

**CARDS Assistance to the former Yugoslav Republic of Macedonia
Multi-annual Indicative Programme 2005-6**

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Abbreviations

CAFAO	Customs and Fiscal Assistance Office
CARDS	Community Assistance for Reconstruction, Development and Stabilisation
CSP	Country Strategy Paper
EAR	European Agency for Reconstruction
EBRD	European Bank for Reconstruction and Development
EC	European Community
EIB	European Investment Bank
EICC	European Info Correspondence Centre
EIDHR	European Initiative for Democracy and Human Rights
EU	European Union
EUSR Office	Office of the European Union Special Representative
FA	Framework Agreement
FIA	Foreign Investment Agency
FDI	Foreign Direct Investment
FIU	Financial Intelligence Unit
GTAF	General Technical Assistance Facility
IC	International Community
IFI	International Financial Institutions
LIFE	Financial Instrument for the Environment
MIP	Multi-annual Indicative Programme
MS	(EU) Member States
NEAP	National Environmental Action Plan
NGOs	Non-governmental Organisations
OSCE	Organisation for Security and Co-operation in Europe
PAR	Public Administration Reform
PRSP	Poverty Reduction Strategy Paper
REReP	Regional Environmental Reconstruction Programme
SAA	Stabilisation and Association Agreement
SAP	Stabilisation and Association Process
SIGMA	Support for Improvement in Governance and Management
SMAQVa	Standardisation, Metrology, Accreditation and Quality Validation
SMEs	Small and Medium Enterprises
TAIEX	Technical Assistance Information Exchange Office
TEMPUS	Trans European Mobility Scheme for University
UN	United Nations
UNHCR	United Nations High Commissioner for Refugees
USAID	United States Agency for International Development
VAT	Value Added Tax
VET	Vocational Education and Training
WTO	World Trade Organisation

1 Background

1.1 Preamble

The objective of the CARDS programme as defined by Regulation 2666/2000 is to support the participation of its beneficiary countries in the Stabilisation and Association Process (SAP).

The Thessaloniki Agenda, approved by the Council in June 2003, confirmed that the Stabilisation and Association Process remains the framework for relations between the Western Balkans countries and the European Union.

The strategic framework of European Community assistance therefore remains unchanged; the review of country strategies undertaken in 2003, notably in the light of the annual reports, led to the conclusion that the areas and priorities identified remained relevant. One of the main tasks for future implementation of MIPs shall be the achievement of a higher degree of local ownership of projects and project management.

The Thessaloniki Agenda also provided for the creation of European Partnerships for each country, which set out priority actions on which the countries should act in order to move closer to the European Union

The European Partnerships provide guidance for financial assistance, and the priorities identified therein constitute the basis for CARDS assistance programming.

The European Partnership, based on the 2004 annual SAP report, which examines the political and economic situation in the former Yugoslav Republic of Macedonia and its progress within the Stabilisation and Association Process, confirmed the validity of the priorities set out in the strategic programming framework.

The present Multi-annual Indicative Programme takes due account of the priorities set out in the European Partnership agreed through Council Decision 2004/518/EC of 14 June 2004.

1.2 Introduction

The Multi-annual Indicative Programme (MIP) sets out the priorities for Community assistance for the former Yugoslav Republic of Macedonia in the period 2005-2006. These priorities will form the basis for project identification under the Annual Action Programmes.

The **overall objectives** of the MIP are designed to support the participation of the former Yugoslav Republic of Macedonia in the Stabilisation and Association Process and to assist the country in its efforts to give full implementation to the Framework Agreement which marked the end of the security and political crisis of the first half of 2001.

As a specific tool of the SAP introduced by decision of the General Affairs Council of 16 June 2003, the European Partnerships list short and medium term priorities for the former Yugoslav Republic of Macedonia's preparation for further integration with the European Union. It naturally forms a crucial reference for EC support to be provided through EC financial assistance. Therefore, the MIP identifies means and activities that can be

supported through CARDS assistance in order to help the country implement the medium-term priority actions identified in the European Partnership.

The **specific objectives** of the assistance are to:

- To support the process of integration of the former Yugoslav republic of Macedonia into the EU in particular by supporting the ability of the country to implement the Stabilisation and Association Agreement and its efforts to give full implementation to the Ohrid Framework Agreement;
- Consolidate democratic institutions and democratic principles and promote the application of the rule of law and good governance;
- Support the establishment of a functioning market economy which is capable of delivering sustainable economic growth, fostering trade and generating employment;
- Support the development of social cohesion and social justice while promoting inter-ethnic integration;
- Encourage regional co-operation.

The fight against corruption is addressed as an underlying objective within the SAP: a central theme of the European Partnership, and thus of the present MIP which supports the former Yugoslav Republic of Macedonia in addressing it, is helping the country improve the transparency, efficiency and effectiveness with which its authorities intervene in the economic and social life of the country. Such progress helps reduce both motive and opportunity for corruption. Planned interventions in the areas of public administration, customs and taxation, judicial, and police reform and fight against organised crime will also more directly address the issue.

1.3 Consultation

1.3.1 With Member States in the country

Two rounds of consultations were held with Member States representatives in the country in order to discuss the orientations and priorities of the Multi-annual Indicative Programme and ensure the highest possible degree of complementarity as well as to avoid any duplication of efforts between EC and Member States assistance.

A first preliminary meeting was held during the first programming mission carried out by DG RELEX in March 2004. Widespread agreement was registered on the main priorities that EC assistance should address, namely support to the development of the capacity of the state institutions in the context of the European integration process, to the full implementation of the Framework Agreement, and to the country's economic development.

A second co-ordination meeting was held in Skopje in June 2004. Member States were provided with an overview of the specific MIP priorities which formed the basis for a comprehensive analysis of and discussion on the EC intended programmes. No contentious issues emerged but the need for continued co-ordination during the preparation of the annual assistance programmes was underlined in order to ensure maximum complementarity of different donors' programmes.

Consultation regarding individual assistance projects will be conducted subsequently during the preparation of Annual Programmes.

1.3.2 With the Government

Three rounds of consultations were held with the country's authorities during the preparation of the document. In March 2004, DG RELEX undertook a preliminary programming mission during which meetings were organised with representatives of the Sector for European Integration (SEI) as well as of several key line Ministries and administrative bodies. Discussions were focused on the potential strategic priorities to be targeted by EC assistance under the MIP. A wealth of information was gathered from the relevant authorities and a first indication of the main areas of interest for the EC was provided to the authorities at the end of consultations.

In June 2004, DG RELEX informed the authorities about the progress in the preparation of the MIP and outlined the priorities and objectives included in the draft document. A third round of consultations was held in late June when DG RELEX presented to the authorities a complete overview of the MIP priorities, programmes to be implemented and objectives to be achieved. The country's representatives noted their broad agreement and satisfaction with the priorities indicated which are in line with the content of the European Partnership, respond to the actual needs of the country and respect the Government policy orientations.

1.3.3 With Civil Society

A consultation meeting was held in Skopje with civil society representatives to discuss the main orientations of EC assistance set out in the document. A general agreement was noted on the identified priorities and participants to the meeting manifested appreciation for the mainstreaming of the involvement of civil society throughout different programmes as opposed to a specifically devoted programme.

1.3.4 With other stakeholders

Two rounds of consultations were held with the Office of the EU Special Representative in Skopje. Agreement was registered on the identified priorities and their responsiveness to the political reality of the country and the foreseeable medium-term developments.

Co-ordination meetings were organised with the country representatives of the European Bank for Reconstruction and Development, the World Bank and USAID. The possibility for co-operation in the form of co-financing and/or complementary activities was examined and the need to avoid duplications of efforts through regular donors' co-ordination highlighted.

