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COMMISSION DECISION

of

on a Multi-annual Indicative Planning Document (MIPD) 2008-2010 for the former Yugoslav Republic of Macedonia

THE COMMISSION OF THE EUROPEAN COMMUNITIES,

Having regard to the Treaty establishing the European Community,

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

Whereas:

- (1) Regulation (EC) No 1085/2006 creates a coherent framework for Community assistance for candidate countries and potential candidate countries. Article 6 (1) of that Regulation requires that the assistance shall be provided on the basis of multi-annual indicative planning documents established by country in close consultation with the national authorities. The Commission adopted on 30 April 2007 the MIPD 2007-2009 for the former Yugoslav Republic of Macedonia.²
- (2) Article 6(5) of Regulation (EC) No 1085/2006 requires that Multi-annual Indicative Planning Documents, which are established following a three-year perspective, shall be reviewed annually.
- (3) In accordance with Article 6 (3) of Regulation (EC) No 1085/2006 assistance for countries listed in Annex I to that Regulation shall be based on the European Partnerships and cover the priorities and overall strategy resulting from a regular analysis of the situation in the country and on which preparation for further integration into the European Union must concentrate.
- (4) The former Yugoslav Republic of Macedonia is listed in Annex I to Regulation (EC) No 1085/2006.
- (5) The Council adopted on 18/02/2008 the Accession Partnership with the former Yugoslav Republic of Macedonia³.
- (6) This Decision is in accordance with the opinion of the IPA Committee set up under Article 14 of Regulation (EC) No 1085/2006,

¹ OJ L 210, 31.7.2006, p.82

² Commission Decision C(2007)1853 of 30 April 2007.

³ Council Decision 2008/212/EC of 18 February 2008 on the principles, priorities and conditions contained in the Accession Partnership with the former Yugoslav Republic of Macedonia (OJ L 80, 19.3.2008)

HAS DECIDED AS FOLLOWS:

Sole article

The Multi-annual Indicative Planning Document (MIPD) for the years 2008-2010 for the former Yugoslav Republic of Macedonia attached to the present Decision is hereby adopted.

Done at Brussels,

For the Commission

Member of the Commission

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ANNEX

Multi-annual Indicative Planning Document (MIPD)

2008 - 2010

The former Yugoslav Republic of Macedonia

Executive Summary

The overall objective of pre-accession assistance is to support the country's efforts to comply with the Copenhagen accession criteria and to help preparing the country meeting the challenges of future EU membership. Against this background pre-accession assistance for the period 2008-2010 is concentrated on three strategic areas:

- (1) Support to Institution Building
- (2) Improve cross-border cooperation
- (3) Prepare for participation in the Community's cohesion and rural development policy

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

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

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

EU assistance shall help to prepare the beneficiary for participation in the **Community's cohesion and rural development policy** from the date of accession. This is to be done through IPA components III to V. Due to limited financial resources support under *component III* is concentrated in the early years on the transport and environment sectors, while regional competitiveness will be added from 2010 onwards. In the transport sector support will help to complete corridors VIII and X. In the environment sector the priorities are targeted at introducing waste water collection and treatment systems and the introduction of an integrated waste management system meeting EU requirements. *Component IV* will support activities in the area of employment, education and social inclusion. As for employment, the aim is to modernise and improve services delivered by the Employment Service Agency as well as to support measures to improve labour market functioning. Activities related to education aim at modernising education and training systems and providing access to education for ethnic communities. In the field of social inclusion, assistance is aimed at fostering the integration of disadvantaged people and enhancing the participation of civil society. *Component V* sets out priorities for the sustainable development of rural areas and the implementation of the *acquis* concerning the common agricultural policy and related policy areas, such as food safety, veterinary and phytosanitary matters. In particular, the envisaged activities aim at

progressively upgrading the agricultural production and processing sector to Community standards and at improving employment and income opportunities in rural areas.

The present MIPD is based on an indicative financial envelope of 244.3 million euro.

SECTION 1 – ASSESSMENT OF STRATEGIC PRIORITIES AND OBJECTIVES

1.1 – Introduction

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

The candidate status has an important implication for pre-accession assistance. As a candidate country, the former Yugoslav Republic of Macedonia will have access to all five IPA components (subject to certain conditions). Furthermore, the European Commission will confer the management of IPA funds to the national authorities once the relevant structures and systems are in place and all conditions are met. However, until the conferral, the implementation of IPA components I and II is done in a centralised but de-concentrated manner, i.e. by the EC Delegation⁴ (with support by the European Agency for Reconstruction (EAR) in Skopje in the initial phase of IPA programming and implementation). Components III to V can only be implemented once the EU has conferred the management of EU funds to the government.

Although the basic source for setting down the priorities of EU assistance is the enlargement package, in particular the Accession Partnership, coherence of the MIPD with the beneficiary country's own needs and priorities (as e.g. outlined in the National Programme for the Adoption of the Acquis, the National Development Plan, the National European Integration Strategy, the Ohrid Framework Agreement and sectoral strategy documents) has been ensured through consultations with the national authorities, fully endorsing this MIPD.

1.2 - Overview of past and ongoing assistance and lessons learned

1.2.1 – Overview of EU past and ongoing assistance

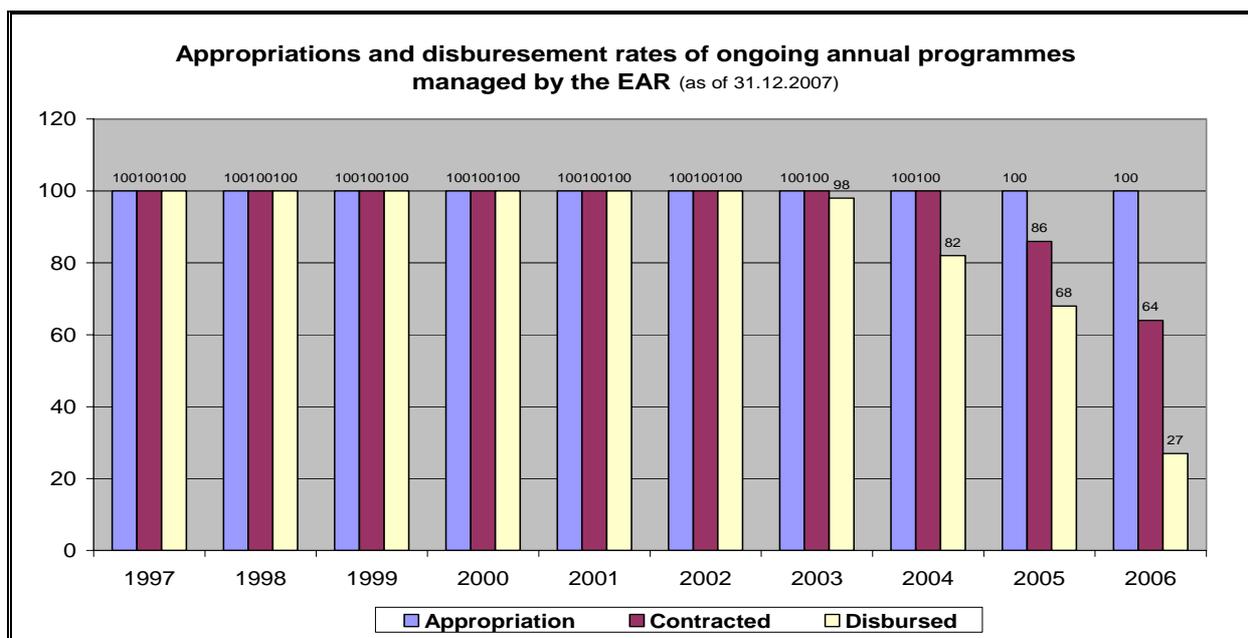
Over the past decade the EU has delivered substantial support to the former Yugoslav Republic of Macedonia through various programmes such as ECHO, Obnova, PHARE or the Emergency Response Programme. The EU also provided macro-financial assistance in the form of balance-of-payments support. In 2001, CARDS was launched to focus on political, institutional and economic transition. In 2007, with a view to streamline all pre-accession assistance in a single framework and under the same regulation the new Instrument for Pre-accession Assistance (IPA) has replaced CARDS and the other pre-accession programmes. The total assistance of the EU to the country since 1992 amounts to more than 870 million euro.

