry of Defence, Ministry of Interior, Ministry of Digital Transformation, Agency for National Security and other security bodies.

Step: The competent authority in the sense of NIS2 Directive is operational: sufficiently staffed, equipped with supervisory powers, performing supervisory checks. List of entities in scope of the national law corresponding to the NIS2 Directive finalised (by June 2026).

Baseline (2024) is 0.

The Ministry of Digital Transformation is the competent entity for policy creation in the field of safety of networks and information systems. At this moment, the NIS2 responsibilities are taken over by the newly created Ministry of Digital Transformation since there is no specific competent authority only for NIS2.

The Law on Network Security and Information Systems will create a framework for cross-border cooperation and with EU member states, enabling the CSIRT network and the Cooperation Group to share information and best practices on cyber security.

Activities planned to be implemented to reach this step are: Establishment of a competent authority responsible for overseeing the implementation of the NIS2 Directive at the national level; Adequate staffing of the competent authority, equipped with supervisory powers, and capable of performing supervisory checks on entities within its jurisdiction; Completion of the list of entities subject to the national law corresponding to the NIS2 Directive, ensuring comprehensive coverage of essential service providers and digital service providers.

Targeted beneficiaries: Direct beneficiaries are all state administrative bodies and public sector institutions dealing with citizens' data. Indirect beneficiaries include critical entities for the Macedonian economy and society and thus include providers of public electronic communications services, digital services, wastewater and waste management, manufacturing of critical products, postal and courier services, and public administration, both at central and regional level.

Responsible institutions Ministry of Defence, Ministry of Interior, Ministry of Digital Transformation, Agency for National Security and other security bodies.

Step: Frameworks introduced by NIS2 alignment (CVD framework, crisis management framework), are in place and in use (by December 2026).

Baseline (2024) is 0.

Activities planned to be implemented to reach this step are: Implementation of frameworks introduced by the NIS2 Directive, such as the Coordinated Vulnerability Disclosure (CVD) framework and crisis management framework; Integration of these frameworks into national cybersecurity strategies and operational procedures; Guidance, training, and resources to relevant stakeholders on the use of these frameworks to enhance cybersecurity resilience and incident response capabilities.

Targeted beneficiaries: Direct beneficiaries are all state administrative bodies and public sector institutions dealing with citizens' data. Indirect beneficiaries include critical entities for the Macedonian economy and society and thus include providers of public electronic communications services, digital services, wastewater and waste management, manufacturing of critical products, postal and courier services, and public administration, both at central and regional level.

Responsible institution for the coordination, implementation and reporting on the achievements by the indicators and steps under reform is the Ministry of Digital Transformation, in cooperation with Agency for electronic communications, Ministry of Interior, Ministry of Defence, Agency for National Security, and other relevant state administrative bodies.

SUB-AREA 2.2.2 Digitalisation

Reform 2.2.2.1: Secure Digital infrastructures roll-out

Challenges: In an interconnected world, cybersecurity threats often transcend national borders. Secure governmental infrastructure enables better collaboration with international partners in addressing global cyber threats. By adhering to international cybersecurity standards, governments can participate in joint efforts to combat cybercrime and enhance global security. Secure infrastructure provides a foundation for innovation and digital transformation within the public sector. With a strong infrastructure in place, government can confidently adopt new technologies and digital services, improving efficiency and service delivery to citizens.

Challenges that should be tackled with this reform include network security, data protection and privacy, application security, endpoint security, monitoring and physical security of the infrastructure. This would enhance service delivery, increase public trust in the digital tools and assets and build resilient digital space.

Induced Outputs: The reform includes establishment of physical infrastructure (for data centre and governmental network) and introduction of systems, technologies, and protocols that ensure the safety, reliability, and efficiency of digital services and data used by government entities.

Targeted beneficiaries: The reform will contribute to safer governmental cyberspace, where the direct beneficiaries are all state administrative bodies. Indirect beneficiaries are all citizens.

Reform indicators and steps with timeline:

Step: Adoption of the new Law on Electronic Communications, alignment of national legislation with the relevant EU Acquis to align it with the EU Acquis and the Gigabit Infrastructure Act, upon entry in force in EU (by June 2025).

Baseline (2024) is 0.

Activities to be implemented under this step include analysis of the current legal framework on one hand, and EU requirements on the other. This will be followed by preparation of regulatory impact assessment and appropriate amendments in a transparent and inclusive manner.

Targeted beneficiaries are all public bodies and the citizens of the country.

Responsible institutions is the Ministry of Digital Transformation, in cooperation with PE National Broadcasting, MEPSO and Agency for Electronic Communications.

Step: Roll-out of a secure network infrastructure for the administration (Carry out Feasibility Study on development of Centralized Government digital infrastructure and for a secure data centre and cloud to ensure public administration system resilience; etc. Disaster Recovery with back-systems of other institutions' IT databases is set up (by December 2027).

Baseline (2024) is 0.

Activities to be implemented under this step refer to two feasibility studies, analysis of the current IT infrastructure and whether the infrastructure meets the safety standards, purchasing IT equipment, building/modifying a building to meet criteria for primary data centre site, reallocation and installation of newly purchased equipment, legal amendments, employments.

Targeted beneficiaries are primarily the state administrative bodies. Public enterprises and other public sector bodies will be encouraged to use the data centre.

Responsible institutions is the Ministry of Digital Transformation in cooperation with Agency for Electronic Communication, National Broadcasting, Telecommunication operators and Public Enterprise for State Roads.

Step: EU5G cybersecurity toolbox compliance: 5G security bylaw fully implemented and roll out of 5G network and services as per the national broadband strategy (expertise developed by the independent authority tasked with running the auction; launching and completing the 5G auction, including awarding of frequencies to the successful bidders) (December 2027).

Baseline (2024) Partial compliance

At this moment, there is only one remaining 5G frequency to be tendered. Review using EU5G cybersecurity toolbox compliance, 5G security bylaw fully implemented and roll out of 5G network and services as per the national broadband strategy will ensure expertise developed by the independent authority tasked with running the auction; launching and completing the 5G auction, including awarding of frequencies to the successful bidders. This is largely already achieved. What remains to be done is adoption of harmonized legislation with the NIS 2 Directive (amendments have been already drafted).

Targeted beneficiaries are the citizens of the country, but also reform will contribute to positive business environment.

Responsible institutions is the Agency for Electronic Communication in cooperation with Ministry of Digital Transformation.

Reform 2.2.2.2: Digital Public Services

Challenges: Relocating equipment from various ministries to the new data centre by June 2027 requires careful coordination and planning to avoid service disruptions and data loss. Ensuring interoperability among the data centre and institutions by June 2027 is crucial but complex, as it involves integrating diverse systems and standards. Additionally, getting all ministries to adopt and effectively use the e-Archive system by December 2027 demands significant training, change management, and continuous support to ensure compliance and efficient usage. Aligning national legislation with the new EU Digital Identity Regulation and ensuring its seamless integration with existing systems is a formidable task. Achieving mutual recognition of trust services and establishing a Digital Identity Wallet by December 2027 requires security measures, widespread public adoption, and cross-border cooperation. These challenges must be addressed to ensure the successful digital transformation of governmental electronic services.

Induced Output: By June 2025, the country will adopt the updated Law on Electronic Document, Electronic Identification, and Trust Services to comply with the revised eIDAS regulation, of April 2024. By December 2025, the country will join the EU Third Countries trusted list for electronic signatures in the EU, marking the first step towards mutual recognition of qualified trust services. Trust services will be made available, and the issuance of qualified certificates will begin to ensure the implementation of e-identity and e-signature services for citizens and businesses. By December 2027, a Digital Identity Wallet will be implemented, including compliance with the new EU Digital Identity Regulation. The country will sign and implement the Mutual Recognition Agreement (MRA) of Trust Services with other Western Balkan countries and participate in the Balkan Identity Wallet initiative. Additionally, by June 2025, legislation will be adopted to facilitate the archiving of electronic documents developing Infrastructure for data storage, an e-platform for record-keeping and archival work will be established by June 2026. Furthermore, by December 2026, a single document management system will be implemented for all central-level institutions.

Targeted beneficiaries: Ministry of Digital Transformation, all state administrative bodies, business community and citizens of the country and neighbouring countries.

Reform indicators and steps with timeline:

Step: Compliance with the EU Digital Identity Regulation and eIDAS2 Regulation by adoption of updated Law on Electronic Document, Electronic Identification and Trust Services (by June 2025), including compliance with the new EU Digital Identity Regulation, revising the eIDAS Regulation.

Baseline (2024) is 0.

To this end, the Government should conduct gap analysis, good EU practices, Regulatory impact assessment, and preparation of amendments and/or new legislation. In parallel, it includes preparation of a feasibility study, and based on the findings and scenarios it is supposed to be completed with technical specification and adequate contracts for implementation of suitable digital architecture.

Targeted beneficiaries are all citizens of the country.

Responsible institutions are the Ministry of digital transformation and Ministry of Interior, in cooperation with Office for Management of Registers and other state administrative bodies.

Step: Join the EU Third Countries trusted list for the validation of electronic signatures as advanced electronic in the EU as a first step towards pursuing mutual recognition of qualified trust services; Trust services available and start issuing qualified certificates; Ensure implementation e-identity and e-signature services for citizens and businesses. (by December 2025).

Baseline (2024) is 0.

To ensure compliance with eIDAS2 regulation, the reform will dedicate authority responsible for issuing qualified certificates for electronic signatures and identity confirmation. This authority will take care of high security standards and ensure that both e-signatures and identity confirmations are legally recognized and trusted in the country, cross-border and across the EU member states by December 2026. By doing so, it will facilitate secure electronic transactions, enhance digital trust, and support the country's digital transformation efforts, ultimately leading to the introduction of a Digital Wallet. The Verification will come from the audits and assessments conducted by national authorities and potentially by EU bodies responsible for evaluating compliance with digital identity regulations. These assessments ensure North Macedonia meets EU requirements for mutual recognition of qualified trust services.

Targeted beneficiaries are all citizens of the country.

Responsible institutions are the Ministry of digital transformation and Ministry of Interior, in cooperation with Office for Management of Registers and other state administrative bodies.

Step: Implementing a Digital Identity Wallet, including as a minimum: the new EU Digital Identity Regulation; Signing and implementation of the Mutual Recognition Agreement (MRA) of Trust Services with other countries of the Western Balkans; Participation in Balkan Identity Wallet (by December 2027).

Baseline (2024) is 0.

Activities to be covered under this step include Legislative Alignment, Technical Infrastructure, Joining EU third countries Trust List, issuance of Qualified Certificates, Verification and Audit, stakeholder's involvement and Monitoring and Reporting.

Targeted beneficiaries are the citizens of the country.

Responsible institutions for monitoring and reporting on the step achievement is the Ministry of Digital Transformation, in cooperation with the Ministry for Interior, State Office for Civil Registry and other competent institutions that are in charge for basic Registers in the country.

Step: Adopt legislation to allow of archiving or electronic documents (June 2025)

Baseline (2024) is 0.

The process of will require from the relevant authorities to prepare a new Law, bylaws and protocols that will regulate the National DMS and Archival work in compliance with the EU standards for electronic documents. Ministry of Digital Transformation will analyse good practices from an EU country and gain

relevant knowledge on the possible scenario. In cooperation with the selected country that would be open for cooperation, the legal framework that is considered successful, will be adjusted to the national legal system.

Targeted beneficiaries are all state administrative bodies.

Responsible institution is a Ministry of Digital Transformation, in cooperation with State Archives and Ministry of Public Administration.

Step: Establish infrastructure for storing data and an e-platform for keeping records and archival work. (by June 2026)

Baseline (2024) is 0.

Establishing a unified interface for all users of the electronic office and archival solution, streamlining the initiation of procedures, document generation, and ensuring timely responses from public sector entities. The e-platform must empower public officials to efficiently meet their obligations to citizens and businesses. Each subject initiation requires obtaining a unique archive number from an integrated central registry, with users providing essential metadata for subject description and search ability within the system. Tracking the progress and movement of subjects across different institutions through this interface presents a significant operational hurdle yet crucial for enhancing transparency and efficiency in administrative processes. Thus, this assumes assessing existing infrastructure and identifying gaps to establish an e-platform for data storage and e-platform for keeping records and archival work. Developing necessary technical infrastructure and implementing effective archival management policies is part of the process.

Targeted beneficiaries are all state administrative bodies that would use the platform.

Responsible institution is a Ministry of Digital Transformation, in cooperation with State Archives and Ministry of Public Administration.

Step: Single document management system in place for all institutions at central level (by December 2026).

Baseline (2024) is 0.

This step intends to fully automate the operations of the state administrative bodies and the work of government officials through electronic means at all levels. Infrastructure support is necessary to enable the movement of electronic documents through all phases of administrative processes. Documents must meet all required standards to be treated as credible electronic records. Communication among various entities responsible for handling cases should exclusively occur electronically through the proposed solution, with a notification system indicating the current position visible to users and relevant authorities. A key component of this activity is establishing a Central Electronic Registry where each document receives a unique serial (archive) number serving as its identifier throughout its active, operational archive, or during its permanent archival period. The registry maintains a list of generated documents accompanied by specific metadata describing each case. This part ensures searches and other bulk operations. The Central Electronic Registry is envisioned nationwide, accessible to all government bodies and local self-government units. Each issued number is unique annually, issued sequentially regardless of the officer or software requesting it.

Target beneficiaries: All state administrative bodies that would use the platform.

Responsible institutions: Ministry for Digital Transformation in collaboration with State Archival Office, Agency for personal data protection including all public sector bodies.

Reform 2.2.2.3: Widen the offer of public e-services offered through the governmental e-platform and simplify administrative and electronic procedures

Challenges: Increasing the offer of e-services by 50% by June 2027 is expected to significantly enhance the quality and efficiency of public services across various sectors, particularly the fiscal and healthcare sector.

In the fiscal domain, the reform is entirely compatible with the ongoing reforms on IFMIS and ITIS. The idea is to streamline processes such as tax filing, payment facilitation, and government procurement, leading to improved efficiency and transparency. Moreover, within the healthcare sector, the wider availability of e-services could facilitate scheduling appointments and consultations, electronic health records management, and remote monitoring, thereby enhancing accessibility and quality of care for citizens. This initiative aims to modernize service delivery, fostering a more interconnected and responsive public sector landscape. Simplification of administrative and electronic procedures (enhancing the exchange of data between institutions, provision of documents ex-officio, limiting the number of requirements for each service) for all services that are available online is expected to be completed by June 2027.

Targeted beneficiaries: a wide range of individuals and entities that interact with government services.

Induced Output: A comprehensive overhaul in the delivery of public e-services, particularly in the fiscal and healthcare sectors, by expanding the offer of e-services by 50%.

Reform indicators and steps with timeline:

Step: Increase the offer of e-services by 50% (better public services, i.e. fiscal, health sector (by June 2027)).

Baseline (2024) is 264 (total number).

The initial activities that will be undertaken are conducting a thorough assessment of current e-service services (uslugi.gov.mk) and identification of gaps and areas for improvement. Based on the finding and recommendations from this stage, comprehensive plan outlining the specific services to be expanded and integrated into the government e-platform will be developed. This also considers digitalisation of institutional registers necessary for development of electronic services, their integration to the interoperability platform (connecting base registers with the platform), budgeting and investment in the necessary technological infrastructure to support the increased demand for e-services, including robust servers, secure data storage facilities, and scalable software platforms. To ensure legal bases for the operationalisation of the expended e-services, it is necessary to update the existing legislation and regulations ensuring compliance with data protection and privacy laws while enabling digital interactions between citizens, firms, and government entities. Technical development/extension and testing of the existing platform for e-services with the new features and services will be conducted. Prioritised will be user experience design and usability to ensure that e-services are intuitive, accessible, and user-friendly for citizens of all demographics, including those with limited digital literacy. In parallel a training programme for the government staff regarding functionalities of the new e-services and their use will be developed. Once the extended e-services are functional, capacity-building activities for government staff will be implemented to enhance their digital skills and proficiency in utilizing the government e-platform for service delivery. Throughout of process, consultations with the private sector companies, academic institutions, and civil society organizations will be conducted to leverage expertise, resources, and best practices in e-service development and implementation. One of the activities will be awareness raising and promotion of the new e-services and their use to the general public.

With the implementation of these activities, it is expected to significantly enhance the quality and efficiency of public services across various sectors, particularly the fiscal and healthcare sector.

Target beneficiaries: All citizens and businesses that would benefit from the electronic services.

Responsible institutions: Ministry for Digital Transformation in collaboration with Ministry of Finance, Ministry of Health, Public Revenue Office and other state administrative bodies providing services to citizens.

Step: Simplify administrative and electronic procedures (enhance exchange of data between institutions, provision of documents ex-officio, limiting the number of requirements for each service) for all services that are available online (by June 2027).

Baseline (2024) is 0.

This step is integral part of the digitalisation of the electronic services and should be done in parallel. It includes analysis of the regulation and simplification of processes, with expected reduction of administrative burden, optimisation and automation of the processes. Namely, despite Law on General Administrative Procedures has been in force for 9 years already, institutions still do not gather evidence ex officio, as prescribed with the law. This step will automate the processes, thus reducing human potential influence and contribute to better transparency and accountability of the institutions.

Targeted beneficiaries are state administrative bodies. Final beneficiaries are the citizens and businesses.

Responsible institutions for monitoring and reporting on the step achievement is the Ministry of Digital Transformation in cooperation with Ministry of Finance, Ministry of Health and other relevant state administrative bodies.

8. POLICY AREA 3: HUMAN CAPITAL

SUB-AREA 3.1 Education Skills

Reform 3.1.1: Reinforce the education system to address the skills mismatch, increase access to and quality of VET, and improve access to work-based learning and dual education (including private sector involvement).

Challenges: The extensive dialogue of the Ministry of Education and Science with companies, chambers of commerce and local governments resulted in the clear need for opening new educational profiles and classes in schools, the need to redesign part of the curricula and the improvement of the practical training of students. In the past three years, the campaign "Study smart, work professionally" facilitated the establishment of the necessary profiles at the local level that enabled the opening of new VET profiles in schools, which are required by the companies. Over 85% of the companies expressed interest in establishing cooperation with schools at the local level and receiving students for practical training. The enrolment policy for the academic year of 2021/2022 was created for the first time through a joint collaboration between the Ministry of Education and Science, the local governments, and the companies. The focus was on vocational education.

The Ministry of Education and Science, in collaboration with foreign partners, created several policy documents in the context of advancing the system of vocational education and training, including those for Regional VET Centres. Before Law on Vocational Education and Training was amended in 2020, it did not recognize regional centres for vocational education and training as multi-sectoral institutions for VET. The amendments introduced a limited possibility for the transformation of municipal secondary schools into state regional centres, without regulating in detail the activities, structure, and organization of the state regional VET centres. Therefore, the new draft Law on VET rationalizes the resources of the vocational education system, with the aim of overcoming the problems arising from the fragmentation and disintegration of the institutions for vocational education and training, which until now, have only narrowly considered local needs, and omitted the regional ones. Hence, the establishment of regional VET centres is described in details in the new draft Law on VET.

The drafting and adoption of Concept Note on Secondary Education and National Standards for secondary education establishing the competences which should be acquired by the students with completion of the secondary education, will follow the adoption of the new Law on Secondary Education. The National Standards will involve the key competences for lifelong learning including Digital Competences (based on the European Digital Competences Framework) and will represent grounds for the new curricula, which will be created and adopted for the secondary education.

Induced Output: A minimum of 3000 students will benefit by gaining practical knowledge and skills, career guidance by support of trained career guidance professionals, by new education programmes designed with partnership of private sector work-based learning during their vocational education and training through the new regional VET Centres which will cover all regions in North Macedonia.

Reform indicators and steps with timeline:

Step: Share of 95% primary and secondary schools have at least one qualified career guidance professional (by June 2026).

Baseline (2024) is total public schools: 1103, out of which 994 primary schools (365 central and 629 district) and 109 secondary schools.

In all primary schools there are professional associates who guide the students through the professional orientation. The plan is 50% of the professional associates to be trained by June 2026, and 95% to be trained until June 2027. In October 2020, the Ministry of Education and Science adopted the Professional

Orientation Program for eighth and ninth grade students in primary schools. Within the developed program for the Professional Orientation Program for students from the eighth and ninth grades of primary schools, in each school, professional associate (the psychologist, or pedagogues, who provides career education and guidance) develops a program for the professional orientation of the students, which becomes part of the school's annual program. Therefore, in every primary school there is a person in charge from the ranks of the professional associates who guides the students through the professional orientation.

Given the fact that this is part of the work tasks of the professional associate in every primary school, and he is the one who collaborates with class teachers, companies and parents and other stakeholders, as well as in the secondary schools, it is necessary to improve the knowledge, skills and competencies of the professional associates through trainings.

Precondition for the achievement of this indicator is the adoption of the new Law on Secondary Education and the by-laws. Introducing a career counsellor in every high school will help students in their process of professional orientation and career choice. They will help students understand their interests, skills and goals, as well as explore different career opportunities and educational opportunities. They will provide them with information about jobs and educational programs.

For this purpose, it is necessary to provide advanced training for the professional associates in the schools that provide career counselling to the students. The Bureau for Development of Education can be a provider of this type of training, through the Catalogue of Accredited Training which is published every year.

The Bureau for Development of Education selects training providers through a public call for the selection of training providers about student career development. After the providers have registered, the Commission selects the most favourable provider who met the conditions after the call. The Training Catalogue is published and then the professional associates, i.e., the teachers, choose to attend the training that will increase their competences for the correct guidance of the students related to their abilities, the needs of the labour market, etc. To ensure quality training, it is necessary for the training to have a longer duration and to be provided by a quality provider.

To provide quality trainings, first of all, for the BDE a larger budget is needed. The dynamics of the training would be to ensure that the achievement of the following targeted values:

- Primary schools: by June 2025 at least 120 professional associates will be trained in primary schools and a number of 180 will be trained by June 2026 and minimum of 360 professionals will be trained by June 2027.
- Secondary schools: In order to provide career counsellors in secondary schools, it is necessary to first pass the Law on Secondary Education and its by-laws by the Government. Entering into force of the new law and secondary legislation is foreseen by June 2025. The working groups have been set up by the Minister of Education and Science for revision of the law and it will be updated and revised in due time. In the new Draft Law, a career counsellor in the secondary school is provided as a separate position. By December 2025, 45% of secondary schools will have a careers advisor. By June 2026, 95% of secondary schools will have at least one qualified career counsellors.

Targeted beneficiaries of career guidance in primary and secondary schools will be the primary and secondary school students, their parents/guardians, secondary schools, companies, faculties.

Responsible institutions for monitoring and reporting on the step achievement is the Ministry of Education and Science. Responsible institution for enacting the Law on Secondary Education (published in OG) and implementation will be the Ministry of Education and Science. Bureau for the Development of Education and Centre for Vocational Education and Training (VET Centre) will be responsible for training of professional associates.

Step: Number of 700 private companies involved in dual education (by December 2026).

Baseline (2023) is 560.

Nowadays, students directly enter the labour market, without prior practical work at an employer. To reduce the gap between the knowledge acquired through education and the knowledge needed at a workplace in a

company, the number of private companies involved in dual education shall be increased and the possibility of acquiring practical knowledge for students, directly at an employer, strengthened. Condition for this is the adoption of the new Law on VET.

At the municipal level, it is necessary to organize a social dialogue between vocational schools, companies in the municipality and regional units of the chambers. At those meetings, it will be discussed which qualifications are required on the labour market, and which qualifications are needed by the companies in their municipality. After this social dialogue is finalized, proposals from municipalities are submitted to the Ministry about the qualifications that are needed by the companies in their municipality so that their needs can be considered during the preparation of the Competition for enrolling students in public secondary schools for the next school year. The Ministry reviews the proposals and makes plans for the possibility of how to meet the needs of companies in the municipalities.

Targeted beneficiaries: Private companies and students

Responsible institution for monitoring and reporting on the step achievement is the Ministry of Education and Science.

Step: Number of 3,000 students with at least 30% women in IVET benefitting from exposure to work-based learning during their vocational education and training (by June 2027).

Baseline (2024) is 200 students (85 female).

With this reform, we will have an insight into the success of learning through work at an employer and we will be able to create future educational policies, that is, we will know whether the reforms in vocational education are successfully implemented. Afterwards we will follow the careers of the completed students in vocational education.

Targeted beneficiaries: Companies and students, benefitting by gaining practical knowledge and skills and rapid career development. Companies will benefit as they will have a skilled workforce and a successful business.

Responsible institution for monitoring and reporting on the step achievement is the Ministry of Education and Science in cooperation with the Centre for Vocational Education and Training.

Step: Number of 700 students (315 female) enrolled in the new education programs offered by the regional VET centres (by December 2026).

Baseline (2024) is 300 students out of which 100 female.

With the establishment of the Regional Vocational Education and Training Centres, the resources of the vocational education system should be rationalized, in order to overcome the problems arising from the fragmentation and disintegration of the institutions for vocational education and training, which until now only narrowly considered local needs, and they left out the regional ones. The interest of the state is to increase the number of students in these centres, because they will be the drivers of the vocational education system and the concentration of investment will be precisely in these centres.

The Ministry of Education and Science together with the Centre for Vocational Education and Training and the Regional Centres for Vocational Education and Training are constantly in contact with the Macedonian Chamber of Commerce and vigilantly monitor companies and their needs for qualified personnel. It follows the analysis and reports from the Employment Agency on required qualifications on the labour market. Based on these data, the educational policy for Regional VET Centres is created and, if necessary, new standards of qualifications and curricula and programs for those qualifications needed on the labour market are prepared or the existing ones are revised. The number of students enrolled in Regional VET Centres increases every new school year.

Targeted beneficiaries: Students and companies.

Responsible institution for monitoring and reporting on the step achievement is the Ministry of Education and Science in cooperation with Regional VET Centres and VET Centre.

Step: 4 new Regional VET centres refurbished, equipped, and fully functional (by December 2027) bringing the total of Regional VET centres in the country to 7.

Baseline (2024) is 3 existing Regional VET Centres in Kumanovo, Ohrid and Tetovo.

To continue the course of reforms in vocational education and to increase the skills of students during their education, it is necessary to establish Regional VET Centres in 7 of the total 8th planning regions in the country, by the end of 2027. Those Regional VET Centres will be reconstructed, fully equipped and functional. Students will have the opportunity to be educated in schools fully equipped with modern equipment and educated by quality staff. All this will contribute to the education of students to directly join the labour market or continue their education with a good background. With the establishment of regional centres for vocational education and training, companies, students, and the economy will benefit.

Targeted beneficiaries: students, companies, municipalities.

Responsible institution for monitoring and reporting on the step achievement, responsibility is on the Ministry of Education and Science. For technical acceptance and provisional acceptance of VET Centres the responsible institution will also be the Ministry of Education and Science.

Reform 3.1.2: Increase participation in adult education and improve recognition of non-formal and informal learning

Challenges: Based on State Statistical Office data for 2023, 19.5% of the unemployed (20,106 persons) are in the age range between 50 and 64. The Employment Agency is responsible for a large part of the public provision of adult education and the implementation of other active employment measures and policies, while the Centre for Adult Education and non-governmental organizations also provides training on a smaller scale. It is important to expand the base of users of the services and programs of the Employment Agency for the purpose of inclusion and employees who are exposed to risk of redundancy or might be less employable due to their age.

In January 2008, the Parliament adopted the Law on Adult Education. With this law, adult education is defined as part of the single education system of North Macedonia. This is the first document of its kind that regulates the adult education system, thus filling the gap in the part of informal education that existed in the education system of North Macedonia.

Considering that more than 15 years have passed since the adoption of the Law on Adult Education, there is a need to adopt a new law on adult education. The proposed changes in the new law refer primarily to the validation of non-formal and informal learning, but also to the advancement of the verification process of special adult education programs, as well as to the role, goals and tasks of the Centre for Adult Education. In addition, with the adoption of the National Framework of Qualifications, there is a need to harmonize the Law on Adult Education with the Law on NQF.

Induced outputs: The validation of non-formal and informal learning lead to more competent jobs on the labour market. This will increase the competences of the adult population and it will increase the opportunities for new employments.

Reform indicators and steps with timeline:

Step: Number of developed programmes in VET for validation of non-formal and informal: learning 16 developed programmes in VET for validation of non-formal and informal learning, of which 2 for women (one for female entrepreneurship) (by June 2027).

Baseline (2024) is 8 programmes in VET for validation of non-formal and informal learning out of which 6 through EU for Youth.

The rapid technological growth, the green and digital transition causes the extinction of old ones and the opening of new job positions in companies. Therefore, the validation will allow people to very quickly acquire new competences, digital and green skills, and also to have their skills and competences, previously

acquired in their workplace or through different activities, recognized. This will allow them to get a job or advance in their career faster. And at the same time, the company will retrain the already existing staff faster and easier, thus having a positive effect on the economy.

The Centre for Vocational Education and Training prepares standards of professional qualifications based on the required professional qualifications on the labour market, at the request of the Ministry of Education and Science. The Centre for Adult Education coordinates the work in preparing the other documents required for the validation of the professional qualifications and monitors the list of advisors and assessors as well as the need for training of the teaching staff. The Ministry coordinates the entire process and receives reports from the Centre for Adult Education. It is expected to develop 12 programmes in VET for validation of non-formal and informal learning by December 2026 and 16 by June 2027 from which two of the developed programmes will be for women (one will be for female entrepreneurship).

Targeted beneficiaries: Companies, unemployed adults or employees who want to get a better job or a new job according to the company's needs, Centre for Adult Education, Regional VET Centres, VET Centre companies, vocational schools.

Responsible institution for monitoring and reporting on the step achievement is the Ministry of Education and Science.

Step: Number of 500 adults with at least 30 % women who have been awarded qualifications based on the procedure for completed programmes with validation of non-formal and informal learning (by December 2027).

Baseline (2024) is 5 adults (0 female).

The rapid technological growth, the green and digital transition causes the extinction of old ones and the opening of new job positions in companies. Therefore, the validation will allow people to very quickly acquire new competences, digital and green skills, and also to have their skills and competences, previously acquired in their workplace or through different activities, recognized. This will allow them to get a job or advance in their career faster. And at the same time, the company will retrain the already existing staff faster and easier, thus having a positive effect on the economy.

Chambers monitor the companies' needs for retraining of employees. The Regional VET Centres implement the entire validation process with the support of the Adult Education Centre. They report to the Ministry of Education and Science. The Ministry of Education and Science coordinates the entire process. It is expected until December 2026 to have 200 adults who have been awarded qualifications and December 2027 to reach the step with 500.

Targeted beneficiaries: Adults, Regional VET Centres, MoES, companies, Adult Education Centre, Chambers, employers and Unions.

Responsible institution for monitoring and reporting on the step achievement is the Ministry of Education and Science.

Reform 3.1.3: Improve and ensure the quality of secondary and higher education

Challenges: Within the Law on Higher Education, which was applicable until 16 May 2018, the Higher Education Accreditation and Evaluation Board was established as a single body, performing external assessment of the quality of higher education institutions and the performance of their activities. With the adoption of the new Law on Higher Education in 2018, this body has been transformed into two separate entities within the Agency for Quality in Higher Education, namely the Higher Education Accreditation Board that carries out accreditation, and the Evaluation Board that implements the external evaluation through expert commissions.