2 Summary of the MIP 2005-2006 with indicative budgets

	2005	2006	Total
1. Democratic stabilisation			1.8-2.2
<i>1.1 Minority rights</i>			1.8-2.2
2. Good governance and institution building			32.6-39.4
2.1 Justice and Home Affairs			10.7-12.7
<i>2.1.1 Judicial reform</i>			3.7-4.3
<i>2.1.2 Police and the fight against organised crime</i>			4.1-4.9
<i>2.1.3 Integrated Border Management</i>			2.9-3.5
2.2 Public administration reform			21.9-26.7
<i>2.2.1 Administrative capacity</i>			4.5-5.5
<i>2.2.2 Decentralisation</i>			12.0-14.6
<i>2.2.3 Customs and taxation</i>			5.4-6.6
3. Economic and social development			23.4-28.2
<i>3.1 Investment climate</i>			8.1-9.9
<i>3.2 Trade</i>			1.8-2.2
3.3 Infrastructure			
<i>3.3.1 Co-operation with IFIs</i>			2.6-3.0
3.4 Environment			2.7-3.3
3.5 Education and employment			
<i>3.5.1 Higher education</i>			5.5-6.5
<i>3.5.2 Employment</i>			2.7-3.3
4. Community programmes			4
5. GTAF			2
6. EAR Running costs			9.5
7. Reserve			0.8
TOTAL	39	40	79

3 Priorities and activities

3.1 Democratic stabilisation

3.1.1 Minority rights

Background and past assistance: The programme specifically addresses the recommendation of the European Partnership to implement the strategic plan for equitable representation of minorities (*Implement the Ohrid Framework Agreement*).

It is also fully consistent with the priority for co-operation outlined in the CSP to help the country establish solid democratic institutions and develop a climate favourable to increased political stability and inter-ethnic integration (*5.2.1 Democracy and the rule of law*).

Past assistance is supporting the training by the end of 2004 of 600 non-majority ethnic representatives as entry-level civil servants in view of their employment in the public administration. This civil service training project aims to address the immediate imbalances in ethnic representation in the public service.

Objectives: To support the Government in the process of full implementation of the Framework Agreement. Ease inter-ethnic tensions and contribute to the consolidation of the country's political stability. To ensure substantial progress towards meeting the requirements of the Framework Agreement with respect to representation of non-majority ethnic groups in the Public Administration.

Expected results: Progress is made in the implementation of the medium-term plan for equitable representation and increased representation of non-majority ethnic representatives at all levels of the public administration. Non-majority ethnic representatives are trained and employed in the public administration. Conditions are developed which are conducive to ensuring the sustainability of the process.

Programmes to be implemented:

- Assistance will be provided for the implementation of the Government medium-term strategy with a view to developing conditions ensuring the sustainability of the process of equitable representation in the public administration.

Indicators of achievement: Medium-term Government plan on equitable representation of ethnic communities in the public administration is reviewed. X number of non-majority ethnic representatives are trained and recruited in the public administration.

Cross-cutting issues: The programme promotes the implementation of the principle of equitable representation of all ethnic communities in the public administration and contributes therefore to the full implementation of the Framework Agreement. In this context it is linked to the "Decentralisation" programme. Activities will duly take into consideration any relevant measures promoting gender equality. Clear links exist also

with the “Administrative capacity” programme in the context of the wider process of Public Administration reform.

Link to regional strategy and other EC instruments: The programme activities will be fully co-ordinate with any relevant projects developed under the European Initiative for Democracy and Human Rights (EIDHR) programme.

Risks and assumptions: The programme is based on the assumption that a medium-term Government strategy on equitable representation of ethnic communities in the public administration is in place, and on the Government’s continued political commitment towards the implementation of the principles of equitable representation and use of languages in the public administration.

3.2 Good governance and institution building

3.2.1 Justice and Home affairs

3.2.1.1 Judicial reform

Background and past assistance: The programme specifically addresses the recommendations of the European Partnership to implement a comprehensive reform of the judicial system and strengthen the overall capacity of the judicial system as well as to achieve significant, tangible results in the fight against corruption, at all levels, through adequate legislation and the proper implementation of the national programme against corruption (*Further strengthen the judicial system / Further improve the fight against corruption*).

It is also fully consistent with the priority for co-operation outlined in the CSP to provide support to develop a strong, independent and efficient judicial system (*5.2.4.1 Reform of the judiciary*).

Assistance under past programmes has contributed to the development of an information system for the Ministry of Justice; it is supporting the development of the administrative and processing capacity of the courts and prosecutors through design and implementation of a computerised administrative support system within the Ministry of Justice, the Public Prosecution Service and the Courts. It also foresees providing training to the judiciary in a number of key legal sectors, produce an assessment of the enforcement system, support the legal reform of mandatory training of the judiciary and support in the establishment of a public body compliant with European standards for structured and authorised training of the judiciary. The legal reform of the system of selection of judges and prosecutors will also be supported.

Objectives: To promote the development and implementation of a comprehensive strategy for the reform of the judiciary thus helping the establishment of a legal framework in line with EU standards, fostering the implementation of the rule of law, improving court procedures, reducing the case backlog, tackling corruption, strengthening the independence, effectiveness and efficiency of the judiciary and the effective implementation of the equitable representation principle. To improve the crucial

co-ordination between the Ministry of Justice and Prosecution Office, and the police services.

Expected results: Improved legal framework and establishment of conditions for the strengthening the independence of the judiciary. Higher standards of court decisions. Improved capacity of the judicial bodies leading to the respect of due process and a higher degree of judicial fairness. A streamlined and more efficient court system; the backlog of cases starts reducing and court procedures are simplified and more efficient. Increased co-operation between the Public Prosecutors Office and the Police services. Increased representation of non-majority ethnic communities and of women within the reformed judiciary.

Programmes to be implemented:

- Support to the Ministry of Justice for the revision and further development of the judicial reform strategy and its successive implementation including the development of a legal framework setting the basis for an efficient judicial system based on the independence of the judiciary and the further streamlining of court procedures. Assistance will be directed also to developing the capacity of other relevant judicial bodies for the implementation of the strategy. It will aim at the further development of the legal framework, the appropriate institutional, operational and procedural re-organisation and the strengthening of the inter-institutional co-operation. Particular focus will be put on commercial cases, financial crimes, development of capacity to combat new forms of crimes, methods and techniques for collection of evidence, investigation of corruption cases. In the overall context of the implementation of the reform strategy, adequate consideration will be given to the provision of support to relevant civil society organisations (i.e. Lawyers' association, Judges' association, etc.).

Indicators of achievement: Backlog of cases is reduced; time-length of court procedures is reduced; the number of cases overturned in appeal is reduced; public confidence in the judicial system has increased; higher number of cases instructed by the police services are prosecuted.

Cross-cutting issues: The programme aims at strengthening the rule of law and has a clear impact on the fight against corruption and the promotion of good governance. It is instrumental to creating more favourable conditions for economic development by improving security of domestic and foreign investments as well as the creation of a better business environment. The programme will give adequate consideration to the promotion of equitable representation of ethnic communities and gender equality within the judiciary.

Within this MIP, clear links exist with the "Police and the fight against organised crime and terrorism" and "Investment climate" programmes.

Link to regional strategy and other EC instruments: Activities under this programme effectively complement those developed under the CARDS regional programme. This programme will in fact apply at national level the common standards on independence and functioning of the courts that have been identified in a previous regional project. The regional programme has in the past been focused also on improving regional judicial co-operation and on building connections with European judicial networks. Support is also provided to the establishment of informal operational co-operation at regional level through networks of practitioners. The present national

programme will strengthen the capacity of the national judicial bodies thus enabling them to take fully part in such co-operation. In 2005-2006 assistance at regional level will support the increased harmonisation of working methods and of the institutional set-up of the prosecution services specialised in corruption cases as well as the regional co-operation between these services.

