

DRAFT PROGRAMME

ADDITIONAL SUPPORT PROGRAMME FOR THE FORMER YUGOSLAV REPUBLIC OF MACEDONIA IN 2001

1. IDENTIFICATION

Beneficiary state:	Former Yugoslav Republic of Macedonia
Programme:	Council Regulation (EC) No.2666/2000
Year:	2001
Cost:	€12 million
Expiry date:	31.12.2003 contracting 31.12.2004 disbursements
Sector:	AA
Group:	M
Budget line:	B7-541
Implementing Body:	European Commission services in close co-operation with the European Agency for Reconstruction¹

2. SUMMARY

This proposal presents an additional package of assistance to the Former Yugoslav Republic of Macedonia from the CARDS 2001 allocation, worth € 12 million. The EU has committed itself to supporting the Framework Agreement, through a range of measures including budgetary assistance, humanitarian aid (ECHO) and through targeted projects under the CARDS regulation.

The purpose of the assistance is to support the Framework Agreement signed on 13 August 2001, by helping the return of refugees and internally displaced people and by improving facilities in local communities throughout the country. The aim is to reduce inter-ethnic tensions and promote communication between and within communities.

This exceptional assistance is an expression of the will of the EU to help FYROM on its path to stability and as such this programme sends a strong political signal of support to both the government and the people.

The following sectors and priorities are proposed for funding:

- Repair/reconstruction of local infrastructure and housing: repairing the electricity distribution transmission and distribution systems, local infrastructure and buildings and houses in the former conflict areas.
- Assistance to the hosts of internally displaced people (IDPs) and refugees: to provide financial assistance to families hosting IDPs and refugees.

¹ Pending extension of mandate of the Agency to FYROM

3. GENERAL BACKGROUND

3.1 Socio-political issues

The violence emanating from ethnic Albanian armed groups (EAAG) and the military response of the Government have brought the country to the brink of civil war. This poses threats to the State of FYROM and could also destabilise the region.

This crisis has demonstrated the need for all sides to try to resolve inter-ethnic tensions. This will require measures to safeguard the legitimate rights of the ethnic Albanian minority while ensuring the territorial integrity of the State of FYROM. The Framework Agreement represents an important step in this direction.

On July 5th a unilateral cease fire was announced by the Government of FYROM. A similar arrangement was simultaneously announced by the EAAG, with the close involvement of NATO and the EU in both instances. This cease-fire created the appropriate conditions to resume the political dialogue, which included EU and US special representatives, towards achieving a sustainable political settlement.

Despite significant violations of this ceasefire agreement by both sides, on August 13th a Framework Agreement was signed between the four main political parties, which made provision for stabilisation of the situation in the country through amendments to the Constitution and the disarming of the EAAG.

Institutional set-up

Any interventions in reconstruction and rehabilitation of local infrastructure and housing undertaken by the international community need to be complementary to activities being undertaken by the national and local government and, to a large extent, also need to be driven by them. A critical part of the confidence building, which is the core of this programme, is to ensure the close involvement of the State Administration, so that the beneficiary population can see their involvement in the repair and reconstruction. Government visibility is important to restore a climate of confidence and trust in the authorities within the Macedonian community. To ensure close co-ordination the Government has established a Centre for Crisis Co-ordination, which will form a link between the international community and relevant ministries.

IMG is currently undertaking a needs and damage assessment and the final choice of reconstruction areas and prioritisation will be made according to these results and will be discussed and co-ordinated with the authorities as well as other important donors (UNHCR, OSCE, etc).

Effective and transparent payments to families hosting internally displaced people require a clear identification of the beneficiaries and their registration. To this purpose they may be registered under a new category of social cases by the Ministry of Labour and Social Policy for the specific end of this programme. Close co-operation with the Ministry of Labour and Social Policy will be necessary for the implementation of this component.

3.2 Socio-economic issues

In early 2001, the country continued with the previous years' pace in implementing reforms, defined economic policies which are a prerequisite for the fulfilment of the conditions set out in the IMF and World Bank arrangements.