Established control mechanisms for monitoring the process of higher education activity by ensuring and assessing the quality of higher education is under the authority of the Higher Education Evaluation Board, while the Ministry of Education and Science has the established authority to supervise the legality of the operation of the higher education institution.

To establish a complete functional system for quality assurance (internally and externally for Board of Accreditation and Board of Evaluation) in higher education, it is inevitable to fully digitalize the Agency for Quality of Higher Education.

The goal of this challenge is to increase the innovation, functioning and quality of higher education and the work of Agency for Quality of Higher Education with the two boards, through the introduction of digital solutions that will lead to a digital transformation of operations.

Induced outputs: Digitalisation of the Agency work will contribute to accountability and transparency of the quality assurance processes of higher education, managing the quality assurance processes while contributing to increased efficiency of the agency.

The greatest challenge for the Secondary education is continuous development of teachers through trainings on new curricula. The trainings have to be in line with the technological development. Optimization of the secondary schools network as well as new curricula and syllabi for gymnasiums. Every student has to obtain the same access to knowledge. The new financing formula would provide better allocation of the budget to the Municipalities. Another challenge is suitable grading of the students, upgrading their knowledge as well as their development.

Induced outputs the optimization of the school network will bring about to improved quality and better finance allocation

Reform indicators and steps with timeline:

Step: Implementation of New financing methodology in secondary and VET education applied when preparing the national budget of 2027 (by December 2026).

Baseline (2024) is 0.

The methodology has to be approved and applied when preparing the budget for the subsequent year. The Parliament needs to vote and adopt the budget. It is expected by December 2026 that the Budget for implementation of new financing methodology in secondary and VET education is approved by the Parliament and published. With the introduction of the new formula for financing secondary and professional education, financing of secondary education will be introduced according to standards.

The Ministry of Education and Science will enable the allocation of funds intended for secondary education according to more transparent and clear criteria.

The analysis of the school network is first step to be made. Analysis of the labour market and analysis of the three regions for opening of new VET Centres. At the end simulation of the finances.

Targeted beneficiaries: Ministry of Education and Science, students and citizens.

Responsible institution for monitoring and reporting on the step achievement is the Ministry of Education and Science.

Step: 90% of the accredited public and private higher education institutions have in place fully functional quality assurance systems (internal and external) and publish quality assurance reports, stating at least 80% of alignment with the Standards and Guidelines for Quality Assurance in the European Higher Education Area (ESG2015) (by December 2027).

Baseline (2024) is 0%.

The Agency for the Quality of Higher Education is responsible for quality assurance of HEI in North Macedonia. It consists of two separate boards and an agency director. The scope of work and authorities of the boards and the director are prescribed in the HE Act and bylaws of the agency. Board for Accreditation of Higher Education is mostly responsible for the processes related to accreditation process of study programs and institutions, while \board for the evaluation is responsible for the external evaluation of the HEI, which is the condition for reaccreditation of the programs and/or HEI in accordance with the accepted

standards and procedures of the guide applied by the European Association for Quality Assurance in higher education.

Considering the large scope of work and the necessity of increasing the accountability and transparency of the Agency work, it is essential to simplify and make more transparent the accreditation and evaluation process.

To establish a complete functional system for quality assurance of the quality assurance processes in higher education, it is necessary to fully digitize the business process of the Agency for quality of higher education.

Having in mind the large scope of work and the necessity of increasing the accountability and transparency of the Agency work, it is essential to simplify and make more transparent the accreditation and evaluation process.

This activity will include gap analysis of the relevant legislation as basis for development of the software in consultation with all relevant stakeholders.

The full digitalization procedure of AQHE is planned to start in January 2025 and is expected to be finalised by December 2027. In order to achieve this, financial resources are necessary for the implementation of all the steps explained above.

Targeted beneficiaries: Ministry of Education and Science, Agency for Quality of Higher Education (reporting to the Ministry), public and private higher education institutions (reporting to the Agency on the results of Internal and external QA reports)

Responsible institution for the monitoring and reporting on step achievements is the Ministry of Education and Science.

Reform 3.1.4: Ensure an effective, coherent, and inclusive digital transformation of the education by integrating improved digital skills in the country

Challenges:

Primary education

In 2019, a new Law on Primary Education was adopted. The Law establishes the right to education of every child and establishes the principles on the basis of which primary education is developed. The Law also regulates the organization and work of primary schools, the organization, planning and implementation of educational work, the rights and obligations of students, ensuring and evaluating the quality of educational work. Separate bylaws (rulebooks, instructions, programs) regulate various aspects and segments of the educational process in primary education.

In 2021, new Concept Note on Primary Education was adopted. The Concept is based on the recommendation of two EU Initiatives: The European Education Area to take hold with six dimensions: quality, inclusion and gender equality, green and digital transitions, teachers, higher education, a stronger Europe in the world. The second initiative is the Digital Education Action Plan (2021-2027) with initiatives for high quality, inclusive and accessible digital education in Europe.

At the same time, National standards for primary education establishing the competences which should be acquired by the students with completion of the primary education, were adopted. They involve the key competences for lifelong learning covered with the Recommendation of the Council of the European Union from 2018, including as well the recommendations arising from international studies and other documents of the European Union. The National Standards refer to eight areas which categorize the competences. The fourth area are the Digital Competences that refer to the use of ICT to access information, skilful and effective use in problem-solving, sharing ideas, communication and cooperation within the school and the out-of-school life, creating digital content, as well as ethical and safe use of digital technology in everyday life (based on the European Digital Competences Framework).

Based on the new Concept Note and the new (for the first time established) National Standards for the competences, which should be acquired by the students with completion of the primary education, new curricula are prepared and adopted in stages. The implementation of the new curricula is successive. In the school year 2021/2022, new curricula were introduced for the 1st and 4th grade in primary education, in the school year 2022/2023 for the 2nd and 5th grade, and in the school year 2023/2024 for the 3rd and 6th grade. New curricula for 7th grade are prepared and shall be implemented in the school year 2024/2025 (starting in September 2024). New curricula for 8th and 9th grade should be adopted and implemented in September 2025 and in September 2026 accordingly.

Secondary education

In the new draft law on secondary education, there is a special chapter on Digital skills in teaching, in which the school in its annual work program has to implement activities that improve the digital skills of students and teachers, including interactive distance learning, using the means of electronic communication. In planning the implementation of the curriculum, the teacher must ensure that at least 20% of the contents of the curriculum are realized through digital forms and contents. After the adoption of the new law, the national standards for secondary education which determine the competencies that students should acquire upon completion of secondary education have to be prepared. Then Concept for secondary education has to be prepared and immediately after, the preparation of the syllabi and curricula for high school education has to take place, in which modules with digital and green elements will be introduced.

Induced outputs: All primary and secondary students will benefit from implemented new revised curricula with integrated European Digital Competences Framework, the newly trained teachers in digital and green skills will ensure the digital transformation of the teaching process in the classroom education.

Reform indicators and steps with timeline:

Step: 95% of teachers participated in continuous professional development focused on digital and green skills (by December 2027).

Baseline (2024) is 0%. (around 9000 subject teachers from which 60% are women).

Digital and green skills as defined in the revised and adopted National Standards about the achievements of the students at the end of the primary education. To be monitored annually from the achievement of the target onwards.

In accordance with the dynamics of successive introductions of new curricula in primary education (started from 2021/2022 school year), in accordance with the Concept for Primary Education, all grade and subject teachers, who teach students from the first to the sixth grade have received training in the application of the new curricula, which include, among other things, knowledge of digital skills (transferable, as well as in the subject of technical education and informatics and free electives), as well as green skills, especially in the subject science from first to sixth grades.

Also, in accordance with the national standards for evaluating students in primary education within the framework of the 4th competence, students transferable through application in all teaching subjects, and especially in the subject of technical education and informatics, as well as in free elective subjects, acquire competences from digital literacy, and through the 3th competence of mathematics and science through the building of transferable skills in all subjects, green skills are acquired with knowledge and competencies.

Targeted beneficiaries: the Bureau for Development of Education, primary schools, teachers and students in primary education.

Responsible institution for the monitoring and reporting on step achievements is the Ministry of Education and Science in cooperation with the Bureau for Development of Education.

Step: Revised secondary school curricula integrating the European Digital Competences Framework is adopted; 50 % of the grades of secondary schools implementing revised curricula (by December 2027). Baseline (2024) is 0%.

The revision of the curricula in VET education is going to start with revision process of the standards of qualifications, and afterward curricula including the European Framework for Digital Competences. The Board for the National Framework of Qualifications, in correlation with the Ministry of Education and Science will prioritise the revision of the qualification standards. The board then coordinate the work of sector commissions responsible to revise qualification standards and incorporating digital and green competencies. After completion of the sector commission work the VET Centre audits the selected curricula, i.e., supplementing them with educational digital and green teaching units.

For the revision of the curricula in the gymnasiums responsible role is within the BDE which will complete the revision of the curricula and propose the final one for adoption to the minister of education and science.

Targeted beneficiaries: Secondary schools, teachers, Centre for Vocational Education and Training, Board for National Framework of Qualifications (reporting to the ministry), MoES.

Responsible institution for the monitoring and reporting on steps achievements is the Ministry of Education and Science in coordination with the Board for the National Framework of Qualifications.

Reform 3.1.5: Increase the efficiency through rationalisation of the primary schools network and establish “smart” primary schools with IT tools and Internet infrastructure ensuring also their operability (“Smart” as in integrating digital technologies in teaching and school management, including communication with families, distance interactive learning)

Challenges: The pandemic revealed that the education system is facing a myriad of pre-existing issues to going digital: including, access to broadband connectivity, particularly for marginalized and low-income populations, and low ICT adoption. With COVID-19, students from lower socio-economic backgrounds are at further risk because of the limited access to electronic devices, poorer or inexistent internet connectivity at home, less parental support, or teachers with less advanced digital skills. Due to these challenges, Ministry of Education and Science constantly works to improve the learning environment in primary schools, in line with the Digital Education Action Plan (2021-2027). The activity will provide around 80.000 students to study in smart classrooms with provided IT technology and infrastructure, including the vulnerable group of students and their families (160 schools (44% of schools)).

Induced outputs around 80.000 students to study in smart classrooms with provided IT technology and infrastructure, including the vulnerable group of students and their families (160 schools (44% of schools))

Reform indicators and steps with timeline:

Step: Implementation of New financing methodology in primary education applied when preparing as of the national budget of 2026 (by December 2025).

Baseline (2024) is 0. Financing methodology in primary education is prepared but it is not yet adopted.

Challenges: The need to introduce a new funding formula in primary education stems from the need to improve the quality of education in the country. Namely, with the adoption of the new Concept for primary education (2020), prepared with the participation of key stakeholders the state strives to improve the quality of primary education, which of course is ultimately tied to and with the financing.

New methodology was developed for the application of the new formula. The adoption and implementation of the new financing model was postponed due to the energy crisis, the several-fold increase in the salaries of employees in primary schools, etc. The methodology has to be approved and applied when preparing the budget for the subsequent year. The Parliament needs to vote and adopt the budget.

Once approved, adaptations of the formula will be made, according to the latest data on the state of primary education, enrolment of the process of optimization of the school network, new prices on the labour market, salary increases for staff, as and according to the priorities of the new government.

In a table below, projections of financial implications of the new formula for primary education is shown, by years. The amounts are expressed in the Macedonian (MKD) Denars, as well as in Euros. In the column

“differences according to the previous year”, it is shown how much of the funds should be provided with the introduction of the new formula.

	GDP 2024- Primary education (current formula)	New formula				
		2025	2026	2027	2028	2029
In MKD	15,456,173,000	16,500,000,000	17,300,000,000	18,100,000,000	18,800,000,000	19,000,000,000
Differences with the previous year	,	1,043,827,000	800,000,000	800,000,000	700,000,000	200,000,000
In EUR	249,293,113	266,129,032	279,032,258	291,935,484	303,225,806	306,451,613
Differences with the previous year	/	16,835,920	12,903,226	12,903,226	11,290,323	4,942,768

Targeted beneficiaries: The final beneficiaries of the introduction of the new financing formula for primary education are the students in primary education, the municipal administration as the founders of the schools, as well as teachers for whom quality trainings are provided.

Responsible institutions for the monitoring and reporting on steps achievements is the Ministry of Education and Science that is also responsible for the adoption of the new methodology and for planning of funds in the national budget in cooperation with the Ministry of Finance for timely preparation of annual budget and its submission for approval to the Parliament.

Step: Number of primary schools equipped with Internet access and IT tools (December 2025) 160 schools [number/share of primary schools concerned; number of pupils and teachers covered]: 160 schools [44% of schools]

Baseline: 2023: 40 Primary Schools (11% of schools) i.e. 24.000 students and 3.120 teachers.

New modern network equipment has already been installed and in 2024, additional 35 primary schools (21 % of schools) will be equipped with modern network equipment. For 2025, The Ministry of Education and Science, has planned to provide IT tools and IT and/or network equipment to additional 85 primary schools.

The primary schools will be equipped with IT and network equipment which will enable the improvement of Internet access and integration of digital technologies in teaching. The equipment includes personal computers, monitors, laptops, printers, UPS, smart boards, projectors, firewalls, wireless access points and network switches. The implementation of the measures shall be completed by 31 December 2025. The procurement will follow a transparent procedure, with a public procurement announcement. The Ministry of Education and Science already has experience with this kind of procurement from the previous year (2023), and it continues this year (2024).

Targeted beneficiaries: Schools, students, school leaders, teaching and non-teaching staff.

Responsible institution for the monitoring and reporting: Ministry of Education and Science will provide all the needed documentation form the process of procurement of the equipment, to the characteristics of the equipment and their installation in schools.

9. POLICY AREA 4: PRIVATE SECTOR DEVELOPMENT AND BUSINESS ENVIRONMENT

SUB-AREA: 4.1 Business Environment

Reform 4.1.1: Address the informal economy in support of the recently adopted Strategy for Formalization of the Informal Economy

Challenges: The challenges in the sector of informal economy include several aspects: Insufficient number of inspections of the State Labour Inspectorate and the State market Inspectorate, since the ongoing work based on the current working plans and programmes of the SLI cannot successfully prevent a decrease of number of inspection controls over time. Introducing a risk assessment methodology to plan more regular control based on pre-determined parameters is focus of future reforms. Undeclared workers and activities are still a significant part of the informal economy, specifically the working activities performing seasonal, temporary and occasional nature, in specific selected sectors such as agriculture, forestry, fishing, tourism and catering construction, personal and household services remain to be more successfully managed, by adopting new legislation and deploying an upgrade of the existing software of the Public Revenue Office to address the issues of undeclared and unregistered workers. The administrative procedures relating to SMEs, which are overburdened by the required steps and documentation and hinder their successful operation and functioning. Identifying the redundant steps and redesigning the procedures, as well as leveraging digitalization of public services and IT solutions to automate and streamline processes are the issues that will be in focus.

The system of early warning, i.e., recognition of financial difficulties of a company has not yet been implemented, does not provide an opportunity, at an early stage of emergence of financial difficulties, to find ways to overcome them or reduce the consequences that would result from opening bankruptcy proceedings, indicating a need to introduce an early warning system. Data obtained from the Central Register show that there is a large number of companies that have ceased to exist due to the implementation of the provisions of the Company Law, with a procedure for liquidation, that is, deletion of the companies due to failure to fulfil the condition/s stipulated by the Company Law. This procedure also allows for deletion of companies with active employments, immovable or movable property. In addition, the relatively high level of non-performing loans increases the risk of falling into a state of insolvency and opening of bankruptcy proceedings. Contrary to the expectations, there is a very small number of instigated reorganization procedures, which concept, in general, has not given the expected positive effects. Hence, there is a need to establish an efficient system that will provide early warning signals of financial difficulties of companies, as well as appropriate steps and measures to monitor the situation before the occurrence of insolvency and the opening of bankruptcy proceedings. A guarantee mechanism for securing the unpaid wages and other employees' claims arising from employment relation in case of bankruptcy/insolvency of their employer has not been set up yet, which prevents ensuring additional layer of social protection of employees, via alignment of the national legal framework with the Directive 2008/94/EC in area of protection of employees in case of company's insolvency. The mechanism would provide a guarantee to employees that in case of a bankruptcy/insolvency of the company of their employment, relevant state body (Employment service agency - ESA) will cover part of their outstanding claims out of the guarantee fund established for that purpose.

A persistent high level of informal economy in North Macedonia detected in various studies by the IFIs and the academic community, over a prolonged period of time, at the level of 33,3% of GDP in 2019 (calculated by using the MIMIC method), According to the latest available data from the Informal Economy Database of the World Bank, so implementation of achieved by wide-reaching and complementary reforms that address the main institutional, political, economic and cultural factors contributing to high-level of informality remains a high priority though implementation of the adopted the Strategy for formalization of the informal economy 2023 - 2027 with an Action Plan 2023-2025.

Induced Output: improved performance of the labour and market inspectorates including sectorial risk with a focus on construction, tourism, and agriculture, reduction of the administrative burdens for the businesses and improvement of the overall environment for the business sector.

Reform indicators and steps with timeline:

Step: The number of inspections is increased for the Labour Inspectorate by 20% and for the Market Inspectorate by 15% compared to the 2020-2023 period average. Inspections are carried on the principle of sectorial risk with a focus on construction, tourism, and agriculture (June 2025)

Step: The number of inspections is increased for the Labour Inspectorate by 40% and for the Market Inspectorate by 30% compared to the 2020-2023 period average. Inspections are carried on the principle of sectorial risk with a focus on construction, tourism, and agriculture (December 2027)

Baseline: 5.294 as an average for both institutions. The baseline is for 2020-2023

More concretely:

Average for a period 2020-2023

i) 4.817 State labour inspectorate

ii) 477 State market inspectorate

The **State Labour Inspectorate (SLI)** carries out its work in accordance with the Annual Work Plan, which enables the definition of goals, measures and activities, monitoring of their implementation, while creating prerequisites for the realization of the public interest, protection of workers' rights and provision of healthy and safe working environment. The Annual Plan includes a monthly norm for carrying out inspections, expected number of irregularities and a planned number of inspections by municipalities and administrative regions.

Although extraordinary inspections based on complaints are planned based on statistical data for the previous year, the total number of inspections cannot be accurately determined as they are based on complaints from citizens, which are submitted daily to the State Labour Inspectorate. As a result, the number of realized extraordinary inspections may deviate from the number of planned inspections, and consequently the number of imposed punitive measures.

The State Labour Inspectorate for the reference period 2020-2023, in relation to undeclared work, carried out a total of 751 extraordinary inspections, namely:

- In 2020, 33 inspections were carried out / 33 undeclared workers found;
- In 2021, 168 inspections were carried out / 184 undeclared workers found;
- In 2022, 238 inspections were carried out / 189 undeclared workers found;
- In 2023, 312 inspections were carried out / 298 undeclared workers found.

While the monthly inspection plans contain projections on the number of handed penalties, these only serve as an indicator for guiding and monitoring inspections performance on a monthly level.

Inspectorates can and do influence the number of performed inspections, but cannot predict the number of handed penalties, which may decrease over time regardless of the strengthened controls due to increased level of regulatory compliance by the companies subject of control. Nevertheless, the imposed penalties are a parameter in the planning of inspections for the re-implementation of supervision of violators of legal provisions who appear as recidivists in the area of informal work.

With the introduction of the risk assessment methodology, the supervision planning is based on the risk assessment, which includes analysis, management and reporting of the risk.

At the moment it is executed manually using the following parameters: Severity and consequence of the work of the subjects of the supervision, primarily based on the analysis of established irregularities, imposed penalties, the severity of the committed violation and repetition of the violation.

As a future planned activity in the area of improving the quality of risk assessment, it is the provision of a software solution that would define the probability as an element of the methodology, and a suitable database would affect the efficiency of inspections.

The State Market Inspectorate (SMI) carries out inspection supervision over the application of laws, other regulations and acts by trading companies, other legal and natural persons as well as citizens carrying out activities on the territory of North Macedonia, which mostly relate to the safety of products, consumer protection, activities in the field of trade, hospitality, tourism, craftsmanship, protection of industrial property rights, Law on prohibition and prevention performance of unregistered activities, as well as other matters determined by law.

SMI conducts regular and irregular inspections for legal entities, natural persons and other organizations; complaints from consumers and other institutions; as well as organized activities on behalf of the Inspectorate.

SMI has adopted Methodology for risk assessment in inspection planning. The risk assessment methodology for planning inspection supervision covers 3 degrees of risk: Level 1-low risk, Level 2- average risk level, Level 3 - high risk level. Since there is not yet adequate database from which data for the analysis can be drawn, the current risk analysis is reduced to empirical assumptions from previously carried out supervisions, as well as data from the inspectorate's work in the past.

According to the Law on Inspection Supervision, inspection supervisions are based on risk analysis. The annual plan of work is prepared from the Unit for Risk management. The annual plan is publicly available on the website of the State Market Inspectorate: <https://dpi.gov.mk/index.php/mk/dokumenti/godisni-programi>.

The State Market Inspectorate for the reference period 2020-2023, in relation to Law on prohibition and prevention performance of unregistered activities, carried out a total of extraordinary inspections, namely:

- In 2020, 545 inspections were carried out
- In 2021, 268 inspections were carried out
- In 2022, 333 inspections were carried out
- In 2023, 760 inspections were carried out

In addition, in the construction sector, according to legal regulations that are under the competence of the Ministry of Internal Affairs, namely the law on prohibition and prevention of unregistered activity, the law on trade, the law on product safety, the law on construction products. In the tourism sector, action will be taken according to the law on tourist activity and the law on catering activity, and of course the law on prohibition and prevention of unregistered activity. In the agriculture sector, action will be taken according to the law on the prohibition and prevention of unregistered activity and the law on trade, especially in the area of trade in agricultural products (retail trade and wholesale trade).

Targeted beneficiaries: employees, citizens, companies

Responsible institution: for monitoring and reporting on the step achievement is the Ministry of Economy and Labour in cooperation with the State Labour Inspectorate and State Market Inspectorate.

Step: 100 administrative procedures are mapped, selected on the principle of frequency, relevance, in regard to operating a SME and at least 50% of measures have their step, times of procedure and required documentation reduced by half (December 2025)

Baseline (2024) is 0.

To achieve the goal of mapping 100 administrative procedures relating to SMEs and reducing at least 50% of them in terms of steps, times, and required documentation by December 2025, a detailed timeline is needed by the end of 2024. It will consist of milestones leading up to December 2025. The procedures will be mapped through definition of criteria for selecting the 100 procedures based on frequency, relevance, and impact on SME operations, data collection on the current administrative procedures from relevant

government agencies and gathering SMEs' feedback, as well as specification of the documents of each procedure, detailing each step, time required, and necessary documents. A detailed analysis of the selected procedures will be performed to identify redundant steps and documentation. The next step is simplification of the steps, reduction of the time required, and reduction of the documentation needed for each selected procedure. The redesigned procedures will be tested in a pilot phase with selected SMEs to check their effectiveness. Once the pilot testing is completed and feedback incorporated by June 2025, full-scale implementation will begin in the second half of 2025. Leveraging digitalization of public services and IT solutions to automate and streamline processes where possible would enable more efficient performance of public functions and streamlining of administrative procedures. Project completion and final report submission will be conducted by December 2025.

Targeted beneficiaries: companies operating in North Macedonia, employees, citizens

Responsible institution: for monitoring and reporting on the step achievement is the Ministry of Economy and Labour.

Step: Number of non-formal employed in the total number of employed, as per the State Statistical Office, is reduced by 20% (December 2025) and 40% (December 2027).

Baseline: 12.2%, calculated as 84.319 non-formal employed in the total number 692.034 employed in 2022 as per State Statistical Office data]. According to statistical data, research findings and analysis in 2022, about 60 thousand employees in North Macedonia participated in unregistered work in selected economic sectors (agriculture, forestry, fishing, tourism and catering, construction, personal and household services).

Reducing the informal work in specific sectors of the economy that entail high risk of informal employment, as well as stimulating formalization of the activities of persons performing works of a seasonal, temporary and occasional nature, is foreseen by undertaking the following activities:

- Adoption of the Draft Law (lex specialis) regulating work engagement of seasonal, occasional and temporary nature for certain activities and works, and its by-laws. The draft law has been drafted in 2024 and submitted to the Government for review and adoption. The Law will be applied no later than 18 months after its adoption by the Parliament.
- Designing and deploying an upgrade of the existing software of the Public Revenue Office for the purposes of implementation of the Law regulating work engagement of seasonal, occasional and temporary nature for certain activities and works. The aim is introducing a simplified procedure for registration, de-registration, taxation and payment of compulsory social contribution of workers that will formalized their work in the identified sectors, which would ensure least possible administrative burden on the employers or workers.

The formalization of the informal work and economy will improve the working conditions of workers who currently participate in unregistered work and will contribute to strengthening of the rule of law thereby creating level-playing field for all business entities operating in the market, which is a crucial precondition for strengthening the competitiveness and providing long-term sustainable economic and social development.

Further, formalization of the informal work is also expected to yield additional tax revenues and social contributions from transitioning of the employees in the formal economy. Namely, at a formalization rate of 10% per annum (out of the 60.000 estimated number of unregistered workers), it is projected to be collected additional social contributions in amount ranging from EUR 0.78 million in the first year to EUR 2.8 million after the 4-year period. At a formalization rate of 10% per annum, the projected amount of additionally collected social contributions range from EUR 1.2 million to EUR 2.8 million after the 4-year period.

Targeted beneficiaries: The beneficiaries are the workers engaged in informal economy, seasonal workers. The state as well will benefit from the increased revenue that will be a result of formalization of the work

Responsible institution: for monitoring and reporting on the step achievement is the Ministry of Economy and Labour. Other responsible institutions will be Public Revenue Office, Pension and Disability Fund and Health Insurance Fund.

Step: Introduce an early warning system to give alert of possible companies in distress (June 2026).

Baseline (2024) is 0.

The system of early warning, i.e. recognition of financial difficulties of a company has not yet been implemented in the existing regulation in North Macedonia. Under the current legislation, the insolvency of companies, i.e. their inability to continue functioning is governed by the Company Law, Bankruptcy Law and the Law on Out-of-Court Settlements.

Moreover, the Law on Public Enterprises does not contain provisions for opening of bankruptcy proceedings against public enterprises.

The current situation, which is governed by several laws, does not provide an opportunity, at an early stage of emergence of financial difficulties, to find ways to overcome them or reduce the consequences that would result from opening bankruptcy proceedings, indicating a need to introduce an early warning system.

Data obtained from the Central Register show that there is a large number of companies that have ceased to exist due to the implementation of the provisions of the Company Law, with a procedure for liquidation, that is, deletion of the companies due to failure to fulfill the condition/s stipulated by the Company Law. This procedure also allows for deletion of companies with active employments, immovable or movable property.

In addition, the relatively high level of non-performing loans increases the risk of falling into a state of insolvency and opening of bankruptcy proceedings. Contrary to the expectations, there is a very small number of instigated reorganization procedures, which concept, in general, has not given the expected positive effects.

Hence, there is a need to establish an efficient system that will provide early warning signals of financial difficulties of companies, as well as appropriate steps and measures to monitor the situation before the occurrence of insolvency and the opening of bankruptcy proceedings.

An early warning system is planned to be introduced by June 2026, through the following steps:

- Adoption of a new Insolvency Law stipulating provisions for introduction of a system for early warning of companies in financial distress and for timely resolution of insolvency;
- Drafting and adopting more than 15 by-laws;
- Capacity building of all relevant stakeholders: bankruptcy trustees, bankruptcy judges, notaries and executors, appraisers and experts as well as civil servants, and
- Instituting exams for obtaining a license for a bankruptcy trustee.

The activities will be undertaken based on comparative analysis of practices in countries which have already established an early warning system of companies in financial distress, as well as by taking into account the recommendations and previously made analysis by the experts engaged with the IPA project.

Targeted beneficiaries: Workers in unregistered work that experience specific disadvantages, severe decent work deficits and severe working conditions as the most vulnerable workers are direct targeted beneficiaries. Also, stakeholders such as employers and social partners as well various institutions covering social security, labour relations and labour rights issues that be affected with the reform are also targeted beneficiaries. That includes any legal entity or physical person in the position of trustee, Small and medium-sized enterprises would especially benefit.

Responsible institution: for monitoring and reporting on the step achievement is the Ministry of Economy and Labour. Other institutions responsible for reporting and collecting data is Public Revenue Office, Pension Insurance Fund, Employment State Agency.

Step: Set up a guarantee mechanism to guarantee payment of employees' outstanding claims resulting from contracts of employment or employment relationships upon termination of employment relationships (December 2026).

Baseline (2024) is 0.

The introduction of a guarantee mechanism for securing the unpaid wages and other employees' claims arising from employment relation in case of bankruptcy/insolvency of their employer, will ensure additional

layer of social protection of employees as well as alignment of the national legal framework with the Directive 2008/94/EC in area of protection of employees in case of company's insolvency.

The mechanism would provide a guarantee to employees that in case of a bankruptcy/insolvency of the company of their employment, relevant state body (Employment service agency - ESA) will cover part of their outstanding claims out of the guarantee fund established for that purpose.

The Guarantee Mechanism is planned to be introduced within the present social insurance system by extending the social protection under the insurance against unemployment), as foreseen with the proposed amendment to the Law on Employment and Insurance against Unemployment. The function of the Guarantee Mechanism is foreseen to be carried out by the Employment Service Agency, with the decision-making and administrative processes adjusted as much as possible to existing standards used in the unemployment insurance system. The funds will be collected from the current contribution for unemployment that, for this purpose will be increased by 0.4%, and paid by the employers.

Setting up the mechanism to guarantee payment of employees' outstanding claims resulting from contracts of employment or employment relationships upon termination of employment relationships due to bankruptcy/insolvency of their employer, is envisaged through the following steps:

- Political decision on the scope of the guarantee insurance, upper limit of benefit and length of reference and/or eligible period, contribution rate and the fiscal implications over the state budget;
- Successful completion of the social dialogue among the social partners and government, reached by the Economic and Social Council;
- Finalization and adoption of the amendment of the Law on Employment and Insurance against Unemployment, Law on contributions from mandatory social insurance and Bankruptcy law /law on insolvency and relevant bylaws as basic legislative standard regulating the establishment of the Guarantee Mechanism as an integral part of the insurance against unemployment;
- Institutional set up responsible for implementation of the Guarantee System: Employment service agency, Public revenue office, Ministry of Labour and Social Policy, Ministry of Economy [optional], Members of the Economic Council, Chamber of Bankruptcy administrators;
- Set up of the Guarantee Mechanism to guarantee payment of employees' outstanding claims resulting from contracts of employment or employment relationships upon termination of employment relationships by December 2026;
- Implementation of the Guarantee Mechanism based on solidarity and compulsory application, and monitoring of the collection of additional contributions and payments from the Guarantee Mechanism during initial years of implementation.

