



## **INSTRUMENT FOR PRE-ACCESSION ASSISTANCE (IPA II) 2014-2020**

### **REPUBLIC OF NORTH MACEDONIA** **EU Supports Competitive and Fair Markets**

#### **Action summary**

The Action will contribute to boosting the economic development and trade relations with the EU while improving conformity with health, safety and environmental requirements. It will enhance the harmonisation with the EU *acquis* in the area of internal market with a primary focus on free movement of goods and services, protection of consumers' rights and better regulation of the business functioning. The capacity building measures will contribute the enforcement of laws and will enhance the new established processes and structures. Particular focus is put on improving market surveillance and consumer protection. Significant part of the EU funds will be channeled to selected under-developed regions to enhance existing and create new business advisory services and to provide direct support to high value-added business initiatives. The Action will have a tangible impact on the competitiveness of the private sector and on improving the market safety.

<b>Action Identification</b>	
<b>Action Programme Title</b>	Annual Action Programme for the Republic of North Macedonia for Year 2019
<b>Action Title</b>	EU Supports Competitive and Fair Markets
<b>Action ID</b>	<b>IPA 2019/041-263/06.01/MK/PSD</b>
<b>Sector Information</b>	
<b>IPA II Sector</b>	Competitiveness, innovation and agriculture and rural development
<b>DAC Sector</b>	25030 – Business Development Services 33120 – Trade facilitation 25010 – Business policy and administration
<b>Budget</b>	
<b>Total cost</b>	14,250,000
<b>EU contribution</b>	14,000,000
<b>Budget line(s)</b>	22.02.01.02
<b>Management and Implementation</b>	
<b>Method of implementation</b>	Direct management
<i>Direct management:</i> <b>EU Delegation</b>	EU Delegation to Republic of North Macedonia
<b>Implementation responsibilities</b>	EU Delegation to the Republic of North Macedonia
<b>Location</b>	
<b>Zone benefiting from the action</b>	Republic of North Macedonia
<b>Specific implementation area(s)</b>	National territory, for activities under Specific Objective 1. Activities under Specific Objective 2 are going to be implemented primarily in North-East, Polog, South-West NUTS III Regions, and in the Prespa lake area.
<b>Timeline</b>	
<b>Final date for concluding Financing Agreement(s) with IPA II beneficiary</b>	At the latest by 31 December 2020
<b>Final date for concluding contribution/delegation agreements, procurement and grant contracts</b>	3 years following the date of conclusion of the Financing Agreement, with the exception of cases listed under Article 114(2) of the Financial Regulation
<b>Indicative operational</b>	6 years following the conclusion of the Financing Agreement

<b>implementation period</b>			
<b>Final date for implementing the Financing Agreement (date by which this programme should be de-committed and closed)</b>	12 years following the conclusion of the Financing Agreement		
<b>Policy objectives / Markers (DAC form)</b>			
<b>General policy objective</b>	<b>Not targeted</b>	<b>Significant objective</b>	<b>Main objective</b>
Participation development/good governance	x	<input type="checkbox"/>	<input type="checkbox"/>
Aid to environment	x	<input type="checkbox"/>	<input type="checkbox"/>
Gender equality (including Women In Development)	<input type="checkbox"/>	x	<input type="checkbox"/>
Trade Development	<input type="checkbox"/>	<input type="checkbox"/>	x
Reproductive, Maternal, New born and child health	x	<input type="checkbox"/>	<input type="checkbox"/>
<b>RIO Convention markers</b>	<b>Not targeted</b>	<b>Significant objective</b>	<b>Main objective</b>
Biological diversity	x	<input type="checkbox"/>	<input type="checkbox"/>
Combat desertification	x	<input type="checkbox"/>	<input type="checkbox"/>
Climate change mitigation	x	<input type="checkbox"/>	<input type="checkbox"/>
Climate change adaptation	x	<input type="checkbox"/>	<input type="checkbox"/>

## 1. RATIONALE

### PROBLEM AND STAKEHOLDER ANALYSIS

North Macedonia ranks 84 out of 140 countries in the *Global Competitiveness and Innovation Report 2018*<sup>1</sup>, and 11 out of 190 countries included in the World Bank *Doing Business Report for 2018*<sup>2</sup>. Despite this relatively comfortable place, for several years the economy of country remains fragile and stagnating even on the background of a clear EU accession perspective and outspoken ambitions of the government to improve economic performance. The delays in the structural reforms are slowing down the investments and impact negatively on the labour activity and productivity. In addition, the economic development is pre-determined by the small size of the domestic market, which does not provide enough opportunities for growth of the economy. At the same time only 5% of companies are exporters (3489 companies, against 13% for the EU)<sup>3</sup> and export is mainly driven by foreign companies that are largely specialized in technology-intensive sectors.<sup>4</sup> Thus, the alternative is seen by the decision-makers in strengthening of the competitiveness, domestic companies' export expansion and access to external markets. However, export improvements link to compliance with EU market requirements, support for product innovation and diversification, finding appropriate business partners from other countries and promotion of local products on international markets.

**Therefore the first key issue that needs to be addressed without delay is to improve compliance with EU market requirements since at present EU remains the first trade partner with 70.6% of the total trade and trade with CEFTA countries accounts for 10.5%.**

With regard to the **Free Movement of Goods** (Chapter 1), in the *Country Report 2018*, the European Commission concluded that the alignment with the EU *acquis* is lagging behind, assessing the degree of preparation of the Country only as moderate. The non-harmonized area is characterized by a number of non-tariff barriers which still need to be removed. For the harmonized area, despite quality infrastructure (standardization, conformity assessment, accreditation, metrology and market surveillance) is institutionally in place, the system presents an uneven level of alignment with the most recent development of the EU regulatory framework, with important problems of effectiveness and capacity of the administrative system especially regarding market surveillance and consumer protection.

As far as **Free Movement of Services** (Chapter 3) is concerned, the *Country report 2018* underlines that only minor improvements have been made in the last years, especially for the aspects related to the right of establishment (EU directive not transposed, Single Point of Contact not established) and the freedom to provide cross-border services. The Country is also lagging behind in mutual recognition of professional qualifications. In this case, the institutional set up needs to be revised and strengthened and some important operational tools (i.e. electronic register of requirements for provision of services) – need to be put in place.

The alignment with EU *acquis* related to **Company Law** (Chapter 6), according to the *Country report 2018*, is assessed to be of good level. However, important steps ahead are still needed with regard to the alignment with EU directives, especially on corporate accounting, financial statements and statutory audit.

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<sup>1</sup>World Economic Forum, *Global Competitiveness and Innovation Report 2016-2017*, available at <http://www3.weforum.org/docs/GCR2018/05FullReport/TheGlobalCompetitivenessReport2018.pdf>

<sup>2</sup>World Bank, *Doing Business Report for 2018*, available at <http://www.doingbusiness.org/content/dam/doingBusiness/media/Annual-Reports/English/DB2018-Full-Report.pdf>

<sup>3</sup><http://www.stat.gov.mk/pdf/2018/7.1.18.08.pdf>, State Statistical Office, 2016,

<sup>4</sup>*Economic Reform Programme (ERP) 2018-2020*

The *Economic Reform Programme (ERP) 2018-2020* recognizes the need of improving the business ecosystem and increasing the capacity of the SMEs to further integrate into the international markets.

In general, the country needs improvements of the legislative and institutional framework to allow better compliance with the EU single market legislative framework. It is equally important to strengthen the law enforcement side by building up the systems and the capacity for implementation of the laws and the control over the markets.

**The second factor impacting on country's economic competitiveness relates to the support systems for start-ups and small and medium enterprises (SMEs) particularly as regards identification of market opportunities, product innovation and diversification and improving the productivity levels.**

SMEs, around 54,000 in total, are the dominant type of enterprises representing 99.7% of the total number of active enterprises<sup>5</sup>. While this level is similar to the EU (99.8%), SMEs in the country have much bigger impact on the national economy than the EU average. They employ 75% of the national labor force (EU average 66%), and create 64.5% of the national value added (EU average 57%). Therefore, the national economy is more dependent on the SMEs and enhancing their development in a more sustainable and knowledge-based way will be crucial for raising the country's economic profile.

