



THIS ACTION IS FUNDED BY THE EUROPEAN UNION

ANNEX III

to the Commission Implementing Decision on the Annual action plan in favour of the Republic of North Macedonia for 2024

Action Document for EU for Economic Cohesion

ANNUAL ACTION PLAN

This document constitutes the annual work programme in the sense of Article 110(2) of the Financial Regulation, and annual and multiannual action plans and measures in the sense of Article 9 of IPA III Regulation and Article 23(2) of NDICI - Global Europe Regulation.

1. SYNOPSIS

1.1. Action Summary Table

Title	EU for Economic Cohesion Annual Action plan in favour of North Macedonia for 2024
OPSYS	OPSYS business reference: ACT-62404
ABAC	ABAC Commitment level 1 number: JAD.1354913
Basic Act	Financed under the Instrument for Pre-accession Assistance (IPA III)
Economic and Investment Plan (EIP)	Yes Priorities: Economic development (incl. private sector, trade and macroeconomic support) (39%), Energy (25.2%), Agriculture, food security and rural development (35.8%).
EIP Flagship	Yes Flagships: “IV Renewable Energy, “V Coal Transition”, “VI Renovation Wave”
Team Europe	No
Beneficiary of the action	The action shall be carried out in North Macedonia
Programming document	IPA III Programming Framework
PRIORITY AREAS AND SECTOR INFORMATION	
Window and thematic priority	Window 3: Green Agenda and Sustainable Connectivity – EUR 5 200 000 (25.2%)

	Thematic Priority 2: Transport, digital economy, and energy (25.2 %) Window 4: Competitiveness and Inclusive Growth – EUR 14 900 000 (74.8%) Thematic Priority 2: Private sector development, trade, research and innovation (39%) Thematic Priority 3: Agriculture and Rural Development (35.8%)			
Sustainable Development Goals (SDGs)	Main SDG: SDG 9: Industry, innovation and infrastructure Other significant SDGs and, where appropriate, targets: SDG 7: Ensure access to affordable, reliable, sustainable, and modern energy for all SDG 12: Responsible consumption and production SDG 13: Take urgent action to combat climate change and its impacts SDG 8: Decent work and economic growth			
DAC code(s)	250 - Business & other services (39%)25010 - Business policy and administration (39%) 231 - Energy Policy (25.2%) 23110 - Energy policy and administrative management (25.2%) 311 - Agriculture (35.8%)31110 - Agricultural policy and administrative management (7.3%) 31192 - Plant and post-harvest protection and pest control (7.3%) 31195 - Livestock/veterinary services (21.2%)			
Main Delivery Channel	12000 - Recipient Government			
Targets	<input checked="" type="checkbox"/> Climate <input type="checkbox"/> Gender <input type="checkbox"/> Biodiversity			
Markers (from DAC form)	General policy objective	Not targeted	Significant objective	Principal objective
	Participation development/good governance	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
	Aid to environment	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
	Gender equality and women's and girl's empowerment	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	Reproductive, maternal, new-born and child health	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	Disaster Risk Reduction	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	Inclusion of persons with Disabilities	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	Nutrition	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	RIO Convention markers	Not targeted	Significant objective	Principal objective
	Biological diversity	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
	Combat desertification	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