Risks and assumptions: The programme is based on the assumption of a strong and sustained commitment on the part of the Government of the former Yugoslav Republic of Macedonia to engage in a thorough process of reform of the judiciary in line with EU best practices and standards.

3.2.1.2 Police reform and fight against organised crime and terrorism

Background and past assistance: The programme specifically addresses the recommendations of the European Partnership to complete the implementation of the reform of the police, to implement the action-oriented measures against organised crime adopted by the Government and presented at the EU-Western Balkans JHA Ministerial Meeting of November 2003, as well as to ensure the full operation of the Financial Intelligence Unit (FIU) in line with European standards (*Police / Organised crime, trafficking, drugs and money laundering*).

It is also fully consistent with the priority for co-operation outlined in the CSP to support the process of reform of the police in particular by supporting the increased effectiveness and democratisation of the police (*5.2.4.4 Fight against crime*)

In August 2003 the development of a comprehensive Police reform strategy through CARDS support was completed. Resident expert advice is foreseen to be provided until mid 2007 to support the Government in the process of implementation of the strategy. Assistance will also be provided for the establishment of a fully operational Police Academy providing training in line with EU standards. Support is also foreseen for the development of the capacity of the Directorate Against Money Laundering and of financial institutions to enforce the Law on Money Laundering. Assistance is also to be directed to the development of a national strategy for the fight against drugs and the preparation of secondary legislation on precursors and narcotics.

An EU Police Mission, PROXIMA, was launched by the EU Council Secretariat in December 2003 with the task of providing operational advice, mentoring and monitoring for the implementation of the country's reform of the police. Activities have been closely co-ordinated with CARDS assistance projects.

Objectives: To support the Government in the process of full implementation of the Framework Agreement by supporting the Government in the process of implementation of the reform of the Police. To ease inter-ethnic tensions and contribute to the consolidation of the country's political stability. To develop an efficient police service characterised by its accountability and operational effectiveness. To strengthen the capacity of the criminal police. To combat and reduce criminal activities, including terrorism financing. To improve the capacity of combating financial crimes in particular through the strengthening of the Directorate Against Money Laundering in the Ministry of Finance and contribute to the establishment of a complete and effective legal framework in line with European standards and multilateral initiatives in the sector.

Expected results: Significant progress is made towards the achievement of a comprehensive reform of the Ministry of Interior and the development of Police structures working efficiently and in line with EU standards. Increased capacity to deal with money-laundering activities through an enhanced legal and institutional framework. Increased capacity to detect and effectively counter illegal financial activities supporting organised crime and terrorism. Increased co-operation between public anti-money laundering institutions and private financial institutions.

Programmes to be implemented:

- Support to the implementation of the Government's police reform strategy, building on the outcomes of previous assistance projects. Support will be provided to develop the capacity of the Ministry of Interior with a view to strengthening functional capacities (including by building IT systems - operational and administrative systems with a capacity to support regional operational co-operation) and further develop the internal training system of the police. In particular, with respect to the criminal police, support will be provided for the development of adequate investigation, especially the use of modern forensic techniques and of special investigative means including criminal analysis. Activities will build on the outcomes of previous CARDS assistance in the sector as well as on the achievements of the EU Police Mission;
- Assistance will also be provided in the area of counter-terrorism and should focus on drafting of relevant counter-terrorism legislation based on the main international conventions (particularly the 12 UN conventions) and on strengthening the capacity of bodies responsible for implementing such legislation.
- Capacity building of the Directorate Against Money Laundering within the Ministry of Finance. Assistance will be directed at developing the legal framework, in particular for the preparation of adequate secondary legislation concerning private and public sector in line with European and international standards, and at establishing adequate monitoring procedures. It will also address the crucial aspect of reinforcing co-operation between financial institutions and governmental authorities.

Indicators of achievement: Increased operational performance of police services measured by increased crime detection rate, decreased level of complaints from the public (increased public trust), proper management of public safety incidents. Increased administrative performance measured by: X number of staff trained, individual competencies fitting the needs of the service, increased budgetary efficiency. Higher number of money laundering cases detected, enhanced co-operation with foreign FIUs measured by increased volume of information exchanged, number of judicial cases successfully prosecuted on the basis of the administrative work of the FIU. Amount of assets seized as a result of investigations by the FIU and other bodies. Number of UN counter-terrorism conventions ratified and implemented.

Cross-cutting issues: The programme aims at strengthening the capacity to fight against crime and organised crime, implementing the rule of law, and eradicating corruption. It also impacts on the establishment of good governance by fostering citizens' confidence in the police services and the state. The programme will give adequate consideration to

the promotion of equitable representation of ethnic communities and gender equality within the police services.

Within this MIP, clear links exist with the “Judicial reform”, “Integrated Border Management”, “Asylum and migration” and “Customs and taxation” programmes.

Link to regional strategy and other EC instruments: The programme contributes to the establishment at national level of the necessary capacity to combat organised crime. The effectiveness of any such capacity is determined by the existence of adequate regional and international co-operation instruments. Ongoing and future activities under the CARDS regional programme contribute to the development of regional and international co-operation instruments that are complying and compatible with EUROPOL and EUROJUST standards.

Risks and assumptions: The programme assumes the continued engagement of the Government in the reform of the Police service in line with the current strategic framework. The success and sustainability of the programme assumes the Government will ensure the stability of staff covering key positions. The programme assumes the continued political commitment of the Government in the fight against money laundering and financial crimes. It also assumes that the Directorate Against Money Laundering is provided adequate human resources that ensure its proper functioning. The main risk is the development of a capacity-gap between the central Government level and Directorate Against Money Laundering on one side and the relevant private sector financial institutions on the other.

3.2.1.3 Integrated Border Management

Background and past assistance: The programme specifically addresses the recommendation of the European Partnership to complete the implementation of the Integrated Border Management strategy (*Border Management*).

It is also fully consistent with the priority for co-operation outlined in the CSP to support an integrated approach to border management in the former Yugoslav Republic of Macedonia which contributes to strengthening controls at the border, facilitates trade across borders and meets the particular needs of border regions (*5.2.4.2 Integrated Border Management*).

Past assistance has supported the development of a comprehensive border management strategy and is supporting the implementation of an integrated communications network for border control points. It supported the construction of the veterinary and phytosanitary border inspection posts at the Bogorodica and Medzitlija border crossings with Greece. It is also foreseen to contribute to developing effective document processing systems at Border Crossing Points and will assist the Government in the transition from military to civilian control of the borders by supporting the establishment of a new Border Police Service.

Objectives: To continue to support the Government in the process of implementation of the Integrated Border Management Strategy developed through EC assistance and within this framework to develop and strengthen co-operation among all relevant ministries. To contribute to the effective and smooth complete transfer of the competencies on border control from military to civilian control and to support the establishment of an efficient Border Police service working in close relations with the

customs services and other relevant state services. To contribute to increased border security and more effective border controls. To facilitate trade.

Expected results: Significant progress in the development of an effective capacity to control cross-border flows of persons and goods in line with standards for the EU external borders. Border inspections are performed more rapidly and efficiently; delays due to inspection border posts are reduced and within acceptable levels and control facilities meet the standards of EU inspection teams.

Programmes to be implemented:

- Capacity building of the Border Police and other relevant public services directed to the development of regulations and the building of a clear and effective organisational structure and the development of a solid capacity for data processing at central level. Support will be based on the outcomes of assistance programmed under the previous MIP and might include further training to Border Guards to ensure increased quality in the performance of their duties.
- Infrastructure development and equipment provision of Border Inspection Posts (BIPs) for Veterinary and Phytosanitary controls;

Indicators of achievement: Facilitated cross-border movements (shorter delays, increased clearance), increased number of illegal border crossings and smuggling cases identified and successfully detected. 1 or 2 Border Inspection Posts upgraded in line with EU standards.