2018 World Bank country diagnostic review<sup>6</sup> outlines the need of start-ups and SMEs to access technology, finance, and management skills as a primary issue to be addressed. The review highlights the need of better management and technology extension programmes to build firm capabilities, adopt international quality standards and help entrepreneurs acquire soft skills increasingly recognized as critical to business success. Similarly, the National Strategy for Small and Medium Enterprises (2018-2023) highlights that the entrepreneurship culture is lagging behind and that the existing SMEs are in need of qualified staff, know-how and innovation.

**Therefore, it is crucial for the local economy to invest in smart business services, which enlarge the access to financial information and analysis, ensures quality and time advice and induces growth potential of start-ups and SMEs.**

An important aspect in the economic development remains the **huge gap between the capital region and the rest of the country**. The capital region represents the core of the national economy, showing better indicators than the rest of the territory in terms of development, internationalisation and inclination to innovation. The other areas of the country are lagging behind and appear to be left out of the modernization and development trends that have led the country to achieve the above-mentioned rankings in the *Global Competitiveness and Innovation Report* and *Doing Business Report*.

The table below<sup>7</sup> represent the internal disparity among territories at NUTS III<sup>8</sup> level based on official statistical data on GDP per capita.

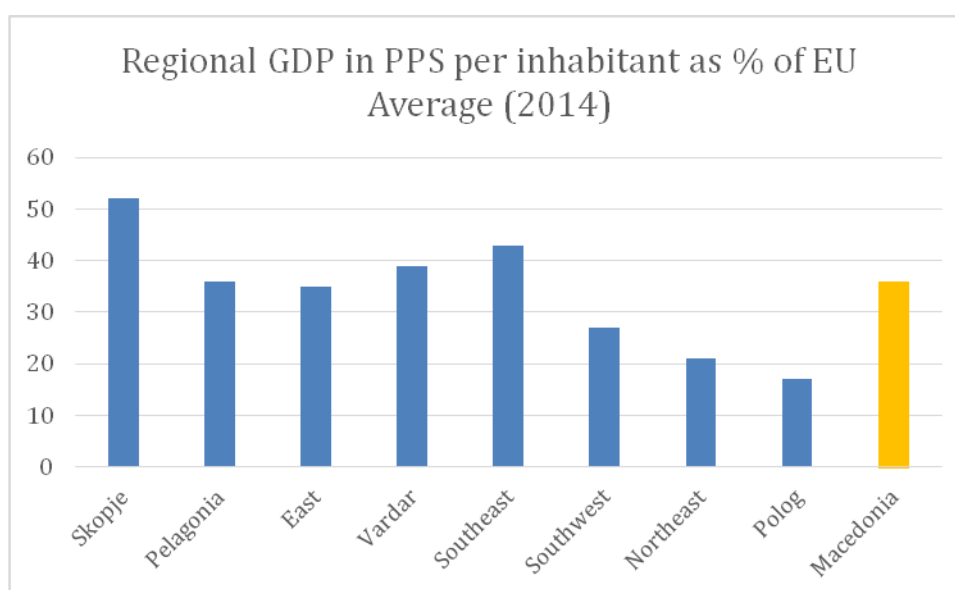
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<sup>5</sup> *Small Business Act (SBA) Fact Sheet 2017*

<sup>6</sup> <http://pubdocs.worldbank.org/en/606381543434479145/MKD-SCD-2018-ENG-Web.pdf>

<sup>7</sup> The GDP per capita is considered in the European Union a good proxy to assess the wealth of different regions at NUTS II level. In the specific case of North Macedonia, this indicator is calculated at the level of NUTS III, however it can still be considered as a sufficiently adequate indicator to measure the relative wealth of the different regions.

<b>Regional GDP in PPS per inhabitant as % of EU Average (2014)</b>	
Skopje	52
Pelagonia	36
East	35
Vardar	39
Southeast	43
Southwest	27
Northeast	21
Polog	17
Country	36
<i>Source: EUROSTAT</i>	



It is clear that the GDP per capita in Skopje Region is twice the ones of the South-West, North-East and Polog Regions, which necessitates significant support in order to promote a more balanced regional development and create growth opportunities also outside of Skopje.

## **OUTLINE OF IPA II ASSISTANCE**

The Action will contribute to boosting the economic development and trade relations with the EU while improving conformity with health, safety and environmental requirements and supporting competitiveness based on knowledge and innovation.

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<sup>8</sup> The NUTS classification (Nomenclature of territorial units for statistics) is a hierarchical system for dividing up the economic territory of the EU for the purpose of socio-economic analyses of the regions. The level III of the nomenclature correspond to « Small Regions » according to the criteria set up by art. 3 of REGULATION (EC) No 1059/2003 of 26 May 2003.

The Action will enhance the harmonisation with the EU *acquis* in the area of internal market with a primary focus on free movement of goods and services, protection of consumers' rights and better regulation of business functioning. The capacity building measures are expected to ensure legal enforcement. The country will be supported in establishing the necessary business processes and structures, responsible for notifications of the technical regulation for products, as well as for the putting in operation of a real functioning Point of single contacts in accordance with the requirements of the Services Directive. The Action will also invest in preparing the Ministry of Economy to monitor the implementation of the newly adopted legislation and apply corrective measures where necessary. Special attention will be given to reinforcing the understanding on and the application of the mutual recognition principle. Business operators and business organisations will be acquainted with the new legislation and supported in ensuring compliance with it. The Action will provide also significant support for improving market surveillance through functional reorganization of the market inspection service, upgrade of the surveillance methodology and introduction of new tools, facilitating the work of the market inspectors, as well as by enhancing the coordination and the methodological synchronization among the various market surveillance entities. The consumer protection agenda will be pushed forward through support for the implementation of the new consumer protection law, new Consumer protection strategy and the creation of e-Consumer platform for submission and processing of consumers claims. Support is envisaged for metrology service of the country with the objective to improve the measurement standards and services, the coordination with business, the transparency in the metrology work and the contribution of metrology to more effective market surveillance.

A significant part of the EU funds will be channeled to selected under-developed regions, primarily North-East, Polog, South-West regions (+ Prespa Lake area) where the economic and business development is below the average for the whole country. The Action will enhance the existing and create new business advisory services, including advanced ones. Three business accelerators will be established in the target regions to support start-ups in developing and putting in place business initiatives. Finally, direct support to high value-added business initiatives will be provided.

The Action will have a tangible impact on the competitiveness of the private sector and on improving the market safety.

## **RELEVANCE WITH THE IPA II STRATEGY PAPER AND OTHER KEY REFERENCES**

### **Indicative Country Strategy Paper 2014-2020**

The Action addresses the sector priorities as identified in Sector 6 “Competitiveness and innovation, agriculture and rural development” of the Indicative Strategy Paper (ISP).

In particular, this Action will contribute to the achievement of the following of the ISP-defined results:

- Improved legal and institutional framework and functioning of businesses;
- Improved governance and business-related infrastructure, including at local level;
- Better access to finance and advisory services for businesses;
- Increased and diversified export potential for businesses and access to new markets;
- Strengthened capacities and skills of management and staff in companies;
- Enhanced research and innovative capacities for competitive business environment.

The **Economic Reform Programme 2018-2020 (ERP)** is a key strategic document presenting the national economic policy of the country and the agenda of key structural reforms and measures. The Programme is in line with the EU Strategy for fast, sustainable and comprehensive economic development "Europe 2020", as well as the related SEE 2020 Strategy "Jobs and Prosperity in a European Perspective" of the Regional Cooperation Council.

The ERP defines 19 reform priority measures. This Action falls into the scope of measures 9, 10 and 11 addressing industry, measure 12 targeting services, measure 14 focused on R&D and innovation and measure 15 linked to trade.

This Action will address also deficiencies identified within the Small Business Act review<sup>9</sup> and the application of “Think Small” principles, namely facilitating SMEs’ access to finance, helping SMEs upgrade knowledge and skills, introduce innovation, and expand markets.