**Internal markers
and Tags**

Climate change mitigation	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Climate change adaptation	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Policy objectives	Not targeted	Significant objective	Principal objective
EIP	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
EIP Flagship	YES <input checked="" type="checkbox"/>		NO <input type="checkbox"/>
Tags:	YES		NO
Transport	<input type="checkbox"/>		<input checked="" type="checkbox"/>
Energy	<input checked="" type="checkbox"/>		<input type="checkbox"/>
Environment and climate resilience	<input checked="" type="checkbox"/>		<input type="checkbox"/>
Digital	<input checked="" type="checkbox"/>		<input type="checkbox"/>
Economic development (incl. private sector, trade and macroeconomic support)	<input checked="" type="checkbox"/>		<input type="checkbox"/>
Human Development (incl. human capital and youth)	<input type="checkbox"/>		<input checked="" type="checkbox"/>
Health resilience	<input type="checkbox"/>		<input checked="" type="checkbox"/>
Migration and mobility	<input type="checkbox"/>		<input checked="" type="checkbox"/>
Agriculture, food security and rural development	<input checked="" type="checkbox"/>		<input type="checkbox"/>
Rule of law, governance and Public Administration reform	<input type="checkbox"/>		<input checked="" type="checkbox"/>
Other	<input type="checkbox"/>		<input checked="" type="checkbox"/>
Digitalisation	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Tags	YES		NO
digital connectivity	<input type="checkbox"/>		<input checked="" type="checkbox"/>
digital governance	<input checked="" type="checkbox"/>		<input type="checkbox"/>
digital entrepreneurship	<input type="checkbox"/>		<input checked="" type="checkbox"/>
digital skills/literacy	<input type="checkbox"/>		<input checked="" type="checkbox"/>
digital services	<input checked="" type="checkbox"/>		<input type="checkbox"/>
Connectivity	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Tags	YES		NO
digital connectivity	<input checked="" type="checkbox"/>		<input type="checkbox"/>
energy	<input checked="" type="checkbox"/>		<input type="checkbox"/>
transport	<input type="checkbox"/>		<input checked="" type="checkbox"/>
health	<input type="checkbox"/>		<input checked="" type="checkbox"/>
education and research	<input type="checkbox"/>		<input checked="" type="checkbox"/>

Migration	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Reduction of Inequalities	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
COVID-19	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

BUDGET INFORMATION	
Amounts concerned	Budget line: 15.020201 Total estimated cost: EUR 20 635 000 Total amount of EU budget contribution EUR: 20 100 000 This action is co-financed in parallel co-financing by the national budget of North Macedonia for an amount of EUR 535 000
MANAGEMENT AND IMPLEMENTATION	
Implementation modalities (management mode and delivery methods)	Direct management through: - Twinning grants - Procurement Indirect Management with entrusted entities
Final Date for conclusion of Financing Agreement	At the latest by 31 December 2025
Final date for concluding contribution / delegation agreements, procurement and grant contracts	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
Indicative operational implementation period	72 months following the conclusion of the Financing Agreement
Final date for implementing the Financing Agreement	12 years following the conclusion of the Financing Agreement

1.2. Summary of the Action

The Action is comprehensively supporting North Macedonia towards competitive and innovative private sector, clean and efficient energy transformation and healthy food systems. The Action aims to accelerate business environment reform and transformation on North Macedonia's path to join the Single Market, building upon the synergies between innovation, agriculture, energy transition and private sector developments. The legal, administrative and operational framework for the private sector will be improved with a special focus on enhancing the right of establishment and freedom to provide services, market surveillance and consumer protection; and improving the effectiveness of the intellectual property policy. In these areas, the legal harmonisation will be paired with strong capacity-building measures, enhanced digitalisation, and active reach-out to raise the awareness of the private sector, authorities and the general public on their rights and obligations linked to the new regulative framework.

The innovation policy of North Macedonia will be strengthened by implementing targeted measures to support technological and practice-based innovation in the private sector and agriculture. The selected support measures will contribute to green and digital transition and gender equality. The Action will also support future EU investments by conducting a feasibility study to establish innovation infrastructure aligned with the Smart Specialisation Strategy (S3) policy mix (e.g., centres of excellence and technology transfer offices) and promote the Union Programmes targeting business innovations. According to the adopted Roadmap for Research Infrastructure for North Macedonia¹, the successful implementation of S3 and use of existing opportunities rely on upgrading of the existing, or construction of new, research infrastructures (RI) and further development of research-innovation potential.

This Action is also addressing the climate change challenges by supporting structural reforms in energy and energy transition from fossil fuels towards clean energy, in line with the Green Agenda for the Western Balkans². This involves aligning the national energy policy with the EU objectives and the undertaken international commitments; streamlining the institutional framework; enhancing the competencies of the authorities at the national, regional and local levels and building their capacities to implement measures in support of the green and just transition; upscaling the education and awareness on sustainable energy issues at central and local level; and promoting the renewable energy and prosumers concept. The Action will also improve the analysis of the green energy transition and support future EU investments.