⁴ A small share of the funds is managed centrally by the headquarters.

CARDS

The EU's main institution for managing assistance in the region - the European Agency for Reconstruction (EAR) - has been efficient in delivering substantial amounts of assistance. Starting its operations in 2002, the EAR took over responsibility for the previous programmes and took forward the implementation of CARDS. The EU assistance portfolio managed by the Agency in the country amounts to some €326 million. By the end of 2007 more than 96% of this total had been contracted, and more than 83% disbursed.

Graph 1: EU assistance portfolio managed by the EAR (as of 31 December 2007)



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

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

| Sector | 2002 | 2003 | 2004 | 2005 | 2006 | Total |
|-----------------------------------|-------------|-------------|-----------|-----------|-----------|-------------|
| Democracy and the rule of law | 17 | 12 | 11.5 | 17 | 10.1 | 67.6 |
| Economic & social development | 11.5 | 11 | 15 | 8.6 | 13.1 | 59.2 |
| Justice and home affairs | 7 | 12.5 | 24 | 9.5 | 7.6 | 60.6 |
| Environment and natural resources | ~ | 1 | 2 | 2 | 1.3 | 6.3 |
| Other* | 6 | 7 | 6.5 | 7.9 | 7.9 | 35.3 |
| Total allocation | 41.5 | 43.5 | 59 | 45 | 40 | 229 |

*including EAR running costs

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

In the field of *economic and social development*, pre-accession assistance through capacity-building in key institutions, substantial support to the SME sector and to the adoption of internal market *acquis* helped to improve the investment climate. Assistance to the rural sector has led to improved capacities within the national administration regarding policy development. Some progress can also be reported in the food safety, veterinary and phytosanitary sectors. Through infrastructure projects water supply and sewage systems were improved, while roads and border crossings were upgraded. Support was provided to the development and implementation of employment action plans and improved vocational education and training systems. The Tempus programme has provided considerable support to the modernisation and reform of the higher education system. Since 1997, Tempus has funded over 100 university cooperation projects in the areas of curriculum development, university management and structural reform.

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

EU assistance in the area of *environment* has resulted in further approximation of national legislation to EU standards and in the elaboration of a coherent environmental strategy aiming at sustainable development. Environmental investments in waste and waste water management reduced pollution, while proposals have been developed to tackle old industrial polluted sites.

IPA

The IPA 2007 National Programme on transition assistance and institution building aims at supporting the accession process in the field of democracy and the rule of law. Building on previous CARDS achievements, the programme provides support to the police reform, which has been given the highest priority, as well as the revision and implementation of the Public Administration Reform Strategy, including equitable representation and civil society issues. It will also provide support to the Judicial Reform with view to strengthen the capacities of the judiciary and to make procedures more efficient. And it further aims at capacity building for decentralised management of EU funds.

Support to the local infrastructure shall help improving the long term economic development prospects and the social cohesion in the country.

As regards *Acquis* related activities, substantial support will be given to the tax administration in order to strengthen administrative capacities and to support the country's efforts in complying with EU standards. Support will also be given to regulatory bodies, in particular in the insurance and energy sectors, with view to contribute to better conditions for consumers as well as to improve the business environment. Further activities address the need for better statistics in line with EU standards. Alignment of the national customs legislation with the *Acquis* and reinforcement of border controls.

The programme supports the participation of the country in a series of Community Programmes which are deemed essential for the country's further cohesion process. Support for programming needs of the country under five components of IPA is also envisaged.

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

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

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

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

the UNDP) provides overall coordination support to the government as well as capacity building. The Netherlands provide assistance to the State Audit Office to improve the auditing capacities and enhance human resources management. Furthermore, the Netherlands provided assistance to the customs administration in the area of inward processing, simplified procedures, risk analysis, transit and development of an IT-strategy.

Linked to public administration reform in the economic sphere the IMF and the Netherlands run a comprehensive Technical Assistance program aimed at improving the tax administration and integrating social funds collections into the Public Revenue Office.

As regards Judicial Reform, the country receives substantial support by a wide range of donors of the international community; in particular by the World Bank.

In order to improve the business environment, including the financial sector, widespread support is given by the World Bank, the EBRD as well as USAID. Germany supports the country in complying with the acquis regarding the insurance supervision legislation and the establishment of the Insurance Supervision Agency. In improving the protection of property rights in the country, which is also essential for a sound business environment and for attracting foreign direct investments, the World Bank has undertaken a number of projects to support the reform of the (real) cadastre. The World Bank's activities aim at building an efficient and effective real estate cadastre and registration system, contributing to the development of efficient land and real estate markets. Complementary assistance has also been provided by the Netherlands and by Sweden supporting capacity building and training in the field of land management and cadastre.

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

In the areas of transport and environment major players are the World Bank, GEF, EBRD and KFW. As regards environment particular focus is given to environmental infrastructure development such as solid waste and wastewater treatment and trans-boundary water issues. Sweden has assisted several pilot municipalities in developing local environmental action plans with the aim of establishing models to be used all over the country.

Sweden, with its large portfolio in the area of agriculture, has provided continued support to the development of well-functioning and market-oriented farmer's organisations, and strengthening the Federation of Farmers, including policy development, institutional strengthening and business development. It has also provided support to the improvement and development of the national agricultural advisory services. In addition, Sweden has established good cooperation between the Statistical offices of both countries, which has helped to improve agricultural statistics.

In all sectors an intensive donor coordination and dialogue is taking place with both, the multilateral and bilateral donors. Relevant information is exchanged and complementarity and synergy is sought between the different programmes supported by the various donors.

A series of monthly sectoral meetings have been organised jointly by the EAR and the Secretariat for European Affairs of the Government in accordance with the plan agreed among the major donors in late 2005. The meetings were jointly hosted by the relevant Ministry and a key international donor agency. Recently donor coordination on behalf of the Government has lost some momentum. Though, it is expected that the Government will soon take up again a strong leadership role in donor coordination, meanwhile the World Bank together with the EAR have started a new process to enforce donor coordination and cooperation among the donors themselves in the country.

Main areas of cooperation are taxation, energy, insurance supervision, local infrastructure and public administration reform. Other areas where intense coordination is taking place include judicial reform and customs.

Donor coordination and consultation is taking place not only at the level of annual and multi-annual programming but also as regards the present MIPD 2008-2010. The draft document has been presented to the donor community (IFIs and Member States) in donor coordination meetings held in Skopje and in Brussels in December 2007. Furthermore, IFIs and Member States (as well as the beneficiary) have been given the opportunity to send written comments on the draft MIPD to the Commission. Comments have been incorporated into the draft MIPD in the most appropriate manner.