Further on, improving the competitiveness is a central plan of the government’s economic strategy of building a prosperous economy, aiming at greater entrepreneurship, value-added and productivity. The **Competitiveness Strategy and Action Plan (2016–2020)** explores the country's potential and strengths in order to initiate the transformation of the country into a competitive economy, able to nourish entrepreneurial talent, increase the number of start-ups and gradually grow, add value, increase the productivity and export of its enterprises. The strategy defines seven strategic objectives, of which the Action addresses 5: 1) simpler and more stable business environment; 2) more entrepreneurial and productive SME sector; 3) more dynamic export sector; 4) more attractive environment for inward investors and 7) higher volume of finance for the enterprise sector.

Finally the Action will support the implementation of the country's newly adopted **Economic Growth Plan**, which defines the path for further economic development through increasing employment, efficiency, productivity and competitiveness of the private sector; increase of exports and regional economic cooperation, based on principles of, neutrality, non-discrimination, and equal treatment of domestic and foreign investors.

#### **LESSONS LEARNED AND LINK TO PREVIOUS EU FINANCIAL ASSISTANCE**

Under **IPA I**, around EUR 45 million were used to support the transposition of EU *acquis*, and improve the environment in which the businesses operate. EU funds were invested in restructuring the Customs Office, upgrading the public procurement procedures, development of the capacity of standardisation, accreditation and metrology bodies, simplification and strengthening of bankruptcy proceedings; strengthening of the Public Revenue Office, etc. Under **IPA II**, the EU is expected to invest around EUR 38 million to support more private sector development. The World Bank implements the EUR 18 million intervention for developing tourism in the country. Other EUR 6 million are allocated to EBRD in support of the Bank's EUR 30 million credit facility for SMEs.

Considerable EU funds are also channeled through the **Western Balkans Investment Facility (WBIF)**. In early September 2018, a package of EUR 100 million EU funds was handed to North Macedonia Bank for Development Promotion with the intermediation of the European Investment Bank, to enhance the access to credits for small and medium-sized enterprises and mid-caps. The EU investments provide financing and financial guarantees for innovation projects, innovative companies, and fast growing industries and also promote investment relating to climate change (renewable energy and energy efficiency, sustainable transport) and competitiveness (innovation and skills).

This financial involvement makes the EU the biggest donor for the economic development of the country. The assessment of the significant EU support in this sector has resulted in a number of conclusions:

- Political commitment remains the key success factor for achieving the sector priorities and project objectives along with the human capital. Therefore investing in capacity building and sector policy dialogue is important for mitigating risks and ensuring sustainability and impact. At present, commitment and ownership vary across the national administration and

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<sup>9</sup> SME Policy Index 2016



deficiencies in the institutional set-up may impact on the efficiency and effectiveness of the institutions. To avoid such scenario the coordination between the institutions participating in the Sector Working Group need to be strengthened. In addition, the resources of the Ministry of Economy must be enhanced to allow proper implementation of the responsibilities linked to the internal market agenda.

- Economic reforms are only accepted and successful if well communicated to businesses and when business understands the need, the rationale and the benefits of it. Changes in legislative and institutional frameworks therefore must be accompanied by a strong communication policy and support systems allowing relatively easy business adaptation to the new rules and requirements. The effectiveness of the outreach approach depends on the business' confidence in authorities on one hand and on the capacity of the administration to tailor its messages to the business specifics on the other. The Action will support the country in crafting a working method which will strengthen the interaction with businesses on internal market issues.
- IPA assistance has higher impact when integrated with a solid policy dialogue. Therefore the sector approach, based on this concept, has the potential to increase ownership and improve effectiveness, transparency and inclusiveness of policy making and implementation. The Sector Working Group on Competitiveness and Innovation (SWG C&I) involving authorities, donors, business associations and other civil society actors can channel the sector policy dialogue not only on identification of priority but also on implementation of the established measures and projects, thus improving the public scrutiny over the sector policy. Therefore, the role of the SWG needs to be further strengthened with the necessary tools and instruments (i.e. performance assessment framework) allowing the public monitoring function.
- Synergy of the various interventions taking place at the same time is crucial for increasing the impact of the parallel donors' funding. This is particularly important for the sector of competitiveness where multiple donors operate i.e. UNDP, the World Bank, EIB, USAID, SwissAid, UK, etc. The uptake of the sector approach and the intensification of the sector policy dialogue through the SWG C&I create a good platform for coordination of activities and avoiding duplication and waste of resources. However, a step ahead is required for achieving a synergetic effect of the various operations i.e. through concerted support to indigenous processes and drivers of local development.
- Finally, critical problems require crucial and synchronised solutions. The significant regional disparities in North Macedonia create a fragile and dangerous for the social peace socio-economic situation, which cannot be addressed through partial stand-alone measures. Integrated and systemic approach is necessary to activate the economic growth (through investments in agriculture and private sector development), stimulate the labour market (through investments in new and better targeted active labour measures focused on youth, women and ethnic groups) and involve local communities in fighting economic backsliding and exclusion (through transferring successful EU practices).

A further lesson is that there has to be a better link between EU assistance to public administration reform (PAR) efforts and assistance to different sectors. While PAR actions support coordinating institutions with preparation of new legislation, methodological guidance and quality control functions, they do not generally support line institutions with implementation of these new requirements. The EU assistance for different sectors will therefore need to ensure that PAR legislation and guidance are systematically respected during preparation of strategies and laws, creation of new agencies, supporting human resources development and training activities, setting up IT systems, etc. Especially, any new policies/strategies and legislation need to be prepared in an inclusive and evidence-based process (on the basis of administrative data, impact assessments for laws, inter-ministerial and

public consultations) and any new institutions need to be created in a rational manner, respecting accountability requirements between parent and sub-ordinated institutions.

## 2. INTERVENTION LOGIC

### LOGICAL FRAMEWORK MATRIX

OVERALL OBJECTIVE(S)/IMPACT(S)	INDICATOR'S NAME	OBJECTIVELY VERIFIABLE INDICATORS			SOURCE & MEANS OF VERIFICATION
		Baseline (value + year)	Milestones 2020	Targets 2024	
To achieve competitive economy based on knowledge and innovation and improved economic convergence with the EU  (The Action corresponds to SDG 8)	GDP per capita in PPS, in % of EU average, Region North East	21 (2014)	22	24	National accounts, State Statistical Office, Eurostat
	GDP per capita in PPS, in % of EU average, Region Polog	17 (2014)	18	21	National accounts, State Statistical Office, Eurostat
	GDP per capita in PPS, in % of EU average, Region South West	27(2014)	29	31	National accounts, State Statistical Office, Eurostat
	Number of products being exported towards EU (CN codes recording positive export values)	3257 (2016-2017) <sup>1</sup>	3257	3500	National accounts, State Statistical Office, Eurostat
	Company Survival Rate	70.7% (2016 for enterprises born in 2014) 58.5% (2016 for enterprises born in 2013) 38% (2016 for enterprises born in 2012)	N/A	72% for the companies born in 2022 60% for the companies born in 2021 50% 60% for the companies born in 2021	Business Demography, State Statistical Office, Eurostat

<sup>1</sup> The value refers to those products (CN 8 digits codes) for which export has been recorded either in 2016 or 2017

<b>SPECIFIC OBJECTIVE(S)/OUTCOME(S)</b>	<b>OBJECTIVELY VERIFIABLE INDICATORS</b>	<b>Baseline (value + year)</b>	<b>Milestones 2020</b>	<b>Targets 2024</b>	<b>SOURCE OF VERIFICATION</b>	<b>ASSUMPTION</b>
SO 1 To improve compliance of the local economy with the EU <i>acquis</i>	Level of legislative alignment with the EU Internal Market <i>acquis</i> (chapters 1, 3 and 6)	Moderately prepared (2018)	Moderately prepared (2020)	Advanced stage of preparation (2024)	European Commission Country Report	The commitment to EU accession is strengthened.
SO2 To support start-ups and SMEs in selected under-developed regions to grow, produce added value and create local living	Number of new established companies (of which companies run by women and people belonging to vulnerable groups and minorities)	0 (2018)	0 (2018)	30 (7/3)	Project report study/Evaluation	The economic development is steady (no economic and financial crisis).
	Increase in turnover of the supported companies	N/A	N/A	At least 10% 1 year after the company establishment	Study/Evaluation	There is a clear country policy encouraging the development of SMEs and regional development.
	Jobs created in the targeted initiatives (sex disaggregated)	N/A	N/A	100	Project report study/Evaluation	
<b>OUTPUT</b>	<b>OBJECTIVELY VERIFIABLE INDICATORS</b>	<b>Baseline (value + year)</b>	<b>Milestones 2020</b>	<b>Targets 2024</b>	<b>SOURCE OF VERIFICATION</b>	<b>ASSUMPTION</b>
O1. Strengthened legal alignment and enforcement in the fields of Free Movement of Goods (Chapter 1), Free Movement of Services (Chapter 3), Company Law (Chapter 6) and Chapter 28 (Consumer's rights).	Number of EU Directives and Regulations for which the alignment process is completed and implementation is in place	Current compliance can only be established after the preparation of ToC	0	30	Official Gazette	Strong commitment exists on behalf of the Gov. and the relevant institutions to engage in far-reaching reforms.
	Number of procedures	0 (2018)	0	10	Project report	The staffing level in the Ministry of Economy and