In the area of fiscal policy, personal income tax rates have been reduced, so has the VAT rates for certain health care and agriculture goods. To further liberalise and open the domestic market, import duties on more than 4.000 products have been reduced. It is expected that these measure will reduce operating costs by 4%, becoming a new incentive for the economy, especially for the creation of new jobs. Revenue collection improved in 2000, and further tax reduction measures were fore seen for the second half of 2001, as well as allocation of funds to poverty reduction measures.

Within the framework of structural reforms, one of the key activities has been restructuring and privatising economic entities and dissolving loss-making enterprises. The total amount of foreign direct investments in the first 2 months of 2001 was \$ 335.4 million, of which \$ 325 million are due to the sale of the Macedonian Telecommunications company. Part of the funds will be targeted to finance poverty reduction projects, in line with the World Banks poverty reduction strategy.

The signing of the Stabilisation and Association Agreement intensified the process of aligning Macedonian legislation to the relevant Community legislation in areas such as foreign exchange, money laundering, securities, company takeovers, audit, financial transactions, etc

The debt status in 2001 has not changed considerably with respect to the situation at the end of 2000, primarily because funds have not been disbursed following the already concluded credit arrangements. In accordance with information available as of 30 April 2001, on the basis of using funds from long term and medium term loans and credits, the total foreign debt amounts to \$ 1.426.6 million, which is an increase of \$ 11.5 million compared to the same situation on 31 March 2000.

It is expected that agreements will be concluded in the course of 2001 with the World Bank, EIB, Japan; negotiations with Paris Club creditors have been concluded.

On the basis of the positive trends of 2000, the reform process and its implementation, SAA and free trade agreements concluded with the Community and others, the macroeconomic forecast for 2001 was: 6% real GDP growth; 14% nominal growth of exports and 10% of imported goods (FOB); 2.2% average inflation rise, measured against the consumer price index; 1.5% increase in the number of registered employees; 2.3% real growth of average salaries.

However, these macro-financial projections will not be fulfilled, because of a decrease in agricultural production due to drought and especially because of the political and security crisis. A joint assessment of the Macedonian authorities and the IMF, project a negative GDP growth of some 3%, and inflation is expected to reach 4%. In addition, a substantial financing gap in the balance of payments is foreseen.

3.3 Past EC Funding

The Rapid Reaction Mechanism provided € 2.5 million for repair of houses in the areas of Tetovo and Skopska Crna Gora. An initial damage assessment is being undertaken by IMG in conjunction with National and Local authorities, and will form the basis for reconstruction activities. It will also include assessment of local infrastructure, communal buildings and other facilities whose repair would facilitate the return process. This programme will link to the RRM scheme and expand similar activities into all affected areas.

Repair/reconstruction of local infrastructure is in line with the operational strategy and institutional structures established by the CARDS 2001 project of a similar nature, currently in the design phase.

The European Commission allocated funds to families hosting refugees as a consequence of the Kosovo crisis in 1999. This programme will follow the same successful scheme, implemented by the Ministry of Labour and Social Policy in collaboration with the Macedonian Post office and UNHCR.

Allocations in €million

Programme title	1999	2000	2001	TOTAL
Budgetary Support for refugee related expenditure (OBNOVA)	25			25
Damage assessment for housing reconstruction (ATA 2000)		0.5		0.5
Small Scale Infrastructure for local governments (CARDS)			2.5	2.5
Rapid Reaction Mechanism			12.8	12.8
TOTAL	26.9	0.5	15.3	42.7

4. PROGRAMMING CONTEXT

4.1 The current situation

4.1.1 Repair/reconstruction of local infrastructure and housing

The condition of local infrastructure throughout FYROM is very poor, suffering from a historical lack of investment. The recent conflicts have resulted in damage to local infrastructure as well as to housing.

FYROM has an adequate electricity generating capacity of some 900MW, and until the recent conflict, the transmission and distribution systems also functioned adequately. The whole electricity sector (generation and supply) is managed by the state owned Electricity Company of Macedonia (ECM).

However, local electricity transmission and distribution in the conflict areas have been significantly damaged over the last few months. The restoration of power is also essential for the water supply system as pumping stations depend on electricity. Of particular immediate concern is the water supply system in Kumanovo.