1.2.3 – Lessons learned

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

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

- Although political will was often expressed at the highest levels, the national government experienced difficulties in **fulfilling** their **commitments** engaged upon prior to project implementation, e.g. staffing, budgetary allocations, and completion of enactment of key legal provisions or administrative implementation arrangements (like building permits). During the IPA implementation a strong adherence to the conditionalities will be maintained to ensure that commitments are fulfilled prior projects deployment.
- **Donor coordination** is of great importance to avoid any overlap of assistance. With IFI and bilateral assistance supporting a wide variety of sectors (partly also covered by past EU assistance and the present MIPD) an important challenge to the programming of EU financial assistance was and is to avoid overlaps and to ensure that different but related activities are aligned. It still proves to be rather difficult to obtain a clear and comprehensive picture of all donors' activities in the country, despite close cooperation with the donor community. The Government's Secretariat for European Affairs leadership role in overall donor coordination clearly needs to be further strengthened; while the individual ministries would need to take the lead in organising operational sector-level coordination. Stronger coordination by the Government could have resulted in greater synergy of past assistance. It will be important to continue strengthening the coordination on all levels and to ensure a smooth mechanism to solve emerging implementation issues.
- Harmonisation of legal instruments across different sectors was not always an easy task. However, strong horizontal alignment (across sectors and stakeholders) could be achieved by **improving the coordination efforts among the ministries** and relevant departments.
- In order to reduce the risk of creating backlogs monitoring reports and the practice clearly show that, as regards the programming, **project maturity and strong conditionalities** are essential requirements. Conditionalities shall reflect the necessary pre-requisites necessary for successful project implementation such as the availability of personnel, co-financing, locations and material.

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

SECTION 2 – PRE-ACCESSION ASSISTANCE STRATEGY FOR THE PERIOD 2008-2010

2.1 Introduction

In this section strategic objectives and choices for IPA assistance over the period 2008-2010 are developed. In order to define strategies which effectively contribute to the achievement of the objectives and choices, the MIPD is based on the assessment of needs and challenges and on priorities identified in the Progress Report and the Accession Partnership, taking into account past and ongoing EU assistance as well as the beneficiary's planning documents such as the *National Plan for Adopting the Acquis*, the *National Development Plan* and the *Pre-Accession Economic Programme*.

The MIPD has been drafted in cooperation with all relevant stakeholders. Close coordination has been ensured through regular exchange of information, notably with the beneficiary, and through meetings and consultation with all Member States, the donor community and representatives of the civil society in Skopje.

Concerning the indicative roadmap for decentralisation of EU-assistance with ex-ante control (DIS), the situation is the following: The establishment of the management and control system was decided by the Government in December 2006. The National Fund (NF) and the Central Contracting and Financing Department (CFCD) were established and the Programme Authorising Officer (PAO), the Competent Accrediting Officer (CAO) and the Senior Programme Officers (SPOs) have been nominated. In the first half of 2007 a gap assessment to comply with the new IPA Implementing Regulation has been carried out and the National Authorities have submitted a Gap assessment report to the Commission. In a subsequent step, gap plugging has been done during the second half of 2007, beginning of 2008. Following a compliance assessment and the accreditation of the system we then expect the CAO to submit the application to the Commission for conferral of management during the second half of 2008.

2.2 Strategic objectives and choices for IPA assistance over the period 2008-2010

2.2.1. Strategic objectives for IPA assistance over the period 2008-2010

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

Support to the improvement of governance and the rule of law needs to continue. In particular, further efforts are needed to fully implement the *Ohrid Framework Agreement*. Significant further efforts are needed to create a stable and professional civil service. Continuous efforts towards full independency, efficiency and accountability of the judiciary are necessary. In addition, a more comprehensive approach to fighting corruption is required.

Significant efforts have been made to align the country's legislation with the *acquis*, particularly in areas related to the internal market and trade. However, further efforts to align

with the *acquis* have to be made. The country needs to intensify its efforts in particular as regards agriculture, competition, environment, transport, justice, freedom and security. The country faces difficulties in implementing and effectively enforcing the legislation.

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

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

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

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

- improving governance and the observance of the rule of law, in particular through support to the public administration reform, the fight against corruption, the judicial reform and the reform on police;
- supporting economic development and enhancing social cohesion; in particular by strengthening the business environment, especially as regards the SME sector, developing an integrated research policy and by supporting the implementation of national and regional development plans;
- adopting the *acquis* as well as administrative capacity-building for transposing, implementing and enforcing the *acquis* in line with the priorities identified in the Accession Partnership;

- preparing the country for the implementation of the Community's cohesion policy, in particular by focusing in the field of transport and environment as well as education, employment and social inclusion;
- preparing the country for the implementation of the Community's rural development policy, in particular by focusing on investments in agricultural production to restructure and upgrade the sector to Community standards and on investments to develop and diversify economic activities in rural areas;
- capacity building of national administrations to assume full responsibility for the decentralised management of EU funds.

In addition, cross-border co-operation shall be supported in order to contribute to the creation of closer links between border regions and to help improving economic and social development in the border regions.

Furthermore, certain *cross cutting issues*, which are outlined in *Annex 4*, will have to be reflected in all activities programmed under IPA. These cross cutting include issues related to the promotion of Civil Society dialogue, the strengthening of equal opportunities and minority rights, the fight against corruption and environmental impact assessments.

2.2.2. Strategic choices for IPA assistance over the period 2008-2010

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

Based on the assessment of strategic needs and priorities set out in section above the strategic choices for the period 2008-2010 are concentrated on three areas of activity:

- (1) Support Institution Building
- (2) Improve cross-border cooperation
- (3) Prepare the beneficiary for participation in the Community's cohesion policy and rural development instruments

In the planning period 2008-2010 the major share of IPA assistance will be oriented towards ***Institution Building***, which is delivered through *component I*. The funds under this component are substantial and allow supporting a wide range of activities. Nonetheless, the strategic choice is concentrated around three areas of intervention, which are included in the priorities identified in the Accession Partnership: (i) implementation of sectoral reforms; (ii) adoption and implementation of the *acquis* and (iii) support to the preparation for decentralised management of EU funds.

- (i) Assistance will continue to support the consolidation and enforcement of sectoral reforms (i.e. public administration reform, judicial reform, police reform, etc.) that

have been adopted. The implementation of these reforms is also essential to improving the economic development in the country.

- (ii) As regards the adoption and implementation of the acquis, and help the country complying with the Copenhagen criteria, priority will be given to areas, where the harmonisation of the legislation is an obligation linked to the implementation of the Stabilisation and Association Agreement where the volume of legislation to be harmonised is particularly large or where harmonisation requires costly investments that must be spread over many years.
- (iii) As a candidate country, the former Yugoslav Republic of Macedonia will have access to all five IPA components. The funds will be implemented under the decentralised implementation system once the Commission has conferred its management to the national authorities. The national administration must be endowed with the necessary structures as well as the management expertise and capacity to assume full responsibility for the decentralised management of IPA funds. Thus, assistance shall help to further develop the capacity of the established DIS-structures and to develop accountable administrations and institutions, with appropriate capacity, including internal controls and audits.

Cross-border cooperation, managed through *component II*, will foremost concentrate on creating closer links between border regions, supporting joint environmental protection activities and improving the potentials for tourism. Furthermore, through participation in the European Regional Development Fund transnational and interregional programmes, pre-accession assistance is aimed at familiarising future member states with rules and procedures governing the European Territorial Cooperation objective under Structural Funds.

Through the IPA *components III to V*, EU assistance will help to prepare the beneficiary to fully participate in the **Community's cohesion policy and rural development instruments** from the day of accession. Therefore, it is necessary to introduce into the national framework for economic and employment development the strategic planning and management principles that guide the implementation of EU structural instruments. Since the volume of funds available under these components for the period 2008-2010 is relatively small, it is essential to ensure a strong concentration in order to achieve impact in the areas of intervention. For these reasons, and in view of other sources of funding available, in the period covered by the current MIPD, support under *component III* will be concentrated in the first years in the transport and environment sectors, and be delivered through a single operational programme. From 2010, it is envisaged that three separate programmes will be elaborated for transport, environment and regional competitiveness. *Component IV* will support system actions and pilot projects in the areas of employment, education and social inclusion. And *component V* is aimed at, step by step, upgrading the agricultural production and processing sector to Community standards, and at improving employment and income opportunities in rural areas.