	and formalities, which can be completed online and which support cross-border businesses				Study / Evaluation	the other stakeholders is adequate.  The coordination between various institutions is effective.
	Number of users of the services of the established Single Point of Contact and national Product Contact Point(s)	N/A	0	150	Ministry of Economy	
	Rate of companies reporting according to the new Company Law	N/A	0	100%	Ministry of Finance	
	Number of beneficiaries (people) trained on the new legal provisions (of them female)	0	0	500 (200)	Project report	
	Number of beneficiaries (institutions) trained on the new legal provisions	0	0	10	Project report	
	Number of beneficiaries (companies) trained on the new legal provisions	0	0	1200	Project report	
	Indicators for market surveillance record <sup>2</sup> (index)	24.104 (2017)	24.104	35.000	State Market inspectorate yearly	

<sup>2</sup> - total number of inspections to check product safety and compliance  
- number of inspections on the basis of consumer reports of non-compliant products  
- number of inspections involving laboratory testing & number of products found to be non-compliant in testing;

					report	
	Number of consumers concerns submitted through the e-Consumer and addressed (as % of the total)	N/A	N/A	200 (at least 80%)	e-Consumer statistics	
	Number of metrology laboratories accredited within the BoM	0	0	2	National Institute for Accreditation	
O2. Improved access of start-ups and SMEs to financing and high value added business services in selected regions.	Number of start-ups and SMEs supported (of them women-run businesses)	0	0	55	Project Report	Business service networks and SMEs are interested and committed to participate in the programme.
	Improved performance of supported companies (turnover and profit)	To be established after the selection			Project Report	
	Level of average salaries in the supported companies compared to the one in the country	393 EUR (2018)		At least 2 % higher 1 year after operation	Study / Evaluation	

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- number of inspections in which a product was found not to comply with the requirements of the legislation
  - number of inspections which led economic entities to take voluntary measures
  - number of inspections which resulted in a ban on placing a product on the market
  - number of inspections which resulted in penalties being imposed for an infringement

## DESCRIPTION OF ACTIVITIES

### **Result 1: Strengthened legal alignment and enforcement in the fields of Free Movement of Goods (Chapter 1), Free Movement of Services (Chapter 3) and Company Law (Chapter 6).**

This result will be achieved through the implementation of the following activities:

*Activity 1 Improvement of the strategic, legislative and administrative framework in line with the EU acquis on Free Movement of Goods.* This activity involves:

- a) Consolidate and enhance strategic documents for Free Movement of Goods to map out the measures necessary to achieve full harmonisation with the EU acquis on free movement of goods and procedural measures, to strengthen the administrative capacities of the Ministry of Economy to lead the process and to improve the sector coordination. The Strategy must take into consideration the latest developments in the EU internal market legislation.
- b) Thorough internal screening of domestic legislation and administrative practices for marketing harmonised and non-harmonized products with a special focus on the “measures of equivalent effect”. This activity will involve a review of the national non-technical legislation which could, through selling arrangements and restrictions on use, create obstacles to trade in the country and in the trade relations with EU. On the grounds of the screening process, a complete register of the applicable regulations will be established. This action will also take into consideration the methodological approach and documents associated with the “mutual recognition” principle as proposed in the 2017 “Goods Package”.
- c) Development of an action plan for addressing articles 34-36 of the Treaty on the Functioning of the European Union (TFEU) and related case law of the European Court of Justice (and/or the new Regulation on mutual recognition of goods). The action plan will frame the management of the technical regulations on products which contain non-harmonised provisions and will guide the gradual removal of the unjustified trade obstacles. Similar plan and process will be followed for the non-technical legislation.
- d) *Alignment of the harmonised European product legislation* (Old and New Approach Directives and General Product Safety rules) including preparation of *complete Tables of Concordance* (ToC) and a *Roadmap for transposition* for the following areas: motor vehicles, emission of pollutants from non-road mobile engines, chemicals, medical products for human and for veterinary use, cosmetics, pre-packaging, textiles, footwear, aerosol dispensers, toys. Eventual transposition of the 2017 Goods Package with a special focus on the Regulation on mutual recognition of goods and the Regulation on Compliance and Enforcement, depending on the adoption status. The harmonisation process will be done in an inclusive and evidence-based process on the basis of impact assessments, when so required by national legislation.
- e) *Capacity building of public and private stakeholders* – The harmonisation process will be accompanied by a strong consultation process with the external stakeholders, primarily the business sector and their representative organisations. Special focus will be put on improving the understanding of businesses on the new legislation but also on building the capacities of the Ministry of Economy to better interact with the private sector.
- f) *Capacity building, including technical assistance, coaching and training for line ministries and specialised bodies* to support them in implementing the obligations derived from the EU acquis. The Ministry of Economy and line ministries will be prepared to fulfil the notification obligations associated with the *Technical Standards and Regulation Directive*

2015/1535/EU (notification to the EC on the technical regulations for products and Information Society services) and the WTO/TBT-related notifications.

- g) Support for establishment and effective operation of national *Product Contact Point(s)* as information centre for interested parties under Regulation 764/2008/EC. The PCP(s) will be created with reinforced mandate and obligations to respond to the requirements of the new Regulation on mutual recognition of goods.

*Activity 2 Improvement of the legislative and institutional framework for effective implementation of the legislation in the area of Free Movement of Services.* This activity involves:

- a) A *Comprehensive screening* of the existing authorisation schemes and requirements for provision of services and establishment of a Register of licences and professional requirements. Revision of the existing Action Plan for clearing the legislation from discriminatory, over-restrictive and burdening requirements and for improving the validity and transparency of the authorisation process.
- b) *Support for the transposition and enforcement of the Services Directive (2006/123/EC)* and the new relevant EU legislation i.e. the 2017 Services package (when it will be adopted). Focus will be put on aligning the national policy for regulation of professions with the EU practice and on creating the conditions for introduction of the European services e-card. The harmonisation process will be done in an inclusive and evidence-based process on the basis of impact assessments, when so required by national legislation.
- c) *Support for the Establishment of a Point of Single Contact (PSC)*, in accordance with article 6 of the Services Directive. The PSC will allow future and existing entrepreneurs and service providing companies to easily obtain online all the relevant information necessary for establishing and managing their activities in the country. The Action will also support the link with the e-Business platform being established under IPA 2017 as a one stop-shop for business licencing and targeted information. This will allow digital application for a licence submitted by the business via the PSC to be dealt electronically. The activity will also create pre-conditions for recognition of the e-signatures of foreign business (which is being addressed through the Multi-beneficiary IPA).
- d) *Complete review of the level of harmonisation with the acquis* on financial services, transport, telecommunications, postal services, patient rights and the new Audiovisual Media Services Directive, and provision of inputs for the updates of the National Programme on the Adoption of the Acquis (NPAA), mapping out the transposition dynamics. Support for the effective transposition of selected legislative acts, in line with NPAA.

*Activity 3 Improving the legislative alignment with the EU acquis as regards Company Law.* This activity includes:

- a) *Comprehensive screening* of the national legislation for compliance with latest EU *acquis* on corporate accounting, statutory audit and certain aspects concerning the limited liability of companies. Focus will be put on:
  - Directive (EU) 2017/1132 relating to certain aspects of company law (codification of certain aspects of company law concerning limited liability companies).
  - Directive (EU) 2013/34 on the annual financial statements consolidated financial statements and related reports of certain types of undertakings.
  - Directive (EU) 2006/43 on statutory audits of annual accounts and consolidated accounts.