Cross-cutting issues: The programme has a direct bearing on anti-corruption, anti-terrorism, trade facilitation, illegal immigration control and border security, and the strengthening of the rule of law. The programme will give adequate consideration to the promotion of equitable representation of ethnic communities and gender equality within the border police service.

Within this MIP, clear links exist with the “Judicial reform”, ”Police and the fight against organised crime and terrorism”, “Trade” and “Customs and taxation” programmes. Particular attention will be devoted to ensuring a close co-ordination with the activities developed under the latter programme.

Link to regional strategy and other EC instruments: Where appropriate this programme will be developed taking into account the recommendations set forth in the Guidelines for the development of Integrated Border Management Strategies and other recommendations produced through the CARDS regional programme. The regional programme will fund a review of the national IBM strategies of Western Balkans’ countries that will ultimately lead to their increased coherence and consistency.

Risks and assumptions: The programme assumes the continued engagement of the Government towards the full implementation of the current Integrated Border Management Strategy and that adequate human resources levels are allocated to the relevant institutions (in particular Border Inspection Posts). It also assumes the continued existence of adequate security conditions along the borders.

3.2.2 Public administration reform

3.2.2.1 Administrative capacity

Background and past assistance: The programme specifically addresses the recommendations of the European Partnership to reinforce the Government's capacity to implement the SAA, in particular through developing internal expertise to assess whether draft legislation is in line with the EC "acquis" (*Movement of goods*), continue institutional strengthening of the data protection authority in line with EU standards and practices (*Personal data protection*), implement the legislation against the restriction of competition, further strengthen the competition authority and further promote transparency in State aid (*Competition and state aid*), achieve fully operational public procurement structures which ensure the conduct of public procurement procedures in full accordance with the law and SAA principles (*Public procurement*), ensure the implementation of the legislation on intellectual and industrial property (*Intellectual Property Rights*), ensure that sectors of the Administration responsible for the implementation of the SAA provisions are duly equipped to carry out their duties (*Further improve the functioning of the administration*).

It is also fully consistent with the priority for co-operation outlined in the CSP which identifies the process of institutional capacity building as the cornerstone around which the whole process of European integration revolves. In this context it highlights the EC comparative advantage with respect to sectors related to the *acquis* and to the development of a modern system of administration of the state (*5.2.2 Administrative capacity building*).

Past assistance has supported the Government in the development of a National strategy for restructuring the Steel sector. It is also foreseen supporting the development of the capacity of the administration and legislative reforms in the competition and state aids, public procurement, data protection, intellectual property, insurance, energy and banking sectors.

Objectives: To support the country complying with the requirements of the SAA in some key internal market sectors and develop the necessary legal framework and institutional capacity to effectively progress in the process of European Integration. To support the development of an effective decentralised system for contract and financial management of EC assistance.

Expected results: Progress is made in the process of approximation of legislation with the European Community "acquis communautaire" in a number of key sectors and in line with the requirements of the SAA (where relevant). The country's institutional capacity in those sectors is strengthened and enables effective implementation and enforcement of the relevant legislation. The country possesses the institutional capacity to effectively manage EC financial assistance in a decentralised manner.

Programmes to be implemented:

- Capacity building of the relevant Ministries and administrative bodies designed to foster the process of approximation of legislation and the development of institutions capable of ensuring effective implementation and enforcement. Activities should be selected among the key sectors indicated in art. 68 of the

SAA as well as the energy, telecommunications, and statistics sectors. Activities will be selected taking into consideration the progress in implementation and the outcomes of assistance provided under the previous MIP;

- Support might be provided for the establishment and the successive strengthening of the capacity of administrative structures necessary to effectively manage a decentralised system of implementation of EC financial assistance. The implementation of this programme component is dependent on the political decision of the European Commission to launch the process of decentralisation of financial assistance management. In the absence of such decision the funds will be allocated to support other priorities foreseen in the MIP.

Indicators of achievement: Relevant legislation in a number of key sectors is adopted and fully in line with the “acquis communautaire”. The necessary institutional capacity to ensure an effective implementation of the legislation is established. The country’s capacity to apply correctly and to full extent its obligations arising from the SAA is significantly improved. An effective decentralised system for contract and financial management of EC assistance is established.

Cross-cutting issues: The programme promotes the strengthening of the capacity of the public administration, the development of the country’s legal framework in line with the “acquis communautaire” and the implementation of the requirements of the Stabilisation and Association Agreements.

Within this MIP clear links exist with the “Trade” and “Investment climate” programmes.

Link to regional strategy and other EC instruments: The programme will be developed ensuring maximum complementarity with ongoing and future activities developed under the “Institution Building Facility for the SAP” funded through the regional programme. The latter includes the SIGMA and TAIEX instruments whose activities will be closely co-ordinated with those developed at national level.

Risks and assumptions: The programme is based on the assumption that the Government will remain committed to the process of legal harmonisation with the “acquis communautaire” and that adequate human resources will be allocated to ensure the necessary capacity of the relevant institutions.

3.2.2.2 Decentralisation

Background and past assistance: The programme specifically addresses the recommendation of the European Partnership to ensure the proper functioning of the decentralised levels of government (*Implement the Ohrid Framework Agreement*).

It is also fully consistent with the priority for co-operation outlined in the CSP to support the reform of local self-government at large and the process of fiscal decentralisation in particular, as well as to contribute to the reduction of regional imbalances (5.2.3.3 *Economic and social cohesion*).

Past EC assistance has been providing support to the Ministry of Local Self Government, the Association of Municipalities and municipalities in capacity building and coordinating decentralisation reforms. Programmed activities foresee that support be directed towards the fiscal decentralisation, auditing and accounting sectors in the

context of the decentralisation. Substantial assistance has also been providing support for local small-infrastructure development projects.

Objectives: To support the Government in the process of full implementation of the Framework Agreement and to contribute to the consolidation of the political and the socio-economic stability of the country. To support central and local authorities in the implementation of the decentralisation process by building the necessary capacity for the effective management and implementation of competencies to be decentralised to local municipalities. The programme is also designed to promote small infrastructure development in local municipalities and support the concrete implementation and the sustainability of the decentralisation process through the development of projects in sectors where specific public administration competencies will be decentralised. It aims at contributing to an equitable and balanced development of the country with a particular focus on the most disadvantaged areas and at ensuring the sustainability of the decentralisation process.

Expected results: Substantial progress is made in the implementation of the process of decentralisation of the public administration. An effective transfer of competencies from the central to the local level has taken place and a basic management and implementation capacity ensuring the sustainability of the process has been developed both at central government and local municipalities' level. The wider public is adequately informed on the implications of the decentralisation process. Public to feel that they have a greater say in governmental decisions affecting them. Small infrastructure development and local development projects identified, selected and implemented.

Programmes to be implemented:

- Capacity building at central level (Ministry of Local Self-Government and/or other relevant ministries) as well as at the level of municipalities in order to ensure effective management and implementation of the competencies to be decentralised in accordance with the Law on Local Self-government. Assistance might also be provided to any specific bodies created to co-ordinate and supervise the effective management and implementation of decentralised competencies. The programme will build on the outcomes of previous assistance projects and the specific sectors to be focused upon will depend on the progress in the legislative reforms undertaken by the Government in view of decentralisation. Key sectors appear to be: public finance (in particular fiscal decentralisation), education, employment, health, urban and rural planning, environment, culture and sports. Careful consideration will be given to the possibility to support relevant civil society organisations (i.e. the Association of Local Self-government Units – ZELS) and other civil society organisations relevant to support the development of the municipalities;
- Local infrastructure development in local municipalities by supporting investment projects (infrastructure development) promoted by local municipalities and promotion of the development of small projects in specific sectors whose competencies will be decentralised to local municipalities (i.e. social development and social assistance projects, access and/or preservation of cultural sites, land and urban planning);

Indicators of achievement: Relevant implementing legislation in a number of key sectors is prepared. Institutional capacity at central and municipal level to deal with the management and implementation of the decentralisation process is significantly

strengthened. X staff at central and municipality level trained in a number of key sectors, necessary equipment is delivered and relevant staff are adequately trained. Awareness campaign on the implications of the decentralisation process is performed. X number of projects funded. Local municipalities have developed an effective capacity to present project proposals.