In agriculture, the Action will support the administration in preparing and implementing the requirements arising from the EU accession negotiations under Chapter 11 and Chapter 12. It will enhance the alignment of the national regulations with the EU *acquis* on organic production, geographical indication, veterinary system, animal health and official controls, environmentally friendly food production and food safety, plant health and plant protection products. Equally, the Action will strengthen the systems and capacities for effective and efficient management of these policy areas, in line with the aligned regulative framework. A significant part of the Action envisages digitalising the management and control systems in the targeted areas, focusing on monitoring animal health and food safety.

As a result, the Action is expected to contribute to unleashing sustainable economic development through creation of synergy between the economic, agricultural, energy efficiency and innovation policies, in line with the EU objectives on climate change and the protection of biodiversity.

The Action is in line with IPA III Programming Framework³, Window 3: Green Agenda and Sustainable Connectivity and its Thematic Priority 2: Transport, digital economy, and energy, and Window 4: Competitiveness and Inclusive Growth targeting Thematic Priority 2: Private sector development, trade, research and innovation and Thematic Priority 3: Agriculture and Rural Development. The Action is complementary to the Western Balkans Agenda on Research, Innovation, Education, Culture, Youth and Sports⁴ by focusing on transforming the national research and innovation eco-systems, counteracting climate change and supporting the implementation of systemic changes and reforms.

1.3. Beneficiary of the Action

The Action shall be carried out in North Macedonia.

¹ https://mon.gov.mk/download/?f=RI%20Roadmap_NMCD_FINAL_.docx

² SWD (2020) 223 final of 6.10.2020

³ Commission Implementing Decision C(2021)8914 of 10 December 2021 on the Instrument for Pre-Accession Assistance (IPA III) Programming Framework for the period 2021-2027.

⁴ European Commission, Directorate-General for Research and Innovation, A Western Balkans agenda on innovation, research, education, culture, youth & sport, Publications Office of the European Union, 2021, <https://data.europa.eu/doi/10.2777/831554>

2. RATIONALE

2.1. Context

The economy of North Macedonia is characterised by a small size, relatively high unemployment, and low wages, which reflect the competitiveness level, as well as by the need to export in support of its growth. The economy faces challenges due to its high energy intensity and low energy production and consumption efficiency. The country needs high value-added Foreign Direct Investments (FDI) and fostering FDI-SME ecosystems to improve its productivity and innovation capacity. Overall, the economy is not competitive enough and cannot yet cope with the pressure and market forces in the EU. In 2022, the GDP per capita (in PPS) was 42% of the EU27 average⁵.

Area of support #1: Private sector development, trade, research and innovation

Services

The **IPA III Programming Framework**⁶ indicates the necessity to address the current structural challenges to the overall business environment, inter alia, concerning the issues related to legal uncertainty and the lack of regional market integration. Support should be provided to the ongoing structural reform processes and areas of free movement of goods, capital and services (chapters 1, 3 and 4 of the EU *acquis*). In the area of establishment and freedom to provide services, the 2023 Report on North Macedonia⁷ indicates, under **Chapter 3: Right of establishment and freedom to provide services**, that North Macedonia is moderately prepared and made limited progress notably on alignment with the Services Directive.

To prepare the country for the European internal market and improve the regulatory and institutional framework for business operations and investments, the **IPA III Strategic Response of North Macedonia** planned interventions to reinforce the ongoing structural reform, among other things, in the areas of free movement of goods, capital and services and to assist the harmonisation with the EU *acquis* in the field of free movement of goods, services, workers and capital.

Close coordination and integration actions between this Action and relevant 2021-2027 Interreg programmes and the EU Macro-regional Strategy for the Adriatic-Ionian Region would further enhance the Action's outreach and efficiency.

Alignment of the national legislation with the Service Directive and its implementation is a priority in the **National Programme for Adoption of the Acquis (NPAA)** and the **Economic Reform Programme (ERP) 2023-2025**, within *Measure 17 - Strengthening the market rules in North Macedonia*. The measure aims to provide high-quality instruments enabling companies, organisations and citizens to complete administrative procedures faster and at lower costs. To ensure this, further harmonisation of the national legislation is envisaged, in particular on mutual recognition of professional qualifications and services, as well as strengthening of the administration and enforcement capacity of the public administration related to implementation of the legislation harmonised with the Service Directive. Furthermore, the measure includes strengthening of the administrative capabilities, which is recognised as a necessary intervention, not only for the Ministry of Economy but also for the other related institutions that will be involved in the drafting of the new legislation in the area of free movement of goods and services and monitoring of its implementation, as well as in the application of the corrective measures. Finally, support is planned for implementing a real functioning Point of single contact under the requirements of the EU Services Directive.