Targeted beneficiaries: Targeted beneficiaries are the workers that have claims, i.e. unpaid wages in case of insolvency/bankruptcy of the employers, Ministry of Economy and Labour, Agency of Employment.

Responsible institution: for monitoring and reporting on the step achievement is the Ministry of Economy and Labour, and Employment Service Agency.

Step: Informal economy as % of GDP (World Bank indicator) is reduced to 26 % of GDP (December 2027)

Strategy for formalization of informal economy 2023 - 2027 and WB publication on informal economy

(<https://www.worldbank.org/en/research/brief/informal-economy-database>)

Baseline (2019) is 33.3%.

A persistently high level of informal economy in North Macedonia has been detected in various studies by the IFIs and the academic community, over a prolonged period of time. According to the latest available data from the Informal Economy Database of the World Bank, the informal economy in the country was at the level of 33,3% of GDP in 2019 (calculated by using the MIMIC method), which indicator is identified as a baseline for the purposes of monitoring the implementation of this measure.

Hence, reducing the informal economy represents a high priority for the country, which is to be achieved by wide-reaching and complementary reforms that address the main institutional, political, economic and cultural factors contributing to high-level of informality.

Building on this premise, through a comprehensive and inclusive process involving all relevant stakeholders and coordinated by the Ministry of Finance, in September 2023 the Government adopted the Strategy for formalization of the informal economy 2023 - 2027 with an Action Plan 2023-2025.

The Strategy includes various measures and activities clustered in two priority areas, the first of which focuses on increasing the efficiency of public institutions and improving the business environment, and the second one on enhancing the transparency and accountability, strengthening the tax morale and trust in public institutions - all considered as key prerequisites for reducing the informal economy and strengthening the formal sector.

The adoption of the Strategy with the Action Plan is accompanied by the establishment of a permanent institutional framework consisting of an Inter-Sectoral Body for coordination of activities for implementation of the Strategy, and a National Council for formalization of the informal economy, which should ensure effective monitoring of its implementation.

The objective of this reform measure i.e. reducing the share of the informal economy to 26% of GDP by December 2027 is also foreseen as a general objective of the Strategy for formalization of the informal economy 2023 - 2027, and is to be verified by reports on the level of informal economy published at the Ministry of Finance website.

Targeted beneficiaries: Citizens and legal entities operating in North Macedonia.

Responsible institution: for monitoring and reporting on the step achievement is the Ministry of Economy and Labour. Other involved and responsible institution necessary for step achievement are: State Statistical Office, Public Revenue Office, the Labour Inspectorate, State Market Inspectorate, National bank of North Macedonia, the Employment Service Agency of the Republic of North Macedonia, Central Registry of the Republic of North Macedonia, the Council of Inspection Authorities.

Reform 4.1.2: Make the state aid regime more transparent and efficient

Challenges: The aim of this reform objective is to increase the transparency and efficiency of state aid regime in the country that would support more effective utilization of public funds.

There has been very low number of cases on state aid in front of the Administrative Court. Since it is expected that there will be more cases on state aid in the future, training for judges is needed to improve their knowledge on state aid.

Although the state aid legislation is in place for many years, and its implementation is satisfactory, there is still place for improvement for ex-officio investigations, as well as for reassessment of state aid schemes.

The European Commission continually in its yearly reports on the country's progress has stressed the necessity of need for financial independence of the Commission for Protection of Competition, which is also precondition for improvement of the administrative capacity of the Commission.

Induced Output: improved state aid regime in line with the EU acquis and strengthened independence of authority for protection of competition and state aid

Reform indicators and steps with timeline:

Step: According to training needs, a sufficient number of Judges are specialised via training modules in the CPC procedure and the EU acquis in order to increase the expertise on State Aid in the Courts. An extensive training module on State aid rules in the EU covering substantially the EU acquis including key case-law provided by a trainer with significant experience and expertise in this area (December 2025).

Baseline (2024) is 0.

According to training needs, a sufficient number – at least 6 judges are specialised via training modules in the CPC procedure and the EU acquis in order to increase the expertise on State Aid in the Courts. An extensive training module on State aid rules in the EU covering substantially the EU acquis including key case-law will be provided by a trainer/s with significant experience and expertise in this area, such as experts from State Aid authorities in EU Member States, while the training module on the CPC procedure will be provided by an expert/s coming from the CPC. Until now, there was no system in place for training of judges on state aid issues. Developed curriculum for delivering training of judges in CPC procedure and EU acquis on state aid, and organized 3 days training in cooperation with the Ministry of Justice, Academy for Judges and Prosecutors, and Council of Judges. Provisions will be made to ensure that the system for training and building know-how on state aid in courts will be maintained beyond 2025, aiming at delivering future training, updating curriculum, keeping track of the expert group, promoting and ensuring their involvement and their newly acquired expertise in state aid cases.

Targeted beneficiaries: Commission for Protection of Competition, Academy of Judges and Prosecutors, judges

Responsible institution: For monitoring and reporting on the step achievement the Commission for Protection of Competition, in cooperation with Ministry of Justice, Academy for Judges and Prosecutors, and Council of Judges will implement and report on implementation.

Step: A methodology for conducting ex-officio investigations, based on sectorial risk, intra-sectorial randomized targeting, considering granting cases of above 200,000 euro per company is established.

Step: A minimum of 2, and 4, ex-officio investigations, randomized, based on risk, will be carried per quarter by June 2026, and June 2027, respectively.

The baseline (2024) is 0 (none) for both steps.

So far, there has been no methodology for such investigation. CPC mainly relied on information publicly available and from third interested parties. The new methodology will enable the CPC to make more comprehensive ex-officio investigations. The adoption of a methodology for conducting ex-officio investigations, based on sectorial risk, intra-sectorial randomized targeting, will enable increased number of ex-officio investigations by the Commission for Protection of Competition, namely at least 2 investigations by June 2026 and minimum of 4 investigations from June 2026 by June 2027.

Targeted beneficiaries: Commission for Protection of Competition

Responsible institution: The Commission for Protection of Competition will be principal reporting institution for the implementation of the steps under this reform objective.

Step: Reassess state aid schemes and phase out those that are not aligned with EU acquis on state aid; Pre-condition: All modules of SAMIS are fully operational (June 2026).

The baseline (2024) is 0 (none).

The Commission for Protection of Competition (CPC) is to conduct reassessment of all state aid schemes with an aim to phase out schemes that are not aligned with EU directives on state aid, due to the fact that there is a small number of existing state aid schemes. CPC will be able to assess all existing state aid schemes, provide indications as to which schemes are not fully aligned with the state aid legislation in order to be phased out by June 2026. This step is pre-conditioned by full operationalisation of all modules of SAMIS.

Targeted beneficiaries: CPC and state aid providers that provide state aid through state aid schemes.

Responsible institution: The Commission for Protection of Competition will be principal reporting institution for the implementation of the steps under this reform objective.

Step: Self-sustainability and independence of the Competition Protection Commission is ensured with the establishment of a methodology allowing it to acquire its own resources to fund its activity, namely

by raising a charge to the recipients of services, e.g. merger fee charge (December 2026, repeated December 2027)

- i) December 2026 CPC covers 50 % of its expenses from its own resources;
- ii) December 2027 CPC covers 100% of its expenses from its own resources.

The baseline (2024) is 0%.

Self-sustainability and independence of the Commission for Protection of Competition will be achieved by adoption of amendments to the Law on Administrative Fees and amendments to the Law on Protection of Competition and the Law on Public Administration, and all other relevant laws. Own financial resources will be gained from the administrative fees from mergers. Additional financial resources should be gained from the central budget if necessary to achieve certain level of minimum budget, needed for efficient functioning of CPC. Independence will be completely achieved until the end of 2027, having in mind that all necessary laws shall be amended in the next period.

Targeted beneficiaries: Commission for Protection of Competition

Responsible institution: The Commission for Protection of Competition will be principal reporting institution for the implementation of the steps under this reform objective.

Reform 4.1.3: Foster SMEs development by adopting and implementing the new SME strategy

Challenges: Tackling para-fiscal charges, access to finance are only few of the elements that contribute to enabling business environment. Even though there is a clear tax system in the country, companies are very often faced with many charges that are imposed without a clear understanding and reasoning. They could be considered minor, being imposed without any order both on central and local level, however, this burden, its size and effects it has on further development of a thriving business environment. After Covid-19, the banking sector remains liquid but continues to be prudent when it comes to larger investments in the development of SME's sector. Thus, companies are faced with high collateral for investment in increasing their working capital or investing in new technologies. Thus, the measures and steps under the Reform Agenda will allow for strengthening the legal framework for SMEs ensuring their easier access to lending and leasing services, as well as lowering the fiscal and administrative burden on SMEs by optimizing para-fiscal charges and making them digitally available. It is to be accomplished through implementation of different reform activities/steps elaborated bellow.

Induced Output: improved environment for operation of SMEs.

Reform indicators and steps with timeline:

Step: On the basis of the previous mapping of 377 charges and the recommendations of the related EU-funded technical assistance project, 28 such charges are optimized (June 2025).

The baseline (2024) is 0.

The implementation of the reform activity envisages optimization of para-fiscal and other non-tax payments from the list of charges proposed by experts in the framework of the EU funded technical assistance project, and developed in consultation with representatives of the business community as well as in cooperation with the competent ministries.

For the adequate implementation in practice of this reform activity, in the period from 2024 to 2025, it is necessary to implement the following steps:

- finalization and adoption of the proposed list for optimization of para-fiscal charges and other compulsory non-tax payments;
- 28 para-fiscal charges and other non-tax payments are streamlined using proposed methodology;

- reporting by the institutions with a jurisdiction over the selected para-fiscal charges, based on the calculations from the proposed methodology to include administrative relief in nominal value, and
- reporting by the Ministry of Economy on the implementation of the measure to include administrative relief in nominal value and total percentage of administrative relief as a percentage of GDP.

Targeted beneficiaries: Ministry of Economy and Labour, Ministry of Finance, Central Registry, Agency for medicaments.

Responsible institution: Responsible institutions for implementation on the above-mentioned steps are: Ministry of Economy and Labour, Ministry of Finance and all the entities from the public sector which have jurisdiction over the selected para-fiscal charges. The Ministry of Economy and Labour is the principal reporting institution for the implementation of the steps and achievement of the indicator of this reform.

Step: Ease the access to lending for SMEs by amending relevant legislation to allow the use of intangible assets as collateral in lending to SMEs (June 2025).

The baseline (2024) is 0.

It had become increasingly clear that SMEs, despite being the backbone of many economies, were often struggling to secure the financing they need to grow and thrive.

One of the main identified obstacles is the limited options for collateral that SMEs could use to secure loans. Traditional lenders typically require tangible assets such as property or equipment, which many SMEs do not possess. This makes it harder for them to access the capital they need to expand their operations or invest in new projects.

To address this challenge, it is envisaged to amend the relevant legislation to allow the use of intangible assets as collateral in lending to SMEs. Intangible assets, such as intellectual property, patents, and trademarks, are often overlooked by lenders but represent valuable assets that many SMEs possess.

By amending the legislation to allow the use of intangible assets as collateral, SMEs would have a new avenue for securing the financing they needed. This change would not only make it easier for SMEs to access capital but also help level the playing field between small businesses and larger corporations, which often have more traditional forms of collateral to offer.

This reform activity is seen as a significant step towards supporting the vital role that SMEs played in driving economic growth and innovation.

Targeted beneficiaries: SMEs and financial institutions

Responsible institution: Ministry of Finance and the Ministry of Economy and Labour.

Step: Ease the access to lending for SMEs by expanding issued guarantees under State Credit Guarantee Schemes by 24%, compared to December 2023 and increasing the number of SMEs benefiting from CGSs by 23%, compared to December 2023 (June 2026)

Step: Ease the access to lending for SMEs by expanding issued guarantees under State Credit Guarantee Schemes by 40%, compared to December 2023 and increasing the number of SMEs benefiting from CGSs by 35%, compared to December 2023 (December 2027)

Baseline is data from December 2023:

- 25 million EUR (in 299 issued guarantees) (in December 2023). The expected increase refers to the total financial value of the balance of issued guarantees to SMEs.
- 299 SMEs (in December 2023). The baseline is not only for the year 2023, the baseline is balance of issued guarantees to SMEs at the end of 2023.

This step aims at providing much-needed financial support to SMEs, helping them weather the economic uncertainties and boosting their growth potential. The increased guarantees would serve as a safety net for lenders, encouraging them to extend credit to SMEs, who often struggle to secure loans due to their size and

limited resources. Overall, these measures were seen as a crucial step towards supporting the backbone of the economy and fostering a more robust business environment. By strengthening credit guarantee schemes and increasing their reach, the government aimed to empower SMEs to thrive and contribute to overall economic growth and development.

In order to increase the scope of the issued guarantees, amendments have been made to the Agreement for the issuance of guarantees from the Guarantee Fund, and the criteria and scope for the issuance of the guarantees have been eased, i.e. the deadline for non-payment of commission has been extended instead of until the end of 2023 to until the end of 2025. In this way, it is expected to intensify the positive trend of growth of reported credits in the portfolio of the Guarantee Fund. In addition, it is possible to include in the guaranteed portfolio loans of risk category B according to the National Bank credit register, with the maximum percentage of guarantee for these loans being 35% of the principal amount. It is also possible to register the loans from the Development Bank of North Macedonia that are placed through participating banks in the guaranteed portfolio of the Guarantee Fund.

In accordance with that, and with the aim of better functioning of the Guarantee Fund, as well as facilitating the process of issuing portfolio guarantees, the Government of the Republic of North Macedonia and the Development Bank of North Macedonia on 21.02.2024 concluded an Annex to the Agreement for issuing guarantees from the Guarantee Fund organized by the Development Bank of North Macedonia AD Skopje. The guarantee fund was established in the Development Bank of North Macedonia, which issues guarantees for the realization of projects and programs of the Government.

With the easing of conditions for issuing guarantees, it is expected that a larger number of small and medium-sized enterprises will have access to more favourable conditions for financing their business activities.

This would ensure that a larger number of small businesses could access the financing they need to invest in their operations, expand their reach, and create job opportunities.

Targeted beneficiaries: SMEs and financial institutions

Responsible institution: Ministry of Finance and the Ministry of Economy and Labour.

Step: Conduct thorough research on SMEs' current use of leasing and the legal provisions, make the necessary amendments to encourage use for leasing as a financing option (June 2026)

The baseline (2024) is 0.

In order to support the growth and development of small and medium-sized enterprises (SMEs), and recognizing the importance of leasing as a tool for SMEs to acquire essential equipment and machinery, a thorough assessment of the SMEs' current use of leasing and of the legal provisions applicable in this field will be conducted with an aim to identify any legislative barriers for using leasing as a financing option by SMEs.

Based on the results from the conducted assessment, regulatory changes will be drafted and adopted ensuring that any potential legal obstacle is eliminated, thereby making it easier for the businesses to utilize leasing services.

This reform will aim to address the potential difficulties faced by SMEs in obtaining leasing services, which play a crucial role in facilitating their business operations and growth.

Overall, this reform aims to create a more favourable environment for SMEs to access leasing services, ultimately helping them to grow and thrive in today's competitive business landscape. By removing barriers and increasing access to essential financing tools, the aim is to empower SMEs to take their businesses to the next level and achieve their full potential.

Targeted beneficiaries: SMEs

Responsible institution: Ministry of Finance and the Ministry of Economy and Labour.

Step: Establish a digital public register mapping all charges, a unitary and comprehensive methodology in place ensuring its regular update and its synchronisation with an E-portal interface.

All newly enacted para-fiscal charges and non-tax payments for the period 2025-2027 respect the unitary methodology, the principle of proportionality between fees and the cost of service and the principle of a centralized authority acting as controller and final approver. (By end of 2025 the new unitary methodology should be in place in order to enable the assessment of the 2025-2027 period).

The baseline (2024) is 0.

Providing the business sector with a precise, comprehensive and digitally available information about the compulsory charges for the public services helps lowering the fiscal and administrative burden and contributes to increasing the efficiency and productivity of the private sector.

This reform activity envisages adoption of a unitary and comprehensive methodology by the end of 2025, which would ensure updating the digital public register in a unified, standardized manner, as well as its regular synchronization with the E-portal interface.

The methodology will also ensure applying specified principles and procedures when enacting new para-fiscal charges and non-tax payments for the period 2025-2027, including the principle of proportionality between fees and the cost of provisioning the public service and the principle of a centralized authority acting as controller and final approver of newly enacted para-fiscal charges and non-tax payments.

Targeted beneficiaries: SMEs

Responsible institution: Ministry of Finance, Ministry of Economy and Labour and Ministry of Digital Transformation.

Reform 4.1.4: Support development of the innovation eco system through the implementation of the Smart Specialisation Strategy

Challenges: The Smart Specialization Strategy (S3) 2024-2027 serves as a guiding document for advancing the research and innovation ecosystem. Its vision is centred on fostering green and sustainable growth by integrating knowledge, innovation, and technology to create high-value-added products and services that are competitive in both international and domestic markets.

S3 is unleashing smart growth by identifying high-priority domains with the greatest economic, innovative, and R&D potential for generating new added value. S3 identifies four vertical and two horizontal priority domains:

- Smart Agriculture and Food with Higher Added Value
- Information and Communication Technologies (ICT)
- Electro-Mechanical Industry – Industry 4.0
- Sustainable Materials and Smart Buildings

Energy for future and Tourism, as horizontal domains, have interrelatedness and cross-innovation with vertical ones.

The S3's objectives, outlined alongside measures from the Action Plan 2024-2025, focus on achieving scientific excellence, development of innovation ecosystem, increasing competitiveness and greening of businesses, developing human capital, driving digital transformation, and as crosscutting objective ensuring effective implementation and continuous Entrepreneurial Discovery Process (EDP) dialogue.

Induced output: The reform aims to increase of number of supported innovative companies by specialized centres and stimulate participation in EIC/EIT programs.

Reform indicators and steps with timeline:

Step: Introduce a system for matchmaking between SMEs and EIC/EIT funding with co-funding from FITD in the priority areas of the Smart specialization strategy (SSS), including of Smart agriculture and food with higher added value, Electro-mechanical industry - Industry 4.0, ICT. (December 2025)

Baseline (2024) is 0.

EIT Community RIS Hub is active in North Macedonia since 2023. The new Hub is part of the [EIT Regional Innovation Scheme \(EIT RIS\) programme](#) designed to tackle Europe's persistent innovation divide.

The newly opened hub in North Macedonia represents all EIT's Knowledge and Innovation Communities (KICs) and focus on attracting and engaging an increasing number of Macedonian participants into EIT Community activities.

The hub provide innovators with a centralised source of information on all services and opportunities provided by the entire EIT Community, both locally and more widely.

In order to increase the number of companies participating in EIC/EIT programs will be created a system for matchmaking and instrument within FITD for co-funding companies participation in EIC/EIT programs. Priority is given to SMEs from the domains identified in Smart specialization strategy as a priority domains with highest economic, innovative and research capacities.

The instrument should be complementary with other programs providing support for innovation. For example for the domain Smart agriculture and food with higher added value will be enabled complementarities with EIT Food and IPARD III programs that can significantly enhance the modernization and sustainability of the agri-food sector

The synergy between FITD-EIC/EIT and IPARD III aims to leverage innovative research, digital transformation, and knowledge-driven practices introduced by FITD-EIC/EIT. This collaboration will complement the focus of IPARD on substantial investments in modernizing agricultural infrastructure, promoting sustainable practices, and aligning with EU standards. By integrating these efforts, the agri-food sector can achieve significant improvements in efficiency, competitiveness, and environmental performance. This integrated approach not only supports the adoption of new technologies and processes but also enhances the overall resilience and adaptive capacity of agricultural holdings, thereby contributing to smart and sustainable growth objectives.

These combined efforts can help North Macedonia achieve its S3 objectives, driving sustainable and competitive growth in the agri-food sector.

Together, these programs can complement each other by leveraging EIT Food's innovative solutions to enhance the modernization efforts funded by IPARD III.

More applications to these programs can lead to increased access to funding, expertise, and networks, fostering further innovation and growth.

Increased participation in EIC and EIT programs shows active engagement with European innovation initiatives and may lead to a higher number of patents, research publications, and collaborative projects.

The implementation of this reform activity requires adoption of amendments to the Law on innovation activity enabling co-financing participation of FITD in projects financed by EIT for SME's, as well drafting of new regulations (rulebooks) for the new instrument/s, by December 2025.

The Law on Innovation Activity provides specific guidelines for the work of the Fund for Innovation and Technological Development (FITD), as well as the instruments implemented through the FITD. In order to establish a new way of financing, it is necessary to adopt amendments to the law that will enable cooperation and alignment with the EIT funding instruments. The procedure for amending the law is determined by appropriate steps, mandating parliamentary adoption to ensure the integrity and efficacy of the regulatory framework.

The amendments to the Law on Innovation Activity will need to specify the EIT instruments that will be eligible for FITD co-funding, which will have to be followed by drafting a separate regulation (rulebook) for

each of the instruments. This will necessitate external expertise to be provided to FITD, due to the fact that both institutions (FITD and EIT) have to follow strict regulations. It is imperative to closely harmonize and synchronize the regulations, ensuring full compatibility without compromising the legal integrity of either institution.

Following drafting of the rulebooks by the FITD, they undergo a rigorous approval process by the Government. This entails comprehensive review and scrutiny to ascertain adherence to pertinent laws and other specified procedures. Upon completion of this procedure, any necessary refinements are undertaken before final approval is granted. Subsequently, the rulebooks are ratified by the Board of FITD, as a final step of the regulatory approval process.

The integration of co-financing between FITD and EIT instruments should also be embedded in FITD's mid-term and annual programs, allocating dedicated funds for this purpose. These allocations are included in FITD's budget proposals, subject to approval by the Ministry of Finance.

Targeted beneficiaries are the SME's especially ones from the domains of Smart specialization strategy.

Responsible institutions for implementation, monitoring and reporting on the steps achievement is the Fund for Innovation and Technology Development.

Also at a policy level, leader of the process for creation and implementation of S3 is the Ministry of Education and Science. They have main competences for proposing the changes of the Law on Innovation Activity to the Government and Parliament, so Ministry of Education and Science should follow the implementation and do the monitoring of the process. Reporting for the measure stays by FITD.

Step: A number of 50 companies are benefiting from the services of 2 newly established Innovation Centres/ Technology Centres / Centres of Excellence (CoE) /DIH/ NTTO, as a result of their launched publicly made available list of services for companies (December 2027).

Baseline (2024) is 0.

The objective of this reform activity is to support creation of centres for local excellence, expansion of science, research and innovation infrastructure to support SME development and knowledge sharing, as a precondition for S3 implementation. It entails creation of 2 centres that will contribute to further development of the R&I ecosystem through cutting-edge research and the production of innovative products with an impact on the wider economy. They can be in the following forms: Innovation Centres / Technology Centres / Centres of Excellence (CoE) / EDIHs / NTTO in the frame of the S3 domains.

The S3 strategic objective "Strengthen the innovation ecosystem" elaborates the importance of strengthening the institutional infrastructure, especially NTTOs, centres of excellence for research and technological development, and digital innovation hubs as a support to digital transformation of businesses.

The "Roadmap for research infrastructure", developed with support of RCC, gives the overview and potentials of the existing research infrastructure in the country. It emphasizes the importance of further investments in infrastructure such as equipment, databases, laboratories, licenses, networking opportunities, and support services to start-ups and SMEs, encouraging knowledge sharing, technology transfer, and partnerships to accelerate innovation and commercialization of new ideas, as well as support to green and digital transition.

To enhance the innovation ecosystem and ensure successful implementation of the Smart Specialization Strategy, the S3 Action Plan 2024-2025 outlines activities aimed at upgrading and developing the RDI infrastructure.

A feasibility study for Science and Technology Parks (STP) already exists, alongside projects aimed at developing Digital Innovation Hubs (DIH) and Centres of Excellence (CoE) within several faculties.

These existing initiatives serve as a foundation and starting point for the subsequent phases of pilot projects intended to support the establishment of 2 centres in the country offering comprehensive services for companies.

NTTOs should be responsible for managing the IP assets and commercialization of research outcomes. NTTOs facilitate the transfer of technology from research institutions to industry for further development and commercialization.

Creation of Centre of excellence is planned as a measure in all S3 domains, as an entity that provides leadership and best practices, research, support and training within the focus areas.

In the country, two Digital Innovation Hubs (DIH) are already in the early stages of development, with ongoing efforts focused on laying the groundwork for their establishment and growth. To stimulate and support digital transition in the economy and society, the Smart Specialization Strategy envisions further investments and development support for existing DIH to realize their full potential, as well as the creation of new ones. DIHs play a crucial role in helping businesses digitalize and improve their competitiveness.

The implementation of this reform activity will stimulate creation of an efficient research and innovation infrastructure that will promote expanded set of services to stimulate business-academia collaboration within the S3 framework.

Final beneficiaries of this measure include the business sector (at least 50 companies till December 2027), academia, innovators, and other relevant stakeholders.

The proposed reforms/investment are designed to address country-specific recommendations, including Joint Conclusions and Commission assessments of the Economic Reform Programme, the Progress Report for 2023 for Chapter 25 and Chapter 20, the Research Infrastructure Roadmap, as well as conclusions from subcommittees related to economic growth, research, and innovation. These reforms will enhance the country's active contribution to regional and EU strategies related to innovation, research, and development.

Implementation of these reforms/investments play a crucial role in addressing the challenges identified in the Annex3 of the Growth Plan for entrepreneurship development and business opportunities: boosting innovation, support of green and digital transition, increase knowledge valorisation, boost agri-food industry development, accelerate the transfer and up-scaling of technological and social innovation solutions for achieving climate-neutral and smart cities, accelerate the digital transition of SMEs and start-ups, accelerate green transition.

To achieve the objective of supporting the creation of centres for local excellence and expanding the science, research, and innovation infrastructure, a cohesive set of activities will be implemented. These activities will be designed to foster SME development, knowledge sharing, and overall innovation ecosystem enhancement. The following activities need to be implemented:

- Identify the form of the centres that will be created, based on mapping and analysis of existing studies and S3 findings,
- Enact a governmental decision for establishing the centres,
- Centre development,
- Develop an action plan and program with set of services that will support SMEs, and
- Program implementation

Targeted beneficiaries are the SME's at least 50 companies will benefit from enhanced support and infrastructure by December 2027.

Responsible institutions for implementation, monitoring and reporting on the steps achievement is the Ministry of Education and Science. Due to the horizontal approach of S3 covering different domains, in the process of realization of this measure will be created a Working group for coordination consisted of representatives by other relevant ministries: Ministry of Economy and Labour, Ministry of Digital Transformation, Ministry of Agriculture, Forestry and Water Economy, Ministry of Finance, Ministry of European Affairs, Ministry of Energy and Mineral Resources, Ministry of Environment.

Reform 4.1.5: Reform the governance of State-Owned Enterprises with focus on the Railways and Postal services

Challenges: Currently, the ownership, organization, corporate management and oversight of state-owned companies (SOCs) and public enterprises (SOEs) is regulated by diverse set of regulation, namely: the Law on trade companies / Law on Public Enterprises; Law on the use and disposal of state-owned and municipal-owned items; Law on the sale and leasing of business buildings and business premises of the Republic of North Macedonia; Law on execution of the budget of the Republic of North Macedonia; Organic Budget Law; Law on public internal financial control; Law on the privatization of state-owned enterprises; Law on the transformation of enterprises with social capital; Law on protection of competition; Law on securities, and Law on Government.

Such a complexity of regulation, including those related to their strategic and financial planning and reporting, setting goals and key performance indicators, adversely affects consistency in legal compliance, in particular with the Law on public enterprises and the Law on trade companies, as well as suboptimal financial performance and service delivery. Moreover, the regulation of these public entities is marked by absence of unified rules while the rather general legal provisions do not provide clear guidelines, and are spread across different legal acts that are not necessary mutually consistent.

This causes diverse practices and absence of a clearly defined role of the state as owner, policy maker and regulator. Furthermore, there is no single system of supervision over these entities, that is, it is realized in “silos” by several departments in different ministries that cover specific operations of these entities.

Hence, the aim of this reform objective is to strengthen the policy and legal framework for State Owned Enterprises and State-Owned Companies that would support enhancement of their financial performance and operational efficiency in delivery of their services.

Targeted beneficiaries are the state-owned companies and public enterprises, the Government of the Republic of North Macedonia and the Ministries, as well as any other legal entity or physical person involved in the business relation with the state-owned companies and public enterprises.

Induced output: Sustainable and efficient management of state-owned companies through development of a centralized ownership and management framework for all of them, as well as establishment, development and improvement of corporate management in the SOCs, transformation of Public enterprises into State Owned Companies, enhancement of SOCs financial performance and operational efficiency in delivery of their services, cost reduction and optimization of the number of employees.

Reform indicators and steps with timeline:

Step: Create a register of SOEs and companies with State participation which is publicly available (June 2025) and adopt a State Ownership Strategy and a Law for State Owned Companies (December 2025)

Baseline (2024) is 0.

In line with the Organic Budget Law (2022), the Ministry of Finance is mandated with establishing and maintaining a registry of all public entities, including SOEs and State-owned companies. The Registry will consist of list of all institutions falling into the category of public entities, which the Ministry of Economy may utilize to further extend it with additional information and data related specifically to SOEs and State-owned companies. The deadline for establishing the registry and making it publicly available is June 2025. The aim of the State Ownership Strategy and Law for State Owned Companies is:

- put in place an adequate legal framework that will regulate the state ownership and support efficient corporate management of state-owned companies and public enterprises, and
- ensure efficient oversight over the work of these entities for the purpose of protecting the national and general public interest and the overall development of the national economy.

For the adequate implementation of this reform activity, the following steps are foreseen for implementation in the period from 2024 to 2025:

- finalization and adoption of the proposed Regulatory Impact Assessment for drafting a new Law on State Owned Companies (December 2024)
- adoption of a State Ownership Strategy and a new Law for State Owned Companies (December 2025)
- Adoption of Corporate Governance Code for State Owned Companies based on OECD principles (December 2026).

The State-Ownership Strategy aim is to provide a comprehensive and comparative assessment of the current state of play and the diverse management practices in these entities, with a particular focus on the legal framework, proprietary management and corporate management. It will serve as a base for drafting a new Law on State-Owned Companies.

Given the current capacities of the relevant ministries, and the fact that the implementation will necessitate involvement of several institutions, there is a need for technical assistance from the EU in drafting the State-Ownership Strategy and a new Law for State Owned Companies.

It is expected for the Ministry of Economy, in collaboration with other state institutions and supported by technical assistance from the European Commission, to draft the Strategy and a new Law for State-Owned Companies, and the Government to adopt it by the end of 2025.

Responsible institutions for monitoring and reporting on the steps achievement is the Ministry of Economy and Labour and Ministry of finance. The Ministry of economy should be responsible for the preparation of the Law on state owned companies, the Strategy of state owned companies and the Corporate Governance Code for State Owned Companies. The Ministry of finance is responsible for establishing and maintaining a registry of all public entities, including SOEs and State-owned companies according to Organic Budget Law (2022).