Cross-cutting issues: The programme contributes to the implementation of the Framework Agreement and to the progressive stabilisation of the country. It also contributes to employment generation, to the development of the capacity of local municipalities and promotes the reduction of disparities between different areas of the country. Where appropriate, the programme will give due consideration to the promotion of gender equality issues.

Within this MIP the programme is linked to the “Minority rights” programme.

Risks and assumptions: The programme is based on the assumption that the legal framework for the implementation of the decentralisation process is completed. It also assumes a continued commitment of the Government authorities towards the full implementation of the process in line with the Framework Agreement and the law on local self-government and in accordance with IMF recommendations.

3.2.2.3 Customs and taxation reform

Background and past assistance: The programme specifically addresses the recommendations of the European Partnership to further strengthen the Customs Administration and ensure its proper functioning in order to reach EU standards and implement the strategic plan 2004-2008 (*Customs*) as well as to achieve significant, tangible results in the fight against corruption, at all levels, through adequate legislation and the proper implementation of the national programme against corruption (*Further improve the fight against corruption*).

It is also fully consistent with the priorities for co-operation outlined in the CSP to support the process of institutional capacity building, in particular with respect to sectors related to the *acquis*, and aimed at the development of a modern system of administration of the state (*5.2.2 Administrative capacity building*).

Past assistance has been supporting the process of reform of the customs administration. A five-year (2004-2008) business plan has been developed through EC assistance and support has been provided to the authorities for the creation of an adequate human resources management system, the reform of legislation and the strengthening of controls.

Objectives: The programme is a continuation of the existing Customs and Fiscal Assistance Office (CAFAO) programme designed to ensure the comprehensive sustainable modernisation and development of the Customs Administration. The activities are based on the EU Customs Blueprints originally developed for use by the enlargement states. It aims to support the establishment of a legal framework which is in line with EU standards and to develop effective means to implement and enforce the relevant legislation. It also aims to raise the capacity for revenue collection, reducing corruption within the customs services in particular through the development of a solid career perspective within the customs services and the development of an effective human resources management system designed to support the achievement of the Customs Administration’s Strategic and Operational Business Plans.

The CAFAO programme will be extended into the area of VAT where there are clear signs of ineffective control of the compliance of VAT traders which inevitably results in loss of revenue yield and a consequent lessening of the ability of the Government to develop the economy and make social provision and inevitably a greater reliance on donor support.

Expected results: A comprehensive strategic approach to the modernisation and development of the Customs Administration is implemented, the operational capacity of the Customs Administration is enhanced, revenue yield is increased, the ability to identify, prevent and reduce the incidence of corrupt practices is increased, regional and international cooperation has improved.

Development of a gaps analysis in the taxation sector based on the EU Blueprint standard, development of Strategic and Operational Business Plans, beginning the implementation of a programme of technical assistance to support the implementation of the Strategic and Operational Business Plans. Action to support an improvement in VAT compliance with a view to increasing the revenue yield.

Programmes to be implemented:

- In the customs sector a comprehensive programme of technical assistance based on the EU Blueprints and on the Strategic and Operational Business Plans of the Customs Administration which has been developed with CAFAO support. The programme will rely on the CAFAO method which includes the provision of on-the-job support in the live working environment.
- The programme in taxation would begin through the provision of technical assistance for the performance of a gap analysis based on the EU Taxation Blueprint which would identify those areas where modernisation and development is required and the preparation and agreement of a strategic plan of required change which would govern subsequent programme activity.

Indicators of achievement: Customs legislation is in line with EU Blueprint standard, an effective enforcement section capable of ensuring revenue collection and law enforcement activity is delivered to a high standard, rate of detection of illegal activities has increased. A modern approach to human resource management which increases professionalism and improved business performance is in place and individual competencies fit the needs of the service. Number of complaints from the public has decreased.

Gap analysis in the taxation sector based on the EU Blueprint standard is completed, Strategic and Operational Business Plans are developed and agreed upon.

Cross-cutting issues: The programme has a direct bearing on anti-corruption. There are also clear links - which must be strongly supported - to activity in the area of Integrated Border Management. It also promotes conditions for macro-economic stability by increasing state revenue collection
Within this MIP clear links exist with the “Judicial reform”, “Police and the fight against organised crime and terrorism” and “Integrated Border Management” programmes as well as with the “Investment climate” programme.

Risks and assumptions: The programme rests on the assumption that the Government will remain committed to the implementation of the reform of the customs administration. The success and sustainability of the programme assumes the Government will ensure the continuity in the tenure of staff covering key positions. It is also assumed that the existing strong resolve of the top management of the customs administration to modernise the service on EU lines, and notably to fight fraud and corruption, will continue and be replicated by the local authorities in the area of Taxation.

The main risk to the programme would be a reduction in the political will of the authorities to embrace reform and a failure to provide the support – in the broadest terms including both the financial means and publicly manifested political will - needed by the Services to ensure success.

3.3 Economic and social development

3.3.1 Investment climate

Background and past assistance: The programme specifically addresses the recommendations of the European Partnership to fully implement the programme to simplify and reduce licensing procedures and further improve the transparency of all administrative procedures impacting on enterprises (*Further improve the business environment*) as well as to complete the implementation of the strategy for the implementation of the European Charter for Small Enterprises, further develop experience of non-financial SME support mechanisms and implement the FIAS action plan on reduction of barriers to investment (*Industry and SMEs*).

It is also fully consistent with the priorities for co-operation outlined in the CSP to support the development of a buoyant and productive private sector characterised by a high degree of legal certainty favouring foreign investment and entrepreneurial initiatives, effective corporate management and highly developed entrepreneurial skills (*5.2.3.1 Private and financial sector development*). It also responds to the need identified in the CSP to promote the reduction of regional imbalances as well as conditions for self-employment and the creation of SMEs (*5.2.3.3 Economic and social cohesion*).

Past assistance has supported the creation of a Human Resource Development Fund to support improved level of competence of managers in the business community through increased access to training and services. It has assisted in the creation of a European Business Association and a Euro Info Correspondence Centre (EICC). Support has been provided to the Ministry of Economy in order to enhance its capacity to analyse the SME sector and to recommend and develop policy measures; this includes assistance for the creation of an Agency for Entrepreneurship Promotion. Support was provided for the development of a National Action Plan for the adoption of the European Charter for SMEs. A micro-credit line to support SMEs development is running while further support is foreseen to improve access to capital for SMEs and re-orienting banking operations towards SMEs.

Objectives: To promote the establishment of a predictable and transparent regulatory environment favouring the development of businesses and conducive to increased flows of Foreign Direct Investment. To streamline regulations and procedures concerning

licensing and permit systems for enterprises, ease procedures and reduce time and costs for registration of companies. To promote the creation and development of SMEs in particular by supporting the implementation of the principles laid out in the European Charter for Small Enterprises. To build the capacity of key governmental and non-governmental institutions relevant to SMEs development and contribute to the enhancement of the competitiveness of the country's SMEs. To promote the development of rural SMEs and contribute to the development of under-developed areas of the country.

Expected results: Licensing procedures and permit systems for enterprises are streamlined and simplified thus reducing costs and barriers to the creation of businesses. Conditions for increased protection and security of foreign investments are established. Increased capacity of the Government authorities to implement the principles of the European Charter for Small Enterprises and to promote the development of SMEs throughout the country and in particular in the least developed areas. Increased provision of services directed at SMEs development. A number of businesses emerge from the informal economy.