All these activities need to be closely coordinated in order to avoid overlapping and to ensure complementarity, not only in relation to each of the components but also in relation to other donors' activities. It is important to take into account funding from other donors in order to maximise the synergies among the various forms of assistance, thus contributing to the implementation of the Paris Declaration for donor coordination.

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

2.3 Multi-annual planning by component

This section presents component by component the pre-accession assistance strategy for the period 2008-2010. As outlined in the Multi-Annual Indicative Financial Framework, the nominal allocations for each component for the period 2008-2010 are:

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

| COMPONENT | 2008 | 2009 | 2010 | TOTAL |
|---|-------------|-------------|-------------|--------------|
| I – Institution Building | 39.9 | 38.1 | 36.3 | 114.3 |
| II – Cross-border cooperation | 5.3 | 5.6 | 5.7 | 16.6 |
| III – Regional Development | 12.3 | 20.8 | 29.4 | 62.5 |
| IV – Human Resources Development | 6.0 | 7.1 | 8.4 | 21.5 |
| V – Rural Development | 6.7 | 10.2 | 12.5 | 29.4 |
| TOTAL | 70.2 | 81.8 | 92.3 | 244.3 |

* As adopted by Commission Decision COM (2006) 672 of 8/11/2006. Figures are in current prices.

COMPONENT I – TRANSITION ASSISTANCE AND INSTITUTION BUILDING

1. Objectives and choices

Given the candidate status of the country, pre-accession assistance is aimed at supporting the country's efforts to comply with the Copenhagen Criteria. *Component 1*'s major task is to provide for the *Institution Building* needed to meet this objective. Against this background, financial assistance will support the following major areas of intervention:

- (1) Political criteria
- (2) Socio-Economic criteria
- (3) Ability to assume the obligations of Membership
- (4) Support to programming and participation in Community Programmes and Agencies

Compared to the previous MIPD for the period 2007-2009 the major areas of interventions remain unchanged as the overall objectives have not changed significantly. What has changed compared to the previous MIPD is that increased attention will be given to strengthening Civil Society dialogue and development (see below for further details). Furthermore, based on the needs assessment, the "political criteria" will receive more attention as reflected by an increase of its share of the total financial allocations under component 1. Taking into account the new time horizon, the key priorities as set out in the recent Accession Partnership and the country's own needs, as well as building on past- and ongoing EU assistance, in particular the new IPA programmes, some minor modifications have been made as regards the strategic choices under this component. However, the majority of strategic objectives and choices remained unchanged reflecting the medium-term nature of this document.

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

1.1. Political Criteria

In order further to improve the country's alignment with the political criteria, and taking into account commitments made under the SAA, EU assistance will continue to help to advance **public administration reform** by supporting the implementation of a comprehensive Public Administration Reform strategy. The emphasis will be on assisting the introduction of a merit based career system, ensuring the implementation of the code of ethics, developing the capacity for strategic planning and administration, training and increasing transparency. Support will continue to the decentralisation process. In addition, it remains important to improve equitable representation in the public administration in line with the constitutional and legal provisions deriving from the *Ohrid Framework Agreement*. It is also imperative to continue to fight corruption at all levels of the administration and to provide for the protection of EU financial interests. Furthermore, in order to follow the EU's *Public Internal Financial Control* (PIFC) model, it is essential further to enhance financial management and financial control procedures and to establish appropriate monitoring and evaluation systems through coherent legislation and adequate institutional capacity. An important element throughout the support provided to Public Administration Reform is to increase transparency and to improve

civil society inclusion and participation. Support to "good governance" may also include capacity building of democratic state institution, such as the Parliament.

In the field of **judiciary**, EU assistance will help to complete the implementation of the *Strategy and Action Plan on Judicial Reform*, and possibly to further develop it, as well as to support further reform efforts and to improve the overall functioning of the judiciary. Specific elements of the Judicial Reform Strategy that need further attention include the independence and efficiency of the court system, the Public Prosecutors' office, the Administrative Court and the basic courts that have specialised departments for cases of organised and serious crime, the implementation of the juvenile justice system, and finally, the *Training Academy* for judges and prosecutors.

Despite ongoing IPA activities in support of the **police reform**, it will be necessary to continue to support completing the implementation of the *Action Plan for the Reform of the Police*, to ensure consistency and continuity of approach, to consolidate progress already made and to maintain momentum. In addition, significant further efforts are necessary in order to step up the fight against organised crime, including trafficking in human beings, arms and drugs. Continued efforts have to be undertaken to adopt and implement a strategic plan for the development of administrative structures and capacities for the management of *migration and visa issues*, as well as guidelines for processing asylum cases.

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

As the country is on its way towards accession, it is imperative in terms of sustainability and public acceptance to ensure that this process is managed in a democratic and transparent way, thus seeking the broad participation of the **civil society** in the overall process. Therefore, pre-accession assistance shall help strengthening the civil society dialogue and development. This will be done, on the one hand, by treating civil society as a cross cutting issue in the various projects (see Annex 4), but on the other hand, also by supporting separate activities directly targeting at the civil society. In particular, attention will be given to the implementation of the civil society strategy, and strengthening the capacities of the civil society organisations.⁵

IPA funds will be implemented under the **decentralised implementation system** once the Commission has conferred its management to the national authorities. To this end, substantial assistance for capacity building across the relevant structures is provided through CARDS and IPA programmes. Nonetheless, it may be necessary to continue this support depending on the country's progress along its "DIS-roadmap".

1.2. Socio-Economic criteria

Economic development and social cohesion are supported by pre-accession assistance through various channels. First, activities supporting the ability of the country to assume the

⁵ Further cooperation with civil society organisations will be ensured through other IPA Components where assistance to various civil society organisations and associations is envisaged to be provided through calls for proposals. In addition, the civil society is expected to benefit from other EU funded programmes, including IPA Multi-beneficiary programme and European Initiative for Democracy and Human Rights.

obligations of membership (see below) add essentially to enhanced development and cohesion by supporting the education⁶ and research framework and introducing European standards into national legislation and thus upgrading the framework for the functioning of the (market) economy. Second, those activities envisaged under **components III - V** have a direct impact on economic and social cohesion. Third, measures to strengthen the rule of law will improve the business environment and thus also contribute to more growth and jobs. Against this background, the following areas of assistance shall be seen as complementary action to those activities in the other sections of *component I to V*.

EU assistance will aim at strengthening the **competitiveness** of the economy and further improving the *investment climate* and business environment, in particular by supporting small businesses and the implementation of the European Charter for SMEs, improving administrative procedures and by completing the registration of land and real estate as well as strengthening the cadastre. Furthermore, it is important to support the country in establishing well-regulated and properly controlled and supervised financial markets, as they are essential to sustainable growth and a prerequisite for attracting investment. So far, IPA support has been given to improve supervision in the insurance and energy sector.

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

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

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

1.3. - Ability to assume the obligations of Membership

The focus of assistance in this area will be on the adoption of the *acquis* including building institutional and administrative capacity for transposing, implementing and enforcing the *acquis* according to the priorities identified in the Accession Partnership. *Component I* will also have to provide for *Institution Building* aspects of sectors covered by other components in order to complement activities within those components.