⁵ [Statistics | Eurostat \(europa.eu\)](https://ec.europa.eu/eurostat/tgm/table.do?tab=table&init=1&language=en&plugin=1)

⁶ https://neighbourhood-enlargement.ec.europa.eu/system/files/2022-01/C_2021_8914_F1_ANNEX_EN_V5_P1_1462290.PDF C(2021) 8914 final of 10 December 2021 on the Instrument for Pre-Accession Assistance (IPA III) Programming Framework for the period 2021-2027.

⁷ 2023 Commission Report on North Macedonia. https://neighbourhood-enlargement.ec.europa.eu/system/files/2023-11/SWD_2023_693_North_Macedonia_report.pdf

Market surveillance

State Market Inspectorate (SMI) is one of North Macedonia's largest and most significant inspection authorities. It has over 250 employees, out of which around 170 are inspectors. Furthermore, SMI supervises the implementation of about 30 laws and numerous bylaws and supervises the business operations of tens of thousands of economic operators. Market surveillance authorities are responsible for conducting inspections and covering a full range of activities, including monitoring and controlling the market and, where necessary, implementing corrective measures and penalties. As indicated in the 2023 Commission Report⁸, 539 inspections were performed in 2022 under the general product safety law (up from 428 in 2021) and 168 under the construction products law (up from 20 in 2020). This led to 59 harmful products being taken off the market, in particular textiles and toys. The Inspectorate has 257 employees, but an insufficient number of licenced inspectors (151). There is no efficient software system for market surveillance document management in place, including for the recording of inspection results or proper risk planning and management.

To prepare the country for the European internal market and improve the regulatory and institutional framework for business operation and investments, in the country's **IPA III Strategic Response**, planned interventions are to reinforce the ongoing structural reform, including in the area of consumer protection; and to invest in the development of quality infrastructure, particularly standardisation, accreditation, conformity assessment and market surveillance of products. The 2023 Commission Report states that some progress was made on addressing last year's recommendations by the adoption of the new Law on consumer protection, which is designed to align with many items of the EU consumer *acquis*. The recommendations on aligning the legal framework remain valid. The **NPAA** emphasises the importance of facilitating and building the national administration's capacity to coordinate market surveillance and exchange data and information efficiently.

The **ERP 2023-2025** envisages measures for strengthening market surveillance to protect consumers' rights. The measure will include activities for supporting the market surveillance through functional reorganisation of the State market inspection service, upgrading of the surveillance methodology and introduction of new tools, facilitating the work of the market inspectors, as well as enhancing the coordination and the methodological synchronisation among the various market surveillance entities.

The **Ministry of Economy (MoE)** is developing a new *Law on Market Surveillance of Products*. The new Law will result in partial alignment with the *EC Regulation 2019/1020* on market surveillance and compliance of products and *EC Regulation EU 2019/515* on the mutual recognition of goods lawfully marketed in another Member State and repealing *Regulation (EC) No 764/2008*, which will allow rules and principles to be applied by the authorities of North Macedonia and economic operators before accession to the EU. The alignment process requires support for developing and implementing the corresponding legislation to prevent unsafe or non-compliant products from entering the market of North Macedonia. The new *Law on Consumer Protection* and *Law on technical regulation and conformity assessment* were adopted at the end of December 2022. One of the objectives of the Law on Consumer Protection is to guarantee the best realisation of consumer rights through effective market surveillance. The next three-year Consumer Protection Strategy is yet to be adopted. The alignment with the *Directive 2013/11/EU of the European Parliament and of the Council of 21 May 2013* on alternative dispute resolution for consumer disputes and amending Regulation (EC) No 2006/2004 and Directive 2009/22/EC is left to be done.