Programmes to be implemented:

- Assistance should be directed to support an enhanced definition and enforcement of property rights, the simplification and reduction of licensing procedures to and permit system for enterprises, the effective implementation of simplified and transparent company rules and reporting schemes. Assistance should be provided to improve the functioning (e.g. publicity) of the Trade Register. Assistance should be directed to strengthening the capacity of the Foreign Investment Agency (FIA) in its policy setting and development competencies;
- Support is provided to the Ministry of Economy (SMEs Department) and the Entrepreneurship Coordinative Council and other relevant institutions/bodies as well as capacity building of local business development centres, for the further development and the implementation of the national policy for enterprise promotion in line with the European Charter for SMEs. A strong focus will be put on the promotion of SMEs development in under-developed areas of the country and on sectors where a comparative advantage can be identified (i.e. fruit and vegetables processing, tourism). Assistance will be based on the promotion of non-financial measures of support to SMEs development based on the "PHARE approach" (for example the development of clusters of enterprises, technology parks and business incubators). Teachers' training will be provided on entrepreneurship and business management and development as well as training for entrepreneurship and the development of management capacities in SMEs;
- Assistance shall be directed to key civil society organisations (for example entrepreneurs' associations, employers' associations, trade unions, chambers of commerce, etc.) in order to improve the dialogue between the Government and businesses on enterprise development policy and legislation, strengthen their advocacy capacity and where appropriate increase their capacity to provide services to businesses.

Indicators of achievement: Higher number of companies registered on a yearly basis; reduced time and costs for registration of companies and the granting of licenses and permits. Increased number of start-up enterprises. Increase in the number of self-

employed and of SMEs, in particular in the rural sector in the least developed areas of the country. X number of trainers/entrepreneurs/SMEs managers undergo training courses on entrepreneurship and management. X number of clusters/technology parks/business incubators are created. X number of businesses emerge from the informal economy and are integrated in the formal economy.

Cross-cutting issues: FDI is directly influenced by political stability (implementation of FA) and the existence of a favourable business environment (curbing of corruption, respect of rule of law, enforcement of contracts, clear property rights, reduction of administrative and legal barriers to investment). The programme will give appropriate consideration to gender equality issues, in particular in the context of the promotion of and support to SMEs and entrepreneurship development. Within this MIP clear links exist therefore with the “Judicial Reform”, “Police and fight against organised crime and terrorism”, “Customs and Taxation” and “Administrative capacity” programmes. The programme aims at fostering employment, promoting entrepreneurship and enhancing the competitiveness of the country’s SMEs. It also promotes the reduction of regional disparities and a regionally balanced development of the country. Within this MIP clear links exist with the “Trade” and “Employment” programmes.

Link to regional strategy and other EC instruments: The programme activities will be effectively complemented by those developed under the Investment Facilitation programme in the regional MIP 2005-2006. The latter will promote the dissemination to potential investors of investment sector specific information on the opportunities at hand in the Western Balkans region. It will build on previous indirect support to economic and private sector development and complement and reinforce efforts by national investment promotion agencies to reach out to foreign investors, using a regional approach.

Risks and assumptions: The programme is based on the assumption that the Government will remain committed to the implementation of the “Programme for stimulating investment” and of the “Programme of measures and activities for entrepreneurship promotion and creation of competitiveness of the small and medium-sized enterprises” and that adequate human resources and financial funds are deployed for the purpose. It also assumes that the Government will continue to pursue macro-economic stability in line with the IMF recommendations. The programme also assumes continued progress in the stabilisation of the political situation in the country and progress in the fight against corruption and organised crime. The successful development of the programme might be affected by the deterioration of the security situation in the region.

3.3.2 Trade

Background and past assistance: The programme specifically addresses the recommendations of the European Partnership to reinforce the Government’s capacity to implement the SAA (*Movement of goods*).

It is also fully consistent with the priorities for co-operation outlined in the CSP to ensure that the country is able to fully enjoy the benefits of the EC asymmetric trade measures and meet its obligations under the SAA through the establishment of an effective trade-development strategy and the improvement of technical and quality standards (5.2.3.2 *Trade*).

Past assistance has been supporting the process of harmonisation of trade legislation with the “acquis” and the development of a liberalised trade regime in line with EU and WTO rules. It has also started to support the development of the country’s administrative capacity in particular with respect to the Standardisation, Metrology, Accreditation and Quality Validation (SMAQVa) institutes, the establishment of a National Animal Identification System and the strengthening of the food quality control system.

Objectives: To strengthen the Government’s capacity to implement the SAA and enjoy the benefits of the asymmetric trade measures. To contribute to the facilitation of trade flows and to enhance the country’s export capacity.

Expected results: Relevant Border Inspection Posts are equipped and fully functioning. The National Animal identification System is completed. Registered facilities to export to the EC internal market are established. Increased export capacity and upwards trend in the exports.

Programmes to be implemented:

- Technical assistance provided for the further harmonisation of the country’s legislation in the free movement of goods sector (in particular standards concerning chemicals and pharmaceuticals products);
- Capacity building of the Ministry of Agriculture and other relevant institutions will be provided for the development of an effective ‘stable to table’ food control policy ensuring quality and traceability which is in line with EU standards.

Indicators of achievement: Increased flow of cross-border trade. Food safety and quality control is improved and the amount of exports from the former Yugoslav Republic of Macedonia to the EU and regional markets rejected for quality or sanitary reasons in evident decrease.

Cross-cutting issues: The programme is designed to increase the capacity of the country to implement the trade-related aspects of the SAA and to enjoy the benefits of the trade asymmetric measures by fostering the export capacity. The programme thus promotes economic growth, employment promotion and good governance. Within this MIP clear links exist with the “Customs reform”, “Integrated Border Management”, “Judicial reform”, “Administrative capacity”, “Investment climate” programmes.

Link to regional strategy and other EC instruments: Activities developed under the CARDS regional programme are designed to strengthen the impact that actions programmed at national level produce in terms of the countries’ capacity to make full use of autonomous trade preferences granted by the EC, to implement regional and/or bilateral free trade agreements and to achieve greater regional and multilateral trade liberalisation.

Risks and assumptions: The programme is based on the assumption that the Government will remain committed to the development of trade relations with the EU and will ensure the respect of the trade-related provisions of the SAA.

3.3.3 Infrastructure

3.3.3.1 Co-operation with IFIs

Background and past assistance: Through increased complementarity/co-financing of activities between the EC and the IFIs in relevant sectors, the programme is designed to promote infrastructure development conducive to economic growth. Therefore, the present MIP focuses a specific envelope on providing support to facilitate and leverage the provision of infrastructure funding by IFIs to the former Yugoslav Republic of Macedonia.

Objectives: To promote conditions conducive to economic and social development, trade facilitation, the improvement of the country's general infrastructure.

Expected results: IFIs, particularly the World Bank, the EBRD and the EIB, make greater and/or more effective investments in the country, principally in the infrastructure sector. As a consequence, a number of investment projects (i.e. infrastructure development, clearing of environmental hot-spots) are carried out through effective co-operation between the EC and IFIs.

Programmes to be implemented:

- Support will be provided in the form of technical assistance/co-financing to support/enable specific IFI finance operations. Specific infrastructure projects will be defined in Annual Programmes. Infrastructure sectors targeted may include: road and rail transport, air navigation control, waste water treatment, solid waste treatment and energy.

Indicators of achievement: Timely and effective establishment of preconditions for IFI-financed operations, thereby accelerating their implementation. Greater volumes of IFI financing are available to support infrastructure projects.

Cross-cutting issues: Cross cutting issues will depend on the nature of the specific IFI project being facilitated; however, a common feature of infrastructure projects is that they are intended to improve social and economic conditions in the country and to stimulate investment thus leading to further improvement in social and economic conditions.