In the field of **internal market and competition**, areas of attention include strengthening the administrative capacity needed for quality infrastructure (e.g. standardisation, metrology and market surveillance); implementation of the Community rules on the co-ordination of social security schemes; further alignment with EU legislation in the fields of occupational health, safety and labour law; adoption of legislation on the recognition of foreign professional qualifications and development of the relevant administrative structures; support to the creation of an independent postal regulatory authority and further support to other regulatory and supervisory bodies in the area of financial services; developing enforcement capacity in

⁶ This includes financial assistance given through the present MIPD to TEMPUS which is programmed under the IPA Multi-beneficiary programme (where related activities are described in more detail).

the areas of anti-trust, state aid, protection of competition and of intellectual property, including the geographical indications. The need for support to strengthen the administrative capacity in the area of public procurement in order to better enforce procurement legislation has to be assessed. Particular attention should be paid to strengthening the administrative capacity in the area of financial reporting, improving the quality of financial services and addressing the issue of money laundering.

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

In the field of *agriculture and rural development* the capacity of the administration to enforce the management mechanisms of the Common Agricultural Policy needs to be further upgraded.

With regard to *food safety, veterinary and phytosanitary policy*, support will be given to the adoption of the *acquis* and its implementation in particular as regards controls and laboratories.

In the area of *transport* and *energy*, support will be given to reorganising and strengthening the public administration and institutions in the transport and energy sector and to implementing the requirements of the Energy Community Treaty and the European Common Aviation Area Agreement and, where appropriate, support will be given to the participation of the country in the SEE-FABA initiative⁷

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

As regards *social policy, employment and education*, the capacities in central and local state institutions need further strengthening.

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

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

With regard to *environmental protection*, particular attention will be given to the strengthening of administrative capacities including inspection capacities, to the alignment of legislation with the *acquis* and to the incorporation of environmental protection requirements into other sectoral policies, e.g. through the development of environmental impact assessments, including compliance of agriculture and industry with key parts of the *acquis* in the environmental sector.

⁷

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

Strong emphasis will be placed on measures and activities to address *consumer and health protection*, including through the implementation of international agreements in the field of public health and further strengthening of the administrative capacity in this area

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

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

The EU agreed in the Thessaloniki Agenda to open participation in *Community Programmes* to the Western Balkan countries, following the approach used in the past for candidate countries. The Commission proposed concrete steps in its Communication of 3 December 2003⁸, underlining the need for a selective and gradual approach. As participation in Community programmes can entail sizeable expenditure for a partner country, IPA support may be used to prepare for participation and to co-finance the costs. So far, the Government has expressed its interest to participate, inter alia, in the following Community Programmes: 7th Research Framework Programme, PROGRESS, Competition and Innovation Framework Programme, Europe for Citizens, Culture, Life+, Media 2007, Life-long Learning, Youth in Action, Fiscalis, Customs, Prevention of and Fight Against Crime and the second Programme of Community Action in the field of Health 2008-2013. For some of these programmes Memoranda of Understanding have already been signed and entered into force. Furthermore, the Government intends to participate in a series of Community Agencies (i.e. Cedefop, CPVO, EU-OSHA, ECDC, EMEA, EFSA, Eurofund, EMSA, EMCDDA, FRA, EEA, ERA, EASA).

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

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

It is expected that the country will make considerable progress within the scope of this MIPD to the extent that by the end of it:

- the implementation of public administration reforms will have advanced significantly;
- the SAA and the *Ohrid Framework Agreement* will have been fully implemented;
- the *Strategy on Civil Society* is being implemented;
- the *Roma Strategy* is being implemented in line with the *Roma Decade*;
- the functioning of the judicial system and the police will have substantially improved in line with the reform strategies;
- the investment climate and business environment will have further improved and will be more conducive to FDI and local economic activity (in particular with regard to SMEs);

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

- markets will have become more efficient and competitive as a result of closer compliance with the EC *acquis* and EU best practice (e.g. market for electronic communications, energy market, financial services, general service activities, etc.);
- the transposition of the Community *acquis* will have been largely completed in the area of the Internal Market, transport and energy, taxation and Customs Union and be well advanced in other major areas of EU legislation;
- the functioning of the public administration and its capacity to implement the community *acquis* will have significantly improved, and the country will have started to establish a credible track record of implementation in key areas of the *acquis*.

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

4. Financial indications

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

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

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

COMPONENT II – CROSS BORDER CO-OPERATION

1. Current situation

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

Implementation of relevant projects has been severely hampered by the delays that accumulated in setting up the necessary joint management structures. The process of developing the call for proposals-guidelines for applicants and the filling of posts for the Joint Technical Secretariats proved to be extremely time-consuming. Therefore, only by the end of 2006 the first projects entered their implementation phase. It is expected that CBC under IPA will benefit from the existing institutions in the case of the former Yugoslav Republic of Macedonia, Bulgaria and Greece. However, under the IPA 2007 Component II, CBC programmes at borders with the Western Balkan neighbours were limited to one single programme at the border with Albania.

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

IPA Cross Border Cooperation at borders with Member States, i.e with Greece and Bulgaria will be pursued. At "cruising speed" these programmes operate on both sides of the border with *one* set of rules, under a single management structure, for the purpose of financing genuinely joint projects for the common benefit of the two parties and through one multi-annual financing decision when the participating countries adopt the integrated approach.

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

Table 4: CBC with **Greece**

| <i>Greece</i> | <i>The former Yugoslav Republic of Macedonia</i> |
|---------------|--|
| Pella | Jugoistočen |
| Serres | Vardar |
| Florina | Pelagonija |
| Kilkis | |

Table 5: CBC with **Bulgaria**

| <i>Bulgaria</i> | <i>The former Yugoslav Republic of Macedonia</i> |
|-----------------|--|
|-----------------|--|

| | |
|-------------|---------------|
| Kyustendil | Severoistočen |
| Blagoevgrad | Istočen |
| | Jugoistočen |

As mentioned above, *component II* is also supporting Cross Border Cooperation programmes at borders with the Western Balkan neighbours. In 2007, for the CBC programme between the former Yugoslav Republic of Macedonia and Albania, the list of eligible areas, selected according to the IPA implementing rules, was established. In addition, building on the experience gained in the context of the CADSES programme, *component II* funds are supporting, as appropriate, participation in the relevant Structural Funds trans-national programmes (and, as appropriate, interregional programmes) where the country is eligible (e.g. "Europe South–East" trans-national programme).

3. Major areas of intervention and goals.

Building on initial achievements under CBC activities supported in the period 2004-2006, the MIPD 2008–20010 will continue the support to regions and sectors targeted earlier, including the following:

CBC with Bulgaria

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

CBC with Greece

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

CBC with Neighbouring Western Balkan countries

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

- Technical Assistance

4. Main priorities and objectives

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

In general, the programmes should promote the intercultural dialogue.

CBC with Bulgaria

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

CBC with Greece

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

CBC with the Western Balkan neighbours

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

5. Expected results and time frame

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

- Closer economic cooperation is expected to enhance the competitiveness of enterprises, create new business opportunities and to increase employment;
- Better administrative cooperation facilitates business development and contributes to avoiding counter-productive competition among border regions;
- Enhancing knowledge of neighbouring regions by contacts between their inhabitants and setting up social networks shall contribute to preventing tensions and to fostering mutual understanding;

CBC with the Western Balkan neighbours

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

6. Forms of assistance to be provided

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

7. Financial indications

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

As the conditions are not in place to support CBC with Kosovo in the frame of IPA 2008, funds earmarked for CBC between the former Yugoslav republic of Macedonia and Serbia & Kosovo borders, amounting to EUR 1.2 million, have been transferred to Component 1, specifically in the project on *Integrated Border Management*.