Intellectual property rights (IPR)

Although North Macedonia continuously harmonises its IPR laws and regulations with EU standards, it still needs to demonstrate adequate enforcement of those laws. The 2023 Commission Report on North

⁸ 2023 Commission Report on North Macedonia. https://neighbourhood-enlargement.ec.europa.eu/system/files/2023-11/SWD_2023_693_North_Macedonia_report.pdf

Macedonia states that substantial work is needed on the overall enforcement of IPR. In the coming year, North Macedonia should in particular:

- further improve the legal framework on copyright and related rights, notably by aligning with the Directive on collective rights management and the Directive on orphan works; further improve the legal framework on industrial property rights, by aligning with the Directive on the enforcement of intellectual property rights and with the Directive on trade secrets; implement the 2021-2026 intellectual property strategy and make operational the online information platform for law enforcement institutions to exchange data on intellectual property rights.

„The business community frequently complains that the State Office for Industrial Property does not register patents or take enforcement action in a timely manner⁹.

The IPA III Programming Framework¹⁰ addresses ongoing structural reform processes, inter alia, in strengthening the protection of intellectual property rights under Chapter 7 of the EU *acquis*. The **NPAA** emphasises the importance of the alignment with the *acquis* in these areas, strengthening the capacity of the State Office for Intellectual Property (SOIP); improving the quality of data, data processing and data exchange; and strengthening public awareness.

The complete screening of national legislation in IP has been conducted considering requirements under the EU *acquis*. The draft laws for each of the industrial property rights need to be prepared, namely **Patent Law, Trademark Law, Law on Industrial Designs** and the **Law on Geographical Indications and Appellations of Origin** as well as for the protection of **Topography of Integrated Circuits** (semiconductor products). Draft **Law on Trade Secrets** has been prepared and sent to the MoE to further governmental procedure.

The Draft **National Strategy on Intellectual Property 2022-2026** has been prepared to set strategic goals and tasks with the following set of measures:

- Measures for strengthening the legal framework of Intellectual Property Law;
- Measures for strengthening the effective and efficient enforcement of IPRs;
- Measures for developing the capacity of individual holders and the business community for protection and enforcement of IPRs;
- Measures for strengthening public awareness and the benefits of IP.

The process of formulating and enacting Intellectual Property Strategy is in line with the efforts being made by the Government to stimulate research and development, cultural creativity, an appreciation of local resources and local creativity and, in this context, the establishment of a legal and institutional framework increasingly designed to stimulate and consolidate the strengthening of intellectual property in the country. The rules and principles on the right to creativity and to the protection of intellectual property are enshrined in the Constitution and have been consequently embodied in a range of legal instruments establishing the legal regime governing the grant and protection of intellectual property, together with accession to the principal regional and international legal instruments on intellectual property. The Ministry of Economy (MoE) proposed the strategy, and the coordinator was the SOIP.

Smart Specialisation Strategy

Research, innovation, education and culture are essential drivers in this process of modernising the economies of the IPA III beneficiaries, helping to create jobs and growth as outlined in the **IPA III Programming Framework¹¹**. In the context of the Economic and Investment Plan (EIP), the Western

⁹ [North Macedonia - United States Department of State](#)

¹⁰ C(2021) 8914 final of 10 December 2021 on the Instrument for Pre-Accession Assistance (IPA III) Programming Framework for the period 2021-2027.

¹¹ C(2021) 8914 final of 10 December 2021 on the Instrument for Pre-Accession Assistance (IPA III) Programming Framework for the period 2021-2027.

Balkans Agenda on Innovation, Research, Education, Culture, Youth and Sport¹² outlines a comprehensive, long-term strategy for cooperation with the Western Balkans in these areas which includes support to Research and Innovation (R&I) projects resulting from Smart Specialisation priorities. Recognised as a key approach for strengthening research, technological development and innovation, IPA III supports implementing the Smart Specialisation Strategies. To foster economic and social development, including the development of new technologies, research, and improved access to research infrastructure and creative industry, IPA III supports the quadruple helix innovation model with interactions between academia, industry, governments, and civil society. Continuous dialogue between academia, industry, governments and civil society is one of the main pillars of the smart specialisation approach.

The **ERP 2023-2025** envisages activities in 2023, starting with the adoption of the S3 strategy and related Action Plan, developing the implementation framework, capacity building for implementation, expanding the set of instruments enabling the development of the innovation ecosystem and launching the first new instruments for S3. The importance of S3 is also emphasised in the Joint Policy Guidance of the EFD (adopted by ECOFIN Council) in May 2023, as well as in the Commission's policy measure under macro-financial assistance to North Macedonia.