Step: Adopt a restructuring plan for SOE Post Office, improve efficiency in service delivery and reduction of costs by 15% and improve profitability indicators by 15% (December 2027)

Baseline:(2023):

In 2023, the SOE Post Office made the total costs of 22.731.856 EUR (Middle Rate of the National bank), the total revenues were 20.501.788 EUR (Middle Rate of the National bank) and net loss of minus 2.230.068 EUR (Middle Rate of the National bank).

By increasing the number of postal workers (postman) and improving the quality of delivery, investments in the sorting process of processing and delivery of postal items will contribute to an increase in revenues and improve profitability in next few years.

The process will start with the selection of new Board members through open, independent, and merit-based processes. The restructuring plan will be prepared by a team of consultants or an internal government task force, with potential involvement from international development partners. This team will review and streamline operational processes to eliminate inefficiencies and reduce costs, while also evaluating the range of services offered to identify areas for improvement or discontinuation. Negative retained earnings (also known as accumulated deficit) indicate that the company's financial performance has not been sufficient to offset losses over time. A crucial element of the plan is the skills assessment of the workforce, along with a plan to address identified gaps through training and development programs. Developing and expanding digital services to meet the rapidly evolving needs of customers and reducing reliance on traditional mail services are key to a successful restructuring. Additionally, the privatization of certain segments or the adoption of a public-private partnership model can introduce market-driven efficiencies and improved access to capital. The restructuring plan will also take into consideration that the country is preparing to align its framework with the Regulation on cross-border parcel delivery services. The universal service obligation (USO) must be provided in line with the Postal Services Directive (97/67/EC, amended by Directives 2002/39/EC and 2008/6/EC).

The restructuring plan will be prepared by January 2025. Financial statements and annual reports of SOE Post Office will be regularly published on its website.

Targeted beneficiaries: SOE Post Office, citizens and companies.

Responsible institutions for monitoring and reporting on the steps achievement is the Ministry of Economy and Labour and Ministry of Transport.

Step: Restructuring plan for state owned railways operator and railway infrastructure manager adopted by January 2025 (June 2025)

Baseline (2024) is 0.

Step: Implementation of restructuring plan for state owned railways operator and railway infrastructure manager, with the goal of avoiding operating at loss from Fiscal Year 2027 and onward (December 2027)

Baseline (2023) is (minus) - 3.186.584 EUR (middle rate of the National bank) for the PE MR Infrastructure
Baseline (2023) is (minus) - 3.469.339 EUR (middle rate of the National bank) for the JSC Transport

Step: Increases in traffic indicators for transported goods and passengers, following the restructuring plan for state owned railways operator and railway infrastructure manager (December 2027)

Baseline (2023) is 238.780t/km.

Baseline (2023) is 280.440 pass/year

The process will start with the selection of new Board members through open, independent, and merit-based processes. The restructuring plan will start being prepared in autumn 2024, by a task force to be created by the Ministry of Transport with involvement from international development partner/s with relevant experience on restructuring. This joint team will review the situation in order to increase revenues by tackling low revenue collection, increase sales, eliminate inefficiencies, reduce costs through process optimization, and identify areas for improvement. Negative retained earnings (also known as accumulated deficit) indicate that the two company's financial performances have not been sufficient to offset losses over time. Reduction of arrears and increasing solvency will be tackled. A crucial element of the plan is the skills assessment of the workforce, the rail fleet along with a plan to overcome the challenges. The plan will assess capital expenditure needs and plan investments. In regard to implementation, the plan will contain detailed actions in the short and medium term with clearly assigned responsibilities and will be monitored by a working group for railway reform, chaired by Ministry of Transport, which will meet regularly on quarterly basis.

i) *Net Operating Income is 0 or positive for the fiscal year 2027, including revenue increase (baseline 2023 - negative, target 2027 – 0 or positive, revenue increases)*

Together with the following traffic targets:

ii) Tonnes per kilometre of goods (baseline 2023 – 238.780t/km, target 2027 – 274.597t/km)

iii) Number of passengers (baseline 2023 – 280.440 pass/year, target 2027 – 322.506pass/year)

Restructuring plan for state owned railways operator and the railway infrastructure manager is planned to be adopted by January 2025 and will be implemented over the fiscal years 2025, 2026, 2027, and beyond, with the goal of achieving long-term stabilization for the two companies and avoid operating at loss, and accumulating new debts and subsidies. Financial statements and annual reports of SOEs railways operator and railway infrastructure manager will be regularly published on their websites.

Targeted beneficiaries: SOE Railways operator, SOE Railways infrastructure, citizens, companies.

Responsible institutions for monitoring and reporting on the steps achievement is the Ministry of Transport.

Step: Amend corporate law to introduce new rules on the appointment of independent board members of State-Owned Companies (December 2024)

The baselines (2024) is 0.

The amendments to the Corporate Law have already been drafted by the Ministry of Economy and have been adopted by the Government and submitted to the Parliamentary for review and adoption. The legal amendments foresee optimization of the number of independent members in the management and supervisory boards of State-owned companies, specify criteria and conditions for their appointment in terms of necessary education and work experience, as well as stipulate equal compensation of the appointed independent board members, across all state-owned companies. The amendments are envisaged to be adopted by the Parliament by the end of 2024.

Targeted beneficiaries: state owned enterprises

Responsible institutions for monitoring and reporting on the steps achievement is the Ministry of Economy and Labour.

Step: With the new Law on State Owned Companies establish a system for linking the compensations of independent board members to the financial performance and efficiency of State Owned Companies based on mandatory annual financial reports and key performance indicators (KPIs) related to financial performance, service delivery. SOCs shall establish an independent risk management and internal audit functions following BCBS principles and State-Owned Companies and SOEs should issue their fiscal risk statement (June 2026).

The baselines (2024) is 0.

The new SOCs legislation should introduce new rules on the appointment of their independent board members and it shall introduce a system for linking the compensations of independent board members to the financial performance and efficiency of the SOC, based on mandatory annual financial reports and key performance indicators (KPIs) related to financial performance and service delivery. The Law should obligate the SOCs to establish an independent risk management and internal audit functions following BCBS principles, as well as to issue their fiscal risk statements. The latter two requirements should also be introduced for the SOEs, by amending the Law on SEOs.

Responsible institutions for monitoring and reporting on the steps achievement is the Ministry of Economy and Labour.

Step: 100% of new Board members of State-Owned Companies and SOEs are subject to open, independent and merit-based processes. 100% of existing Board members are subject to a reassessment. All State-Owned Companies and SOEs have published annual financial reports. 70% of State-Owned Companies and SOEs have issued their fiscal risk statement (December 2026)

The baselines (2024) is 0.

According to the Draft Amendment of the Corporate law (in the procedure of adoption by the Parliament) and the Amendment of the Law on Public enterprises (SEOs) which is entered into force, (Official Gazette 89/22), all new board members of SOCs and SOEs are subjected to open, independent and merit-based appointment processes. According to the Corporate law all existing board members are subjected to a reassessment by the Government as a shareholder during the Annual meeting.

By the end of 2026, it is expected that all SOCs and SOEs have published their annual financial reports on their websites, and 70% have issued their fiscal risk statement.

Targeted beneficiaries: state owned enterprises

Responsible institutions for monitoring and reporting on the steps achievement is the Secretariat General of the Government.

Reform 4.1.6: Expand the use of E-Customs services for economic operators and reduce the costs and increase the efficiency of customs procedures

Challenges: This reform foresees objective introduction and expansion of the e-Customs services according to the provisions from the Union Customs Code, MASP -C Working Programme and new Customs Code based on the provisions from the Union Customs Code.

While the substantive provisions of the UCC entered into force on 1 May 2016 a transition period is necessary before full implementation can be achieved. This is primarily due to the fact that there is a need to develop new IT systems or upgrade existing ones in order to fully implement the legal requirements.

The detailed rules regarding the transitional period are contained in a Transitional Delegated Act and in the UCC Work Programme. Their practical application is addressed in several guidance documents produced in collaboration with Member State and Trade representatives. These rules will ensure a smooth transition from the existing customs legislative regime to the new UCC rules on a gradual basis between 1 May 2016 and 31 December 2025.

Expanding the use of E-Customs services for economic operators and enhancing the efficiency of customs procedures can bring several benefits, including streamlined processes, reduced costs, increased transparency, and improved compliance. By implementing the appropriate steps, Customs can effectively expand the use of E-Customs services, contribute to the reduction of costs, and increase the efficiency of customs procedures, ultimately facilitating trade and economic growth.

For the full implementation of the new Customs Code, Customs Administration have to establish new Customs Declarations and Excises processing system to support the legal provisions and to be fully aligned with the EU Customs Data Model. Apart from the new Customs declarations processing system, several other systems from the EU MASP-C have to be developed.

These include operationalization of the NCTS Phase 6, the Automated Export System for Customs and the Import Control System (ICS2) for Customs, with an aim to increase the efficiency of the transit procedure, export control procedure and the import control procedure, respectively, as well as to reduce the costs of economic operators and of provisioning customs services.

Targeted beneficiaries: The target beneficiaries are Customs Administration, Ministry of Finance, Business Communities (Economic Operators, Exporters, Importers, Transporters, and Producers). With the digitalization of the customs procedures, the economic operators should have possibility to have paperless customs procedures, reduced time for export, import and transit, better risk management and increased competitiveness. Responsible institutions for the reform in terms of implementation, monitoring and reporting are Customs Administration and the Ministry of Finance.

Induced Output: Reduction of time by 2-4%, increase in transit declaration compared to NCTS Phase 4 and NCTS Phase 5 by 2-5% and increase in the number of the international transit declarations compared with domestic transit by 10%. Time reduction by 2-4%, increase in the number of simplified export declaration compared to regular customs declarations and compared to the previous three years by 10%, increase in the number of the Authorised Exporter Authorizations compared to previous three years by 10%.

Reform indicators and steps with timeline:

Step: The implementation of the New Computerised Transit System (NCTS) Phase 6 results in benefits and improvements in the transit procedure: Reduction of time by 2-4%, increase in transit declaration compared to NCTS Phase 4 and NCTS Phase 5 by 2-5% and increase in the number of the international transit declarations compared with domestic transit by 10% (June 2026)

The Baseline:

- *Current time spent in transit procedure:* 1:09:30 (2022). The baseline is for year 2022 and is based on Time Release Study by the World Bank. The average time is calculated on the World Customs

Organization Time Release Study. This is the international methodology that measure the time for import, transit and export, by specific samples and periods. The last measurement was done at 2022 at this year is baseline. The measurement was done by the World Bank – IFC. The WCO Recommendation is to have this measurement every 4 years.

- *Current figures on declarations:* 199.441 transit declarations with discharge procedure in North Macedonia (2023), and 118.221 transit declarations with North Macedonia as starting point (2023). International transit declarations are stated as declarations with North Macedonia as starting point.

The creation of new phases of NCTS to implement the new requirements of the UCC, the DA and IA Annex B and the EU Customs Data Model and to establish the necessary interfaces with other systems. NCTS automates the common and Union transit procedure as well as control of the movements covered under the TIR procedure within the EU. The current NCTS Phase 4 also covers processing of safety and security data at entry and at exit (transit declaration with safety and security data). The NCTS phase 5 in North Macedonia is under development with national funds as and is a system of electronic declaration and processing that traders must use to submit Common Transit declarations. NCTS Phase 5 introduces a number of new features and changes, including New data requirements; Electronic exchange of data; Registration of 'en route' events where traders can register 'en route' events, such as splitting or merging consignments; Removal of the paper transit accompanying document (TAD) though traders may still request a paper TAD from the office of departure. NCTS Phase 5 is expected to enter operation by the end of 2024. It will serve as base for the next upgrade of NCTS 6 – transit system. The aim of NCTS 6 phase is to implement the specific new requirements for safety and security data elements in transit customs declarations of goods brought into the customs territory of the Union resulting from project 17 (UCC ICS2). It covers the development of the interface with ICS2, to facilitate the lodging of a transit declaration containing particulars of the entry summary declaration by applying Article 130(1) UCC.

The implementation of the NCTS 6 shall be done with the following activities:

- National regulatory framework on Customs union rules aligned with the latest EU Union Customs Code (UCC) and complementary regulation. The new Customs Law and the Customs Law Implementing Provisions should be harmonized and prepared with the latest Union Customs Code (Regulation (EU) 952/2013) and Commission Delegated Regulation (EU) 2015/2446 and Commission Implementation Regulation (EU) 2015/2447. The Law is expected to be adopted by Parliament by December 2025, and the Customs Law Implementing Provisions by December 2026. Full implementation of the national Customs Law and Implementing Provisions need to be supported by the Customs Declarations Processing System to allow full paperless environment and E-Customs services for citizens and Economic Operators.
- ICT infrastructure for developed and deployed customs systems is procured and installed. The needs of Customs Administration in area of the ICT infrastructure are extensive due to the scope of activities and procedures implemented in digital format. This equipment shall fill the gaps that will be generated by development of new Customs Systems; or due to the need to renew some of the existing equipment. Further, the Hardware infrastructure installed in the CA shall be renewed every 3 years. The same amount is necessary for acquisition of Licenses for the new EU systems as approximate amount. Therefore, as part of the reform for expanding the use of E-Customs services as output is envisaged new ICT infrastructure as described.

This is expected to be fulfilled by December 2026 with indicative time for implementation of two (2) years.

The implementation of the New Computerised Transit System (NCTS) Phase 6 results in benefits and improvements in the transit procedure: Reduction of time by 2-4%, increase in transit declaration compared to NCTS Phase 4 and NCTS Phase 5 by 2-5% and increase in the number of the international transit declarations compared with domestic transit by 10% (**June 2026**).

Responsible institutions for monitoring and reporting on the steps achievement is Customs Administration. In the implementation of the NCTS 6, the involved institution is the Ministry of Finance, since they are responsible for proposing amendments to the legislation. The reporting institution for reporting and collecting the data is Customs Administration.

Step: With the implementation of the new Automated Export System for Customs, the export control procedure is improved: Assessment of benefits such as time reduction by 2-4%, increase in the number of simplified export declaration compared to regular customs declarations and compared to the previous three years by 10%, increase in the number of the Authorised Exporter Authorizations compared to previous three years by 10%; (June 2027)

Baseline:

- *Current time spent in procedure: 58 minutes (2022).* The baseline is for year 2022 and is based on Time Release Study by the World Bank. The average time is calculated on the World Customs Organization Time Release Study. This is the international methodology that measure the time for import, transit and export, by specific samples and periods. The last measurement was done at 2022 at this year is baseline. The measurement was done by the World Bank – IFC. The WCO Recommendation is to have this measurement every 4 years.
- *Current use of AEO Authorizations: 22 (2023).* Number of authorizations for AEO is calculated on three year average.
- *Current number of export declarations in simplified procedures: 66.212 (2023);*

The current customs ITC system for export declaration processing is not fully aligned with the requirements of the UCC and complementary EU regulations; baseline for customs processing time for export.

The AES aims at automation of the completion of the export procedures (including re-export) and exit formalities covering common, national and external domains. AES replaces the following export declaration systems: Automated Entry Processing (AEP). The Automated Export System (AES), Phase 1 manages electronically the export and exit formalities performed by customs officials and economic operators when goods leave the customs territory of the Union, by using export or re-export declaration, exit summary declaration or re-export notification. The introduction of the AES into the work of the Customs administration will improve the manner of conducting export procedures in line with the EU requirements. Development and deployment of this Customs system is step forward into digital environment of e-customs.

The implementation of the AES shall be done with the following activities:

National regulatory framework on Customs union rules aligned with the latest EU Union Customs Code (UCC) and complementary regulation. The new Customs Law and the Customs Law Implementing Provisions should be harmonized and prepared with the latest Union Customs Code (Regulation (EU) 952/2013) and Commission Delegated Regulation (EU) 2015/2446 and Commission Implementation Regulation (EU) 2015/2447. The Law is expected to be adopted by Parliament by December 2025, and the Customs Law Implementing Provisions by December 2026. Full implementation of the national Customs Law and Implementing Provisions need to be supported by the Customs Declarations Processing System to allow full paperless environment and E-Customs services for citizens and Economic Operators.

This is expected to be fulfilled by December 2027 with indicative time for implementation of two (2) years.

With the implementation of the new Automated Export System for Customs, the export control procedure is improved: Assessment of benefits such as time reduction by 2-4%, increase in the number of simplified export declaration compared to regular customs declarations and compared to the previous three years by 10%, increase in the number of the Authorised Exporter Authorizations compared to previous three years by 10%; (June 2027).

Responsible institutions for monitoring and reporting on the steps achievement is Customs Administration. In the implementation of the AES, the involved institution is the Ministry of Finance, since they are responsible for proposing amendments to the legislation. The reporting institution for reporting and collecting the data is Customs Administration.

Step: Implemented new Import Control System leads to improved import control procedure: assessment of benefits such as time reduction by 2-4% and increase in risk assessment matching the results by 8% (December 2027)

Baseline:

- *Current time spent in import procedure: 6:58:18 (2022)*. The average time is calculated on the World Customs Organization Time Release Study. This is the international methodology that measure the time for import, transit and export, by specific samples and periods. The last measurement was done at 2022 at this year is baseline. The measurement was done by the World Bank – IFC. The WCO Recommendation is to have this measurement every 4 years
- *Current matching figure 5% (2023)*. 5% means that from all declarations selected on red channel there is hit rate 5%, or that some irregularities have been detected - i) An increase from 5% to 8% in absolute figures, which is increase by 60%.

The current customs ITC system for import declaration processing and risk management is not fully aligned with the requirements of the UCC and complementary EU regulations; baseline for customs processing time for import and number of customs declarations on red, yellow and green channel.

The Import Control System 2 (ICS2) objective is to strengthen the security and safety of the supply chains and of the internal market by optimizing the exchange of advanced cargo information and by addressing the weaknesses identified in the area of safety and security processes and/or data quality in order to improve the efficiency and the effectiveness of risk analysis. The ICS2 system will implement the new requirements regarding the lodgement and treatment of entry summary declarations (ENS). The ICS2 will lead to a completely new architecture and phased replacement of the existing trans-European ICS system.

The implementation of the ICS2 shall be done with the following activities:

- National regulatory framework on Customs union rules aligned with the latest EU Union Customs Code (UCC) and complementary regulation. The new Customs Law and the Customs Law Implementing Provisions should be harmonized and prepared with the latest Union Customs Code (Regulation (EU) 952/2013) and Commission Delegated Regulation (EU) 2015/2446 and Commission Implementation Regulation (EU) 2015/2447. The Law is expected to be adopted by Parliament by December 2025, and the Customs Law Implementing Provisions by December 2026. Full implementation of the national Customs Law and Implementing Provisions need to be supported by the Customs Declarations Processing System to allow full paperless environment and E-Customs services for citizens and Economic Operators.
- Introduction of Customs Decisions system, Notification of Arrival, Presentation Notification and Temporary Storage System, Guarantee Management System (GUM) and Common Services / Reference Data 2 (CS/RD2).

This is expected to be fulfilled by December 2027 with indicative time for implementation of two (2) years.

Implemented new Import Control System (ICS2) leads to improved import control procedure: assessment of benefits such as time reduction by 2-4% and increase in risk assessment matching results by 8% (**December 2027**).

Responsible institutions for monitoring and reporting on the steps achievement is Customs Administration. In the implementation of the Import Control System (ICS2), the involved institution is the Ministry of Finance, since they are responsible for proposing amendments to the legislation. The reporting institution for reporting and collecting the data is Customs Administration.

Reform 4.1.7: Deployment of Intelligent Transport System (ITS) and e-freight

Challenges: The aim of this reform objective is to implement the Intelligent Transportation Systems ensuring significant improvement in the performance of the congestion management, incident detection and recovery, advice on diversion and rerouting, real time travel information and increase traffic safety. The e-FTI documentation exchange will promote the use of digital technologies for fulfilling regulatory requirements. The introduction of an ITS is closely linked to approximation with the directives from the EU transport acquis. The ITS Strategy proposed the next steps in the legislative alignment. It will enable

improved road connectivity to EU standards and contribute to facilitating the trade and transport. By development of ITS along the Road Corridor X, one of the strategic objectives stated in the National Transport Strategy (2018-2030) of the Republic North Macedonia will be met i.e. maintaining a high level of safety and seamless traffic flow in all conditions. In addition, the National ITS Strategy adopted in the first quarter of 2023, proposes the relevant legal changes related to the introduction of ITS.

Targeted beneficiaries are:

The National Strategy for Intelligent Transport Systems (ITS) has identified the following beneficiaries:

- Government/Parliament/Governmental Authorities. As key partners for development of the reform concept of the ITS, the mentioned beneficiaries will provide political support to the reform and will follow the changes in the society because of the implementation of the ITS solutions and concepts.
- Public Enterprises (PE) form the Transport Area. PE for Public Roads and PE for Railway Infrastructure are beneficiaries and main stakeholders as the Reform provide for performance of their duties and responsibilities regarding the traffic Safety & Security; preserving the environment; seamless transport across the infrastructure under their responsibly.
- Investors. This Reform will increase the investment attractiveness as the said Reform will reveal the investments possibilities and opportunities.
- Public/Civil Society. The public awareness about the Reform and the positive outcomes of it, will provide a huge positive impact in sense of further education and understanding about the Traffic Safety & Security, with particular light on the vulnerable transport users.
- Mobility Experts/Transport Operators. The ITS Reform will pave the way for decreasing the transports costs and travel time thus improving the financial condition of the transporters.
- State & Local Administrations. The Authorities (State and Local) responsible for Traffic Management & Enforcement will be provided with the sustainable, effective and efficient tool (Legal, Operational, Systematic) to perform their duties and responsibilities more effectively.
- Academic Institutions. All academic institutions have the same mission: permanent education of the professional, creative and entrepreneurial individuals who will effectively deal with the new technologies.

Induced outputs:

Induced outputs of the ITS Reform will follow the key pillars guiding the Country towards the vision of the Reform:

- Safety. Decreasing the number of traffic incidents, decreasing the number of fatalities and injuries persons in the traffic and prevention of the risks associated with public health and social and economic losses related to the mobility, and improving the travel time along Corridor X.
- Efficiency. Development of the safe, timely and economically efficient movement of passengers and cargoes in intermodal and multimodal transport.
- Sustainability. Decreasing of the negative impact of the mobility on the Environment,

Reform indicators and steps with timeline:

Step: Implement ITS frameworks for road (December 2025).

Baseline (2023) is 0.

Alignment with:

- 1.) ITS Directive 2023/2661 amending ITS Directive 2010/40 aligned with;
- 2.) Delegated Regulation (EU) 2015/962 – EU-wide real-time traffic information services (RTTI) aligned with;

- 3.) Delegated Regulation (EU) 2022/670 – EU-wide real-time traffic information services (RTTI) aligned with;
- 4.) Delegated Regulation (EU) 2024/490 -provision of EU-wide multimodal travel information services aligned with.

For the purpose of the project Deployment of ITS on Corridor X, a need for alignment with ITS Directive 2010/40 was urgent. Therefore, a Comprehensive Report was prepared/adopted, for the legal amendments needed in the relevant national legislation for ITS implementation in the road sector of North Macedonia. This report proposed amendment in: Law on public roads and the Rulebook on road signs, equipment and signalization on the road. In the Ministry of transport a Working group for ITS legal amendments was established. The work is in progress and the next step will be the Government procedure. Transposition of the previously stated Directive and Delegated Regulations will continue.

Responsible institutions for monitoring and reporting on the steps achievement is the Ministry of Transport.

Step: Align to ITS standards for rail (December 2027)

Baseline (2024) is 0.

Alignment with:

- 5.) Interoperability Directive 2016/797 amending Directive 2008/57/EC into the new Railway Law or new Railway Safety Law aligned with
- 6.) All TSI for rail aligned with and published (Infrastructure TSI, Energy TSI, Control Command and Signalling TSI, Rolling Stock - Locomotives and Passengers TSI, Safety in Railway Tunnels TSI, Rolling Stock - Freight Wagons TSI, Noise TSI, Persons with Disabilities and with Reduced Mobility TSI, Operation and Traffic Management TSI, Telematics Applications for Passenger service TSI, Telematics Applications for Freight service TSI)
- 7.) Vehicle registration data to ERA's European Vehicle Register (EVR) transferred.

The development of technical specifications for interoperability ('TSIs') has shown the need to clarify the relationship between the essential requirements and TSIs on one hand, and on the other the European standards and other documents of a normative nature. National rules should be drafted and published in such a way that any potential user of a national network can understand them.

The TSI are not yet adopted by Directorate for Safety in the Railway system which are prescribed by the law in force. The last amended Law on Interoperability of the Railway System was giving the power to the Directorate for Safety of the Railway System (National Safety Agency), for preparation and issuance of the bylaws regarding the TSIs. The development of technical specifications for interoperability ('TSIs') has shown the need to clarify the relationship between the essential requirements and TSIs on the one hand, and the European standards and other documents of a normative nature on the other. National rules should be drafted and published in such a way that any potential user of a national network can understand them.

The Directive (EU) 2016/797 of the European parliament and the Council from 11 May 2016, on the interoperability of the rail system within the European Union (recast), partially has been aligned with the national Law on Interoperability of the Railway System. The Ministry of Transport send an Application in March 2024 for TAIEX Expert Mission to review the Law on Interoperability of the Railway System. The main objective of the expert mission is to provide transfer/exchange of best practice knowledge in order to draft legislation governing the recast on railway interoperability in line with the Directive (EU) 2016/797.

All listed Implementing Regulations will be transposed into bylaws by the Directorate for safety of the Railway System and for that a working group is established by the Minister of Transport.

On the Bilateral screening meeting for the Transport policy chapter, the agreed date for the TSI alignment is by the end of 2027.

The railway vehicles authorizations are granted in line with the EU legislation, and in line with the COTIF ratified convention.

In terms of electronic vehicle register (EVR), in cooperation with the European Union Agency for Railways an access via link to the electronic vehicle register has already been provided. It remains only to the Directorate for Safety in the Railway System to proceed with the registration process in the future. An excel table is created that has relevant data for the registered railways vehicles however, the electronic vehicle register is not in function yet.

Responsible institutions for monitoring and reporting on the steps achievement are the Ministry of Transport and Directorate for Safety in Railway System.

Step: Alignment with Regulation (EU) 2020/1056 on electronic freight transport information (eFTI) (June 2026).

Baseline (2024) is 0.

The Republic of North Macedonia has not yet started the alignment with the e-FTI Regulation. But under the TCT initiative we will join the regional approach to this. After the latest meeting and workshop in Tirana for Trade and Transportation Facilitation 2.0, under the Component 2: Increasing Market Competitiveness, for point 2b) Improve transport corridor efficiency, is planned financing of Freight transport digitalization for all six Western Balkan countries. The plans for developing the E-freight systems will address the lack of interoperability between existing information systems of shippers, logistic service providers etc. Regarding the introduction of the electronic freight transport information system (eFTI) under the Regulation 2020/1056, which covers road, rail, inland waterways and air with connection to SW and Maritime SW and transport management systems will be realized in two phases:

Phase 1: Implementation of a Pilot project focusing only on the road sector and technical assistance in the legal harmonization,

Phase 2: implementation in all transport modes; technical assistance in legal harmonization, Regional multimodal E-freight Living Lab, Connection with the EU.

Currently there is no legal framework for electronic freight transport information (eFTI) and the process of alignment with Regulation (EU) 2020/1056 has not started yet.

Responsible institutions for monitoring and reporting on the steps achievement are the Ministry of Transport and Customs Administration.

Step: Ratify road international convention (eCMR) needed to deploy eFTI (June 2026).

Baseline (2024) is 0 for both steps.

The ratification of the Additional protocol to the convention on the Contract for the international carriage of goods by road concerning the electronic consignment note is essential for the digitalization of the freight transport. It is also significant from the aspect of deepening the process of European integration and it will serve to put a greater focus on the start of the application of the EU regulation on electronic freight transport information (eFTI) and related implementation of the UN recommendations, for the schematic standards and the multimodal transport reference data model. This will improve the transport-related services in the direction of supporting the digital transformation for the development of interoperable freight corridors and the exchange of information.

North Macedonia makes constant, daily efforts to facilitate transport with neighboring countries. We are one of the key stakeholders in the "Green Lines" concept, with our competent authorities for the border operations which cooperate with their counterparts from the countries of the immediate environment.

Representatives from the Ministry of Transport actively participate in the bodies of the Transport Community where, together with their colleagues from the region continue to monitor the implementation of this Treaty, as well as the activities determined in the respective Action Plans. Part of the measures determined in these Action Plans is the implementation of activities related to this reform. A pilot project for

Technical Assistance enforced by CEFTA and the Transport Community, the main objective of which was to lay the groundwork for achieving an interoperable electronic system for the exchange of cargo information and enabling the wider use of digital technologies, with which administrative burden for logistics operators will be reduced and multimodal transport will be facilitated. The main result of the technical assistance was the road map for the implementation of the eFTI and the pilot projects for the deployment of e-transport and the implementation of the eFTI regulation in the Western Balkans.

The process for ratification will be finished within the National assembly within the envisaged timeframe.

The international convention (eCMR) needed to deploy eFTI is not ratified.

Responsible institutions for monitoring and reporting on the steps achievement are the Ministry of External Affairs in cooperation with the Ministry of Transport and Customs Administration.

Step: Implement ITS

The baselines (2024) is 0 for both steps. The A1 section: Tabanovce - Gevgelija is built on a highway (A1) level and is equipped with basic traffic signalization and equipment. The ITS will provide for variety of traffic data, the number and type of vehicles that move along Corridor 10, as well as meteorological data along the route throughout the year which can be used for statistical and analytical purposes.

The implementation of ITS on A1 Motorway, part of Corridor 10, section BC Tabanovce – BC Bogorodica in the length of 172 km consider: VMS (Variable Message Signs), travel information for corridor users, vehicle categorization, Road Weather Information Systems (RWIS), including systems for monitoring GHG (SLCP) emissions, WIM (Weight in Motion) and HAZMAT (transport of hazard material - dangerous goods).

The new project documentation for the Implementation and Deployment of ITS envisages the realization in two phases of the North and South parts of Corridor 10. According to the funds available within the WBTTFP project and in agreement with the World Bank, the South part with a length of around 100,0km and the ITS Control Center in Negotino that will be implemented first. The procurement process will be repeated and RFB for Deployment of ITS on highway A1 (Corridor 10) - South Part will be republished in May 2024. Tendering procedure for Supervision is on phase of evaluation of technical and financial bids (expected to finish until the end of May 2024).

The project documentation for the North part of Corridor 10 has been prepared and, in the meantime, the project documentation for the National Traffic Management Centre (NTMC), for WIM (weight in motion) system, for HAZMAT (transport of hazard material - dangerous goods) and system for monitoring of GHG (SLCP) emissions has also been prepared. For the implantation of the Deployment of ITS - north part of Corridor 10 and NTMC (for around 72,0km), additional sources of funds were requested in February 2023 through WBIF within the frame of the Investment Grant and it was rejected. This part of the Project will be implemented within the Safe and Sustainable Transport Program (SSTP) financed through the DG NEAR with lead IF-World Bank. The Application is submitted to the IF-World Bank in June 2024.