- Directive 2014/56/EU of the European Parliament and of the Council of 16 April 2014 amending Directive 2006/43/EC on statutory audits of annual accounts and consolidated accounts
- b) *Harmonisation of the national legislation* including preparation and implementation of an Action Plan and a Roadmap for transposition and implementation of the Directives, transfer of know-how on the implementation of the EU requirements and intensive training of the national authorities on the new standards. The harmonisation process will be done in an inclusive and evidence-based process on the basis of impact assessment, when so required by national legislation.
- c) *Intensive outreach activities to enhance the understanding of the business* on the implementation of the new obligations. Guidance and methodological tools for business support organisations will be prepared to ensure effective training and advice to private sector.

*Activity 4 Improving the capacity for market surveillance and consumer protection.* This activity involves:

- A comprehensive analysis of the market surveillance system, including functional, procedural and technological status. The objective is to optimise the organisation of market inspectors and link competences with a specific product groups thus ensuring enhanced expertise in market surveillance process and internal specialisation of the inspectors by product group. Analysis is also required on the need of local structures, particularly as regards avoiding conflicts of interest and corruption. This activity includes also a revision of the training structure for the market inspectors and rationalisation of the training process.

The powers of the market inspection services will also be reviewed (in the light of the draft Regulation on compliance and enforcement) to ensure reasonable timeline for improving access to data and documents, on-site inspections, test purchases, withdraw and destruction of products, mandates to impose penalties and order recovery of profits – in line with the new EU rules.

Attention will be given also to eventual transposition and implementation of the new (draft) Regulation on compliance and enforcement

- Enhancing the coordination among the various services responsible for market supervision i.e. Market Inspectorate, Sanitary and Health Inspectorate, Labour Inspectorate, Technical Inspectorate, Bureau for Medicaments, Agency for Electronic Communication, Environment Protection Inspectorate and Customs Administration. The Action will support the introduction of a single market surveillance plan for all inspections as well as a significant increase in joint inspections.
- Building competence of the market inspectors to control the various groups of products and ensure that unsafe products are withdrawn from the market (case-based market-focused work). This activity envisages the increase in the number, targeting and quality of the market controls on products safety and compliance with the rules.
- Establishment of an e-Inspection as a single inspection interoperable database, containing all reports of market surveillance – will serve for proper risk analysis as a basis for preparation of the inspection plan as well as for management purposes and for planning joint inspections.
- Increase of the awareness of businesses on market surveillance by the establishment and implementation of an information plan for the business sector on relevant legislation requirements.

- Improving the transparency of the market surveillance controls through on-line publication of information on unsafe and non-compliant products.
- Establishment of a register of consumers claims and follow-up (e-Consumer) as an inter-institutional platform allowing quick submission of consumer complaints, processing by the respective authority and transparency of the measures undertaken.
- Building the capacities of the Ministry of economy and state institutions for implementing, monitoring and analysing the status of consumer protection in the country. This would involve implementation and reporting on the National Strategy for consumer protection 2019 - 2023 as well as analytic capacities to assess deficiencies in the implementation of the new Law on consumer protection and the efficiency of the administrative and institutional framework for consumer protection.
- Building capacity to organise consumer protection campaigns to promote consumers' rights and prepare citizens to be pro-active defenders of their rights vis-à-vis the private sector.
- Building capacity to network with local authorities, civil society organisations, academia and private sector to ensure better protection of consumers' rights.

*Activity 5 Improving the contribution of metrology to market surveillance and meeting safety, health and environment requirements.* This activity involves:

- Strengthening of the capacities of the Bureau of Metrology for metrological control of measuring instruments before their placing on the market (procedure of type examination and approval of measuring instruments) and after putting into use (initial and regular verification and verification after repair). This activity entails upgrading of an existing Register of measuring instruments and improvement of the risk analysis methods based on the data from the register.
- Hands-on experience from EU will be transferred through assistance in upgrading of calibration and verification of working procedures, which is already implemented at the Bureau of Metrology and preparation of new calibration and verification working procedures and laboratory manuals, in specific technical fields.
- Development of new measurement standards and services with a primary focus on those underpinning competitiveness of the local economy and having impact on quality of life. This activity involves as well the technological upgrade of key Bureau of Metrology's laboratory along with the update of the calibration and verification working procedures and laboratory manuals for operation of the newly introduced equipment.
- Improving the transparency in the work of Bureau of Metrology through improving the quality of services related to both legal and industrial metrology. Particular focus will be given to working with business, i.e. upgrading the information on Bureau's site concerning each measuring instrument and organising feedback meetings with private sector on specific aspects of the metrological control of measuring instruments.

**Result 2: Improved access of start-ups and SMEs to financing and high value added business services in selected regions.**

The Action targets preferentially the least developed regions of the country: **North-East, Polog, South-West Regions (+ Prespa Lake area).**

This result will be achieved through the implementation of the following activities:

### *Activity 6 Improving the business advisory services for start-ups and SMEs.*

The activity will provide access to high-quality advisory services for start-ups, SMEs and micro-enterprises with a special focus in areas related to innovation, marketing, export, business financing, intellectual property rights, standardisation, etc. More specifically, the activity involves:

#### *a) Analysis of the business opportunities and potential*

This activity involves ongoing analysis of the business environment, the markets and the consumer needs, supply chains, competitors, legislative, environmental, safety and health and other requirements. These analyses will be used as an input for the development of business support services (activity 6) and business support infrastructure (Activity 7). Focus will be put on studying the market opportunities for business growth in the three regions, including 1) Identification of the value-chains or business sectors having the highest potential contribution to the regional economy, 2) Identification of gaps along the value-chains that represent a market opportunity, 3). Identification of marketing and export opportunities.

#### *b) Mapping of the current business support systems in the targeted regions*

Analysis of the scope, availability and quality of the existing services in the regions will be conducted and a comprehensive e-Map of existing business services will be established. The analysis will outline missing elements in the business support environment such as services and providers.

#### *c) Elaboration of a catalogue of advanced services for SMEs*

The Action will prepare a comprehensive catalogue of the necessary advanced services for SMEs, including:

- Design (design of new products and/or improvement of existing ones; marketing; promotion and communication of products and services; generation of brands; packaging; electronic design);
- Quality and Safety (improvement of safety conditions; industrial safety management systems; implementation and certification of quality assurance systems according to established quality standards; implementation and certification of integrated management systems; accreditation, standardisation, etc.);
- Access to funds and financial facilitation;
- Other services (export strategies, new business procedures, effective and efficient organisation and/or operation of the companies; new business management systems and processes of innovation; development of corporate social responsibility protocols; new procedures for human resources, sales, production, planning, procurement, customer and finance, etc.).

The catalogue will be linked with the e-Map of the business services and will become a part of the e-Business platform (being developed under IPA 2017).

#### *d) Building the capacities for delivery of advanced services*

This activity entails a strong capacity building programme for providers of services to business. On the ground of the analysis, the Action will support the existing business networks to refine their services and to add new services for SMEs in the region. Particular focus will be put on introducing advanced services for SMEs.

#### *e) Organisation of dissemination events to raise awareness on the value and benefit of the external advice services to SMEs.*

The action will also organise a number of dissemination events in order to reach out to a wider SMEs and entrepreneurial population and raise awareness about the availability, scope and benefit of the various business support mechanisms.

#### *Activity 7 Improving business support infrastructure*

The Action will invest in 3 business accelerators (1 per target region), which will need to establish a development programme as a structured tailor-made exercise for entrepreneurs/start-ups. The business accelerators can focus on a specific market or be horizontal. Their principle objective will be to put entrepreneurs and their teams in a co-work with a group of mentors, who will support them to build out their business, pre-view future challenges and avoid problems in mid-term perspective. In this coaching exercise, the newly established enterprises and start-ups will refine their ideas, build out their business plans, work on product-market fit, identify intellectual property issues, address environmental, health or safety challenges and network in the startup ecosystem. The objective is that the development programme shortens the time for a seed initiative to grow from 2 years to around 8 months (depending on the business).

This activity requires an access to a professional team/network of mentors prepared to apply advanced consulting and coaching. Since the quality of mentoring is the core strength of this development exercise, the establishment of a mentor network is crucial. Ideally, the mentors network would need to involve successful startup executives, venture capitalists, industry experts, and outside investors.