There is a set of strategic national documents that stimulate the creation of a favourable business climate and the development of the endogenous industry. Key strategic documents are *Industrial Policy focusing on the manufacturing industry 2018-2027*, *the SME Strategy 2018-2023*, *Plan for economic growth*, *Plan for accelerated growth*, and the newly developed *Smart Specialisation Strategy* that should replace the expired *Innovation Strategy and the Competitiveness Strategy*.

The **Global Innovation Index 2023** ranks North Macedonia the 54th out of 132 countries worldwide. The country has the best results in Market sophistication, while it achieved the weakest Creative outputs. The scores for the indicators "University-industry R&D collaboration" and "Policies for doing business" are particularly low and are identified as the weakest points in the country, placing the country in the 106th and 112th place out of a total of 132 countries. The latest **European Innovation Scoreboard Index** (2023) ranks the country as an "Emerging Innovator" with a performance of 46.3%, which is still below the average of 54.0% for Emerging Innovators countries. The country's performance gap to the EU is becoming smaller. The report notes the country's weaknesses indicators relating to design protection applications, R&D expenditure in the business sector, government support for business R&D, lifelong learning and a low number of Doctorate graduates. Compared to 2022, progress has been made in developing environment-related technologies, foreign doctorate students and in the number of most cited publications.

In line with the previous Innovation Strategy, North Macedonia created the Fund for Innovation and Technology Development (FITD), an institution aiming to support the business sector's innovation processes. The FITD's role is to improve companies' innovative capabilities and support adopting new technologies that boost private sector competitiveness. They developed a set of instruments aiming to impact the innovation ecosystem. Based on the Law for Innovation Activity and the Plan for Economic Growth they have the mandate to provide financing for innovation in MSMEs through the following instruments:

- co-financed grants for newly founded start-up and spin-off companies,
- co-financed grants and conditional loans for the commercialization of innovations,
- equity and mezzanine investments,
- co-financed grants for the establishment, operation and investments of business and technology,
- accelerators,
- co-financed technology extension grants,
- co-financed grants for technology transfer,
- technical assistance, and

¹² [Implementing the Western Balkan Agenda on Innovation, Research, Education, Culture, Youth and Sport - Smart Specialisation Platform \(europa.eu\)](https://europa.eu)

- co-investment schemes with investors and investment funds.

FITD's 2023 annual budget is €19.3 million. However, FITD is facing challenges in the implementation of its programs. The institution requires greater capacity to manage its growing number of beneficiaries with support to increase capacities in monitoring and evaluation, diversification of the current and development of new instruments. There is a continuous need to support and grow the innovation ecosystem. Productivity could be further improved by more investment in research and innovation. At 0.4% of GDP, the economy's expenditure on research and innovation has not increased over recent years and remains significantly below the EU average. The country is an emerging innovator, according to the EU innovation scoreboard. An increased budget (but also non-financial incentives and measures for collaboration between researchers and businesses) in this area would support the country's economic recovery, given the relevance of innovation to the Economic and Investment Plan for the Western Balkans¹³. Even though government funding for innovation increased, private firms are reserved about adopting new technologies.

The Smart Specialisation Strategy (S3) preparation has reached the final stage. Adopting the S3 in 2023 should consolidate the country's economic policy priorities and support further developing sector-level strategies in relevant fields such as education and skills, industry, research and innovation, and attracting FDI. S3 will be placed on a path to build a modern economic development approach based on knowledge, innovation, and establishing strong linkages between business and academia. The following sectors are at the core of the smart specialisation:

- Electro-Mechanical Industry - Industry 4.0 (EMI-I4.0)
- Information and Communication Technologies (ICT)
- Smart agriculture and food with higher value-added
- Smart/Sustainable Buildings and Materials

In addition, digitalisation and green transition have been identified as horizontal priorities in the above-identified priority domains.

North Macedonia is committed to enabling further growth of innovation and stimulating strategic research and innovation partnerships as a key driver for economic growth. The challenge can be related to providing sufficient funding for strengthening the institutional capacities, developing strategic research and innovation partnerships, and implementing the priority projects and policy mix.