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

| <i>CBC PROGRAMMES</i> | <i>2008</i> | <i>2009</i> | <i>2010</i> | <i>TOTAL</i> |
|-----------------------|-------------|-------------|-------------|--------------|
| WITH BULGARIA | 1.2 | 1.3 | 1.4 | 3.9 |

| | | | | |
|--|------------|------------|------------|-------------|
| WITH GREECE | 1.3 | 1.5 | 1.5 | 4.3 |
| WITH NEIGHBOURING WESTERN BALKANS COUNTRIES, KOSOVO AND ERDF PROGRAMMES | 1.5 | 2.8 | 2.8 | 8.3 |
| TOTAL | 4.0 | 5.6 | 5.7 | 16.5 |

Table 7: Indicative financial allocation by major area of intervention

| | | |
|---------------------------------------|------------------|------------------|
| <i>CBC-PROGRAMME</i> | <i>BULGARIA</i> | <i>GREECE</i> |
| ECONOMIC DEVELOPMENT | 40% - 60% | 30% - 50% |
| TOURISM/ INFRASTRUCTURE | 30% - 50% | 20% - 40% |
| BUILDING CROSS-BORDER NETWORKS | 10% - 20% | 10% - 20% |
| TECHNICAL ASSISTANCE | Max. 10% | Max. 10% |
| TOTAL (€ million) | 3.9 | 4.3 |

As regards CBC with the Western Balkan neighbours, the beneficiary countries will decide jointly what will be the allocations of funds per border. However, since ERDF allocations of funds is fixed for the 2007-2013 period, the participation in the ERDF trans-national programme is already defined for the same period and will be the following for the period 2008-2010

| | | | | |
|---------------------------------|-------------|-------------|-------------|--------------|
| <i>CBC PROGRAMMES</i> | <i>2008</i> | <i>2009</i> | <i>2010</i> | <i>Total</i> |
| with Western Balkans neighbours | 2.2 | 2.2 | 2.2 | 6.6 |
| ERDF programmes | 0.5 | 0.6 | 0.6 | 1.7 |
| TOTAL | 2.7 | 2.8 | 2.8 | 8.3 |

COMPONENTS III AND IV – “CHAPEAU” SECTION

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

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

a strong concentration and synergies with other funding, in order to achieve some impact in the areas of intervention. However, even with a high degree of focus, the direct impact of the programme will be limited.

The resources under *components III* and *IV* should be utilised, first and foremost, to introduce into the national framework for economic and employment development the strategic planning and management principles guiding the implementation of EU structural instruments, also via a learning by doing process. Therefore, in the period covered by the current MIPD, support under *component III* will concentrate in the transport and environment sectors, delivered through a single operational programme for the period 2008-2009. From 2010, support for a regional competitiveness programme will be considered in light of the funding available, the capacity of the management structures and the general improvement of business environment, particularly for SMEs. Such future programme could also consider existing research and technological capacity and means to enhance the cooperation between the private sector and research and technology institutions. Support to improve capacity of regional actors and to improve business environment will be available also under *component I*. The principle of coherence between interventions under *components III* and *IV* will also be taken into consideration, both at strategic level (also in the context of the strategic coherence framework) and at the level of implementation of the two components.

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

COMPONENT III – REGIONAL DEVELOPMENT

1. Objectives and choices

The Strategy for assistance under *Component III*, which was identified in the MIPD 2007-2009 in line with the priorities set out in the Accession Partnership for the former Yugoslav Republic of Macedonia, will be maintained for environment and transport sector over the rolled over period 2008-2010. This strategy foresees support under *Component III* in the environment and transport sectors in order to contribute to the sustainable development of the country, i.e. to environment protection as well as to the country's economic and social development, and its regional integration.

As previously mentioned in the MIPD 2007-2009, it is intended in a subsequent phase to identify priorities for enhancing regional competitiveness which will constitute an additional area of intervention from 2010 in the light of the funding available within Multi-annual Indicative Financing Frameworks. Support under a regional competitiveness programme will

lie within the scope of the Strategic Coherence framework⁹ elaborated by the beneficiary country taking into account the Community priorities as well as the national priorities for the period 2007-2013.

Thus, for the period 2008-2009, objectives for the environment and transport sectors will be implemented through the existing single operational programme "Regional Development". From 2010, it is envisaged that three separate programmes will be elaborated for transport, environment and also for the regional competitiveness area.

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

Transport

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

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

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

Main objectives for transport sector under *Component III* remain:

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

⁹ Accepted by the services of the Commission on 13 August 2007

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

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

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

Priority should be given to projects which will be ready to start before 2010 and which address the most pressing bottlenecks in terms of congestion, poor quality infrastructure or poor environmental standards and which generate the highest economic and social returns.

Environment

The former Yugoslav Republic of Macedonia recognises that environment protection and nature conservation are fundamental constitutional values which everybody has the responsibility to protect and improve. The preservation of the country's rich natural resources, especially fresh water and biological and landscape diversity are regarded as important values for the sustainable development and preservation of the quality of life. Environmental protection shall also concern its neighbourhood since inter alia the Vardar/Axios River which supplies 75% of the country's total water resources is heavily polluted by untreated industrial and urban waste water, affecting the country but also Greece and in particular the Aegean Sea.

Assistance under *component III* will address the Accession Partnership priority consisting on increasing investments in environmental infrastructure, in particular waste water collection and treatment, drinking water supply, tackling air pollution and waste management, the others priorities being partially addressed through *Component I*. Particular emphasis will be put on waste water treatment and waste management where the needs for public sector investments will be higher.

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

sector. The PEIP programme has been developed and implemented within the framework of the *Regional Environmental Reconstruction Programme for South Eastern Europe (REReP)*.

Investments in the environment sector will be planned based on the integrated and strategic approaches, in particular in line with the river basin approach and waste management planning. Projects selected need to be closely linked to the implementation of environmental plans for the relevant sectors (water, waste, etc.) and based on a strategic, integrated and phased approach. This approach requires the drawing up of an overall investment strategy for the environment, in which prioritisation in project identification and complementarity with other sources of funding are key elements. In addition, the respect of general principles of environmental policy and conventions, the environmental protection of the national population as well as the adjoining Member States' and other countries' population, the polluter pays principle and financial sustainability also need to be taken into account. Investment in these sectors must concentrate on those areas where the impact (in terms of population served) is the largest, where project implementation capability can assure adequate delivery and where projects cannot be financed predominantly from other sources (e.g. IFI, private funds, national budget and other public funds). Projects must also have a sufficient scale to have a significant impact in the field of environmental protection.

Regional competitiveness

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

Regional disparities, 2002

| | Population | Employed | Unemployment rate | GDP (PPP in \$) | GDP per Capita (PPP in \$) | % of country's average | Average GDP per capita growth rate 1998-2002 |
|--|------------|----------|-------------------|-----------------|----------------------------|------------------------|--|
| The former Yugoslav Republic of Macedonia | 2022547 | 460544 | 38.1 | 13854081 | 6850 | 100 | 5.2 |
| Pelagonia | | | | | | | |
| Vardar | 238136 | 62551 | 39.9 | 1644320 | 6905 | 101 | 2.4 |
| North-East | 133180 | 31672 | 43.9 | 744617 | 5591 | 82 | 2.3 |
| South-West | 172787 | 30841 | 48.7 | 611910 | 3541 | 52 | -1.0 |
| Skopje | 219741 | 39589 | 42.4 | 921123 | 4192 | 61 | 2.8 |
| South-East | 578144 | 154914 | 30.4 | 6916835 | 11964 | 175 | 8.7 |
| Polog | 171416 | 50559 | 34.4 | 1036996 | 6050 | 88 | 4.1 |
| East | 305930 | 35638 | 49.9 | 941066 | 3076 | 45 | 1.4 |
| | 203213 | 54779 | 34.5 | 1037213 | 5104 | 75 | 1.9 |

Source: State Statistical Office and UNDP

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

2. Programmes to be implemented

For the period 2008-2009, the above objectives for the environment and transport sectors will be implemented through the single operational programme "Regional Development" aiming at supporting the sustainable development of the former Yugoslav Republic of Macedonia.