Additionally, after the latest meeting and workshop in Tirana for Trade and Transportation Facilitation 2.0, under the Component 2: Increasing Market Competitiveness, for point 2b) Improve transport corridor efficiency, financing of Road ITS is also planned. These two phases are planned:

- Road Ten-T Corridor 8 - Design, Deployment of ITS and Supervision (section Tetovo-Ring-road Skopje around 60km)
- Implementation of Weight in Motion system - WIM, monitoring system for GHG (SLCP) emissions and HAZMAT system along Corridor 8 and Corridor 10.

i) Travel time on the Corridor 10, between locations BC Tabanovce – BC Bogorodica, Gevgelija, (baseline (2018) = 130 minutes, target (2027) = 17% decrease); Means of verification – PESR reports;

In relation to the regional approach, the expected project economic impact is reduction in travel time on the Corridor 10 between Border Crossings Tabanovce – Bogorodica, (baseline (2018) = 130 minutes, with a target by 2027 it is expected to be decreased by 17%. The baseline of the travel time of 130 minutes is

calculated using the average speed of the passenger and freight vehicles and to be used as an average travel time baseline, prior the ITS installation.

ii) Number of traffic accidents along Corridor X (baseline (2018) = 67, target (2027) reduction by 16.6%); Means of verification – PESR/MoI reports.

Also, with this project it is expected that the number of traffic accidents along corridor 10 (baseline (2018) = 67, target (2027) to be reduced by 16.6%. The traffic accidents number should be considered as a relative traffic accident indicator: Individual Risk, along Corridor 10 (taking into account number of traffic accidents and AADT).

At the end after all of the above as a final goal, this project will strengthen the regional economic integration, focusing on regional circulation of goods, services and capital, mobility of skilled workforce, a dynamic investment space, and digital integration.

Targeted beneficiaries: citizens and companies

Responsible institutions for monitoring and reporting on the steps achievement are the Ministry of Transport and Public Enterprise for State Roads.

10. POLICY AREA 5: FUNDAMENTALS/RULE OF LAW

SUB-AREA 5.1 Democracy

Outcome: Improved legal framework to ensure free and fair elections

Reform 5.1.1: Review comprehensively the electoral legislation to address existing inconsistencies and further address the recommendations of the OSCE/ODIHR and Venice Commission.

Challenges: The aim of the Government of the Republic of North Macedonia is the continuation of reforms in electoral legislation and its further improvement. One of the fundamental values of our constitutional order is political pluralism and free, direct and democratic elections.

Recommendations of the OSCE/ODIHR observation mission noted in the final reports for the early parliamentary elections in 2020 and the local elections in 2021 are mainly related to the improvements of the legal framework, objection procedure and the appeal procedure for the protection of suffrage, election observation, voter registration, the election campaign, the financing of the campaigns and media representation in the electoral process. These recommendations and their implementation are aimed to improve the conduct of elections in the country and support efforts to their full compliance in accordance with European standards including relevant recommendations of the Organization for Security and Cooperation in Europe (OSCE)/Office for Democratic Institutions and Human Rights (ODIHR), as well as the Council of Europe. New working group shall be established for implementation of the reforms of electoral legislation composed of representatives from all relevant institutions. The working groups will request technical assistance of the ODIHR. The proposed changes will ensure greater legal stability of the electoral process, as well as strengthen the trust of the public and the media in the elections.

Targeted beneficiaries: State Election Commission, election administration, parliament, observers of the election process, political parties, voters including persons with disabilities.

Induced Output: Electoral legislation adopted reflecting OSCE/ODIHR and Venice Commission recommendations.

Reform indicators and steps with timeline:

Step: Electoral code amended in line with ODIHR observations of elections 2024 (by June 2025).

Baseline (2024) is 0.

In March 2024, the amendments to the Electoral Code were adopted. However, to enable application of the last OSCE/ODIHR and Venice Commission recommendations new Electoral Code needs to be adopted.

After 2024 parliamentary elections, a new working group shall be established for implementation of the reforms of electoral legislation composed of representatives from all relevant institutions, political parties, OSCE, ODIHR, NDI, professors, and other experts in the field. The work of the working groups will be supported by the technical assistance of the ODIHR. Implementation of reforms in the electoral legislation foresees incorporating the recommendations of the ODIHR from the reports on all conducted elections and the need to fulfil the obligations undertaken to implement efficient and continuous reforms based on European standards.

Draft text of the law will be published on Single National Electronic Register of Regulations (ENER) for consultation with all interested stakeholders. Public debate will be also organised for consultations with the non-governmental organisations, private sector, etc. All relevant opinions/comments will be considered. Government adoption of the draft law is planned tentatively by May 2025 which will be followed by the Parliament adoption.

The reform in the electoral system will contribute to strengthening the role of the institutions responsible for implementing the provisions of this Code. In addition, the identified weaknesses, and deficiencies in the reports of the State Commission for the Prevention of Corruption, the State Audit Office and the Agency for Audio and Audiovisual Services will be overcome by specifying and improving the text of the provisions in order to ensure a clear and consistent application of the Electoral Code.

Responsible institution for monitoring and reporting on the step achievement is the Ministry of Justice in cooperation with the State Election Commission (SEC).

SUB-AREA 5.2 Independence, quality and integrity of the judiciary

Outcome: Improved independency, quality and integrity of the judiciary towards values of the European Union

Reform 5.2.1: Improve judicial integrity by revising the processes of recruitment, selection, appointment, appraisal, promotion, transfer and dismissal of judges and prosecutors.

Challenges: The implementation of the Strategy for Reforms in the Judicial Sector 2017-2022, together with the Action Plan, enabled a certain degree of approximation to European standards in the judiciary. According to the assessments, more than half of the measures and activities have been successfully and fully implemented, some of the measures have been partially implemented, or their implementation is in progress, and 14% of the measures remained unimplemented.

Out of 227 activities foreseen in the Action Plan until the end of 2022, 118 activities have been fully implemented, 30 activities are ongoing, 34 are delayed, 40 activities are being implemented continuously, 3 activities directly depend on the previous adoption of the legal amendments, while 2 activities cannot be carried out. During 2023, some of the activities were carried out. The reasons for the incomplete realisation of the activities were caused by the external factors as indicated in the reports: the inaction of the Assembly of the Republic of North Macedonia the state of emergency caused by COVID -19 pandemic solid political polarization and the absence of a culture of consensus-building, especially regarding laws that require a qualified majority. A second significant reason was the lack of financial support for specific measures related to human resources in the judiciary and its modernisation.

In the area of the judiciary, even though reforms were carried out in the relevant laws, the measures related to the reorganisation and optimization of the judicial network, the establishment of uniform judicial statistics in accordance with CEPEJ standards, the improvement of the spatial conditions of the AJPP as well as the improvement of the status of the judicial and public prosecutor's administration remained not fully implemented.

The measures and activities related to strengthening the efficiency of the Public Prosecution were partially realised due to the conditions that resulted from the incomplete realisation of the objectives for the functioning of the Special Public Prosecutor's Office, which led to its termination. The Law on the Public Prosecutor's Office from 2020 was adopted after significant postponement and reaching a difficult consensus among political actors, which in turn had negative consequences regarding public trust in the work of the Public Prosecution. With the amendments, all court processes that were under the jurisdiction of the Special Public Prosecution for the prosecution of crimes that resulted from the content of the illegal interception of communications were assigned to the regular Public Prosecutor's Offices for further criminal prosecution by their competences determined by the law to receive legal resolution before the competent courts, through a professional and fair procedure, based on evidence.

It is necessary to foresee a more active role of Council of Public Prosecutors (CPP) during the supervision and enable the Council to initiate supervision. The competence and procedure of CPP for handling complaints from the public against a specific prosecutor are not precisely regulated by law. Also, a member of the Council cannot initiate disciplinary proceedings against a public prosecutor on his initiative. The transparency of the OJ Council should be improved. Under its authority, the Council determines the number of public prosecutors at all levels, but in practice, not at its discretion, but mainly at the initiative of the Public Prosecutor's Offices. It is necessary to improve the methodological approach that determines the number of public prosecutors based on objective quantitative and qualitative criteria. The notions of responsibility are generic without defined criteria, especially around quality performance of the function.

In 2020, Strategies for Human Resources in the Judiciary and Public Prosecutor's Office were adopted. The strategies aimed to strengthen the effectiveness of the management of human resources in the courts and public prosecutor's offices. However, implementing these strategies, which are crucial for an efficient justice system, is going worryingly slowly and by breaking the deadlines in the action plans. The inconsistent implementation of these two strategies has been repeatedly highlighted as a weakness by the EC. Although it was foreseen as one of the measures in the Strategy, the legal obligation determining the minimum budget for the judiciary of 0.8% of GDP was not fully realised. The absence of adequate financial support has a particular impact on the realisation of capital projects, especially concerning access to quality human resources, functional and operational independence.

New Strategy for Development of Judicial System 2024-2028 has been adopted by Government as a strategic document designed to determine, plan, and implement policies for the further development of the justice sector with an independent, accountable, transparent, and accessible judiciary, resistant to internal and external influences, which protects human rights and efficiently ensures the rule of law. The Strategy is a roadmap for restoring citizens' trust in the judiciary, aligned with the opinion of the European Commission, as well as the recommendations of the September 2023 Peer Review Mission for the Judicial Council. The coordination and monitoring of the implementation of the Strategy and the Action plan is done by a Council established in March 2024, chaired by the Minister of Justice, and other members are: the Minister of Internal Affairs; The Minister of Information Society and Administration; The Minister of Finance; The Deputy President of the Government of the Republic of North Macedonia in charge of European affairs; Deputy of the President of the Government of the Republic of North Macedonia in charge of policies for good governance; public prosecutor of the Republic of North Macedonia; President of the Supreme Court of the Republic of North Macedonia; President of the Judicial Council of the Republic of North Macedonia; President of the Council of Public Prosecutors of the Republic of North Macedonia, as well as distinguished professors, experts and representatives of civil society. Also, on the operational level working body has been established in the Ministry of Justice that is gathered monthly to monitor progress in the implementation of Action Plan of the Strategy. **Methodology and rules of procedure** for monitoring the implementation of the Strategy for Development of the judicial system (for 2023-2027) is prepared and will be adopted.

The steps within this reform will contribute to reaching comprehensive legal safeguards in place to ensure judicial independence, including functional and operational independence of judicial and prosecutorial bodies and their autonomy.

Induced Output: Vacant positions for judges and prosecutors are filled in line with the annual decisions by Judicial Council/Council of Public Prosecutors; Amendments to the laws regulating salaries of judges, prosecutors, court and prosecutorial administrations are adopted; New Law on Public Prosecution and new Law on Council for Public Prosecutors adopted; Financial independence of the judicial system.

Reform indicators and steps with timeline:

Step: The vacant positions for judges and prosecutors are filled on regular basis based on the projections by the Judicial Council/Council of Public Prosecutors following the implementation of the Human resources management strategies in courts/PPOs (December 2024 and repeated December 2026).

Baseline (2024): there are in total 261 vacancies for judges in all courts (out of which 162 are vacancies for judges in the basic courts) and 88 vacant positions for prosecutors (in total 349 judges and prosecutors).

There are 334 judges and 178 prosecutors in place at all levels. Baseline for the assessment of the step in December 2026 will be results of the assessment in December 2024.

Vacant positions can be filled in only from the Academy for Judges and Public Prosecutors. Currently, all the graduates from the Academy trained are elected and work as judges/prosecutors. As per 2024 Judicial Council's workload analysis 608 judges are required out of which 261 are vacant (out of which 162 are vacancies for judges in the basic courts). Decision on the number of vacancies for judges in 2024 is 162 for the Basic Courts.

Related to the prosecutors, out of 266 required 88 are vacant positions. In the period 2021-2024, in total 45

public prosecutors left (37 retirement, 2 disciplinary proceeding, 6 other reasons) and 28 were elected.

It is expected that Academy will train around 97 candidates of the 9th generation of the judges and prosecutors for the election cycle in the beginning of 2025.

Each year workload analysis and projections for the judges and prosecutors are conducted. Therefore, projections for 2025 and 2026 should be considered for assessment in December 2026. For the future assessments and projections methodology according to the European Commission for the Efficiency of Justice (CEPEJ) will be considered.

The Law on Courts regulates recruitment and career of judges, appointed and dismissed by the Judicial Council in accordance with the Law on the Judicial Council. Judicial Council will elect judges of first instance court only if they are from the list of candidates that finished two years initial training at the Academy for Judges and Public Prosecutors, based on the open competition and the entry criteria announced as part of a public call, in accordance with the law. The procedure for public prosecutors is the same but regulated with the Law on Public Prosecutor Office and managed by the Council of Public Prosecutors prescribed by the Law on the Council of Public Prosecutors.

Due to election process, some of announces for recruitment and promotion of judges and public prosecutors have been put on hold. On the other hand, the Amendments on the Law on labour in 2022 produced more retirements of judges and public prosecutors, which affected the number of fulfilled judge and public prosecutor positions.

The proposed step for regular filling of vacant judge and public prosecutor positions will ensure work continuity and efficiency of the courts and the public prosecution offices as well as implementation of Human Resources Strategies. The Judicial Council and Council of Public Prosecutors each year conduct needs assessment for judges and prosecutors and no later than March 31 in the current year submits to the Academy decisions on the number of vacancies for judges in basic courts and public prosecutors, together with an estimation for the needs for human resources for the next two years.

Bearing in mind the decisions of the Judicial Council and the Council of Public Prosecutors, the Management Board of the Academy defines the period of the entrance exam for the initial training and the number of trainees that will be enrolled in that generation. Continual recruitment as an activity will start with implementation in 2024 and by 2026 vacant positions will be filled with judges and public prosecutors according to the systematization acts in the courts and public prosecutor's offices.

Amendments to the Law on Judicial Council/Law on Council of Public Prosecutors and Law on Public Prosecution Office will be adopted regulating the deadline for publishing announcement of election of a judges/public prosecutors and completion of the election procedures. Announcements for the election of judges/prosecutors will be ensured to be in a legally determined deadline, published on the regular basis in accordance with the projections for vacancies of the Judicial Council/Council of Public Prosecutors. Working groups for the amendments of the mentioned laws is established.

Also, modifications of the Law on Public Prosecution Office will tackle in particular census or a minimal number of votes for election of Chief Public Prosecutor of the Basic Public Prosecution Office for prosecuting organized crime and corruption and to ensure transparent process of selection based on clear criteria and merit. The Chief Public Prosecutor of Basic Public Prosecutor's Office for prosecuting organized crime and corruption shall be elected by majority fellow prosecutors in election process in line with the amended legislation.

Targeted beneficiaries: Courts, Public Prosecution Offices, Academy for Judges and Public Prosecutors, judges and public prosecutors.

Responsible institution: for monitoring and reporting on the step achievement is the Ministry of Justice, in cooperation with the Judicial Council and Council of Public Prosecutors.

Step: **New Law on Public Prosecution and new Law on Council for Public Prosecutors adopted and timely implemented, in line with the EU *acquis* and European standards, including the opinion of the Venice Commission (by December 2025).**

Baseline (2024) is 0.

The Judicial Council and the Council of Public Prosecutors are the management bodies tasked with guaranteeing judicial independence and prosecutorial autonomy respectively, and take decisions on the recruitment, career management, and disciplinary procedures of judges and prosecutors.

Working Group for the preparation of a new Law on Public Prosecution Office was established, composed of representatives from all competent authorities in the field of judiciary: public prosecutors from the Public Prosecutor's Office of Republic of North Macedonia, higher public prosecutor's offices, basic public prosecutor's offices; judges from the Supreme, Appellate and Basic Courts; professors and experts from the academic community, as well as representatives from all other competent authorities of the state administration. The first constitutive session of the Working Group was held in February 2024. The working group is started with the preparation of the draft version of the Law on Public Prosecution Office. Same Working group will continue in 2024 to work on the development of the draft Law on Council for Public Prosecutors.

The text of the Law on Public Prosecution and new Law on Council for Public Prosecutors shall incorporate the activities foreseen in the Action Plan of Strategy for Development of Judicial System (2024 - 2028) as well as align with the EU standards, GRECO recommendations and Venice Commission opinion who will be consulted on the draft version of the laws. Final drafts will be sent to the Venice Commission and European Commission in the beginning of the 2025. Final drafts will be published on ENER for consultations. Wider public consultations will be also ensured. Adoption is expected until the December 2025 when the laws will enter into force with the deadline for adoption of the relevant bylaw.

To assess implementation of the laws and respect of the prescribed procedures and deadlines, it is required at least one year of implementation.

Main modifications of the laws will be focused on disciplinary procedures for public prosecutors, competencies on Basic Public Prosecution Office on Organised Crime and Corruption, hierarchy and supremacy of the Public Prosecution Office, criteria, and conditions for election of the public prosecutors on all levels, criteria for appointment and disciplinary procedure for council members will be aligned with the recommendations. Monitoring and track record of the disciplinary procedures will be ensured through the amendments of the laws.

Targeted beneficiaries: public prosecutors and members of the Council.

Responsible institution for monitoring and reporting on the step achievement is the Ministry of Justice in cooperation Council for the Public Prosecutors and Public Prosecution Office.

Step: Adopt amendments to the laws regulating salaries of judges and prosecutors as well as of the court and prosecutorial administrations (by June 2025).

Baseline (2024) is 0.

Laws that regulate salaries of judges and prosecutors as well as of the court and prosecutorial administrations are Law on Salaries of Judges, Law on Salaries of Public Prosecutors, Law on Court Administration and Law on Prosecutorial Administration. Out of four laws, first draft of the Law on Court Administration has been prepared. Besides amendments related to salary increase, it is envisaged to enable recruitment of the court staff without prior approval by the Ministry of Finance and Ministry of Public Administration. Nevertheless, initial identification of all regulations to be modified to improve legal framework and ensure compliance of the laws with the increase of the minimum wage and relevant salary increase of judges, prosecutors, court and prosecutorial administrations will be conducted. Currently it is clear that one of the modified regulations will also be Law on Administrative Servants to exclude the judicial and prosecutorial service from the scope of this law. In 2024 amendments of the Laws regulating salaries of the judges and prosecutors, coefficients were lowered down which further affected salaries of judges and prosecutors.

The planned amendments of the Laws regulating salaries of judges and prosecutors as well as of the court and prosecutorial administrations incorporate the activities foreseen in the Action Plan of the Strategy for Development for Judicial System (2024 - 2028) with the aim to improve position of the judges and prosecutors as well as court and prosecutorial administration in the judicial system in line with EU standards. For the amendment of the laws and relevant bylaws regulating salaries, working group will be

established encompassing all relevant stakeholders. Consultative process with wider interested parties will be also ensured.

Targeted beneficiaries: Courts, Public Prosecution Offices, court and prosecutorial administration, judges and public prosecutors.

Responsible institution for monitoring and reporting on the step achievement is the Ministry of Justice in cooperation with the Judicial Budget Council and Ministry of Finance.

Step: Ensure the financial independence of the judicial system to attain the goals of the Judicial Strategy (2024-2028), in line with the Law on Judicial Budget (December 2025).

Baseline (2024) is 0.3% GDP for court budget and 0.2% of state budget for prosecution budget.

The aim of this step is to contribute to the judicial independence, including the functional and operational independence of the judicial and prosecutorial bodies with the legal framework in line with European standards. To enable this, one of the measures is to ensure sufficient funding and resources for the judicial authorities, in line with recommendations from the peer review mission on the Judicial Council and increase the Public Prosecutors Office overall capacity and staffing capacities for budget planning and financial management for judiciary and prosecution.

The annual court budget remains below the minimum prescribed by law (0.8% of GDP). It fluctuates between 0.26 and 0.3% of GDP. For the Public Prosecution Office's budget, it is 0.2% of the state budget which also below minimum foreseen in the Law on PPO (0.4% of the state budget).

According to CEPEJ data, the judicial budget standardised as a % of GDP is significantly lower than other countries in the region. The obligation to seek approval from the Ministry of Finance for budget reallocation and employment does not support the independence and autonomy of the judiciary. First activity towards reaching step is analysis on the management system and existing legislation that is regulating funding of the judicial system. This will enable identification of the laws/bylaw that need to be modified to enable financial independence of the judicial system as well as recommendations for improvements. The efficiency of the budget will be assessed by the financial reports of the Court Budget Council.

For the Judicial Council and courts, it is clear that main amendments will be focused on the Law on Court Budget and alignment of the Law on Budget to ensure allocation of the legal minimum and thus contribute to the independent functioning and autonomy of the judiciary. As a result, the Court Budget Council will independently manage the legal minimum and independently decide on the financial needs of the courts and other institutions that are part of court budget (courts, Academy, Judicial Council) according to the Law on Court Budget. The financial requests from the Court Budget Council need to be allocated without reduction and influence.

Same is for Public Prosecution Office where it is required to ensure operational and functional independence enable work of Public Prosecution Offices according to the law. This requires no interference in allocation of legal minimum to PPOs by Ministry of Finance and Parliament and allow independent decision on the budget at their disposal.

Targeted beneficiaries: Courts, Public Prosecution Offices, Judicial Council, Council of Public Prosecutors and Academy for Judges and Public Prosecutors.

Responsible institution for monitoring and reporting on the step achievement is the Ministry of Justice in coordination with Court Budget Council and Ministry of Finance.

Reform 5.2.2. Adopt and implement a new Action plan for the prevention of corruption in the judiciary for 2026-2029

Challenges: The Judicial Council of the Republic of North Macedonia adopted Program and action plan for the prevention and monitoring of corruption in the judiciary 2022 – 2025 in March 2021. It identifies the key

factors in the fight against corruption, the areas and risks of corruption, the possible forms of corruption in the judiciary, the target groups, in order to establish an efficient system of measures and activities that will enable the prevention and fight against corruption, and building an independent and efficient judiciary, which will work without external influences and pressures, and integrity in the fight against corruption.

The action plan aims to establish an efficient system of measures and activities that will enable the prevention and fight against corruption and achieve goals that will reduce the problems and risk factors for the emergence of corruption:

- Increasing the level of responsibility and demonstrated will to fight corruption
- Strengthening the integrity and accountability of judges and the judicial service, members of the Judicial Council and employees of the Professional Service of the Council based on a system of values and quality criteria
- Implementation of the competencies of the Judicial Council in a legal, transparent, ethical, economical, responsible and effective manner
- Support in digitization of the judiciary
- Strengthening transparency in operations
- Raising public awareness and implementing anti-corruption education
- Monitoring and active participation in the implementation of the National Strategy for the Prevention of Corruption and Conflict of Interest in the Judiciary with Coordination
- Motivating citizens to report corruption and conflict of interests.
- Strengthening the capacities and commitment of the judiciary in detecting and sanctioning corruption,
- Increasing resistance to corruption in the judiciary, building personal and professional integrity and active participation in eliminating the factors that contribute to the creation of a bad perception among the public regarding corruption in the judiciary
- Developing accountability for public procurement and the planning and spending of funds
- Eliminating conditions for corrupt activities during employment

Targeted beneficiaries: judges, judicial administration, members and staff of the Judicial Council and Judicial Budget Council.

Induced Output: Improved anticorruption related legislation; improved performance of the judiciary in fight against corruption as per European standards.

Reform indicators and steps with timeline:

Step: Adopt the Action plan for the prevention of corruption in the judiciary for 2026-2029 (December 2025).

Baseline (2024) is 0. Current programme and action plan for the prevention and monitoring of corruption in the judiciary adopted in March 2021 covers the period 2022 – 2025.

Initial activities towards achievement of this step will be preparation of the report on the implementation of the Action plan 2022-2025 for the prevention of corruption in judiciary by the Judicial Council. Based on the findings and recommendations in the report, and in cooperation with the State Commission for Prevention of Corruption, working group within Judicial Council will develop Action plan for the period 2026-2029 in line with the international standards.

Targeted beneficiaries: judicial sector

Responsible institution for monitoring and reporting on the step achievement is the Judicial Council in cooperation with the State Commission for prevention of corruption.

Step: Average time required to resolve complaints against judicial officials reduced as per European standards (by June 2027).

Baseline (2024) is 0. Currently not available data on average time required for resolving complaints.

Legal bases to improve average time required to resolve complaints against judicial officials has been

ensured through amendments of the Rules of Procedures on the Work of the Judicial Council in May 2024. Prescribed deadline for decision issuance by the Judicial Council on complaints against judicial officials as per amended Rules of Procedures is 4 months. Deadline for the resolving complaints against judges has not been regulated so far and track record of the average time needed has not been monitored. Therefore, this can be considered as starting point for further assessment of the progress in implementation of the regulation and monitoring of the reduction of the average time. It is required certain time of implementation of the new Rules of the Procedures to enable measurement of the progress in reduction of the average time in resolving complaints.

Monitoring of the application of the rules and deadlines prescribed by the Rules of Procedures including average time required to resolve complaints against judicial officials in line with the EU standards will be ensured through reporting in the Annual Report of the Judicial Council to the Parliament.

Responsible institution: for monitoring and reporting on the step achievement is the Judicial Council.

SUB-AREA 5.3 Consolidate the functioning of the Judicial Council

Outcome: Improved functioning of the Judicial Council

Reform 5.3.1: Implement an improved regulatory framework of the Judicial Council in particular to disciplinary and appeal proceedings of judges (in line with the TAIEX peer review mission of Sep 2023)

Challenges: A critical institution that should protect the independence of the judiciary is the Judicial Council. However, publicly pronounced allegations by former presidents of the JC appeared about internal and external interference in the judicial system. A recent poll reported that more than a third of judges have faced attempts for influence either by the executive branch or representatives of political parties. Public opinion polls show a significant level of distrust in the judiciary. Especially the developments in the Judicial Council in 2022 and 2023 (*inter alia* the controversial dismissal of the president of the JC, which for the majority of the expert public and civil society was assessed to violate the law and the rules of procedure and the subsequent election, led to serious concerns about the legitimacy of the Council in the execution of this vital role in ensuring the independence of the judiciary and the rule of law. Such allegations were assessed as particularly worrying by the European Commission in the report for 2023. Due to these developments, a peer review mission on the work of the Judicial Council was carried out by a team of international experts through the TAIEX program of the European Commission. The report from the peer review mission has been shared with the authorities, and the recommendations have been integrated into the measures provided for in this Strategy.

Targeted beneficiaries: judges, prosecutors, members of the Judicial Council and Council of Public Prosecutors, judicial and public prosecution administration.

Induced Output: Implementation of the regulatory framework of the Judicial Council improved.

Reform indicators and steps with timeline:

Step: New Law on Judicial Council adopted in line with the ‘peer review’ on the functioning of the Judicial Council, from Sep ’23, and the opinion of the Venice Commission (by June 2025).

Baseline (2024) is 0.

The main purpose of this step is to ensure that amendments to the Law on Judicial Council⁸ address all recommendations of the Venice Commission, GRECO and the EU peer review Mission for Judicial Training

⁸ All the reforms regarding the Judicial Council composition and other related issues shall be covered by one amendment to the Law in line with the findings and recommendations of EU peer review mission on Judicial Council’s work.

and peer review on the Judicial Council as well as to ensure that the legal framework is in line with European standards and guarantee judicial independence, including the functional and operational independence of the judicial and prosecutorial bodies. It will be very important for public institutions to demonstrate their commitment to fully respect judicial independence. However, resilience against internal and external pressure to the judicial system requires to be gradually and consistently strengthened.

TAIEX peer review mission, conducted in September 2023, made several recommendations, focusing on the clarifying the status, terms of office and qualification requirements of Judicial Council members, on increasing the Council's transparency, and on clarifying provisions concerning the appointment and disciplinary procedures of judges and Judicial Council members.

Following the Peer review mission for the Judicial Council, the Ministry of Justice established a working group for amending the Law on the Judicial Council in November 2023. The working group has analysed the recommendations from the peer review Mission and based on them, prepared an Action Plan. The first draft version of the law incorporates the activities foreseen in the Action Plan of Strategy for Development of Judicial System (2024 - 2028) as well as the Action Plan of the Judicial Council following the recommendations of Peer Review Mission and EU standards. Final draft law will be shared for a consultation with the Venice Commission and the European commission.

Responsible institution for monitoring and reporting on the step achievement is the Ministry of Justice in cooperation with Judicial Council.

Step: New members of the Judicial Council (replacing those whose mandates have expired) elected in line with amended law (December 2025).

Baseline (2024) is 0.

Considering that by the end of 2024 mandates of a few members of the Judicial Council will expire, procedures for election of the new members for the vacant position should be launched in the last quarter of 2024. Since the amendment of the Law on Judicial Council is planned for June 2025, these members will be elected in line with the current criteria. Therefore, it is expected that next cycle of the election, in the last quarter of 2025, will be implemented in line with the amended Law on Judicial Council (previous step June 2025) that will prescribe new process and criteria for selection of the members of on Judicial Council elected by the Parliament.

Adopt amendments of the Law on Judicial Council regarding the election of the members will be to enhance their credibility of the members and prevent political influence, including by introducing census or a minimal number of votes for election of members from among judges/prosecutors as members of the Judicial Council. This will be followed by the amendments to the Rules of procedure of the Judicial Council. In 2024, the Judicial Council already amended its rules of procedures and the Rulebook on ranking of candidates for promotions in higher courts, implementing a part of the recommendation of the 2023 peer review mission. Announcements for the election of members from among judges will be in a legally determined deadline published before the end of the mandate and public and transparent procedure for election of the members, with reasoned decisions will be ensured.

Targeted beneficiaries: Judicial Council members, judges

Responsible institution for monitoring and reporting on the step achievement is the Judicial Council.

Step: Judges and prosecutors subject to disciplinary proceedings have all the guarantees of a fair trial (December 2025)

Baseline (2024) is 0.

One of the recommendations of the Peer review mission for the Judicial Council was referring to the rights of the judges and prosecutors subject to disciplinary proceedings to all the guarantees of a fair trial and the right to challenge the decision. The Appeals Council at Supreme Court (Appeals Council), which acts on an appeal against the decision founding disciplinary responsibility, assess the legality of the procedure and can annul the decision of the Judicial Council on the disciplinary responsibility of judges only in the case of a

gross violation of the provisions for the process. Recent procedural changes have introduced the right to appeal against a performance appraisal and the re-evaluation. The Judicial Council repeats the procedure and is obliged to comply with the instructions of the Appeals Council whose decisions are final.

The General session of the Supreme Court adopted a general position which established that the Appeals Council at the Supreme Court could directly apply the Constitution and the ECHR about appeals against the decisions of the Judicial Council to dismiss judges or presidents of courts made in repeated proceedings.

The Law on the Judicial Council of the Republic of North Macedonia from 2019 introduced and regulated a procedure for determining disciplinary responsibility for the members of the Judicial Council for the first time, which exceeded the lack of it in previous laws. However, despite the legal possibility, no procedure for determining disciplinary responsibility has been initiated so far. The procedure for disciplinary responsibility of the members of the Judicial Council, in the way it is arranged, may be ineffective if it is initiated against three or more members of the Judicial Council for the same action. This is due to the necessary majority for determining responsibility (8 out of 13 members with the right to vote) and in the case when those against whom disciplinary proceedings have been initiated are exempted from voting, as well as the exemption of the members who initiated the disciplinary proceedings.