It should be mentioned that the estimated cost to fully restore electricity to the Aracinovo, Kumanovo and Tetovo areas is €10.5 million. The € 4.5 million proposed here, in combination with the €6 million from the Rapid Reaction Mechanism, which has already been approved, will be used to carry out the repairs necessary to bring the transmission and distribution systems up to an adequate standard.

The conflict has caused extensive damage to buildings in former conflict areas, including buildings of particular religious and historical significance, as well as housing infrastructure, in particular in the north-western regions of the country (Tetovo and Skopska Crna Gora) and also in other parts of the country (Kumanovo, Arancinovo, Bitola). Actual levels of damage to individual houses vary considerably, with many being in the more lightly damaged categories.

4.1.2 Assistance to the hosts of internally displaced people

Since early Spring 2001, the conflict has led to extensive damage to a number of villages and displacement of a significant proportion of the local population.

Estimates put the number of displaced people in the order of 155,000. Of these, 75,000 people or 18,650 families are internally displaced people in FYROM, and approximately 80,000 people are displaced abroad, mostly in Kosovo. 4,000 people or 850 families are hosted in collective homes whilst the rest of them are hosted in families. In addition, a number of refugees (mostly Roma) who fled Kosovo during the 1999 crisis are still hosted by Macedonian families.

Mitigating the social consequences of these mass displacements of populations is one of the Macedonian Government's main priorities.

4.2 The programming criteria

The following main criteria were adopted :

- To support measures which will allow the implementation of the Framework Agreement
- To ensure that the programme is in line with the Government's own priorities and plans
- To intervene in sectors where the EU has a comparative advantage as a donor
- To ensure there is no overlapping, but complementarity and potential synergy with activities undertaken by other donors

4.3 The choice of sectors

The sectors have been selected by reference to the most urgent priorities following the signing of the framework Agreement on 13 August.

5. OBJECTIVES

Repair/reconstruction of local infrastructure and housing

General objective

To help to reduce tension and support the full implementation of the Framework Agreement, in particular through the rapid repair/rehabilitation of essential local infrastructure and housing.

Specific objectives

- Restore the electricity supply to more than 100,000 people in the Aracinovo, Kumanovo and Tetovo areas by repairing the local transmission and distribution systems.
- Repair/rehabilitate local infrastructure, with an initial emphasis on improving the Kumanovo water system and thus minimise water cuts, by increasing the flow of water to the treatment plant from 200 to 400 litres per second.
- Carry out full technical assessments of the damage to the church/monastery at Lesok and the mosque at Neprosteno, and prepare detailed specifications of the necessary reconstruction works.
- Repair/rehabilitate some 500 houses in the former conflict areas so as to make them weather proof and habitable for the coming winter thus allowing some 3,500 people to return to their homes.

Assistance to the hosts of internally displaced people and refugees

General objective

To mitigate the financial burden and social tensions which may result from the long-term accommodation of IDPs and refugees in host families and collective centres. This will alleviate tensions within society thereby facilitating political acceptance and implementation of the Framework Agreement. Additional options for providing assistance for IDPs through other mechanisms will also be considered.

Specific Objectives

To provide cash assistance to approximately 6,500 families hosting IDPs and refugees.

6. ACTIVITIES

Repair/reconstruction of local infrastructure and housing

The main proposed activities are set out below.

Electricity- €4.5 million

- Funding the procurement, supply and installation on site of the materials and equipment necessary to repair the local transmission and distribution in the Aracinovo, Kumanovo and Tetovo areas.
- Technical assistance to oversee the supply of the materials and the conduct of works.

Local Infrastructure and Buildings - €1.5 million

- Funding the procurement, supply and installation of the materials and equipment necessary to increase the flow of water to the Kumanovo water treatment plant.
- Technical assistance to oversee and verify the works.
- The possibility of repairing other local infrastructure may also be considered.
- Preparation of a detailed technical assessment of the damage to the church/monastery at Lesok and the mosque at Neprosteno; and preparation of detailed technical specifications of the necessary reconstruction work.