Along with the mentoring programme, the accelerators could also provide a small seed investment (can be also in exchange for a small amount of equity).

The activity envisages a selection of an already existing support service / system having an unexploited potential (particularly committed management and municipal or community support, etc.) and turning it into an accelerator. The potential candidates to become accelerators will need to prepare a strategic concept to present and justify its vision on the needed type of accelerator. Then the Action will invest funds to work with the selected candidates to establish 3 accelerators in practice, providing support 1). For the management of the accelerators and 2). For the implementation of the development plans for the selected start-ups.

The Action will provide ongoing support for the effective functioning of 3 accelerators for at least 3 years.

#### *Activity 8 Support for selected high-value added business initiatives*

Taking into account the existing potentials of the areas, as well as the national and international market trends and perspectives, the Action will provide financial support i.e. purchase of technologies or equipment (but not running costs) to selected start-up or SMEs initiatives guaranteeing the highest impact on the regional economies in terms of additional turnover, innovation, job creation and contribution to circular economy. The beneficiaries of this financial support will be start-ups/SMEs, which are being identified through the business accelerators or the network of advanced services and which are already beneficiaries of the proposed services (coaching, start-up accompanying, market analysis, internationalization, etc). Thus, the concentration of advisory (through activities 6 and 7) and financial (activity 8) support will increase significantly the chances for company survival and growth.

## **RISKS**

The main risks associated with the Action include:

- Political will and commitment of the Government and the relevant institutions to engage in far-reaching reforms, which will impact on the whole economy of the country. First, the current Government engaged in ambitious reforms on all fronts (priority one: Justice and Home affairs, PAR, Taxation and PFM, social payments, etc) and may not have sufficient capacity and resources to drive them all at the same time. Second, the Action will touch on the full chain of production, service delivery and business operations in the country, requiring additional investments to ensure compliance. New rules may face a significant resistance by some parts of the private sector, which could exercise counter-pressure over state structures resulting in low legal enforcement of the transposed legislation.

There are two key mitigation tools in place. The first one relates to the accession path of the country and the increasing possibility to open negotiations with EU in short-to-medium perspective. EU integration remains the strategic priority for the government, which invests all efforts and resources to ensure progress. The future EU membership opportunity is a significant stimulus also for the larger group of population to support, get engaged and accept necessary reforms. The second tool involves the mobilisation and inclusion of all stakeholders in the reform process, in particular through the Sector Working Group for Competitiveness and Innovation, chaired by the Deputy Prime Minister for Economic affairs and the Minister of Economy and comprising all national state stakeholders, the donors and the civil society.

- Limited administrative capacity, including limited vision for reforms, insufficient coordination among the institutions and low staffing levels. Of particular concern is the situation in the Ministry of Economy and the market inspection which are key beneficiaries. The whole Action addresses this risk by proposing a strong tailor-made capacity building programme.
- Changing EU legislation – in 2017 the Commission put in adoption two structural proposals for ambitious amendments of the single market rules concerning the free movement of goods and services. From the perspective of this Action, their adoption is at the same time a risk and an opportunity. The risks are related to the fact that the EU member states will be focused on transposition and implementation of the new packages and there might be insufficient time to draw lessons on how to ensure the most effective transposition. Also adopting more stringent requirements maybe particularly challenging for the country view the current institutional and administrative capacities and the level of private sector development. At the same time this is an opportunity, which will allow the country to jump over the old rules, which were not transposed properly or not transposed at all, thus saving on time and resources compared to two-stage harmonisation. In addition, based on the previous transposition process and the analysis of the transposition deficit, the current Commission proposals provide strong methodological tools to support the implementation of the new directives. It will be beneficial and disciplining for the country to use the proposed methodological framework. An additional mitigation measure is to encourage the country to engage in coordination with the relevant authorities from one or more EU Member states and discuss transposition and implementation at an early stage.

## **CONDITIONS**

The implementation of this Action is subject to the following conditions:

- Institutional capacity of the Ministry of Economy and the Market surveillance bodies, particularly the Market Inspectorate, are significantly strengthened before the start of the project. This involves a revised organigramme and appropriate staffing levels to ensure smooth transfer of know-how and operational capacity for enforcement of the law.

Failure to comply with the requirements set out above may lead to a recovery of funds under this programme and/or the re-allocation of future funding.

### 3. IMPLEMENTATION ARRANGEMENTS

#### ROLES AND RESPONSIBILITIES

This Action is a result of an intensive sector policy dialogue channeled through the Sector Working Group for Competitiveness and Innovation (SWG C&I), chaired by the Deputy Prime Minister for Economic affairs and co-chaired by the Minister of Economy and comprising all national state stakeholders, the donors and the civil society. The SWG C&I will continue to play a key role also in the implementation stage focusing the sector policy discussions on how the sector priorities are being met and what are the risks to achieving the planned results and impact.

The coordination and supervisory responsibility for this Action remains with:

- The **Cabinet of the Deputy Prime Minister in charge for economic affairs (CDPMEA)**, which is the institution in charge of the overall coordination of the economic affairs and the reforms associated with the development of the private sector. Under this Action, the CDPMEA shall assume a key role as regards the improvement of competitiveness and innovation sector reform management and coordination, enhancement of legal aid and EU law implementation mechanisms achievement of Result 2: Improved access of start-ups and SMEs to financing and high value added business services in selected regions.
- The **Ministry of Economy (MoE)** is the policy-making body for the competitiveness, goods and services sector and SMEs policy, with a strong role in the management of various economic issues as defined in the Law on the organization and competences of state bodies and related substantive laws. Under this Action MoE will play a crucial role in implementing activities under Result 1: Strengthened legal alignment and enforcement in the fields of Free Movement of Goods (Chapter 1), Free Movement of Services (Chapter 3) and Company Law (Chapter 6).

In addition, the Action will involve:

- The **Market Surveillance** authorities, which are in charge of ensuring that products at the market fulfil the prescribed requirements and provide the necessary level of protection of the people's health and safety and of the environment. The Action will strengthen their capacities to implement their mandates in effective and efficient way.

The bodies composing the Market Surveillance system and benefitting of this Action include 1). Market Inspectorate as a key authority having a large mandate for market surveillance of goods and services in line with the law on Market Inspectorate; 2). Customs Administration, which perform its duties and tasks protecting the national market from entry of non-compliant products; 3). Technical Inspectorate, which conducts market surveillance associated with technical regulations i.e. pressure equipment, transportable pressure equipment, lifts, cable railways, cranes and transporters, products and installations intended for operations in an explosive atmosphere, electrical installations, electric products and devices, and exploitation of mineral resources; 4). Agency for Electronic Communication, charged with surveillance on goods and services linked to electronic communications, and 5). Labour Inspectorate, which is in charge of the effective enforcement of the labour legislation, aimed at decrease the number of illegally, employed persons, protect the legal rights of workers, and ensure safe and healthy working conditions.

- The **Bureau of Metrology (BoM)** is the legal entity under the supervision of the Ministry of Economy, which has a leading role within the national system for metrology and performs tasks and duties laid down in the Law on Metrology, Law on control of articles of precious metals and Law on vehicles. The BoM will benefit in this Action through relevant actions related to the control, safety and environment requirements.

- Other quality infrastructure bodies, such as the **Standardization Institute**, which is the national standard body promoting the standardization activities, developing and adopting standards, and the **Institute for Accreditation**, which is in charge of determining the competency of conformity assessment bodies, the surveillance over the accreditation requirements fulfilment and the international cooperation.
- The **Agency for Promotion of Entrepreneurship (APERM)** associated with the Ministry of Economy, and in charge of implementing projects and measures for improving SMEs competitiveness, strengthening their capacities, enabling government support through different grant and voucher schemes. The APERM will be involved in the implementation of the activities planned for achieving Result 2.

Other bodies that will be associated to this Action involve **Business Associations**, the North Macedonia **Chambers of Commerce**, **universities**, **start-ups** and **SMEs**.