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

The existing operational programme foresees that assistance in the transport sector should focus on the continuation of the development of the South East Europe Core Regional Transport Network (corridors VIII and X). The priorities shall be progressively shifted from corridor X to corridor VIII as well as from road to rail. Concerning assistance in the environment sector, clearly targeted investments should focus on waste water treatment and solid waste management where the impact to the population and natural environment is the greatest.

Over the period 2007-2013, assistance under *Component III* will be rebalanced from transport sector to environment sector. The percentage of resources allocated to the environment sector will be progressively aligned with other candidate countries, in line with the needs of the country, the development of adequate strategies and investment planning and the capacity to prepare and implement infrastructure investments in the environment sector.

In a second phase from 2010, it is envisaged that three separate programmes will be planned for transport, environment and for the regional competitiveness area. The identification of the priorities to be implemented in the area of regional competitiveness will start in 2009 with possible support provided by *Component I* for institutional building.

3. Expected results by the end of the covered period

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

Following sector specific results are expected:

Transport

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

Environment

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

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

4. Financial indication

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

Financial indications – *Component III "Regional Development"* for 2008-2010

| | 2008-2009 | 2010 |
|---------------------------------|------------------|-------------|
| Environment | 20 % - 30 % | 30 % - 40 % |
| Transport | 70 % - 80 % | 40 % - 50 % |
| Regional competitiveness | | 10 % - 20 % |

The indicative breakdown between operational programmes during the period 2010-2013 will aim to reach the followings ranges: Regional Competitiveness (20 to 30%), Environment (35 to 45%) ant Transport (35 to 45%).

Component IV – Human Resources Development

1. MAIN AREAS OF INTERVENTION, STRATEGIC OBJECTIVES AND CHOICES

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

1.1. Overall objective

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

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

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

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

1.2. Choices

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

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

2. PROGRAMMES TO BE IMPLEMENTED

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

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

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

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

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

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

Axis 3 should foster social protection by training professionals and volunteers involved in social inclusion, and enhanced linkages between all partners. In addition, this priority axis will aim at strengthening the civil society capacity to provide (quality) social assistance, as well as the establishment of necessary institutional set for care provision to particular vulnerable groups. For the people with mental illness attention should be paid to community-based services as an alternative to institutionalisation. Intervention in this axis will also include support to the preparation process of the Joint Inclusion Memorandum (JIM) and its subsequent implementation, key to an overall guidance and coordination of social inclusion policies.

- Priority axis 4: Technical assistance

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

3. EXPECTED RESULTS BY THE END OF THE COVERED PERIOD AND MEASURABLE INDICATORS

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

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

Expected indicators priority axis 1:

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

Expected indicators priority axis 2:

- 2 and 3 years VET schools introducing modern curricula according to labour market needs
- Continuing cooperation of the VET schools with business partners
- Multi-ethnic schools introducing reformed curricula adaptable for a multi-ethnic environment
- Percentage of children attending the next year of school from the assisted Roma families
- Coordinative body for Adult Education is set up and functioning
- Percentage of successfully developed and tested programmes

- Percentage of successful pilot programmes for literacy and fulfilment of elementary education
- Clearly defined learning outcomes associated with entrepreneurship education at ISCED levels 2 and 3, with curriculum adjustments and teacher capacities

Expected indicators priority axis 3:

- Increased efficiency of social services providers and improvement of social service delivery to beneficiaries
- The percentage of persons enhanced by gender and ethnicity
- Satisfactory evaluated training programmes

4. FINANCIAL INDICATION

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

Financial indications – *Component IV "Human Resources Development"*

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

Component V – Rural Development

1. Objectives and choices

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

- Priority axis 1: to improve market efficiency and the implementation of Community standards regarding public health, environmental protection, animal and plant health, animal welfare, food quality and occupational safety.
- Priority axis 2: to launch preparatory actions for implementation of agri-environmental measures and the "Leader-approach" in order to contribute to the sustainable development and to the development of public-private partnerships in rural areas.
- Priority axis 3: to contribute to the development of the rural economy with establishing the -micro and -small enterprises in rural areas.

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

1.1. Horizontal issues:

The Accession Partnership identifies a number of short and medium-term priorities for the agricultural and rural development sectors as well as for the improvement of food safety. In the short-term the country should speed up the registration of agricultural land in the real estate cadastre, it should adopt the necessary legislation and set up suitable administrative structures to operate EU instruments related to rural development.

In the medium-term the country should develop an overall agri-environmental strategy to protect the environment and maintain the countryside. Parallel to this, the country should develop a local development strategy which will include the local private - public partnership with a view to promotion and revitalisations of rural communities and improvements their quality of life.

Implementation of pre-accession assistance requires well functioning and upgrading inspection services (in the field of public health, environmental protection, animal and plant health, animal welfare, occupational safety and food quality and safety). Such services must be able to control the respect of Community standards of projects supported under *component V* and to issue supporting documents required for the application of support. Therefore, the necessary legislative framework must be adopted in line to the present EU legislation.

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

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

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

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

1.2. Priority axes

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

Priority axis 1:

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

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

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

To achieve the priorities of pre-accession assistance, as set out in the IPARD programme, the measures to be implemented under the *priority axis 1* shall be as follows: "Investments in agricultural holdings to restructure and to upgrade to Community standards" and "Investments in processing and marketing agriculture and fishery products to restructure and to upgrade to Community standards". In order to strengthen the position on the market and food processing industry for the local agricultural producers, the measure "Support for the setting-up of producer groups" will be implemented at a later stage i.e. after 2009.

Priority Axis 2:

Under priority axis 2 the preparatory activities for the implementation of the agri-environmental measure should start already in 2008 to prepare for their implementation after 2009. The preparatory work should in a first instance focus on:

- carry out studies to prepare the framework of the measure, including the elaboration of the measure with defined selection of actions and pilot areas.
- Development of practical experience on the agricultural actions to improve the environment and to maintain countryside through the national schemes or donors.
- Preparation of the local rural development strategies for rural areas should be initiated.

Furthermore it is recommended to implement small scale projects through technical assistance and through the process "learning by doing". Considering the activities for the preparation of future establishment of a national rural development network, the works should start in an early stage of the programme implementation.

Priority Axis 3:

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

- Investments to develop and to diversify economic activities in rural areas to help rural population to build up economic activities (on and off farm) creating additional income sources and employment opportunities in rural areas.
- Preparatory actions for the introduction of training activities in the program. This should include the elaboration of a training strategy.

Considering the high unemployment level in the country and the fact that the future reorganisation of the food industries might result in negative employment effects it is suggested that the measure "Diversification and development of rural economic activities" will be implemented in order to achieve the goals of the *priority axis 3*. In-deep sector analysis for rural tourism with an integrated analysis for preserving the cultural and historical agricultural heritage in rural areas should be carried out.

The SWOT analyses under the IPARD programme identified the vocational sector as a weakness. Successful implementation of the programme depends on the availability of training activities in the rural areas. With actions of preparation for the vocational training activities should be considered to support the educational level of farmers and agricultural holders, to provide significant training requirements under the programme.