Housing - €2 million

- Selecting implementing partners (IP) – EU based NGOs.
- The IP will identify the priority villages for housing reconstruction, in concert with the EC and the Macedonian authorities.
- The IP will then identify individual householder beneficiaries within the selected villages, in consultation with the local authorities.
- The IP will carry out a detailed technical assessment of the damage to the selected houses and the necessary repair/reconstruction works, which will normally focus on basic repair/rehabilitation to damaged houses.
- The IP will procure and have delivered the necessary building materials.
- The IP will supervise and monitor the works.

Assistance to the hosts of internally displaced people and refugees

- The beneficiaries of this programme will be identified through a mechanism operated by the International Federation of Red Cross and Red Crescent Societies (IFRC) and the Macedonian Red Cross for IDPs, and UNHCR for refugees.
- To be eligible host families will have to register with the Red Cross or UNHCR. They will have to demonstrate that they are hosting more than one eligible individual IDP for at least two weeks. IDPs must be registered on the Red Cross

database which is updated on a monthly basis. Special care will be made to ensure beneficiaries are de-registered on a timely basis.

- Funds would be delivered by a voucher system through an established procedure with the Macedonian Post Office. It is estimated that as the security situation improves and people return to their homes, the number of beneficiaries will decline gradually over the first phase of the programme between October 2001 and March 2002. An assessment will then be made to determine the number of host families and decide whether the programme should be continued.
- Payments to host families will probably be at three-month intervals, with the first payment in January 2002, followed by the second in April.

7. RESULTS

Repair/reconstruction of local infrastructure and housing

- Local transmission and distribution power lines repaired in the Arancinovo, Kumanovo and Tetovo areas, taking into account the activities being undertaken by the Rapid Reaction Mechanism.
- The flow of water to the Kumanovo water treatment plant has been increased.
- A detailed technical assessment of the damage and necessary reconstruction work to the church/monastery at Lesok and the mosque at Neprosteno are prepared
- Approximately 500 houses have been repaired/reconstructed

Assistance to the hosts of internally displaced people and refugees

- Approximately 6,500 families hosting IDPs or refugees have received cash payments

8. IMPLEMENTATION

The programme will be implemented by the Commission Services in close collaboration with the European Agency for Reconstruction and the relevant national and/or local authorities, until the European Agency for Reconstruction's mandate has been extended to include FYROM.

A Financing Agreement corresponding to this Financing Proposal will be concluded with the counterpart authorities.

The contracts for services, works and supplies shall be concluded in accordance with the tendering and contract award procedures laid down in the Financial Regulation, Council Regulation 2666/2000 and the "Manual of instructions for contracts concluded for the purpose of Community co-operation with third countries" (adopted by the Commission on 10 November 1999).

9. BUDGET

Programme component	Programme sub-component	Budget (in € million)
Repair/reconstruction of local infrastructure and housing	Electricity repair	4.5
	Local infrastructure and buildings	1.5
	Housing	2
Cash payments to host families	Cash payments to host families	4
GRAND TOTAL		12

The budget for the sub-components of the repair/reconstruction component is approximate, as the situation is very fluid.

10. CONDITIONALITY

The successful implementation of this programme is conditional on the co-operation of the FYROM authorities and the full implementation of the terms of the Framework Agreement within the country. In the absence of such co-operation the Commission may suspend or cancel all or a part of the program.

All damage assessment and reconstruction activities are subject to the existence of high security conditions in the interested areas.

A reassessment of the allocation of assistance between the two priorities may be necessary in the light of the level of implementation and obstacles encountered.

11. MONITORING, EVALUATION AND AUDIT

This programme will be monitored and supervised by the European Commission Services in close collaboration with the European Agency for Reconstruction², who shall:

- a) monitor the implementation of the programme on the basis of regular reports, contacts with stakeholders and site visits
- b) carry out regular monitoring and evaluations to follow the progress of the programme and its components as well as ex-post evaluations after its completion

The accounts and operations of the programme components will be checked at intervals by an outside auditor contracted by the Commission without prejudice to the responsibilities of the European Commission, including the European Antifraud Office (OLAF), and the European Union's Court of Auditors.

² Pending extension of mandate of the Agency to FYROM