Within this MIP clear links exist with the Trade, Investment Climate, Decentralisation, Environment programmes.

Links with regional strategy and other EC instruments: Activities funded at national level under this programme will be closely co-ordinated with those having a regional dimension and supported under the regional programme through the Regional Infrastructures Development facility.

Risks and assumptions: For each project, additionality of the EC assistance component to the IFI-financed element financed by must be ensured. The country's authorities must have in place appropriate policies and capacities to make informed and rational decisions on planning IFI-financed projects, both in domestic terms and from a regional perspective.

3.3.4 Environment

Background and past assistance: The programme specifically addresses the recommendations of the European Partnership to further approximate legislation with European standards, implement the legislation adopted, improve environmental monitoring and further build administrative capacity (*Environment*).

It is also fully consistent with the priorities for co-operation outlined in the CSP to support the process of legal approximation with the environmental *acquis*, the establishment of strong and independent monitoring authorities, the increase of health protection levels as well as public awareness-raising and access to information and decision-making (5.2.5 *Environment and natural resources*).

Past assistance has supported the strengthening of the country's environmental monitoring capacity through the provision of eight automatic air and two automatic water quality stations as well as other relevant equipment. It has also supported the process of approximation of legislation to the "acquis", assisted in the preparation of the 2nd National Environmental Action Plan and contributed to the preparation of three solid waste feasibility studies. Already programmed assistance is foreseen to support the preparation of an assessment of water quality and the causes of water degradation levels of Lake Dojran and the establishment of a joint catchment area and management plan for the river Vardar. A project for the protection of the river Vardar from pollution caused by leakages from an industrial landfill of chromium waste has already been completed.

Objectives: To promote the conditions for sustainable development. To support the further alignment of the country's environmental legislation with EU environmental *acquis*. To strengthen the government's capacity to monitor and enforce environmental standards. To develop an effective dialogue between the government authorities and the private sector on environmental standards to be met according to the Operational Plan for Environmental Standards. To support the implementation of the second National Environmental Action Plan (NEAP).

Expected results: Progress is made in the implementation of the NEAP. The country's legislation is aligned with the EU's *acquis* in specific environmental sectors. Increased capacity to monitor compliance with Environmental standards, sanction non-compliance and enforce decisions. Progress is made in the implementation of the Operational Plan for Environmental Standards and an awareness and information campaign performed.

Programmes to be implemented:

- Implementation of the 2nd NEAP. Support will be provided to the Ministry of Environment and other relevant environment agencies/bodies for the harmonisation of secondary legislation in the air quality, water treatment and waste management sectors and the strengthening of the institutional capacity to ensure compliance with and enforcement of environmental standards. Further specific activities linked to the EU environmental "acquis" might be identified upon completion of the 2nd NEAP;
- Assistance should be directed to promoting the co-operation between Government and businesses by supporting the implementation of the Operational Plan for Environmental Standards currently under development by the Government and setting a ten-year deadline for the industrial/private sector to respect in meeting agreed standards. Should tighter timescales be negotiated in the context of the

European integration process then these will replace those agreed in the plan. Assistance should also be directed to developing an awareness and information campaign and establishing adequate implementation and monitoring mechanisms.

Indicators of achievement: Increased detection of infringements of environmental legislation. Individual target dates are negotiated by the Government authorities with X companies for compliance with air and water quality targets set in the Operational Plan for Environmental Standards and an effective awareness campaign is performed.

Cross-cutting issues: By supporting the development of an environmental policy in line with the EU's the programme contributes to sustainable development and promotes good governance. Within this MIP clear links exist with the "Decentralisation", "Administrative capacity" and "Infrastructure" programmes.

Link to regional strategy and other EC instruments: Environmental issues have, in most cases, a regional dimension. It is therefore crucial that assistance provided at national level are developed in connection to a clear strategic framework at regional level. In this perspective, the EC has contributed since the year 2000 to the establishment and the development of the Regional Environmental Reconstruction Programme for South Eastern Europe (REReP).

REReP aims to improve the environmental policy framework in South Eastern Europe and includes institution building, measures for raising environmental awareness in civil society, and the promotion of cross border co-operation. Under the initiative assistance is being provided to the countries for the development of their environmental policies in line with the Community *acquis*. Under REReP, a Priority environmental investment programme has also been prepared.

Support under the regional MIP 2005-2006 foresees continued assistance under REReP in order to promote networking and the exchange of experiences which are relevant to the SAP and build on experience gained in the recent enlargement process. Assistance will also be directed to the establishment of a project preparation and implementation facility.

Support for environmental protection and enhancement is also provided by the EC through the "Community action programme promoting non-governmental organisations (NGOs) primarily active in the field of environmental protection" to which the former Yugoslav Republic of Macedonia participates. Projects funded under the action programme effectively complement the activities programmed in the MIP by promoting the involvement of NGOs in the Community environmental policy-making process through relevant participation in stakeholder consultation meetings and public hearings, promoting the development and implementation of Community environmental policy and legislation, and by strengthening small regional or local associations working to apply the *acquis communautaire* in relation to the environment and sustainable development.

Risks and assumptions: The programme is based on the assumption that the government will remain committed to the progressive alignment of national environmental legislation with the EU *acquis* and to the implementation of the 2nd National Environment Action Plan and will commit adequate human and budgetary resources for the purpose.

3.3.5 Education and employment

3.3.5.1 Higher education

Background and past assistance: The programme specifically addresses the recommendations of the European Partnership to facilitate access to education, promote higher education for minorities and ensure that higher education in Albania respects European standards as defined in the Bologna Declaration (*Further promote the principle of non discrimination and equal representation*).

It is also fully consistent with the priorities for co-operation outlined in the CSP to support the streamlining and improvement of higher education as well as increased access to education (*5.2.3.3 Economic and social cohesion*).

Past assistance has supported the development of higher education through the TEMPUS Community Programme and has contributed to the setting up of the South East Europe University in Tetovo.

Objectives: To support the country's efforts to achieve the objectives of the Bologna Declaration which aims at the establishment of a common European higher education space by 2010. The Declaration requires *inter alia* structural reforms of university governance, management and finance, in particular the strengthening of the strategic management capacities of universities through institutional integration, efficient control over standards, and the set up of a system to test compatibility across faculties or universities. To support the development of the higher education system in the country through balanced co-operation between higher education institutions in the country and those of Member States of the European Union. To support increased access to higher education to non-majority ethnic community representatives.

Expected results: Increased synergy between higher education legislation and policy and reforms at the institutional level; strengthened strategic management capacities of higher education institutions; modernisation of management and administration of the participating higher education institutions; teaching and learning according to revised curricula and study courses in line with changes social and economic needs; improved skills of non-academic staff relevant for public administration reform and civil society development; increased mobility of students and academic staff; closer co-operation and sharing of resources and experience between higher education institutions at a regional level.

Programmes to be implemented:

- To promote the reform of higher education institutions in view of improving the quality of academic teaching and learning in line with changing political, social and economic needs. Increase synergies between higher education institutions at an international level. Strengthen management and administrative capacity of higher education institutions taking part in the programme. Promote the development of curricula which are more and more in tune with the current needs of employment markets at a national and international level. These activities will be implemented through the TEMPUS programme;
- Careful consideration should be given to the possibility of providing additional limited support to the further development of the South East Europe University in Tetovo.

Indicators of achievement: Number of exchange programmes successfully implemented. Number of new and revised university curricula successfully implemented. Number of students having followed new curricula. Time needed by students having followed new curricula to find employment. Increased enrolment of students belonging to non-majority ethnic communities.

Cross-cutting issues: Improvements in the area of higher education have obvious repercussions on employment generation. They also promote good governance by setting the conditions for the sustainability of broader reform efforts.

Within this MIP clear links exist with the “Employment” programme.