#### **METHOD(S) OF IMPLEMENTATION AND TYPE(S) OF FINANCING (SEE ANNEX IMPLEMENTATION – BUDGET)**

#### **4. PERFORMANCE MEASUREMENT**

##### **METHODOLOGY FOR MONITORING (AND EVALUATION)**

Progress in the implementation of the Action will be monitored through the Performance Assessment Framework (PAF) which is being prepared through a separate EU project and is expected to be put in place in 2019. The PAF is sector-based and integrates macro indicators (outcome and impact levels) and micro indicators (output level) for the sector Competitiveness and Innovation, deriving from the country sector strategic documents. Since the Action proposes measures relevant to the priorities identified in the national strategic documents, the majority of the formulated indicators are part of PAF. PAF is developed as a web-based application (to be backed up by a Governmental decision on responsibilities and deadlines) allowing regular electronic input of data, data processing and data analytics. The PAF data will be used in the Sector Working Group on Competitiveness and Innovation, which is also the inclusive platform of all stakeholders to monitor the implementation of the sector priorities.

The bilateral dialogue on the implementation of the Action will be channeled through the Sector Monitoring Committee for Competitiveness and Agriculture which meets once per year.

The ongoing monitoring of the specific contracts will be a responsibility of the EU Delegation and the NIPAC office as well as of the Steering Committees established in the context of the specific technical assistance interventions. Project review meetings are usually held at monthly basis and involve the contracting authority (the EU Delegation), the NIPAC office and the beneficiaries.

In addition, the Action might be subject to external monitoring in line with the European Commission rules and procedures set in the Financing Agreement.

The Action envisages a separate contract for a final independent evaluation of the effectiveness and the impact of the Action. The European Commission may carry out additional evaluation for this Action or its components if necessary.

#### **5. SECTOR APPROACH ASSESSMENT**

The country has progressed in introducing the Sector approach. The Sector Approach Roadmap developed in 2016 to define milestones and deadlines for achieving fully-fledged sector approach, is gradually being implemented.

The established in 2017 Sector Working Group on Competitiveness and Innovation (SWG C&I) functions as an inter-ministerial co-operation forum enlarged to donors and civil society and chaired by the DPM for Economic Affairs and the Minister of Economy (and other ministers when necessary). The SWG is the country sector dialogue platform channeling the discussions on the national sector priorities and their implementation in an inclusive and participatory manner. The SWG embeds the IPA programming but goes far beyond the discussions on EU funds: this is the platform to voice also the opinion of the various donors, relevant state institutions and civil society on how the private sector develops, how effective are the current policies, how the various donors contribute to the national sector priorities. The SWG operates in 3 formats: core (technical experts), institutional (decision-making) and plenary/extended (involving donors and civil society). In 2018, 5 plenary meetings of the SWG were organised.

The sector strategic framework is established. The main strategic sector documents include the Economic Reform Programme, the Economic Growth Plan and the Strategy on Competitiveness. **The Economic Growth Plan** adopted in 2018 sets the governmental priorities for the 4 years ahead. It provides the governmental vision for the future including on the use of state funds, the set of specific measures, mainly financial incentive /subsidies, targeting the greenfield and brownfield investments, linkages between FDI and domestic companies, export, innovation, skills improvement, support of SMEs. Measures planned for the respective year are reflected in the national annual Budget and amount to around EUR 30 million/year. **The Economic Reform Programme** is a three-year roll-on document which reflects the policy dialogue with EU in the frame of a light European Semester and contains twenty of the most relevant reform measures for improving country competitiveness and creating jobs proposed by the ministries. It is based on the fiscal strategy and annual budget and regularly monitored and assessed by EU whereby assessment results are reflected in regular assessment report and joint conclusions with recommendations for improvement. The overarching **Strategy for Competitiveness was adopted in January 2016** as an umbrella strategic document encompassing a numerous reform processes, described in more details in other policy planning documents. It was produced within an extensive consultation and coordination of all relevant stakeholders from public and private sector. The strategy is budgeted and has clear list indicators for implementation. It integrates the most important priorities outlined in a number of other strategic documents such as the Innovation strategy 2012-2020, Industrial Policy, SME Strategy, Strategy for FDI and Export, Women Entrepreneurship Strategy, Tourism Strategy, etc.

A clear weakness that still needs to be addressed is the monitoring and reporting on the implementation of the strategies. Apart of the key documents, the existence of numerous strategic documents, often of poor quality, makes this process quite difficult. Yet the country has to ensure regular and transparent reporting at least on the three key strategic documents. To support the national authorities, an EU-funded project is currently preparing a Performance assessment framework integrating the most important progress indicators at macro and micro level. However, PAF needs to be backed-up by a strong governmental push towards more transparency and accountability in the sector policy management. Provided that such political commitment exists, the SWG can play a role of a platform for discussions of reforms progress and challenges.

Overall, the institutional set-up is supportive to sector reforms. Yet, it is very complex, involves a number of state and independent bodies with often unclear and overlapping mandates. The role of the Cabinet of DPMEA evolved from a coordinator to a main sector policy maker and main decision-maker as regards state aid to private sector, centralizing both planning and implementing



functions. At the same time the mandate, power and responsibilities of the Ministry of Economy shrank significantly, which had also impact on its administrative and institutional capacity.

It is important that the country addresses the deficiency in the institutional framework as soon as possible. This would involve a thorough revision of the powers and responsibilities of the various authorities and separation of the policy making from implementation, optimisation of the institutional set up, closing or re-activation of "sleeping" bodies, re-activation of underutilized institutional capacities.

## **6. CROSS-CUTTING ISSUES**

### **GENDER MAINSTREAMING**

The country has put in place the legal framework to ensure gender equality through the adoption of the Law on equal opportunities for women and men and the Law on prevention of and protection from discrimination. The current legislation actually prohibits discrimination on the grounds of gender and sexual orientation and prescribes that equal representation of men and women exists when one sex is represented with at least 40% per cent in bodies at all levels (state, municipal levels other institutions).

In practice, inequality between the sexes remains a major obstacle for economic development and for reducing poverty. The activity rate of women is 44.8%<sup>12</sup> or significantly below the EU average of 58.5%. Of the inactive people 64,4% are women. 38% of the private companies are owned by women against 62% owned by men. Similarly, in terms of qualifications only 15% of women have graduated from a university in comparison with the EU average of about 25%. The share of legal entities established by at least one woman (with a share of more than 50%) in the total number of new registered or established legal entities in the last 7 years varies between 25-27%<sup>13</sup>. Particularly worrying is the situation in the rural areas, where the number of legal entities owned by women (shareholders over 50%) and the number of women employed is very low<sup>14</sup>. It is important to note that 99% of these legal entities are in the category of small (73.91%) and medium enterprises (25.67%). An analysis based on the World Bank Enterprise Study shows that 29.4 percent of firms have women's ownership, compared to 37 percent worldwide (World Bank, 2014). The issue of finance remains one of the most significant barriers for women entrepreneurs. High cost for borrowing and loans, high taxes, and obstacles related to the traditional gender role are their main challenges. In most cases, they have no ownership of the property; have little or no support from the institutions. Women entrepreneurs face difficulties in finding a market for their products and have limited access to training, particularly in rural areas.

This action proposes an approach which addresses the gender-related challenges in private sector development in two ways. First, the action goes to the regions and to the local communities, creating an easy-to-reach opportunity for women with business ideas. This approach will allow addressing the confidence gap – women are usually more shy in searching for development opportunities and presenting business ideas. By pushing advisory service go local, the action has potential to stimulate and motivate women engagement in business activities on their own. Second, the Action proposes a tailor-made support, able to accompany a business seed idea and turn it into a functioning business operation. This approach decreases the risks for new entrepreneurs, particularly women who are more rarely part of support networks. It allows women with ideas, even if without previous experience, collateral provision or back-up, to engage in their own businesses.

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<sup>12</sup> State Statistical Institute, Labour force survey 2017

<sup>13</sup> State Statistical Institute,  
<http://uklo.edu.mk/filemanager/HORIZONTALI%202018/Serija%20A/konecen%20trud%20p04.pdf>

<sup>14</sup> Association of business women Macedonia, 2015

Compared to a classic grant scheme or a credit facility, this two-phase approach has a higher development potential and more pronounced gender impact.

In order to measure the gender impact of the proposed approach, gender-sensitive indicators have been introduced. In particular the following indicators will be applied: Number of women and Number of men, benefiting from the action (absolute No and % of all final beneficiaries).