Moreover, given the need to improve the rural infrastructures in the country it should be considered whether the infrastructures could be supported under the national schemes or support programmes of IFIs.

2. Programmes to be implemented

The funds from the Instrument for Pre-Accession Assistance (IPA) for the rural development Component V for period 2007-2013 will be implemented through the IPARD rural development programme, adopted by the Commission Decision on 25 February 2008 (C/2008/677). The programme will address the main priority axes and a selected set of measures under each priority. It is expected that a large number of applications will be generated under the programme which will require sound management of a substantial number of projects. As under all rural development programmes, such projects are generally relatively small.

Consequently, assistance will be implemented by the beneficiary country in the framework of a system which is fully decentralised subsequent to an ex-ante audit performed by the Commission prior to the conferral of management of aid and with ex-post control by the Commission. The managing authority is responsible for the elaboration of the rural development programme, the efficiency and correctness of the related co-ordination as well as reporting on the monitoring and evaluation of pre-accession assistance. A sectoral monitoring committee shall be set up in order to monitor the implementation of assistance.

Financial assistance under *component V* will be consistent with the principles applied to EU rural development programmes. Assistance will mainly be granted in the form of support for private investments undertaken by natural or legal persons such farmers, food processing and marketing enterprises, co-operatives and producer groups.

3. Expected results and measurable indicators

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

Priority axis 1:

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

Priority axis 2:

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

The expected result for the Axis 2 should be as follows:

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

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

Priority axis 3:

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

4. Financial indications

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

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

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

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

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

Annex 1

Indicative allocations to main areas of intervention for the period 2008-2010

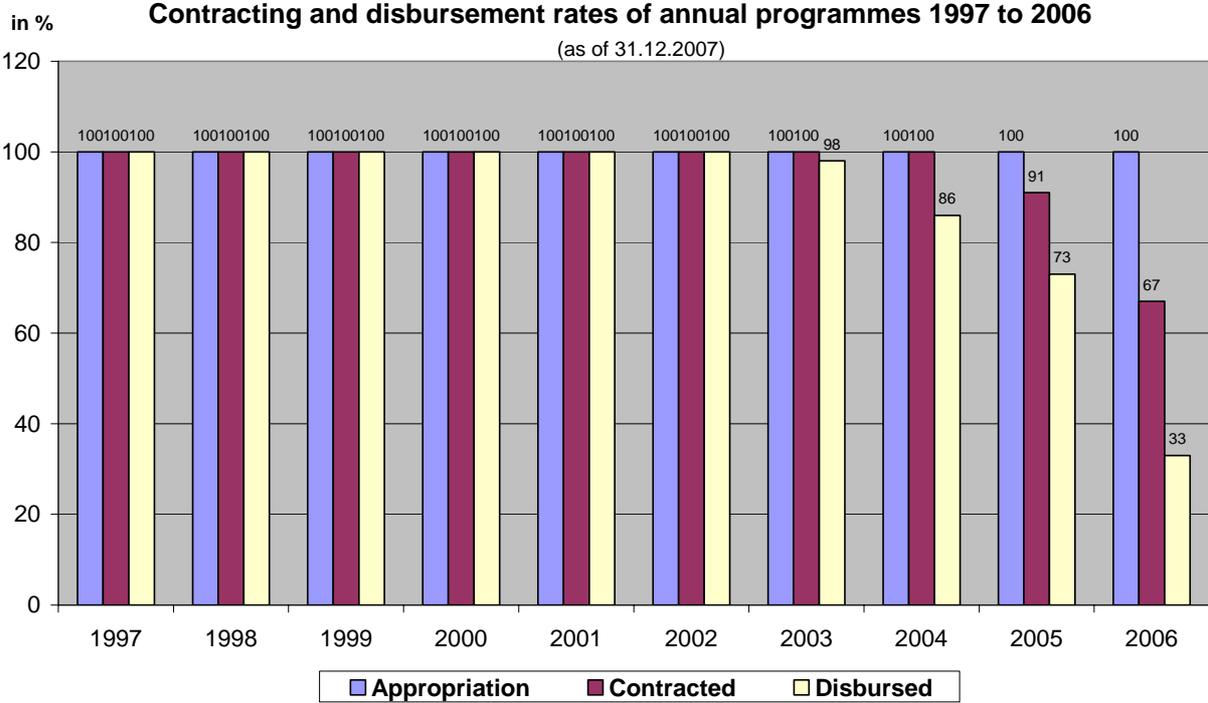
| INDICATIVE ALLOCATIONS TO MAIN AREAS OF INTERVENTION | |
|---|-------------|
| <i>The former Yugoslav Republic of Macedonia</i> | |
| Component I (Transition Assistance and Institution Building) | |
| Political criteria | 30 % - 45 % |
| Socio-Economic criteria | 10 % - 25 % |
| Ability to assume the obligations of Membership | 30 % - 45 % |
| Supporting programmes | 5 % - 15 % |
| Component II (Cross-Border Co-operation) | |
| CBC with Bulgaria | 24 % |
| CBC with Greece | 26 % |
| CBC with neighbouring CCs/PCCs and participation in ERDF transnational/interregional programmes and ENPI sea basins programmes (as appropriate) | 50 % |
| Component III (Regional Development) | |
| Environment | 25 % - 35 % |
| Transport | 55 % - 65 % |
| Competitiveness | 5 % - 10 % |
| Component IV (Human Resources Development) | |
| Employment | 40 % - 50 % |
| Education and training | 30 % - 40 % |
| Social inclusion | 20 % - 30 % |
| Component V (Rural Development) | |
| Priority 1 | 50 % - 80 % |
| Priority 2 (not foreseen for the present MIPD) | 0 % - 3 % |
| Priority 3 | 20 % - 50 % |

ANNEX 2 – OVERVIEW OF EU ASSISTANCE ¹⁰

| | EU assistance 2001-2006 | IPA 2007 | TOTAL |
|--|----------------------------|-------------|--------------|
| Good Governance | 66,1 | 13,0 | 79,1 |
| <i>of which</i> Public Administration | 18,0 | 6,0 | 24,0 |
| Decentralisation | 48,1 | 7,0 | 55,1 |
| Justice and Home Affairs | 73,1 | 13,6 | 86,7 |
| <i>of which</i> | | | |
| Judiciary | 11,6 | 1,1 | 12,7 |
| Police | 23,6 | 9,0 | 32,5 |
| Border management and customs | 38,0 | 3,5 | 41,5 |
| Internal Market and investment climate | 33,3 | 2,0 | 35,3 |
| Employment and Social Policy | 9,3 | 3,2 | 12,5 |
| Education | 19,0 | 5,7 | 24,7 |
| Transport | 13,0 | 5,5 | 18,5 |
| Environment | 10,7 | 1,9 | 12,6 |
| Rural development | 5,2 | 2,1 | 7,3 |
| Community Programmes | 1,0 | 1,8 | 2,8 |
| Others | 12,3 | 5,5 | 17,8 |
| Emergency Assistance (2001) | 31,9 | 0,0 | 31,9 |
| Total allocations | 281,3 | 54,3 | 335,6 |

¹⁰ Adjustments may need to be done as appropriate. Assistance given under IPA 2007 for a certain sector may discontinue past assistance given under the period 2000-2006 (for ex. We could have figures for the assistance for "Political Criteria" under IPA 2007 but not in the column concerning 2000-2006).

ANNEX 3 – CONTRACTING AND DISBURSEMENT RATES UNDER ONGOING PROGRAMMES



ANNEX 4 – CROSS CUTTING ISSUES

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

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