Risks and assumptions: The programme is based on the assumption that the country’s authorities will remain committed to the development of the higher education sector and in particular to the participation to the TEMPUS programme.

3.3.5.2 Employment

Background and past assistance: The programme specifically addresses the recommendation of the European Partnership to foster employment opportunities for all ethnic communities (*Employment and social policy*).

It is also fully consistent with the priorities for co-operation outlined in the CSP to help the country improve job information networks, develop a national plan for employment and contribute to its implementation (*5.2.3.3 Economic and social cohesion*).

Past assistance has supported the Ministry of Labour and Social Policy in the development of a National Action Plan for Employment and will contribute to the restructuring and development of the national network of Employment offices. A study was performed on prospective quick response measures for unemployment reduction and poverty alleviation. Four successive phases of Vocational Education and Training projects (the first two of which already completed) are being implemented which address the revision of relevant legislation, the modernisation and development of curricula, teachers’ training and equipment provision to a selected number of schools.

Objectives: To contribute to tackle the problem of unemployment by supporting the implementation of the National Action Plan for Employment. To support the Government in the creation of the relevant mechanisms to foster employment creation through the reform of the labour market conditions in particular through the promotion of active labour market policies and measures. To support the integration into the labour market of most vulnerable population groups. To improve labour force qualifications and promote the development of conditions favouring self-employment and entrepreneurship as well as increasing the flexibility of the labour market. To reduce regional and gender disparities in employment. To promote the harmonisation of labour legislation with the EU’s.

Expected results: Contribute to unemployment reduction and to the development of a sustainable employment policy based upon active labour market measures. The capacity of the Public Employment Services is strengthened and higher quality services are developed. Labour legislation progressively harmonised to the EU’s. Effective training and re-training courses for long-term unemployed are developed. The inter-ministerial co-operation between the Ministry of Labour and Social Policy and the Ministry of Education and Sciences is strengthened. Contribution to the progressive

development of a social dialogue on labour market issues in line with EU *acquis* and practices.

Programmes to be implemented:

- Support to the Ministry of Labour and Social Policy should be directed at promoting the implementation of the National Employment Action Plan developed through EC assistance and should also aim at the progressive harmonisation of the country's labour legislation with the EU's. Support should focus in particular on the development and implementation of active labour market measures (for example training and retraining of laid-off workers, development of job mediation services). Particular focus should be placed on young people, women and other vulnerable sections of the population. Support will be provided to the implementation of the lifelong learning system developed through EC funds under the previous MIP.

Indicators of achievement: Increased capacity of Public Employment Services to provide mediation services and adequate support to the unemployed; progress is made in the process of harmonisation of the country's labour legislation with the EU's. Progress is made in the implementation of lifelong learning strategy.

Cross-cutting issues: The programme contributes to creating the conditions for economic development, the strengthening of social cohesion, and to reducing incentives for criminal activities.

Within this MIP clear links exist with the "investment climate" programme, which is also designed to generate employment, reduce regional disparities and contribute to the development of entrepreneurship, and with the "Higher education" programme.

Risks and assumptions: The programme is based on the assumption that the Government will remain committed to the implementation of the National Action Plan for Employment and will continue to pursue macro-economic stability in line with the IMF recommendations.

3.4 Community programmes

Background and past assistance: The EU agreed in the Thessaloniki Agenda to open participation in Community programmes to the Western Balkan countries, following the approach used in the candidate countries. The Commission proposed concrete steps to make this possible in its Communication of 3 December 2003¹, underlining the need for a selective and gradual approach. A framework agreement with the European Community laying down the general conditions for the participation of the former Yugoslav Republic of Macedonia in Community programmes will be concluded and is expected to enter into force early 2005.

As Community programmes are in origin EU internal action programmes based on internal budget headings, partner countries outside the Union must pay a financial contribution ('entry ticket') to cover the expenses of participation of its nationals in a specific programme. For a given programme, this entry ticket will be determined in a corresponding Memorandum of Understanding (MoU) between the country and the

¹ Communication of the Commission "Preparing for the participation of the Western Balkan countries in Community programmes and agencies" [COM (2003) 748 of 3.12.03] – accessible on the internet at:

http://europa.eu.int/comm/external_relations/see/docs/com03_748_en.pdf

Commission. It should be noted that if an entry ticket is not fully consumed, the remaining funds will not be returned. Conversely, the entry ticket is not a rigid ceiling beyond which participation would be stopped.

As participation in Community programmes can represent a large investment for a partner country, CARDS support may be used to co-finance entry tickets. The following principles for co-financing by CARDS were defined in the Communication [and have been inserted in the guidelines of the CARDS programme].

To encourage a gradual and selective approach to participation in Community programmes, CARDS co-financing will be limited to 3-5 new programmes per programming year;

- Co-financing of the participation in programmes of a given country will be specified in the corresponding CARDS Annual Programme and must not exceed 5% of the total annual budget. It can take the form of a financial support over up to three years;
- To encourage ownership, co-financing may not exceed 75% of the national contribution to any given programme and this proportion must be steadily reduced over a three-year programming period.

A number of Community programmes require the existence of a substantial administrative structure to allow a country's full participation. For this reason, allocations planned in the present MIP to support the country's participation in Community programmes may be used for accompanying measures such as: building capacity to implement specific Community programmes in the medium term, communication related to Community programmes and to training for potential participants.

Should allocations under this priority not be used either to co-finance Community programme 'entry ticket' contributions or to build institutions in preparation for Community programme participation, support may be reallocated to other MIP priorities.

Objectives: Participation in Community programmes will support the country's efforts towards European integration by facilitating transfer of know-how and good practice, particularly in those areas of the *acquis* that serve as key reference points for its reform process. It will also help the country and its citizens to familiarise themselves with the Union's policies and working methods.

Expected Results: To initiate gradual participation of the former Yugoslav Republic of Macedonia in a selection of Community programmes by co-financing its financial contribution to these programmes. To facilitate administrative preparations and raise awareness of the new opportunities among target participants of the programmes

Programmes to be implemented:

- Co-financing over up to three consecutive years of the country's financial contribution to a selection of Community programmes.
- Co-financing of accompanying measures such as administrative preparations, communication, and training of potential applicants in preparation of proposals.

Indicators of achievement: Number of applicants to specific programmes and number of selected projects. Set up of reliable network of officials in responsible bodies; information dissemination including reference material on Community programmes.

Cross-cutting issues: As well as targeting specific intervention areas themselves, individual Community programmes will have the potential to interact with and reinforce other aspects of the former Yugoslav Republic of Macedonia's reform and development within the Stabilisation and Association Process

Link to regional strategy and other EC instruments: The former Yugoslav Republic of Macedonia is involved in both Community programme activities already open to third countries, and in comparable actions in other EU programmes both within CARDS (Tempus, VET) and outside CARDS (Community Action Programme promoting non-governmental organisations (NGOs) primarily active in the field of environmental protection, 6th Framework Programme for Research and Development).

Risks and assumptions: Appropriate inter-ministerial coordination and sustained commitment will be vital in ensuring successful participation. Capacity to mobilise the target participants of the programmes is critical.

3.5 General Technical Assistance Facility (GTAF)

Background and past assistance: A General Technical Assistance Facility (GTAF) fund will be established. The GTAF will support the preparation and early implementation of programme activities, and support the planning process for future programmes, as well as evaluation and other studies, etc.

A GTAF fund has been established under the CARDS Annual Programmes 2002/2003/2004.

Objective: The main purpose of the GTAF funds is to allow project preparation to proceed in a quick and effective manner.

3.6 Running costs of the EAR

This item caters for the operational costs of the EAR Operational Office in Skopje.

3.7 Reserve

The purpose of the reserve is to cover priority expenditures within the components of the Multi-annual Indicative Programme which may arise in the course of its implementation and which were unforeseeable at the time of its preparation.