The established working group for amending the Law on the Judicial Council will address the recommendation of the Peer review mission for the Judicial Council referring to the rights of the judges and prosecutors subject to disciplinary proceedings to all the guarantees of a fair trial and the right to challenge the decision. Final draft law will be shared for a consultation with the Venice Commission and the European Commission and upon receiving their opinion the draft text will fully incorporate the findings and recommendations. Final draft will be published on ENER for a public consultations

The guaranties of the right to challenge the decision for the prosecutors subject to disciplinary proceedings shall be regulated and covered in the draft texts of the Law on Public Prosecution and new Law on Council for Public Prosecutors.

Targeted beneficiaries: judges and prosecutors

Responsible institution: for monitoring and reporting on the step achievement is the Judicial Council (for judges) and Council for Public Prosecutors (for prosecutors).

SUB-AREA 5.4 Efficiency of the Judiciary

Reform 5.4.1: Ensure a fully functional automated case management information systems in courts and in the Public Prosecutors' Office with no manual distribution of cases

Challenges: In addition to the protective measures foreseen in procedural laws, the Law on the Management of the Movement of Cases in the Courts provides strengthened mechanisms for the automatic allocation and distribution of cases. The Ministry of Justice performs regular supervision over the system and its implementation in the courts by the Supervision Plans adopted for each calendar year. The minutes with recommendations from the conducted supervisions are publicly available. They are regularly published on the Ministry of Justice website and are the basis for officials' responsibility for any violation or possible abuse of ACCMIS. The EU has positively assessed this practice. In 2023, supervision was planned in 19 courts but was carried out in 8 courts.

During the supervisions it was established that all courts without exception apply the ACCMIS, there is no manual allocation of cases, except in smaller basic courts where one type of case is handled by one judge but then the cases are allocated to the judge through the ACCMIS.

There is a lack of judges and court administration in the courts, which makes it impossible to pay attention to the specialization of judges by area, which is why there is an urgent need for their selection and filling of vacant positions. The working body for standardization of procedures held sessions very rarely regarding the required upgrade of ACCMIS in relation to further harmonization with the amendments of procedural laws and the need for software adaption to the new case complexity measures. It is necessary for this working

body to take an active role in relation to the upgrading of ACCMIS and to follow the changes in the procedures.

In 2024, out of a total of 18 courts, the Commission for Supervision has supervised six courts until mid-2024. It is of utmost importance to ensure introducing a track record of the supervisions carried out in the courts, as well as for initiated disciplinary proceedings against judges from the irregularities found in the reports of the Supervision Commission of ACCMIS use in the courts.

According to the data of the Judicial Council, in 2022, the average rate of resolved cases was 98.04%. Despite the overall efficiency picture of courts, and types of cases examine the data, there are differences from year to year. There is an uneven distribution of cases by courts and, thus, by judges at the level of primary and appellate courts.

In April 2016, the Public Prosecution Office of the Republic of North Macedonia with all higher and basic prosecution offices implemented the Case Management System in the public prosecution offices. The system allows keeping files electronically, so for each case there is an electronic folder that contains all relevant documents for the case. The electronic folder of the case is created by registering the case by the registers who enter all the necessary information (general data on the case and managing the documents that are added to the folder as criminal charges, decision from the Public Prosecutor, applications, notices to court, etc.). The electronic case file is updated depending on the stage in which the case is. In addition to the electronic registration of cases, this system allows to search the unique database for natural persons and legal entities that are relevant for the case.

This system is not used at this moment at full extent in the Public Prosecution Office. There are several reasons for this: the low awareness of the employees how this system can help them in their everyday work, the low training of the end users how to use the system, the poor user documentation for the system as well as several missing functionalities that needs to be upgraded in the future.

Targeted beneficiaries: Courts, Public prosecution offices, court and prosecutorial administration, judges and public prosecutors.

Induced Output: Improved performance of the judiciary and automated case management and information systems.

Reform indicators and steps with timeline:

Step: Monitoring mechanism to ensure the full and effective use of the Court Management Information System (ACCMIS), based on accountability and linked to disciplinary measures, is fully operational and track record is established for conducted supervisions on courts and initiated disciplinary procedures (by December 2026).

Baseline (2024) is 0.

In accordance with the Supervision Plan for 2024 developed by the Supervisory Commission it is expected to implement supervision over all 18 selected Courts (currently supervision over 6 courts finalised) and publish supervisory reports on the Ministry of Justice website. The process will continue in 2025 following the preparation of new Supervision Plan for 2025. Supervision report for the supervised courts in 2025 with recommendations will be published to establish track record for conducted supervisions on courts. Recommendations from the 2025 supervision report will be implemented by the courts and the Judicial Council. In the same year plan for supervision in the courts for 2026 will be adopted.

Track record for the supervision of the courts by Supervisory Commission need to be developed to enable detection of the misuse of the ACCMIS and sanctioning in accordance with the disciplinary procedures.

Responsible institution: for monitoring and reporting on the step achievement is the Ministry of Justice in cooperation with Commission for Supervision.

Step: Fully fledged and functional automated case management in line with EU MS best practices; increased clearance rate and decreased disposition time for civil and commercial, and criminal cases in first and second instance (to at least 100%) in line with the Methodology of CEPEJ (by June 2027).

Baseline (2024) is 0 as qualitative indicator for fully fledged and functional ACCMIS. For clearance rate and disposition time CEPEJ Dashboard data for Western Balkans.

ICT Council is established with the purpose to provide better coordination and communication between courts, PPOs, law enforcement agencies and all relevant administrative state bodies regulated by the Rulebook for the composition and functioning of the ICT Council. One of the roles of the ICT Council is to develop ICT Strategy and to oversee automated court case management information system (ACCMIS).

ACCMIS functionality allows random automatic distribution of the files/cases; upload of documents related to cases (case management system); it is linked vertically between court level and linked with the Judicial Council. A similar system has been introduced for the Public Prosecution Office in September 2023. Despite the existing mechanism for the random distribution of cases still there is possibility for discretion by the heads of public prosecution offices to distribute cases manually.

Furthermore, the ACCMIS needs improvements to take into account the level of complexity of court cases and the method for assessing judges and presidents of courts. Also, it is required to ensure qualified IT staff for managing the systems.

In order to reach fully fledged and functional automated case management in line with EU MS best practices, a number of activities will be implemented until June 2027. Preparatory activities in 2024 will consider analysis of the need for improvement and upgrading of the court statistics software; preparation of analyses of the generating reports in accordance with the indicators from the current methodology for judicial statistics. During 2025 it is expected to adopt new methodology for judicial statistics according to CEPEJ standards; improving the system of judicial statistics and establishing uniform reports on the work of courts according to the indicators determined in the EU Justice Scoreboard; and adopt New Court Rulebook in line with the Methodology.

Regulation of the software solution for managing the movement of cases in the courts in order to enable the monitoring of judicial actions and productivity, to strengthen the adaptability of use, to establish easily searchable databases with court decisions to strengthen the uniformity of judicial practice to be able to be used to evaluate the work of judges as well as to establish an effective system for two-way exchange of documents (e-delivery).

Finally, in 2026, system functionality and staffing will be ensured to enable monitoring as well as software implementation of applications in the ACCMIS system.

In order to increase the clearance rate and decrease the disposition time, for civil and commercial and criminal cases, the clearance rate should attain to lie above 100% for all first and second instance civil and commercial and criminal cases. In other words, the number of existing cases that are effectively disposed shall be superior to the number of new cases received, in order to reduce the backlog of cases.

Clearance rate & disposition time for first instance civil and commercial cases for 2023:

Clearance rate: 93%

Disposition time (in days): 339

Clearance rate & disposition time for second instance civil and commercial cases for 2023:

Clearance rate: 86%

Disposition time (in days): 257

Clearance rate & disposition time for first instance criminal cases for 2023:

Clearance rate: 102%

Disposition time (in days): 181

Clearance rate & disposition time for second instance criminal cases for 2023:

Clearance rate: 109%

Disposition time (in days): 104

Responsible institution for monitoring and reporting on the step achievement is the Ministry of Justice in cooperation with ICT Council.

SUB-AREA 5.5 Fight against Corruption

Reform 5.5.1: Additional resources allocated to the Office of the Basic Public Prosecutor for Organised Crime and Corruption, notably specialised prosecutors, financial experts, and digital forensic analysts.

Challenges: The Basic Public Prosecutor's Office for Prosecuting Organized Crime and Corruption operates with a total of 12 public prosecutors. The current number of employees is 29 people. The budget for the year 2024 amounts to 82.424,000 denars and compared to the previous year 2023, it shows an increase of about 18.000,000 denars.

In the Basic Public Prosecutor's Office for Prosecuting Organized Crime and Corruption total of 20 investigators are working, of which 16 are from the Ministry of the Interior, 3 from the Financial Police Office and 1 from the Customs Administration.

Regarding the forensic laboratory, during the month of July 2023, an agreement was signed with the US Embassy in Skopje for the donation of the necessary equipment, part of which was delivered at the end of 2023, and the rest is expected to arrive by the end of March 2024.

Regarding the spatial conditions, in the second half of 2023, the public procurement for the renovation of part of the premises in the new building was carried out, and during the month of January 2024, the relocation to new premises started, so considered from 02.01.2024 the BBPPOCC is already located in the new premises and is working at full capacity.

Targeted beneficiaries: Staff of the Public Prosecutor Office for Organised Crime and Corruption

Induced Output: Improved capacities of the Public Prosecutor Office for Organised Crime and Corruption.

Reform indicators and steps with timeline:

Step: Basic Public Prosecution Office for Organised Crime and Corruption fully and adequately staffed with, notably specialised prosecutors, financial experts, and digital forensic analysts (December 2025).

Baseline (2024) is 13 public prosecutors in Basic PPO for Organised Crime and Corruption, 21 investigators in the Investigative Centre and 31 administrative staff of the Basic PPO.

The aim of this step is to ensure fulfilment of all vacant positions within Basic Public Prosecution Office for Organised Crime and Corruption with the skilled and knowledgeable staff in line with the law. To ensure this, one of the preconditions are merit-based selection procedures and in line with the criteria prescribed by the laws. Assessment of the staff needs, and expertise required is provided each year in the Annual Report of the Basic PPO for Organised Crime and Corruption for the following year.

Currently, Basic Public Prosecution Office for Organised Crime and Corruption has in place 13 public prosecutors out of 18 required public prosecutors (17 specialised prosecutors for organised crime and corruption and 1 Chief of the Basic Public Prosecution Office).

Investigative Centre within Basic Public Prosecution Office for Organised Crime and Corruption, has 21 investigators engaged for different areas of expertise. In line with the assessment, Investigative Centre requires 30 investigators (financial crime, digital forensics, etc.) out of which 20 investigators related to financial crime.

Current Systematisation Act of the Basic Public Prosecution Office for Organised Crime and Corruption is adopted in line with the old Law on Public Prosecutors indicating 72 job posts for administrative staff out of

which 31 positions are filled in which does not reflect properly needs of the Basic Prosecution Office for Organised Crime. Ongoing is preparation of new systematisation act that may increase number of positions and reallocation of the staff.

Responsible institution for monitoring and reporting on the step achievement is the Public Prosecutor Office.

Reform 5.5.2: Increase the number of investigations, prosecutions, final judgements, seizure, and final confiscations in corruption, including high-level cases.

Challenges: The challenges in combating corruption include inadequate resources and lack of cooperation between national authorities, which hinder effective prosecution and investigation. Delays and reversals in high-level corruption cases, coupled with obstacles in financial investigations and asset recovery, further undermine efforts and prevent the establishment of a robust track record. Additionally, the successful implementation of new laws and the establishment of the Asset Recovery Office face challenges in integration and international cooperation. The capacities of the Agency for Management of Confiscated Property also need to be strengthened.

Targeted beneficiaries: law enforcements administration, prosecutors, judges.

Induced Output: Improved performance of law enforcement and the judiciary in the fight against corruption.

Reform indicators and steps with timeline:

Step: Adoption of the Criminal Code in line with the EU acquis and European standards, including the definition of abuse of functions, with sufficiently long statutes of limitations and effective, proportionate and dissuasive sanctioning (December 2025).

Baseline (2024) is 0.

Criminal Code was amended in September 2023 which does not reflect recommendation of the European Commission for the corruption related issues, weakened the legal framework, negatively affecting the prosecution of corruption, especially in high-level corruption cases. Therefore, it is foreseen adoption of the new Criminal Code to address relevant recommendations and strengthen legal certainty.

Working group has been established by the Ministry of Justice with all relevant stakeholders will continue with the process of preparation of both, Criminal code, and Code for criminal procedure. Working group assessed all international standards in this area with the special focus on regulations of the penalties and their codification; degree of national regulations alignment with the international conventions, EU regulations and international standards, and recommendations of the international bodies in this area; criminal legislation of EU member states; EU progress report recommendations and requirements to align with the EU *acquis* and standards; challenges, issues and findings in the implementation of the Criminal Code provisions that are judges and prosecutors are facing.

Draft of the Criminal Code has been prepared and will be sent to the European Commission for consultations by December 2024. Final drafts will be published on ENER for consultations. Wider public consultations will be also ensured. Adoption is expected until the December 2025 when the Code will enter into force.

Responsible institution: for monitoring and reporting on the step achievement is the Ministry of Justice in cooperation with the working group for preparation of Criminal code.

Step: Adoption of a new Code for Criminal Procedure, aligned with EU acquis and international practice (December 2025).

Baseline (2024) is 0.

As indicated above working group for development of this Code has been established by the Ministry of Justice with all relevant stakeholders and will continue with the process of preparation. Working group will assess all international standards in this area with the special focus on regulations of the penalties and their codification; degree of national regulations alignment with the international conventions, EU regulations and international standards, and recommendations of the international bodies in this area; criminal legislation of EU member states; EU progress report recommendations and requirements to align with the EU *acquis* and standards; challenges, issues and findings in the implementation of the Code for Criminal Procedure provisions.

Draft of the Code for Criminal Procedure will be sent to the European Commission for consultations in the first half of 2025. Final drafts will be published on ENER for consultations. Wider public consultations will be also ensured. Adoption is expected until the December 2025 when the Code will enter into force.

Responsible institution: for monitoring and reporting on the step achievement is the Ministry of Justice in cooperation with the working group for preparation of Code for Criminal procedure.

Step: An increase in the number of investigations, confirmed indictments and convictions is demonstrated in cases of corruption, including at high level; an increase in stand-alone financial investigations is demonstrated; an increase in the overall value of seizures, freezing and confiscations of the proceeds of crime is demonstrated (June 2026 and repeated June 2027).

Baseline data will be the most recent statistical data and the case tracking provided by the authorities through the Commission's track record e-platform (Organised Crime and Corruption Track Record platform, OCCTR) that will be aggregated to assess that there is an overall increase across the number of investigations, prosecutions, and final judgements by the competent law enforcement and judicial institutions and authorities. The baseline will be the average performance from the previous three years. National data will be made available from the platform as from 30/06/2024.

It is required an overall improvement of track record across investigations, prosecutions, and final judgements, related to corruption cases, including at high level, as well as in the overall value of seizures, freezing and confiscations of the proceeds of crime and standalone financial investigations.

Activities planned to implement in order to reach this step is capacity building of the public prosecutors, judges and law enforcement agencies through trainings, workshops and exchange of experience with the peer institutions in the region and/or Member states, including trainings for data analysis and presenting performance data. Also, activities for promoting whistle-blower policy and implementation of whistleblowing arrangements, including training and awareness raising activities will be conducted.

This is linked with the step related to fully and adequately staffed Basic PPO for Organised Crime and Corruption and related Investigative Centre.

Targeted beneficiaries: public prosecutors, judges and law enforcement agencies.

Responsible institution: for monitoring and reporting on the step achievement is the Ministry of Justice in cooperation with Public Prosecutor Office, Judicial Council, and State Commission for Prevention of Corruption, Academy for Judges and Public Prosecutors, Financial Police and Customs Administration.

Reform 5.5.3: Increase the capacities of the investigative centres within the Public Prosecution Office, in line with the recommendations of the peer review mission from Sep 2023.

Challenges: During 2023, the capacity of the investigative centre was continuously strengthened. In November 2023 the Public Prosecution Office of the Republic of North Macedonia, according to an internal announcement published in May 2023, issued a Decision on the selection of 25 investigators in the Investigation Centres established in the Basic Public Prosecution Office for Organised Crime and Corruption, Basic Public Prosecution Office (BPPO) in Skopje, BPPO in Kumanovo and BPPO in Tetovo, as follows:

- In the BPPPOCC - 6 investigators from the Ministry of Internal Affairs and 2 investigators from the Financial Police Office,
- In the BPP Skopje - 10 investigators from the Ministry of Internal Affairs and 3 investigators from the Financial Police Office,
- In the BPP Tetovo -2 investigators from the Ministry of the Interior and
- In the BPP Kumanovo - 2 investigators from the Ministry of the Interior

The selected candidates are from different areas according to the needs of public prosecutors and the type of crimes and cases for which there is a need to hire investigators, namely in the areas of economic crime, computer crime, violent crime, general crime, criminal intelligence and analysis.

The absence of a single electronic system based on the data available to the prosecution office makes it difficult to search, compare and analyse the available information and, at the same time, makes it impossible to effectively monitor the state and functioning of the prosecutor's office in terms of promptness, efficiency and quality indicators. Public prosecutors lack training and upgrading in professional issues from all areas of law, including international standards and international cooperation, which directly affects the quality. The procedure for disciplinary responsibility of public prosecutors is not adequately conceptualised in terms of guarantees for a fair trial of the public prosecutor against whom disciplinary proceedings have been initiated. The qualitative criteria for the work of public prosecutors, that is, for monitoring and evaluating their work, are given in general, without their elaboration to objectify them.

Induced Output: Improved capacities of the investigative centres within the Public Prosecution Office.

Targeted beneficiaries: prosecutors, investigators and law enforcement agencies.

Reform indicators and steps with timeline:

Step: The investigative centres fully operational as per recommendations from the TAIEX Twinning Review Mission on Building institutional capacity of the Investigative Centre (by June 2026).

Baseline (2024) is 0 as qualitative indicator.

The aim of this step is to strengthen Investigative Centres (four Investigative Centres: Basic PPO Skopje, Basic PPO for Organised Crime and Corruption, Basic PPO Tetovo and Basic PPO Kumanovo) by ensuring necessary human and financial resources as well as technical equipment to increase the overall quality and efficiency of the investigations. It is required to ensure consistent and coordinated approach in delivering training to investigators from investigative centres and law enforcement agencies. Improvement of the coordination among relevant state institutions and track record on fighting corruption is also one of the preconditions for successful fight.

On the bases of the TAIEX recommendations, the following main activities will be implemented to achieve this step:

- Action Plan will be prepared with deadlines for completion of the activities.
- State Prosecution Office will establish mechanism to monitor implementation of the Action Plan and if necessary, it will recommend adjustment of the activities foreseen in the Action Plan.
- Establishment of the new system for assessment of the necessary number of the investigators and expertise required as well as establishment of career system for investigators in Investigative Centres.
- If we stay on the number of four Investigative Centres that we know, the assessment shows that out of 0.4% of the state budget that should be allocated to the PPO as legal minimum (until now 0.2% was allocated), 0.5% of those funds should be allocated for the material and technical equipment of the Investigation Centres.

- To enable access from the Investigative Centres to databases of Ministry of Interior, central register of companies, Agency for Cadastre and other institutions (Investigative Centres in Tetovo and Kumanovo do not have this kind of access).

Targeted beneficiaries: investigative centres, Public prosecution offices, investigative judges, law enforcement agencies

Responsible institution: for monitoring and reporting on the step achievement is the Public Prosecution Office in cooperation with Ministry of Interior, Agency for Cadastre and Central register of companies.

SUB-AREA 5.6 Fight against Organised Crime

Reform 5.6.1: Introduce a target-based approach to combating serious and organised crime, with a concrete action plan and strategy that leads to improving the track record of investigations, prosecutions, final judgements, seizure, and final confiscations in cases of organised crime, including high-level cases

Challenges: North Macedonia has implemented crucial legal frameworks to combat organised crime and terrorism, including the 2016 Criminal Code amendments and more than 30 laws that align with European standards. These laws criminalise human trafficking, online child pornography, computer crime, and drug trafficking. Additionally, the Government has adopted multiple national strategies, including the National Strategy for the Prevention of Money Laundering and Financing Terrorism 2021-2024, the National Strategy for Capacity Building for Financial Investigations and Property Confiscation 2021-2023, and the National Strategy for Combatting Trafficking in Human Beings and Illegal Migration 2021-2025. The country also has specific strategies for countering terrorism and violent extremism, with related action plans.

Hence, an adequate response to the overall organized and serious crime threats, as well as the target-based approach to effectively fight serious and organized crime will be incorporated in the National Strategy and Action Plan for Organised Crime in North Macedonia (2025-2029). Steps for drafting the National Strategy and Action Plan for Organised Crime in North Macedonia are foreseen in 2024.

In regards to the National Strategy and Action Plan for Organised Crime in North Macedonia 3 expert missions were organized as part of the “EU Support for Rule of Law”-IPA 2020. A Working Group has been established in the Ministry of Interior as part of the activities for preparation of this document.

It is expected that in the upcoming period the working group to be expanded with representatives from other institutions that have competences in this area. The creation of the National Strategy for the Fight against Organised Crime, will present the general current state of all forms of organised crime in North Macedonia, institutional mechanisms, current weaknesses, basic principles or principles for the fight against organized crime together with some of the main factors for achieving success and finally set out the objectives and possible ways to achieve them.

Targeted beneficiaries: law enforcement agencies

Induced Output: Improved capacities and alignment with the EU standards in combating organised crime (Law on Weapons harmonised with the EU classification of weapons harmonized; Early Warning System functional in line with the EU standards; Improved capacity of the National Drug Observatory; Alignment with EU regarding psychoactive substances improved); Improved performance of law enforcement and the judiciary in the fight against organised crime.

Reform indicators and steps with timeline:

Step: Amended the Law on Weapons with the EU classification of weapons harmonised (December 2025).

Baseline (2024) is 0.

Development of new National Strategy for Control of Small Arms and Light Weapons is planned to be developed in 2025 based on the new Roadmap for a sustainable solution to the illegal possession, misuse and trafficking of small arms and light weapons (SALW)/firearms and their ammunition in the Western Balkans.

The Law on Weapons shall be amended in order to comply with EU standards in term of definitions, categorisation, technical specification of the alarm and signal weapons, transport of weapons, marking of firearms. A draft text of the Law has been prepared by the working group and it is in the phase of incorporation of opinions from the institutions, after which a procedure for adoption by the Government will follow.

Targeted beneficiaries: Citizens and private entities that produce, repair, deactivate, transport and transfer across the state border of weapons and main parts of weapons and ammunition.

Responsible institution for monitoring and reporting on the step achievement is the Ministry of Interior.

Step: A functional Early Warning System is connected to the EU system; staffing of the National Drug Observatory is increased (December 2026).

Baseline (2024) is 0.

To reach this step the following activities are required:

- National Drug Strategy (2021-2025) and the Action Plan (2021 – 2023) is evaluated within 2023 and a new Action plan 2024-2025 upon expiration will be adopted. The Law on Control of Narcotic Drugs and Psychotropic Substances will be aligned with the relevant EU acquis and international standards by 2024.
- Revised and strengthened the legal and institutional framework for the National Drugs Observatory.
- Sign an agreement on cooperation with the EMCDDA entered into between such third countries and the Community on the basis of Article 300 of the Treaty.
- The capacities of the National Drugs Observatory will be strengthened with at least four professional and qualified staff in the Unit for Controlled Substances, excluding possibility for conflict of interests.
- The capacity for timely exchange of data with the EMCDDA is improved, with dedicated staff, developed procedures and necessary equipment.
- The national early-warning system for drugs will be established with the changes in regulation.
- Ensure strict implementation and rigid monitoring system of the process of issuing and withdrawing of licences for cultivation of cannabis, including using enforcement powers of the Ministry of interior.

Targeted beneficiaries: Ministry of Health, Ministry of Interior and law enforcement agencies, Custom Administration, Institute for public health, Institute for criminology end forensic deontology, Forensic lab in Ministry of interior, University clinic for toxicology, University clinic for infection diseases, National centre for treatment and preventions of addictions.

Responsible institution for monitoring and reporting on the step achievement is the Ministry of Interior, the Ministry of Health in cooperation with law enforcement agencies.

Step: List of psychoactive substances aligned with EU (December 2027).

Baseline (2024) is 0 (status of alignment).

The national legislation will introduce a definition of a “new psychoactive substance” in the List of psychoactive substances and it will be fully compliant with the EU regulation by December 2027. The List will be regularly updated with each subsequent change and published on the website of the Ministry of Health.

Targeted beneficiaries: Ministry of Health, companies

Responsible institution for monitoring and reporting on the step achievement is the Ministry of Interior in cooperation with Ministry of Health.

Step: Increased number of investigations, prosecutions, final judgments, seizure, and final confiscations in cases of organised crime (by June 2026 and repeated step by June 2027).

Baseline (2024) is OCCTR data.

Baseline data will be the most recent statistical data and the case tracking provided by the authorities through the Commission's track record e-platform (Organised Crime and Corruption Track Record platform, OCCTR) that will be aggregated to assess that there is an overall increase across the number of investigations, prosecutions, and final judgements by the competent law enforcement and judicial institutions and authorities. The baseline will be the average performance from the previous three years. National data will be made available from the platform as from 30/06/2024.

Operational workshops and real case scenarios will be completed with simulated joint investigations and on-the-job training activities. Updates of the legal framework will be discussed if necessary. Advanced investigation techniques and skills are introduced. To ensure close cooperation with the relevant beneficiaries to apply appropriate measures for each step in the investigation and to use the added value of international police cooperation—the main goal - improved effectiveness of investigations which will lead to a higher number of solved cases.

Targeted beneficiaries: main beneficiary - Ministry of Interior, other beneficiaries: Financial Police, Customs Administration, Financial Intelligence Unit, Asset Recovery Office, Agency for Management of Confiscated Property

Responsible institution for monitoring and reporting on the step achievement is the Ministry of Interior in cooperation with Public Prosecutor Office in cooperation with law enforcement agencies.

SUB-AREA 5.7 Asset Recovery

Reform 5.7.1: Strengthen capacities with regard to assets confiscation and recovery in line with the EU acquis

Challenges: The activities for strengthening the capacities for conducting financial investigations and confiscation of property started with the Strategy for strengthening the capacities for conducting financial investigations and confiscation of property with an Action Plan for its implementation for the period 2018-2020 and 2021-2023.

The new national Strategy on strengthening the capacities for financial investigations and asset confiscation with an Action Plan will be adopted in 2024. Its implementation is expected to contribute to criminal investigations resulting in confiscation of property and property benefit, thereby enhancing the efficiency in the fight against organized crime and corruption.

Beside the strategic framework, there are other legislative amendments implemented, namely:

- The Law on the Asset Recovery Office (ARO) was adopted on 13.03.2024. The law regulates the establishment, competences, organizational structure and financing of the Asset Recovery Office, cooperation with domestic authorities and institutions, cooperation with foreign countries and the electronic integrated database, in accordance with Council Decision 2007/845/JHA.
- The Law on the Management of Confiscated Property, Proceeds and Seized Objects in Criminal and Misdemeanour Procedures was adopted on 13.03.2024 aligned with Directive 42/2014 in 2024.
- The Law on confiscation with non-conviction verdict in civil procedures was adopted on 28.02.2024.

The Law protects the public interest in a way that prevents the disposal of property and property benefits that cannot be proved to be gained from legal sources. This law introduces the last, fourth model of confiscation in our country, the so-called "confiscation without conviction, i.e. civil confiscation", when the conditions stipulated by law are met. The law ensures strengthened international cooperation and recognition of foreign court decisions on confiscation of property in civil proceedings.

Targeted beneficiaries: Asset Recovery Office, Agency for Management of Confiscated Property

Induced output: Capacities for the asset recovery and confiscation improved; Performance in asset recovery of the law enforcement and judiciary improved.

Reform indicators and steps with timeline:

Step: All vacancies on the Agency for Management of Confiscated Property have been filled (by June 2025).

Baseline (2024) is 0.

The Law on the Management of Confiscated Property, Proceeds and Seized Objects in Criminal and Misdemeanour Procedures is adopted to align it with Directive 42/2014 in 2024 as well as the **Law on confiscation with non-conviction verdict in civil procedures**.

The institutional capacities (new staff, specialized trainings and adequate equipment) of the Agency for Management of Confiscation of Property enhanced, inter alia using additional 7% gathered from each sale of confiscated property for the Agency.

Responsible institution: for monitoring and reporting on the step achievement is the Agency for Management of Confiscated Property.

Step: ARO fully staffed, trained and operational; the Agency for Management of Confiscated Property has an efficient case management software and sufficient and quality storage space for the storage of confiscated property (December 2027).

Baseline (2024) is 0.

To ensure functional and operational Asset Recovery Office, the following is required:

Legal framework completion: The Directive of the European Parliament and the Council 2019/1153 on establishing the rules for facilitating the use of financial and other information for the prevention, detection and investigation of certain crimes, as well as the Directive 2024/1260 on the return and confiscation of property, impose the obligation on ARO offices to have direct access to the register of bank accounts. In that direction, the Law on Payment Services and Payment Systems will be amended, which will enable the Asset Recovery Office to access the single register of accounts. The adoption of the Law on the Asset Recovery Office, as well as the standard operating procedures for conducting financial investigations of the Public Prosecutor's Office, imposes the need to revise the existing standard operating procedures for the Asset Recovery Office. The adoption of Directive 2024/1260 on the return and confiscation of property introduces new, strengthened competences of the ARO offices. In order to unify the competences of the ARO Office in North Macedonia with the corresponding offices in the EU member states, an analysis of the provisions of Directive 2024/1260 will be carried out and a decision will be made accordingly on possible changes to the Law on the Office for Property Recovery.

Provision of personnel, material and technical resources: The ARO Office should be adequately resourced to enable it to effectively perform its role as a national focal point for collating requests from other countries. Given that at this moment the ARO Office does not have enough professional, ICT and administrative-technical staff, which is necessary for the successful execution of the legal competences, it is necessary to strengthen the staff with qualified human resources. The professional level of employees will be maintained and increased by following initial, continuous and specialized training. At the same time, it will be approached to its institutional strengthening in terms of providing spatial capacities that will be adequately equipped for the execution of the competences.

Ensuring interdepartmental coordination: The multi-sectoral structure of the ARO Office will be ensured through the appointment of contact persons from the relevant state institutions. Namely, domestic judicial authorities and domestic authorities participating in the financial investigation and other domestic institutions, at the request of the ARO Office, appoint a contact person with the ARO Office. In this way, a network of contact persons from the relevant authorities and institutions will be provided, who will be in charge of promptly and fully acting on the requests submitted by the ARO Office. After the appointment of the contact persons, their training will be conducted on the provisions of the Law on the Office of Property Recovery.