### **EQUAL OPPORTUNITIES**

The Action enhances equal opportunities and non-discrimination principles as per EU standards. The bigger part of the action focuses on under-developed regions, lagging behind in providing equal opportunities for their local communities compared to capital and leading urban centres. Poverty reaches 40% in NorthEast and Polog Regions. The EU support for business services and business operations in these regions will generate jobs and salaries for various profiles of new workers, enhancing the concept of equal opportunities for citizens independent of their physical location, origin and background. The proposed development approach (easy-to-reach, regions-located support system) will benefit entrepreneurs of different origin and background, having in general more limited access to banking finance.

Participation in project activities such as trainings, capacity building activities, business development activities and others will be open to citizens regardless of their racial or ethnic origin, religion or belief, disability, age, sex or sexual orientation.

### **MINORITIES AND VULNERABLE GROUPS**

By focusing on 3 underdeveloped regions, the Action will enhance the economic and social cohesion between the capital and the regions, which is among the key objectives of the Ohrid Framework Agreement and “Race directive” 2000<sup>15</sup>. In all three selected regions, considerable ethnic communities are located i.e. Roma, Albanian, Turks and others. The EU investments in business advisory services have the potential to accompany people of minority origin to develop and implement business ideas. The proposed business development approach, based on a combination of acceleration services and direct funding, has the potential to accompany people of minority origin and/or vulnerable groups to access funding and business advice and create successful businesses. Boosting economic development in the targeted would result into more jobs, better working conditions, decreased social risks. In mid-term perspective, this approach will impact on increasing income and improving living conditions. In longer-term perspective, decrease of poverty among ethnic minorities will impact on improving the inter-ethnic relations.

To measure this effect, the Action introduces relevant success indicators i.e. number of entrepreneurs from minority origin or of vulnerable groups, benefiting from the action (absolute No and % of all final beneficiaries).

### **ENGAGEMENT WITH CIVIL SOCIETY (AND IF RELEVANT OTHER NON-STATE STAKEHOLDERS)**

The civil society but also social partners, employers' and business organisations and trade unions have been engaged in the discussions of the national sector priorities, primarily during the preparation of the ERP, Competitiveness Strategy and this Action. The Sector working group has proved to be an excellent sector dialogue platform involving all relevant stakeholders. They will continue to play this role also in future providing a national forum where various types of stakeholders can discuss and exchange opinion on how and if the measures produce results, are there emerging risks and concerns. In this respect, a starting EU project will seek to enhance the participation of CSOs in the SWG through mobilizing their resources and building their capacities to analyse the implementation of the national policies in various sectors and provide structured

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<sup>15</sup> 2000/43/EC of 29 June 2000

input for the operation of the SWGs. This project will also encourage and structure the participation of the CSOs in ENER (national web-platform for consultation on new legislation). Thus the current Action will benefit of this new level of interaction between civil society and state, which will be of crucial importance primarily as regards the harmonization and enforcement of the legislation on internal market.

Moreover, this Action provides an excellent opportunity for specialized civil society organisations (i.e. Chamber of commerce, local business development organisations, etc) to participate in the activities and benefit from EU funding to refine the business services they provide, for turning into business accelerators, and even to obtain funding for starting business initiatives.

Another important aspect of this Action is the protection of consumers' rights, where interaction with civil society is a key for success. CSOs will therefore be included in consumer awareness campaigns and the protection of consumers rights and will benefit from EU know-how and expertise.

#### **ENVIRONMENT AND CLIMATE CHANGE (AND IF RELEVANT DISASTER RESILIENCE)**

The Action will vigorously promote respect to the principles of environmental suitability. First, the transposition of the new legislation on free movement of goods is very much linked to addressing modern environmental challenges and ensuring compliance of the national markets with the environmental requirements along with the requirements for safety and health. Thus the Action will contribute to "greening" of the policy-making in the country. Second, the direct support to businesses planned in this Action can only be channeled to "environmental friendly" or "environmentally neutral" businesses. No support will be provided to "environmentally non-friendly" business activities. Support to innovations related to circular economy is among the priorities of the direct support.

### **7. SUSTAINABILITY**

The sustainability potential of the action is high due to several factors:

- The Action incorporates a considerable *acquis* alignment component. In the context of improving accession perspective for the country, the investment into harmonisation with the *acquis* creates a good sustainability prospect since it will shape and support the negotiations process. In addition, the focus on the transposition of the new EU legislation for free movement of goods and services at an early stage will ensure time for proper implementation before accession and will prepare better market operators for the EU markets.

Furthermore, the *acquis* transposition will be based on the Better Regulation Approach, promoting well-targeted, evidence-based and simply written regulations, which have more chances to be properly implemented. This is where synergy with the Public Administration Reform will be achieved. Not only will this improve the efficiency of public administrations and businesses, avoiding unnecessary burdens and red-tape on citizens, businesses and authorities but it will equally allow the focus of the administration and decision-makers on effects and impacts of the newly adopted legislation rather than procedures.

- This Action has been designed to support the business ecosystem in selected regions by further developing the capacities of existing providers to offer business services. The improved quality of business services and the better response to local business needs has the potential to push forward the local business development. The Action is expected to result into improved performance of the supported start-ups, entrepreneurs and SMEs, which will positively impact on their survival rate, thus creating more stability on the local markets. In addition, business operators will be supported to ensure compliance with the new regulations on safety, health and environmental protection, which in immediate perspective will offer them a better access to the cross-border and EU markets.

- The action proposes a strong capacity building approach for both public administration and business operators. Upgrading the skills and capacity of the human resources is an investment in the social capital in the country and is a guarantee for sustainability.
- The improvements in the business process (market surveillance, notification procedures) will contribute to a more rationalised, sustainable and cost-effective management of the public administration and public resources, which is also a factor of sustainability.

## **8. COMMUNICATION AND VISIBILITY**

Communication and visibility will be given high importance during the implementation of the Action. The implementation of the communication activities shall be funded from the amounts allocated to the Action.

Communication and visibility will be given high importance during the implementation of the Action with a particular focus on promotion of the transposed legislation, of the new business opportunities, of the consumers' rights. The communication and visibility approach is based on several pillars:

- Promotion of the action through the visibility and communication strategy "EU for YOU", of the EU Delegation, based on sector campaigns, which target the citizens at large outlining the benefits of the EU aid for the country in a communicative, comprehensible and interactive style. In addition, all EU projects are promoted through the Delegation web-site. As of 2018, the EU Delegation together with NIPAC launched the IPA Visualization Map (<https://euprojects.mk>) providing information on all IPA projects in the country.
- Promotion of the EU support at the level of the action – this implies selection of one or two activities out of the whole Action with very high media potential and creating a media event allowing to promote in general the EU values and principles in a certain specific context. This approach is being piloted under 2016 IPA annual programme and will be extended further. The cooperation with the NIPAC office and the other beneficiaries will be very important to ensure one-voice communication to citizens.
- Promotion of the EU support at the level of each single contract and in line with the EU communication and visibility requirements in force. All contractors have to develop a communication plan, which will be approved by the EU Delegation. The communication and visibility plan should highlight the external communication activities that need to take place. In approving the communication plan the EU Delegation usually encourages "out-of-the-box" communication solution having the potential to attract the attention of media and citizens and allow passing important messages.

All contractors are also expected to show a good communication reflex and the ability to exploit unexpected opportunities to the benefit of the action. Having in mind importance of digital communication in today's era of web technologies and social media, creation of EU-funded projects' communication materials in an internet friendly format is essential. The implementation of the communication activities shall be funded from the amounts allocated to the Action and the separate contracts. It is the responsibility of the contractors and beneficiaries to keep the EU Delegation and the Commission fully informed of the planning and implementation of the specific visibility and communication activities. The beneficiary shall also report on the visibility and communication actions in the relevant reports.

All visibility and communication actions shall focus on results and changes achieved and shall demonstrate how the EU support brings the country closer to the EU standards. The objective is to improve the awareness on the EU funding of the general public and not only of target specific audiences. The communication policy applied must ensure that the added value and impact of the

EU's interventions are understood by the citizens and that EU funds are managed and used in an transparent, efficient and effective way for the benefit of the country as a whole.