Establishment of the electronic integrated database for the needs of the ARO Office: In the Public Prosecutor's Office, the electronic integrated database will be established, in which the data will be entered by the ARO Office, judicial authorities and the authorities participating in the financial investigation, and they will be provided with appropriate access depending on their competences determined by law. In addition to the received and submitted requests from and to the ARO offices, the said database will contain data on the imposed measures for temporary prohibition of disposal and confiscation, which will enable their inspection, analysis and monitoring. Considering the complexity of the mentioned process, a by-law will be adopted which will regulate the method of entering and accessing the data in the mentioned database, the technical procedures for security during the collection, processing and storage of the data. It is necessary to provide IT staff who will be responsible for its maintenance. The entire process will be completed by training of the ARO staff and other institutions that will have the authority to enter and use the data.

Providing access to other databases in the country: Access to databases is a particularly important segment for the effective and timely implementation of the role of the ARO office. Access should be provided to all relevant databases that may be useful in identifying and tracing assets, property benefits such as proceeds of crime. After the assessment, with determined dynamics, the ARO Office will approach the signing of agreements for electronic data exchange with the relevant institutions and their operationalization will be ensured. In order to ensure compliance with the rules for the confidentiality of the received data, training will be conducted for the staff of the ARO Office for the protection of personal data.

Exchange of information with ARO offices in other countries: To ensure the security of information exchanged with ARO offices from other countries, the ARO will use the security application SIENA, managed by Europol. For that purpose, direct access of the ARO to the SIENA security channel will be ensured, by signing a Memorandum of Cooperation. At the same time, training will be conducted for the staff of the ARO on the use of this security communication channel.

Ensuring transparency: In order to achieve greater transparency for its work, it is foreseen the existence of a functional website on which the annual reports of the ARO and other important announcements will be regularly published in order to acquaint the professional and general public with the work of the ARO.

Responsible institution for monitoring and reporting on the step achievement is the Public Prosecution Office/Asset Recovery Office (ARO) and Agency for Management of Confiscated Property.

Step: Increased number of investigations, prosecution and rendering convictions in organised crime and money laundering with a focus on confiscation of proceeds of crime (no. of cases of tracing and identification, freezing of illegally acquired assets, management of frozen assets to preserve their value, confiscation and disposal of the confiscated assets) (by June 2026).

Baseline is track record from 2024.

Adoption of the new Criminal Code and new Law on Criminal Procedure aligned with EU acquis in the area of asset confiscation. Regular mandatory training for all law enforcement bodies, public prosecutors and judges to increase skills for asset confiscation measures. In 80% of corruption cases in which asset confiscation measures have been imposed by 2025, measures are enforced. Strengthen the human capacities, technical resources and skills of the AMO, ARO, PPO for asset confiscation. All law enforcement bodies, public prosecutors and judges are trained for use of asset confiscation measures.

Responsible institution: for monitoring and reporting on the step achievement is the Public Prosecution Office/Asset Recovery Office (ARO).

11. GENERAL CONDITIONS FOR PAYMENTS (FOR ALL POLICY AREAS)

Evolution of the main macroeconomic aggregates. After the strong post-pandemic recovery in 2021, real GDP growth in 2023 subsided to 1% on a year-on-year (y-o-y) basis. Growth was propelled by the services sector, notably in retail trade, finance, real estate, and ICT, whereas agriculture, manufacturing, and construction experienced declines. The weak growth performance was largely related to the reduction of imports and inventories after a surge in the previous year. With the recovery of external demand and growth rates of main trading partners in EU, the medium-term outlook is still positive. Inflation eased from double-digit growth in 2022 to a rate of 9.4 percent in 2023. The monthly inflation rate (consumer price index (CPI)-based) in April 2024, compared to April 2023, increased by 4.0%, while the retail price index increased by 3.5% on y-o-y basis. In light of significant exhaustion of the pressure from the food and the energy component, the annual inflation rate mainly stems from the core inflation. The monetary policy stance has not changed during 2024, indicating National Bank's readiness to preserve the hard-won price stability. In 2023, the labour force participation rate (ages 15+) lingered at 52.3 percent, while the employment rate fell marginally to 45.4 percent. The unemployment rate in 2023 was reduced 13.1%, but the youth unemployment rate still remained high at 29.3% (age 15-24). Fiscal consolidation path – agreed with the IMF's Precautionary and Liquidity Line (PLL) arrangement – envisaged a reduction of the general government budget deficit from 4.9% in 2023 to 3.4% in 2024. Net Foreign Direct Investment (FDI) inflows remained robust at 3.8 percent of GDP in 2023, with strong prospects for continuation of the favourable trends. Foreign exchange reserves increased in 2023 and remain at sound levels (EUR 4.3 billion at the end of April 2024).

Macroeconomic and fiscal policies in place. In response to the post-pandemic multiple crises (energy crisis and double-digit inflation), the Government implemented measures to curb the fiscal deficit in 2022 and strengthen public finances in 2023, prioritizing support for the most vulnerable groups. More specifically, the government adopted several packages of targeted anti-crisis measures to mitigate the impact of energy crisis and heightened inflation, by protecting the purchasing power of vulnerable households, and providing liquidity to distressed firms. To alleviate the fiscal and external impact, the authorities have also introduced block tariffs for electricity and increased electricity prices. Moreover, there was limited success in controlling wage and pension benefit hikes due to narrow fiscal space and inflation risks. In September 2022, the authorities enacted the Organic Budget Law (OBL), establishing a robust medium-term fiscal framework with deficit and debt limits comparable to those in EU treaties. The OBL enhances the processes of budget preparation and execution and improves fiscal reporting. Additionally, a fiscal council has been created to evaluate the government's macroeconomic and budgetary forecasts and to ensure compliance with the regulations set forth in the OBL. The Government also embarked on an ambitious public infrastructure investment agenda. It mainly refers to the Corridor 8/10d road project, which will increase the inter-connectedness of North Macedonia with its neighbouring countries. In addition to their growth supportive effects, the government's capital expenditures are incorporated into a prudent medium-term fiscal framework and fully aligned with the OBL's fiscal rules. The country strengthened its public finance by creating an independent Fiscal Council and optimizing public investment management. It also widened the tax base, undertook initiatives to formalize the informal economy, improved energy efficiency, and reinforced the judiciary through a newly implemented Judicial Reform Strategy. Monetary tightening has helped manage persistently high inflation expectations amid decreased imported price pressures from food and energy. The key policy interest rate has been stable at 6.3 percent since September 2023. The stability of the banking sector has been maintained, reflected by a rise in the capital adequacy ratio to 18.1 percent in the fourth quarter of 2023. Prudent supervision and bank management ensured a gradual return of the liquidity rate above 20%. Despite the multiple crises (pandemic-induced recession, energy crisis and double-digit inflation), the non-performing-loans (NPL) ratio remained at the average of 3.2%, declining to 2.7% in the fourth quarter of 2023.

Potential sources of instability and vulnerability to external shocks. External risks to growth are currently assessed as balanced (National Bank, March 2024). The main negative risks relate to prolonged geopolitical tensions, in particular the Middle East conflict and Russian aggression in Ukraine, with potential adverse effect on energy prices and supply chains. Other risks also stem from a relatively high core inflation, which would require a tighter monetary policy for a longer period. Risks from further Geo-Economic Fragmentation (GEF) of the global trade and increased frequency of climate-change related shocks must also

not be downplayed. Domestic risks are associated with (a) the recovery of the investment demand (gross investments recorded a high real decline in 2023, reflecting a large decline in inventories due to last year's high comparative basis); and (b) fiscal risks associated with the necessary post-election budget revision to align with the planned budget deficit of 3.4% of GDP in 2024 and with building fiscal buffers for potential budget cost overruns. Nevertheless, the overall macroeconomic outlook over the 2024-2027 forecast horizon remains positive.

Relations with the IMF. The Executive Board of the International Monetary Fund (IMF) in January 2024 concluded the 2023 Article IV Consultation and completed the First Review under the PLL arrangement for North Macedonia. The completion of the positive review gave the Government of the Republic of North Macedonia access to SDR 406.87 million (equivalent to about EUR 530 million at current exchange rates). The conclusion of the arrangement and subsequent review was also a condition for disbursement of financial support by other IFIs, including the Macro-Financial Assistance (MFA) package by the European Commission. The first tranche in the amount of 84.180 million SDR (EUR 107.24 million) was withdrawn on 23 November 2022 and second tranche in the amount of 119.26 million SDR (EUR 145.82 million) was withdrawn on 23 January 2024, while the remaining funds will be treated as a precautionary insurance against external shocks. The successful completion of this arrangement by October 2024 remains a high government priority.

Relations with the World Bank Group: The new World Bank's Country Partnership Framework (CPF) for North Macedonia, covering the period from 2024 to 2028, was adopted in January 2024. It is aligned with this reform agenda, as it also focuses on competitiveness, human capital development, and environmental sustainability in response to the country's evolving development challenges.

Medium-term prospects and projections: The medium-term growth outlook is positive, as assessed by the authorities, the IFIs, and the European Commission. Forecast differences notwithstanding, the IMF foresees a real GDP growth rate of 2.7% in 2024 and 3.7% in 2025, reaching 3.9% in both 2026 and 2027. The projection assumes strong growth in public investments and a gradual recovery of consumption and exports during 2024-2027. The inflation rate is expected to return close to the historical average, at 2.5% in 2025 and to slow to 2% per annum thereafter. The Organic Budget Law (OBL) ensures strict observance of the fiscal rule of budget deficit not exceeding 3% of GDP from 2025 onwards. Current assessments envisage that the budget deficit of 3% of GDP in 2025 will be reduced to 2.8% of GDP in 2027 (IMF, 2024). Gross general government debt of North Macedonia is also expected to follow a downward trajectory throughout the projection period, from 54.6% of GDP in 2024 to approximately 53.3% of GDP in 2027 (IMF, 2024). The Government is strongly committed to continue with the medium-term fiscal consolidation and strengthening of fiscal sustainability, simultaneously securing funding for the outlined reforms to address structural and institutional challenges. The National Bank is expected to continue its long-standing policy of maintaining a stable exchange rate with the euro as an intermediate target, which supports the primary objective of price stability and provides macro-financial and macroeconomic stability.

PART 3: COMPLEMENTARITY AND IMPLEMENTATION OF THE REFORM AGENDA

12. COMPLEMENTARITY WITH IPA III

In drafting the Reform Agenda due consideration was given to bilateral initiatives and investments under IPA funding programmes for the 2021-27 period. This ensures clear delineation between funding operations whilst contributing towards complementarity and focused impact of the investments made.

The overall EU assistance strives for complementarity between different actions and programmes. The support provided and planned under IPA III and the Reform Agenda is harmonised.

IPA III covers the period 2021-2027 and enables funding opportunities under 5(five) windows and 17 (seventeen) thematic priorities.

The two instruments collide in the following:

IPA III	Reform Agenda
WINDOW 1 - RULE OF LAW, FUNDAMENTAL RIGHTS AND DEMOCRACY	Priority Area 5: Fundamentals/Rule of Law
Thematic Priority 1: Judiciary	<ul style="list-style-type: none"> ▪ Independence, quality and integrity of the judiciary ▪ Consolidate the functioning of the Judicial Council ▪ Efficiency of the Judiciary
Thematic Priority 2: Fight against corruption	<ul style="list-style-type: none"> ▪ Fight against corruption
Thematic Priority 3: Fight against organised crime / security	<ul style="list-style-type: none"> ▪ Fight against organized crime ▪ Asset Recovery ▪ Cyber crime
Thematic Priority 5: Fundamental Rights	<ul style="list-style-type: none"> ▪ Cross cutting
Thematic Priority 6: Democracy	Priority Area 5: FUNDAMENTALS/Democracy
WINDOW 2 – GOOD GOVERNANCE, ACQUIS ALIGNMENT, GOOD NEIGHBOURLY RELATIONS, AND STRATEGIC COMMUNICATION	Priority Area 1: GOVERNANCE/PAR and PFM
Thematic Priority 1: Good governance PAR and PFM	PAR and PFM
Thematic Priority 2: Administrative capacity and EU acquis alignment	Cross cutting
Thematic Priority 4: Strategic communication, monitoring, evaluation, and communication activities	Cross cutting
WINDOW 3 - SUSTAINABLE CONNECTIVITY AND GREEN AGENDA	Priority Area 2.1: ENERGY/GREEN TRANSITION Priority Area 2.2: DIGITAL TRANSITION
Thematic Priority 2: Transport, digital economy and society, and energy	<ul style="list-style-type: none"> ▪ Market reforms ▪ Decarbonisation ▪ Renewables ▪ ETS adoption ▪ Energy efficiency and air pollution ▪ Digital (including digital skills)
WINDOW 4 - COMPETITIVENESS AND INCLUSIVE GROWTH	Priority Area 3: HUMAN CAPITAL Priority Area 4: BUSINESS ENVIRONMENT

Thematic Priority 1: Education, employment, social protection and inclusion policies, and health	<ul style="list-style-type: none"> ▪ Education and skills
Thematic Priority 2: Private sector development, trade, research, and innovation	<ul style="list-style-type: none"> ▪ Business environment
Thematic Priority 3: Agriculture and Rural Development	<ul style="list-style-type: none"> ▪ Business environment

Building on the existing sector coordination role and in view of the objectives across different funding instruments, the Government of the Republic of North Macedonia will ensure full coherence during the implementation of interventions financed through EU funded programmes.

The Minister for European Affairs, also designated as the National IPA Coordinator (NIPAC) and NIPAC Office are tasked with programming, monitoring, reporting and evaluation under IPA funds, as well as the coordination of the WBIF in the country, likewise involved in the Reform Agenda. Against this background, it could be assumed that the complementarity of the Reform Agenda and the IPA, including WBIF is fully ensured.

At present, the NIPAC Office has completed the programming of IPA III in annual envelopes for the period 2021-2024 and three Operational programmes on transport, environment, and human capital 2024-2027. The programming of the remaining annual envelopes for the period 2025-2027 was initiated in July 2024.

On the level of NIPAC office, the coordination of the IPA programming Unit will conduct additional checks based on provided information of the potential beneficiaries (including Managing Authorities), stating that there is no double financing and overlapping of assistance for the project proposed under IPA III. Also, the IPA monitoring unit will be tasked to double check, if the projects proposed under Reform Agenda are already in implementation and/or procurement, under adopted IPA III Programmes.

Considering that the Minister for European Affairs acts also as the National Aid Coordinator, the coordination of the bilateral foreign assistance falls under his responsibility. Thus, the institution responsible for the coordination of the Reform Agenda, together with the Line Ministries implementing the policy reforms will ensure coordination and complementarity with the other funding available in the relevant sectors. This will be ensured via the established structures for thematic donor coordination, sector working groups and other engagements that ensure enhanced coordination on local level, with frequent, regular, and timely sharing of information through the implementation of the Reform Agenda.

In respect to loan financing, the coordination with the Ministry of Finance builds on existing structures. It is ensured also via the National Investment Committee, and it will be further amplified with the Public Investment Management system reforms that will be implemented within the Reform Agenda. The above-mentioned steps will ensure delineation of responsibilities and activities, thus enhancing governance and limiting the complexities related to different regulatory frameworks guiding and governing the implementation of the same investment.

Support from the RGF Facility shall be additional and complementary to the support provided under other Union programmes and instruments. Thus, on the level of the relevant Authority also undertakes a project-by-project assessment, through an appropriately developed checklist to assess the risk of double funding. Operations eligible for funding under the RGF may receive support from other Union programmes and instruments provided that such support does not cover the same cost and that appropriate oversight and budget control is ensured. Therefore, the risk linked to double funding for each operation is categorised as Low or High Risk, depending on: possible overlaps with other EU funded interventions; the number of Irregularity Reports already registered under that Beneficiary and related amount; registered risks. The level of risk will determine the frequency of follow-up by the authority responsible for the monitoring of the project in question which cannot be less than once a year in case of low-risk interventions. The status might change during the implementation. Through the lifetime of the operation, the country will continue to undertake checks on double funding (on relevant authority level and NIPAC level) including confirmation by beneficiaries of funded operations and mainstream projects, providing, on yearly basis, a confirmation that no other donors' funds have been requested/received to finance the same or part of the same operation(s).

The confirmation will be provided through the signed checklist and aims at ensuring that:

- The Beneficiary organization has not applied for other EU/national funded projects and/or same costs within an operation.
- The Beneficiary organization has not been granted an approval for other EU/ national funded projects and/or same costs within an operation.
- Confirmation that there is no risk of double funding with new proposed or approved operations.

Furthermore, the Reform Agenda will benefit from the lessons learned and current management and control system used for the purposes of IPA funded programmes and implementation of other sector budget support programmes.

13. INVESTMENTS UNDER WESTERN BALKANS INVESTMENT FRAMEWORK (WBIF)

The consultation process for the indicative list of investment is currently ongoing. The indicative list, presented as Annex 2 to the Reform Agenda took into consideration the policy reforms on one hand and the WBIF strategic orientations for the period 2021-2027 on the other.

The guiding principle in proposing the indicative list of investments comes from the strategic documents, *inter-alia*:

- The Economic and Investment Plan for the Western Balkans;
- The Green Agenda for the Western Balkans;
- The Agenda for the Western Balkans on Research, Innovation, Education, Culture, Youth and Sport (hereafter Innovation Agenda).

The country has developed a Sector single project pipeline (SSPP) in the eligible WBIF sectors, including environment and climate and has been utilising grant funding from this facility since 2009. Hence, the country has benefitted from 48 grants for €486.5 million in technical assistance and investment co-financing. The EU IPA grant support channelled through the WBIF accounts for €466.3 million and covers both technical assistance and investment works. Other donors have contributed €20.2 million as well.

Against this background, and building on the long-established experience of the WBIF, the country proposes blending investment priorities in these few eligible sectors:

- (1) Sustainable Transport;
- (2) Clean Energy;
- (3) Digital Future;
- (4) Human Capital infrastructure development.

The only difference between WBIF and Reform Agenda are the sector environment and climate and competitiveness of the private sector. However, environment related blending investment priorities that are related to the decarbonization are considered eligible for blending and funding under the Reform Agenda. The RGF indicative list takes due account the blending of two financing sources (grants and loans), as well as other Union programmes and instruments, subject to that such support from different sources, programmes and instruments provides for additionality and does not cover the same cost.

In order to promote complementarity, coherence and efficiency of the proposed indicative investment list and the Reform Agenda, North Macedonia foresaw on the following:

(1) Sustainable Transport

The blending investment projects and programmes, proposed by the country have in mind the following:

- future-proof and sustainable (through climate proofing and mainstreaming) projects in line with the Guidelines for the Implementation of the Green Agenda for the Western Balkans embedded in the EIP:

e.g., rehabilitation of the rail network, These investments are aligned with the “do not significant harm” principles and the Paris Agreements.

- Fast and efficient transport links, both within the region and with the neighbouring EU member states, and sustainable transport with further investments, namely in the rail and road sectors.
- Implementation of technical standards and connectivity reform measures (e.g., road safety), thus speeding up the completion of the indicative extension of the Trans-European Transport network (TEN-T) to the Western Balkans and accelerating full alignment with the EU *acquis*, namely digital and clean energy technologies.

More concretely, indicative investments are related to rehabilitation and construction of new resilient and smart transport infrastructure;

These projects are in direct correlation with the implementation of the ITS reforms in the Reform Agenda that will demonstrate in practice, the needed coherence between *acquis* alignment, enforcement of legislation and the capital investments.

(2) *Clean Energy*

Considering the fact that North Macedonia has steadily focused on its decarbonisation path, the indicative investment project pipeline reinforces the energy transition – from highly polluting coal to more sustainable and green energy sources.

The focus is set on supporting the process of energy efficiency, low carbon transition (e.g., future proof gas pipelines supportive of the low carbon transition, and transit of decarbonized gas and hydrogen), as well as electricity transmission lines and smart grids for increased use of renewable energy sources in line with the region’s potential. The contribution of these investments to decarbonise energy production and/or consumption shall be key to deliver on the Green Agenda for the Western Balkans

Progress is expected to be made on energy connectivity reform measures to set up a regional energy market and further integration with the EU energy market working closely with the Energy Community Treaty Secretariat.

More concretely, in order to maximise the leverage of the reforms, the indicative investments are related to:

- Decarbonisation and clean energy;
- New digital technologies, increased digitalisation of the system and smart grids;
- Energy efficiency;
- Energy security;
- Enhanced energy connectivity.

The project selected for financing will acknowledge the importance of sustainable finance to complement the legislative agenda foreseen with the Reform Agenda, in line with the EU Taxonomy.

(3) *Digital future*

The digitalisation is an opportunity and digital solutions have to contribute to a sustainable, climate neutral, climate resilient, and resource efficient economy. Accelerating the digital transformation through investments in digital infrastructures and services for business and governments represent a priority. The Digital Agenda for the Western Balkans is a reference in designing interventions. Focus is put on main interventions on the connectivity of digital infrastructures.

More concretely, indicative investments are related to:

- Digital connectivity and access to digital infrastructures, with particular focus on remote areas and to lower-income population.
- Investments in digital infrastructures should take into account the need to ensure infrastructure resilience and the security of digital infrastructures should be improved.

Having a cross cutting effect, the investments in the digital sector will ensure complementarity to the reforms that will shape the digital transformation foreseen in the Reform Agenda under all five policy areas. The investments will further ensure strengthening of the national capacities in the digital technologies.

(4) Human capital development

Recognising the importance of education and skills, health and social protection to unleash economic growth potential is in focus of this potential investment project and programmes. Investing in human capital entails investing in reforms, services and infrastructures.

New interventions are sufficiently grounded with the necessary feasibility and sectoral studies and/or that interventions are part of human development broader strategies at regional and or partner economy level. Investments have to contribute to the reforms priorities as identified by the Reform Agenda and contribute to the implementation of the Common Regional Market, digital and green agenda objectives.

More concretely, indicative investments are related to:

- Investments in the field of education and skills (from early childhood education to high level education), and health comply with clean energy, energy efficiency environmental protection, disaster resilience, including to climate change impacts, sustainable infrastructures and digitalization. Recognised international standards in the fields are recognised. Investments in infrastructures are instrumental to the achievement of the objectives of existing education and skills, health strategies and plans;
- Investments incorporate and /or address the priorities of the digital and green agenda for the Western Balkans. In case of infrastructures, investments prioritize the deployment of digital infrastructures, fulfil with renewable energy and energy efficiency requirements, needed sector reforms and standards adaptation;
- Investments have to be part of country's economy or regional education and skills, health strategies and target explicitly inclusion of disadvantaged groups, including minorities and marginalised communities, explicitly but not exclusively support Roma labour market integration. Gender considerations are taken into account.

Bearing in mind that the objective of the Reform Agenda interventions is to bring forward the advantages of EU membership before accession, investments in human capital, boosting innovation, research and cooperation among academy and industry in promoting economic development are essential. Ensuring the private sector competitiveness (mostly formed by micro, small and medium enterprises in the country), helping teachers at educational institutions to transfer the knowledge to the next generations, to access the labour market equipped with better skills, will be the elements taken into account when financing the indicative infrastructure investments that will contribute to improved ecosystem, mitigating the brain drain in the country.

Analysis of the priorities of Reform Agenda and WBIF investments

The Reform agenda's priorities are in compliance with the WBIF investments as a whole. Namely, the WBIF priorities allow for summing up of the reforms planned under the Reform agenda. If for ex. the reforms are planned to secure the digital infrastructure, a project under WBIF is planned to develop and implement a robust and impregnable network infrastructure tailored exclusively for governmental operations. The project is driven by the critical need to safeguard sensitive information, ensure seamless communication among governmental entities, and fortify the nation's cyber defence posture. In other cases, where the reforms are planned for introduction of energy efficiency in public buildings, under WBIF there are projects for energy efficiency in schools and health institutions, support for the energy efficiency fund and the renovation plan for central government buildings.

Investment priorities of the country that are introduced in the indicative list of projects derive from the national and sector strategies, such as the National Transport Strategy 2018-2030, National Energy Strategy till 2040, National Strategy for Education 2018-2025, National Strategy for Employment 2021-2027, National Strategy for Health 2021-2030. Considering that the indicative investments follow the UN National Determined Contribution, the Paris Agreement on Climate Change, the National Energy Climate Plan and other relevant documents, the proposed projects for financing will fully follow the "do no significant harm"

principle, considering the environmental impact of the activities themselves, and at the same time enhancing the economic convergence.

The projects that are listed in the indicative list are also projects that have been included and planned under Single Sector Project Pipelines as per the WBIF procedures and good practices. The indicative list remains indicative in order to allow: a) overview of the country's infrastructure investment priorities and predictability in terms of future funding and b) solid ground for planning of additional technical assistance as to support the maturity of the investments as such.

However:

- WBIF national envelop established under RGF framework will fund projects in 4 out of 5 sectors eligible under WBIF such as transport, energy, digital future, and human capital development. The sector environment will be supported via the regional WBIF envelop.
- In general, WBIF puts more focus on the connectivity whereas the Reform agenda is solely focused on one aspect in connectivity i.e. the introduction of intelligent transport system that facilitate trade and boost regional economic cooperation.
- One additional exception of the WBIF investments vis-à-vis is the sector energy, where the reforms planned under renewables are not supported by WBIF public investment grants under the blending instrument but rather through the WBIF support for private sector.
- all the investment projects that are related to establishment of IT systems (for ex. Customs, Public Finance Management) and/or investment related to implementation of National Smart Specialization are not eligible under WBIF.

The Indicative list of investments focuses on a period of implementation from 2025 to 2032. The level of maturity differs sector from sector, and the benefit of the existing Technical Assistance under WBIF will be essential in bringing the existing documents for the key investments on fast track for financing.

14. CONSULTATION

In order to ensure inclusiveness and transparency in the preparation and implementation of the Reform Agenda, the Government, in line with the partnership principle and multi-level governance, the Government initiated a broad discussion with key stakeholders during the final stages of the Reform Agenda preparations. Steps have been undertaken to conduct meaningful consultations with all relevant stakeholders including civil society, economic chambers and unions as well as academia. The relevant parliamentary bodies were informed of the ongoing processes and the role of the entity further in the approval process.

The internal consultation within the established national coordination system and structure of the Government for designing the RA was lengthy and inclusive as it involved a number of coordination meetings in the period November 2023 - June 2024. As described in the chapter Monitoring, Reporting and Evaluation, the Government will additionally adopt a Decision on the set up monitoring and reporting system for the Reform Agenda tasked to coordinate, implement, monitoring, report, evaluate, conduct internal control and audit.

The Government, in coordination with the EU Delegation, ensured a constructive and inclusive coordination with all EU MS, non-member states, IFI's, UN Agencies and other development partners presenting the overall Reform Agenda objectives and steps and potential investments. The RGF monitoring committee and National Investment Committee will contribute towards consultation, communication, monitoring and reporting obligations of the country. Their early involvement proves beneficial especially for planning the investment portfolio and the proper medium to long term planning of the national budget fiscal space.

The consultation and communication process does not stop at this level. The Government will in continuation consult with different stakeholders like the National Council on EU Integration, the Committee for EU Affairs, the Government Council for Cooperation with Civil Society and other entities, on regular basis, and ensure democratic scrutiny during the implementation of the Reform Agenda.

15. MONITORING, REPORTING, EVALUATION

The arrangements for monitoring, reporting and evaluation will be designed and set up upon signing of the Facility Agreement. The effective system will be complementary to the established systems for monitoring and reporting on EU funds, as well as the Government structures and established practices for strategic planning, implementation of the state budget and oversight of economic policies, structures, reforms and investments.

Monitoring and reporting

Monitoring of the implementation of the RA will aim at collecting and analyzing data to inform on the progress towards achievement of planned steps and objectives, to feed decision-making processes and to report on the use of resources.

The Government will put in place regular and systemic monitoring, at both political and technical levels, and reporting arrangements to inform on progress towards planned results' achievement, thus ensuring a sound, overarching and comprehensive reporting to the Commission. It will use as much as possible the existing procedures more in terms of public procurement, implementation, internal control, irregularities and fraud and external auditing.

The monitoring and reporting arrangements will include:

- i) the institutional set-up (including the required coordination arrangements and the approval chain of actors that will ensure accuracy of the reporting),
- ii) the information to be used and provided and the internal schedule of the availability of this information,
- iii) the quality control processes that govern the collection and analysis of the relevant data (including, where relevant, arrangements for quality assurance on data collection from downstream partners– including data disaggregation (i.e., by sex, age, rural/urban, etc.), and
- iv) provisions for third party assessment, when relevant. If there are serious weaknesses affecting quality of information used, the Beneficiary will specify the implications and the mitigating measures envisaged accordingly.

Monitoring and reporting will be considered the extent to which relevant reforms and investments are taking into account the leaving no one behind and contribute to gender equality and women's empowerment.

Additionally, the monitoring and reporting system is independent and can provide effective accountability and transparency in implementing the Union budget.

The monitoring system will have to mirror the Scoreboard of the Commission that will be operational as of 01.01.2025. During this period, the Government will make strong efforts in also establishing the link between the indicators of the Reform Agenda and the 2021 Performance Assessment Framework (PAF), which includes outcome and impact indicators, targets, and baseline data. The PAF is established as a web-based application backed up by the Government's decision on responsibilities and deadlines, allowing regular electronic data input, processing, and analytics. The PAF data is used and discussed in the respective Sector Working Groups, which is also the inclusive platform for all stakeholders, national authorities, donors, civil society organisations, etc., to monitor the implementation of the sector Reform Agenda priorities.

The country shall undertake additional monitoring visits through its own staff and based on risk assessment and reports from the line ministries and other institutions.

For the WBIF interventions the collected data and milestone reports will be available 2 (two) times a year. The country may convene ad hoc meetings for the WBIF interventions (for all projects or particular projects) if such a need arises in event of delays in implementation.

The monitoring of the WBIF intervention should be compliant with the procedures for implementation under indirect management with entrusted entities. The monitoring function under WBIF frame, on national level remains under the responsibility of NIPAC. The implementation of the investment projects however is not part of the payment requests.

The reporting towards the Commission will be strengthened by internal reporting. The internal reporting circuit will be established in addition to the two reports (semi-annual and annual) to be submitted to the EU by respective deadlines, i.e., by 30 June and 31 December. The overall monitoring and reporting will rely on the internal system of data collection and verification established on national level, including IT tools.

Roles and responsibilities for data collection, analysis and monitoring

The overall progress is a responsibility of and will be monitored by National RGF Coordinator with the support of the Ministry of European Affairs (MEA).

The National RGF Coordinator shall in particular:

- ensure the overall coordination, timely implementation, reporting, monitoring of the assistance to the beneficiary, including the coordination within the administration and with other donors as relevant in line with the objectives set out in the Reform and Growth Facility Regulation;
- shall coordinate a regular high-level policy dialogue with the Commission;
- ensure a close link between the use of the Facility funds and the general accession process;
- ensure that the assistance received under the Facility is complementary to the assistance received under the Instrument for pre-accession assistance and to any other external assistance received by the beneficiary;
- prepare and submit the requests for the release of funds under the Facility and ensure their veracity and the signature of the declaration of assurance;
- have the (i) administrative capacity in terms of human resources (staff numbers and profiles), institutional experience and expertise, and (ii) the mandate and authority to exercise all relevant tasks, including reporting and monitoring responsibilities;
- get assurance about the satisfactory fulfilment of the relevant qualitative and quantitative steps identified in relation to the implementation of the Reform Agenda, that the funds were managed in accordance with all applicable rules, in particular rules on avoidance of conflicts of interests, fraud prevention, corruption and double funding;
- The Coordinator shall steer and guide the work of the Monitoring Committee.
- As it is prescribed in the Financing Facility Agreement, and in coordination with the national structures relevant to ensure sound financial management of EU funds, the institutions such OLAF, the European Public Prosecutor's Office (EPPO), the Court of Auditors, each acting within their respective competences, will be provided full access to exert their competences in direct coordination with the beneficiary authorities responsible for the overall implementation of the Facility.
- Ensure that the funds of the Facility are used in accordance with the principle of sound financial management, transparency, equal treatment, non-discrimination and proportionality for their intended purpose and managed appropriately in particular in accordance with the Beneficiary's rules complemented by EU and OECD audit standards and rules on prevention, detection and correction of fraud, corruption and any other illegal activities affecting the EU financial interests, as well as on conflicts of interests and irregularities;

- Ensure the collection of, access to, and transfer into an electronic format, of data on natural persons and legal entities receiving funding for the implementation of measures under the Facility, in accordance with Article 22 of the Reform and Growth Facility Regulation.
- Monitor the establishment and operationalisation of the internal system referred to in Article 11 of this Agreement.
- Maintain appropriate procedures for drawing up the declaration of assurance and summary of the audits and controls carried out at national level, including:
 - An effective procedure for drawing up the declaration of assurance in accordance with the model in Annex B, documenting the summary of audits and controls and keeping the underlying information for audit trail;
 - Effective procedures to ensure that all cases of fraud, corruption and conflicts of interests are properly reported and corrected through recoveries.
- Ensure appropriate measures, including procedures for checking the fulfilment of the relevant qualitative and quantitative steps identified in relation to the implementation of the Plan and compliance with principles of sound financial management, including among others:
 - appropriate measures through which authorities entrusted with the implementation of the Plan measures will check the fulfilment of the relevant qualitative and quantitative steps identified in relation to the implementation of the Plan (e.g. desk reviews, on-the-spot checks);
 - appropriate measures through which the authorities entrusted with the implementation of the Plan measures will check the absence of irregularities, fraud, corruption, other illegal activities, including conflicts of interests, and double funding (e.g. desk reviews, on-the-spot checks).
- Maintain an effective system to ensure that all information and documents necessary for audit trail purposes of the implementation of the qualitative and quantitative steps are held.
- The Coordinator will be assisted and advised by the internal auditor in reviewing of envisaged regular implementation report's content and the submitted information, including performance of on the spot checks. Within the preparation of semi-annual report, the Internal auditors would assist the Coordinator in preparation of Declaration of Assurance confirming that the data in the report are accurate, verified, reliable, and accurately reflect the level of achievement of the listed steps, and that the established internal control system and measures taken to improve it confirm its content.

That said, particular attention will be put on roles and responsibilities, as well as lines of cooperation between MEA and MoF as a responsible for management of the payment request for realise of funds. The coordination between MEA and MoF will be very important and instrumental on the timely preparation of progress reports that elaborate on the meeting of the payment conditions and preparation of the request for realise of funds.

The monitoring will be organised around the RFG Monitoring committee and reporting requirements.

The arrangements to ensure proper oversight of the implementation of the Reform Agenda could be initiated with the creation of a RGF Monitoring Committee, in the context of the existing national structures that could, inter-alia:

- Oversee the status of implementation of the Reform Agenda and assess the degree and quality of implementation of all reforms and investments towards meeting the objectives set out in the Reform Agenda and in the Reform and Growth Facility Regulation.
- Review the progress towards meeting the preconditions, objectives, achieving the planned steps, and assessing the impact and sustainability of the reforms, while ensuring coherence with the IPA II and IPA III, the related central and regional sector strategies and multi-country or regional activities.
- Review and approve the semi-annual and annual reports, including financial execution of the RA.

- Review the effectiveness, efficiency, quality, coordination, and compliance of the implementation of the RA.
- Examine relevant findings and conclusions as well as proposals for remedial follow-up actions stemming from the on-the-spot checks, monitoring, evaluations, and audits if available.
- Discuss any relevant aspects of the functioning of the management and control systems.
- Discuss any problematic issues and recommend further actions.
- If necessary, consider or make proposals to amend RA and take any other corrective action to ensure the achievement of the objectives and enhance the efficiency, effectiveness, impact, and sustainability of the RA.
- Review information, publicity, transparency, communication, and visibility measures taken.

National RGF Coordinator will co-chair the RGF Monitoring Committee together with a Commission representative.

In addition, the Minister coordinator/s of each priority area and National RGF Coordinator will regularly meet in a monitoring ministerial group discussing and endorsing the inputs from the lower layers of coordination. There will be 5 or more working groups consisted of coordinators and verifiers for each priority area/ reform component/ /step from the relevant institutions discussing the details and the challenges of the implementation of respective steps and reforms. The internal controllers and external audit will perform the regular checks of the functioning of the internal control system. All of these functions and ad hoc groups will guarantee that the system functions. The monitoring system will be pyramidal and it will involve high level coordination and monitoring which will cascade down to the respective line ministries and relevant institutions. Also the national system will pay due account to the serious weaknesses affecting quality of information used, specify the implications for the Reform Agenda and the mitigating measures envisaged accordingly.

The Reform Agenda is results-based and include indicators for assessing progress in the achievement of general and specific objectives of the interventions, related to the policy areas concerned. Indicators are coherent, to the extent possible, with the IPA III Results Framework and WBIF.

On the level of beneficiary institution, the personnel involved in the recording of the achievements of steps is made up of three categories:

1. Project implementation team/PIU within the Beneficiary institution leading the implementation on the level of policy area, that provides twice a year updates on the progress towards the achievement of steps, together with backing documentation and evidence. They will be based on the data from official documents such as reports, acceptance certificates or equivalent documents.
2. Officers within the units/sectors tasked with direct monitoring of the RA Implementation in line ministries/coordinators, who review the reporting received from the Beneficiaries and prepares the inputs to report to the EC MIS.)
3. Officers who are tasked with verifying the progress being reported with respect to the reforms and steps and the evidence submitted. They will act as quality controller entities in the overall line of monitoring and reporting.

The monitoring of the implementation will provide regular information flow and based on criteria set up by Commission reporting on the achievements, progress in meeting the reforms and related steps, the internal control system, budget implementation and WBIF investments. The country will introduce monitoring arrangements that will require regular monitoring and the semi-annual reporting.

The reporting towards the Commission will be organised once a year in the context of the Economic and Financial Dialogue on the progress made in the achievement of the reform-related part of its Reform Agenda, following Article 28 of the Reform and Growth Facility Regulation, in addition to the formal reports accompanying the bi-annual Request for Funds, following the Regulation and the relevant Agreements.

More concretely, the country will, in terms of reporting, ensure:

- feed into a semi-annual report on the fulfilment of its Reform Agenda's payment conditions which will accompany all requests for the release of funds. Every report will provide an accurate account of the implementation of the underlying reforms as measured by corresponding indicators (and related baselines and qualitative and quantitative steps).
- feed into an annual report on the overall progress in the implementation of the Reform Agenda vis-à-vis the overall and specific objectives of the Facility, in line also with the indicators included in the Reform Agenda, using the template to be provided by the Commission. This will contribute to the Commission annual monitoring of the Facility, as per Art. 25 of the Reform and Growth Facility Regulation.

Evaluation

As prescribed in the RGF Regulation, Article 27, the evaluation process is fully guaranteed by the EC. The ex-post evaluation shall assess the EU contribution and the achievements on the ground. The national authorities will support the European Commission to ensure direct communication with all relevant stakeholders, including beneficiaries, social partners, civil society organisations, regional and local authorities in the evaluation process on the ground.

On the ex-post evaluation mentioned in the Regulation, North Macedonia commits to provide to the Commission all the relevant monitoring and reporting data, and data coming from its own assessments or studies, to feed into the ex-post evaluation.

16. CONTROL AND AUDIT

Public Internal Financial Control

The system of public internal financial control is established in accordance with the Law on Public Internal Financial Control, and includes financial management and control and internal audit, harmonized with international standards. The implementation of RA will be subject to established internal control procedures in the country.

The Central Harmonisation Unit (CHU) at the Ministry of Finance is mandated with coordinating the set-up, development, implementation, and maintenance of the public internal financial control system.

The coordination refers to harmonisation with international standards, supervision over the financial management and control system and of the internal audit, and drafting bylaws, manuals and guidelines.

In accordance with the Law on Public Internal Financial Control, financial management and control should be implemented in all budget users and at all levels of the entity and it shall cover all funds of the entity, including the funds from the European Union and from other sources. Internal audit shall be performed in all public sector entities. Also, all beneficiaries of EU funds are obliged to enable the authorised officials from the Ministry of Finance, inspectors and auditors from the European Commission and the European Court of Audit free access to all documentation, offices, funds, and staff, observing the rules for security clearance and good behaviour.

According to the Law on Public Internal Financial Control, the head of the entity is obliged to ensure the following:

- setting up financial management and control and internal audit functions in all organizational structures, programs, operations and processes, within the entity;
- establishing an organizational structure and working procedures to ensure functioning, monitoring and development of sound financial management and control;

- establishing a reporting line in compliance with the transferred authorizations and responsibilities, and
- establishing risk management processes and appropriate and efficient internal controls.

Also, the head of the entity shall be accountable for achieving the objectives of the entity by managing public funds in a legal, economic, efficient and effective manner.

The Central Harmonisation Unit at the Ministry of Finance, continuously in accordance with its competences, implements activities to improve the functioning of the public internal financial control. At the end of June 2024, the total number of employees in CHU was 8 (1-Head of Department, 1-Deputy Head of Department, 2- Heads of Units, 3-Advisers and 1 -Junior associate). To strengthen its monitoring role and improve the quality of reporting on the system of internal financial control, within the framework of the Central Harmonisation Unit, a separate unit for quality checks of financial management and control and the operations of internal audit was established in 2023, which actively began conducting quality checks. Based on the Annual Reports on the System of Public Internal Financial Control, the Government of the Republic of North Macedonia adopts conclusions with specific measures and activities for the improvement of the system.

According to the last EC Report, North Macedonia remains moderately prepared and limited progress has been achieved over the last years, pending adoption of the Legislative framework that shall underpin reforms. The new Public Internal Financial Control Law has been in Parliamentary procedure of adoption for more than three years and new State Audit Law has been in Government's procedure for two years. North Macedonia commits to address these delays, especially as the adoption of the new PIFC law and its implementation are foreseen under the Reform Agenda, under reform 1.1.1 Strengthen Public Internal Financial Control.

The PIFC framework faces some challenges, including the very large number of primary Budget Users (around 100). By the end of June 2024, the total number of institutions at central level with Internal Audit Unit is 116 and number of Internal Auditors is 115. At local level, the total number of institutions with an Internal Audit Unit is 84 and the number of Internal Auditors is 71.

Internal Audit Units prepare strategic and annual audit plans based on risk assessments, evaluating the financial management and control systems for compliance and effectiveness. Internal Audit Units also monitor the implementation of changes based on completed audits. The Government plans to develop a national system for certification of internal auditors and to establish a more comprehensive quality assurance system.

According to 2022 PIFC report, the 2022 audit plans of all central level Budget Users that have IAUs envisaged 164 internal audits, of which 135 audits were performed, including: 43 system audits; 63 regularity audits; 16 audits to check the level of follow-up of recommendations; one IT audit and 12 *ad hoc* audits.

During the same period, the local level Budget Users that have IAUs planned to carry out 181 audits, of which 132 audits were performed, including: 34 system audits; 59 regularity audits; 2 performance audits; 16 financial audits; 2 audits to check the level of follow up on recommendations; and 19 combined audits.

According to the European Commission Report, in 2022, the level of implementation of internal audit recommendations has shown improvement at both the central and local levels. At the central level, the rate of implemented recommendations increased to 66.5% from 60.3% in 2021. At the local level, the rate also improved slightly, from 59.2% in 2021 to 61.4% in 2022.

Public Investment Management systems are still to be developed. Financial and physical monitoring of investment projects is carried out at the project level but a system to consolidate information and monitor risks associated to implementation of projects is still to be developed. The Government is planning to adopt a Public Investment Management Decree that shall regulate the entire project cycle management.

The implementation of the Integrated Financial Management Information System (**IFMIS**) is key to strengthen internal controls.

The Public Procurement Bureau (PPB) has systems in place to detect irregularities in public procurement. Ex-ante administrative controls of high-value procurement support addressing irregularities before notification of selection of bidders. A Red-Flag system has been designed by PPB to identify irregularities, anomalies, or high-risk activities within the public procurement process.

Within the system of financial controls is also the **Financial Inspection**, which is organized as a separate organizational unit in the Ministry of Finance, directly reporting to the Minister of Finance and consisting of two units responsible for financial inspections at the central and at the local level.

The financial inspection in the public sector in North Macedonia is regulated by the Law on financial inspection in the public sector. According to this law, the purpose of the financial inspection is to protect the financial interests in managing central government budget funds, the budgets of self-government units and the funds from other public sources, as well as the EU funds, by determining the legality of the use of funds, in accordance with the specific regulation that stipulates the competence for performing financial inspection.

The financial inspection can be conducted at all users of budgetary funds from the Central Government budget, the municipalities and the City of Skopje, the agencies and other institutions established by law, public enterprises, public institutions and other legal entities, which are owned by the state or by the municipalities and the City of Skopje, or where the state or the municipalities or the City of Skopje are shareholders, at beneficiaries of EU funds, non-profit organizations and other legal entities and natural persons solely for the part of the received public funds or guarantees.

The coverage of the financial inspection is quite broad as it refers to conducting supervision of legality, efficiency and responsible use of budgetary funds, the use of EU funds and the funds from other public sources, regardless of whether such funds are revenues, cost, expenses, return on assets, receivables, liabilities and capital of the entities subject of the financial inspection.

To optimize its efficiency, the Financial Inspection shall strengthen the human capacities by increasing the number of financial inspectors and building their professional knowledge and skills. In 2023, the Financial Inspection received 2,052 requests to start a process. The total number of requests for financial inspection which the Financial Inspection acted upon in 2023 (some of them accumulated from previous years) was 499, of which 339 were completed with minutes/reports on performed financial inspection and 160 were completed with rejection/suspension decisions or forwarded to another competent authority.

The financial inspection procedure is initiated by the **Chief Inspector**, by issuing written authorization for conducting financial inspection based on its priority, upon submitted hard copy of requests filed by natural persons, heads or employees of the entities subject to financial inspection and other legal entities and supported by evidence and/or allegations of reasonable suspicion of irregularities or deficiencies and/or suspected crime in the financial management of public funds as well as EU funds, as well as upon a request of the **AFCOS Unit**, which acts at the request of the European Office for Fight against Fraud (OLAF - Office Europeen de Lutte Anti-Fraude). In addition, financial inspection may be conducted ex officio, in cases of verbal reporting or as per information obtained during the financial inspection on the existence of reasonable suspicion of irregularity, deficiency and/or suspicion of a crime in financial management of public funds, as well as the funds of the EU held with the entities subject to financial inspection.

Upon completion of financial inspection, in which the Financial Inspector has identified irregularities and/or deficiencies, the Chief Inspector, depending on the type of irregularities/deficiency, can issue a decision for elimination of determined irregularities and deficiencies, a decision for termination of determined irregularities or a decision for requesting recovery of funds to the budget within stipulated deadlines.

When financial inspection determines an irregularity or deficiency that constitutes a misdemeanour, the Financial Inspector is obliged to submit to the competent authority a request for initiating a misdemeanour

procedure. In case of suspicion of a criminal act, the Financial Inspector is obliged to submit to the competent body the minutes of the performed financial inspection with attached evidence.

Further strengthening of the public internal financial controls system to enhance accountability and efficiency of budget execution is foreseen within the *Reform 1.1.1: Strengthen Public Internal Financial Control* (please see Annex 1).

In the following period, the capacities of CHU and Financial Inspection shall be strengthened with new employees.

External Audit

The State Audit Office is the supreme audit institution in the Republic of North Macedonia, with the mandate to perform its function in accordance with the Law on State Audit (Official Gazette no. 122/21).

The independence of the State Audit Office is determined by the Law on State Audit, which regulates the competences of the State Audit Office and its mandate for the performance of audits of financial statements, compliance and performance, with access to all necessary information, documentation and records necessary for the implementation of audit.

The capacity of SAO shall be strengthened to fulfil its mandate. The total number of SAO employees by end of June 2024 was 118, of which: 109 state auditors, 6 administrative staff and 3 auxiliary - technical staff versus the 245 employees foreseen in the last Act of Systematization

The SAO as the supreme audit institution has a key role in protecting the way public funds are used (taxpayers' funds), delivering quality services to citizens and fighting corruption.

The state audit is carried out by authorized state auditors and state auditors. The State Audit Office hires professionals and experts from the field of audit as needed during the audit. The professional capacities of authorized state auditors and state auditors are continuously upgraded in accordance with the Human Resources Management Strategy and the Annual Plan for continuous professional development.

The State Audit Office performs the state audit of financial statements, compliance with legal regulations and regulations, and performance audits in accordance with the requirements of INTOSAI standards.

Pursuant to Article 22 of the Law on State Audit, the mandate of the State Audit Office to audit European funds and funds from other international institutions is clearly indicated: *"The state audit is performed at the Assembly of the Republic of North Macedonia, the President of the Republic of North Macedonia, the Budget of the Republic of North Macedonia and the budgets of municipalities, budget beneficiaries, individual beneficiaries, public enterprises, trading companies in which the state is the dominant shareholder, agencies and other institutions established by law, others institutions financed with public funds, the National Bank of the Republic of North Macedonia, political parties financed with funds from the Budget, beneficiaries of funds from the European Union (except for the system for implementation, management and control of the instrument for pre-accession assistance in the Republic of North Macedonia) and beneficiaries of funds from other international institutions (hereinafter: subject of audit)"*.

If necessary, the state audit is also carried out at entities that are related to the entities subject to audit, that have an economic, financial or other type of interest and that use funds that represent public expenditures.

Aimed at further strengthening of the methodological approach in the implementation of the audit of European funds, in June 2022 "Guidelines for the audit of EU funds and pre-accession assistance" were adopted as a methodological tool for auditors in the audit of European funds.

Furthermore, for the needs of the audit of the funds from the European funds, within the State Audit Office, a special Department for the audit of users of funds from the European Union and users of funds from other international institutions has been established, with two departments:

- Department for the audit of users of funds from the European Union;
- Department for the audit of users of funds from other international institutions.

The SAO operates with high standards of transparency and reports are regularly published on its website. The Annual Work Program for 2023 included 66 audits and 100 audit reports issued. Out of 100 audit reports, 96 were published on SAO's website by the end of June 2024: <https://dzt.mk/mk/revizii/informacii-izvestuvanja/soopstenija-konecni-revizorski-izvestai>

Over the past period, the State Audit Office has conducted several audits of users of funds from the European Union and of users of funds from other international institutions, for example:

- Performance audit Process of obtaining and using funds from the Western Balkans Investment Framework (WBIF) instrument;
- Performance audit of capital investments financed through the budget of the Republic of North Macedonia, EU funds and funds from other international financial institutions under the jurisdiction of the central government and local self-government;
- Audit of performance "Use of health services for radiological diagnostics with magnetic resonance";
- Performance audit INTERREG - IPA program for cross-border cooperation R. Bulgaria - R. Macedonia 2014-2020;
- Audit of compliance on the topic of obtaining non-financial assistance, distribution and use by institutions in the public sector for the purpose of prevention and protection from the pandemic caused by the corona virus COVID 19 and etc.

In the context of Reform Agenda, system audit will be conducted by SAO in 2025 to assess the system put in place to implement the reforms, with focus on monitoring systems to ensure that the information submitted to underpin the disbursements is accurate.

The implementation of audit recommendations could be promoted by improving the use of audit reports by the Parliament.

From the point of view of policies and measures for the prevention of corruption within the framework of the State Audit Office, the following standards are used:

- INTOSAI audit standards and GUID 5270 – Audit guidelines for prevention of corruption;
- Strategy for the development of SAO 2023-2027 (Strategic objective 4);
- Strategic audit plan 2021-2023 and Decision on determination of strategic objectives for audits of the State Audit Office for the period 2021-2023 and for priority areas for audits by sectors that perform audits;
- Annual plan for the prevention of corruption for the year 2022 and Decision on determining persons to monitor the Annual Plan;
- Guidelines related to detection of irregularities, fraud and corruption;
- Implementation of the anti-corruption management system in accordance with the requirements of the ISO 37001:2016 standard and the SAO Quality Policy;
- Concluded memoranda of cooperation with state authorities, professional associations and institutions, civil society organizations and active cooperation with competent authorities in this area;
- Training for employees in the field of corruption prevention;
- Participation of employees in trainings in prevention of corruption;
- Proactive policy for communication and informing stakeholders.

Anti-Fraud Coordination Service (AFCOS)

With the Organization and Systematization Act of the Ministry of Finance from December 2018, the Anti-Fraud Coordination Unit is organized within the **Department for Public Sector Financial Inspection and Coordination for Combating Fraud against EU Funds**. The **AFCOS Unit** consists of the head of the Unit and two advisors. In accordance with the IPA Framework, AFCOS is responsible for leading the creation/implementation of strategies to protect the financial interests of the Union, identifying possible weaknesses in the IPA III beneficiary systems for managing Union funds including IPA III assistance, ensuring sufficient human resources capacity for these tasks, including training of fraud-prevention staff, supporting cooperation between the IPA III beneficiary administrations, prosecution authorities and OLAF, sharing information on irregularities and suspected fraud cases, including those identified in audits and checks carried out by the IPA Audit Authority, internal audit services, IPA Management Structure, IPA Managing Authorities and Intermediate Bodies, with the IPA III beneficiary administration and OLAF.

The role of the AFCOS Unit was strengthened by adopting the Decree on determining the structure of the system for the protection of the financial interests of the European Union (“Official Gazette no.264/22”). In accordance with this Decree the System for protection of the European Union financial interests is being consisted of the IPA structures, AFCOS Network (consisted of the key institutions responsible for managing IPA funds and the institutions responsible for combating fraud of EU Funds in the Republic of North Macedonia) and the AFCOS Unit.

To protect the financial interests of the EU, regular and ad hoc meetings will be held within the AFCOS network where specific cases of determined irregularities are considered, but also measures are taken to ensure systemic protection of the financial interests of the EU, through better cooperation and coordination in taking the necessary activities in accordance with the legal competences of the responsible institutions.

The **AFCOS Network** became fully operational on 14.03.2023, when the constitutional meeting was held with the institutions – members of the AFCOS Network. At the end of 2023 and the beginning of 2024 two more general meetings of AFCOS network were held and one ad hoc thematic meeting, on the request of the IPA structures. On these meetings of the AFCOS Network the main problematic issues within the area of protection of the European Union’s financial interests and cases of reported irregularities with EU funds were discussed.

In regard of improving the cooperation in the area of protection of the EU financial interests, on 21.06.2023 memorandums for cooperation between Ministry of Finance and the key institutions in the area of protection of the EU financial interests- Financial Police Office, Public Prosecutor Office and Audit Authority.

The work of the AFCOS Network is in detail regulated with the Rulebook of the AFCOS Network, adopted on 20.02.2023.

For the next period within the area of protection of the EU financial interests, the following activities are planned for further strengthening the cooperation for prevention, management and reporting of irregularities that affect EU funds: drafting and signing memorandums for cooperation in the area of protection of the EU financial interests between the Ministry of Finance and the Ministry of Interior and the State Audit Office, drafting a new Anti-fraud strategy for the period 2026-2030 with Action plan for its implementation and regularly holding the AFCOS Network meetings.

The AFCOS unit in accordance with the provisions of the IPA framework, will continue to provide and deliver training for the employees of the institutions that are part of the AFCOS network in the relevant area of protection of EU financial interests.

AFCOS Unit also attends the regular quarterly irregularity meetings for IPA I, IPA II, IPARD I and IPARD II, whereat irregularities reported and follow-up activities for previous period are covered. In addition, AFCOS Unit attends the regular semi-annual Risk Panel meetings.

According to the Law on financial inspection in the public sector, AFCOS Unit has the right to submit a request for initiating an inspection procedure in a case of reasonable suspicion of irregularities or deficiencies and/or suspected crime in the financial management of EU funds.

Another important role of AFCOS Unit is leading the creation/implementation of strategies to protect the financial interests of the Union. On 14 June 2022, the Government of the Republic of North Macedonia adopted the **National Strategy for Combating Fraud and Protection of the EU Financial Interests** in the Republic of North Macedonia 2022-2025 and the Action Plan for Implementation 2022-2023. The Action plan for implementing the Anti-fraud Strategy 2022-2025, for the period 2024-2025 was adopted by the Government on 09.04.2024. The Action plan is based on identified priority areas and the correlated objectives. It assigns to the appropriate authorities a responsibility for the implementation of these priorities and corresponding follow-ups. The implementation of this strategy in a cooperation with the competent institutions is a key instrument for ensuring systematic prevention, detection, suppression, and sanctioning of perpetrators of irregularities and fraud.

For ensuring efficient functioning of the Anti-Fraud Coordination Service Network (AFCOS) and improve the prevention, management and reporting of irregularities that affect EU funds, further strengthening of the capacities is needed, including additional staffing and trainings, and technical support, that will be provided with ongoing IPA assistance.

The Public Finance Management Reform Strategy 2024-2027 foresees actions to reinforce both Public Internal Financial Controls under Pillar VI and External Controls and Parliamentary Oversight under pillar VII. The PFM Reform Strategy is comprehensive and well sequenced.

The European Union has provided substantial support to improve Public Internal Financial Controls, over last years, mainly via twinning projects. Notably, projects “Strengthening budget planning, execution and internal control functions” and project “Improvement of external audit and Parliamentary oversight”

The EU is currently providing funding to the World Bank managed project “Building Effective, Transparent and Accountable Public Financial Management Institutions in North Macedonia” aiming at design and roll out of IFMIS system and it is in the process of finalizing the Tender for the project “Support to the implementation of the PFM Reform Strategy 2024-2027”. This project will provide ad-hoc technical assistance and it will be made instrumental for the implementation of the Reform Agenda.

Moreover, in Annex I of the Reform Agenda the following steps are included that will contribute to improving internal control and prevent fraud and corruption:

- *By December 2024, PIFC Law is adopted by the Parliament*
- *By December 2025: Minimum 70% of parent budget users at central level have a risk management document, including anti-corruption risk and record the identified risks in mitigation plans*
- *By December 2025: At least 80% of budget users at central level and 75% at local level submit a report on performed internal audits (related to Fiscal Year 2024)*
- *By December 2025: Developed adequate level transitory (excel based) IT solution that will provide the MoF with a database of projects from which to select budget candidates and monitor financial implementation of projects*
- *By December 2026: Increased analytical capacity to improve efficiency in budget allocations: MoF has carried out spending reviews covering at least 20% of the budget (cumulative number since beginning of the Growth Plan.)*
- *By June 2026, repeated by June 2027: An increase in the number of investigations, confirmed indictments and convictions is demonstrated in cases of corruption, including at high level; an increase in stand-alone financial investigations is demonstrated; an increase in the overall value of seizures, freezing and confiscations of the proceeds of crime is demonstrated.*
- *By December 2027, PIFC is fully implemented.*

- *By December 2027, Reforms foreseen in the Organic Budget Law are fully implemented.*

17. COMMUNICATION

The general objective of the **Reform and Growth Facility for the Western Balkans** is to accelerate regional economic integration and progressive integration with the Union single market, the socio-economic convergence of WB countries' economies with the Union, and the alignment with Union values, laws, rules, standards, policies and practices with a view to Union membership (Article 3 of the Proposal for a Regulation of the European Parliament and of the Council on establishing the Reform and Growth Facility for the Western Balkans).

Given the importance and magnitude of the EU support via the Reform and Growth Facility, the Government will prepare a separate communication and visibility plan, preferably integrated with a general umbrella strategy for strategic communication on EU support, EU values and the EU integration of North Macedonia.

The structures for implementation of such Communication strategy will be set along the lines for implementation, monitoring, reporting and promoting the achievements under the Reform Agenda and the process will be coordinated with the EU Delegation and the existing initiatives on the ground via the recently established EU Houses country wide.

This in itself, represents a substantive framework for communicating and promoting the implementation of the national Reform Agenda with the aim of bringing its opportunities and effects closer to various stakeholders and the citizens.

An indicative concept that would be further developed in a full-fledged Communication Strategy can lay on the following elements:

In the initial period of implementation, the emphasis will be on the communication of programme documents, the amount of available funds, new tenders and the clarification of open questions related to the national Reform Agenda. In the second part, communication will be focused on the results and effects of the use of the Facility funds. The following can be used as guiding **communication objectives**:

- Briefing on the opportunities and effects of the Reform and Growth Facility for the Western Balkans,
- Promoting the involvement of potential beneficiaries in the implementation of the national Reform Agenda,
- Familiarizing recipients with their duties related to Union funding of their activities from the national Reform Agenda,
- Ensuring transparency and access to comprehensive and clear information.

The target groups are the general public, (potential) beneficiaries, the interested public in terms of individual policy areas and related reforms, internal public – participating in the implementation of planned reforms, the media.

The communication of the Reform and Growth Facility for the WBs will be part of the **uniform guidelines for communication on Union assistance, which is currently under preparation**. They will be part of this general National Communication Strategy for the Reform Agenda/ EU support, EU values and the EU integration. Traditional and modern communication tools will be used, e.g.:

- press conferences and press statements, press releases, interviews and appearances on talk shows, in communication with the media;
- advertisements in electronic and printed media, social media;
- direct communication with (potential) beneficiaries and the general public: (video) conferences, seminars, workshops, events organised for the general public;

- publications, leaflets, posters and promotional products;
- contests, prize games and quizzes;
- online presence through web site and unified communication channels on social networks, and using info graphics, video clips, etc.

Communication and visibility activities will be carried out with consideration of the EC communication guidelines. All entities receiving EU funding and contractors implementing EU-funded external actions shall have the obligation to inform the relevant audiences of the Union’s support for their work by displaying the emblem of the Union and a funding statement that reads ‘funded by the European Union’ on all communication materials related to the actions concerned, including on an official website and social media accounts, where these exist. To that end, they shall comply with the instructions given in the 2022 guidance document [Communicating and raising EU visibility: Guidance for external actions](#) (or any successor document). A funding statement will be complemented by the keywords that will be defined jointly with the Commission in relation to the Reform and Growth Facility for the WBs. Based on the objectives, policy area and related reform and communication tools, general messages will be created for all target groups, as well as appropriately adapted and supplemented in communication according to the target groups.

Reporting on communication and visibility related activities by the national authorities will be done in accordance with the requirements that might be laid down in the Facility Agreement or any other guidance that might be issued by the EC in relation to Reform and Growth Facility and related national Reform Agenda programme.

ANNEX 1: STEPS AND PAYMENT CONDITIONS BY POLICY AREA