Relevant national strategies in the area of support #1

The Action will contribute to the implementation of the following relevant national strategic documents:

- **The Strategy for Consumer Protection 2022-2025 and the Action Plan.**
- **The Strategic Plan of the State Market Inspectorate 2022-2024¹⁴.**
- **The National ICT Strategy 2021-2025**, which has six pillars: 1. Connectivity and government infrastructure; 2. Centralisation and rationalisation of ICT and e-government services; 3. Improving the digital skills of citizens, workforce and experts; 4. Research, development and innovation; 5. Data protection; and 6. Digital services (inspired by environmental protection).
- **The Industrial Strategy with focus on manufacturing industry 2018-2027 and the Action Plan.**
- **The National Strategy for Small and Medium Enterprises 2018-2023**, which aims to be a competitive engine of inclusive economic growth in North Macedonia and create more productive and decent employment. Special attention is devoted to supporting women's entrepreneurship.

¹³ COM(2020) 641 final

¹⁴ https://www.dpi.gov.mk/images/stories/informacii_od_javen_karakter/Strateski-Plan-Za-Rabota-DPI-2022-24.pdf

- The **Strategy of Women Entrepreneurship Development with AP 2019-2023**, which aims to empower women by creating a favourable business climate and supporting their entrepreneurial potential. This will contribute to developing existing and opening new enterprises, creating new jobs and thus strengthening the overall economy.
- The **Draft National Strategy on Intellectual Property 2022-2026**.
- The **Draft Smart Specialisation Strategy (S3)**, to be developed and adopted in 2023. North Macedonia is committed to creating a favourable business climate conducive to growth based on knowledge and innovation. Currently, there is an advanced process of S3 development, in close collaboration and continuous consultancy with Joint Research Centre (JRC), following a standard EU methodology and being ex-post-approved by JRC in its final Entrepreneurial Discovery Process (EDP) phase. Building on the EDP outcomes, the S3 will complement the forthcoming National Development Strategy, replace the outdated Innovation Strategy and Competitiveness Strategy, and build on the priorities of the Industrial Strategy, the Education Strategy and the Economic Reform Programme.
- The **Education Strategy 2018-2025 and the Action Plan**, which prioritise strengthening research infrastructure in selected universities. This includes establishing centres of excellence, accelerators and technology transfer centres to elevate scientific research and align it with the modern requirements for technology development.
- The **Research Infrastructure Roadmap of North Macedonia**, which recommends establishing a link between the research potential identified in the RI Roadmap and future activities in designing the Smart Specialization Strategy.

Area of support #2: Energy

Under the **IPA III Programming Framework**, there is considerable scope to embark on a green agenda and decarbonise in a whole-of-economy approach, to assist beneficiaries in improving energy efficiency and increasing the share of renewable energy sources in attaining the Sustainable Development Goals and addressing other environmental issues. Strong emphasis is on decarbonisation as a key pillar of the Economic and Investment Plan for the Western Balkans, in line with the aims of the European Green Deal¹⁵. Energy efficiency remains the most effective way to meet carbon reduction targets. The IPA III Strategic Response's energy efficiency, renewable and clean energy projects will be promoted in line with the EU targets and priorities.

Close coordination European Commission's forthcoming technical assistance action '*Better cohesion through development of energy communities in the Western Balkans*' as well as appropriate integration with Adriatic-Ionian Strategy activities in North Macedonia under its Pillar 2, would further reinforce this Action's efficiency.

The national priorities in the energy sectors are set out in the **Strategy for Energy Development in North Macedonia until 2030 and 2040, the North Macedonia's 2021 updated Paris Agreement Nationally Determined Contributions (NDCs) and the National Energy and Climate Plan (NECP)**.

In its Nationally Determined Contribution, North Macedonia targets 51% greenhouse gas reductions by 2030. North Macedonia's updated Nationally Determined Contribution¹⁶ (NDC) submitted to the UNFCCC under the Paris Agreement sets a target of a 51% reduction in greenhouse gas emissions compared to 1990 levels by 2030.

¹⁵ European Commission: The European Green Deal, Brussels, 11.12.2019, available at: <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=COM%3A2019%3A640%3AFIN>

¹⁶ Ministry of Environment and Physical Planning, 2021. [Enhanced Nationally Determined Contribution: Submission by the Republic of North Macedonia](#)

North Macedonia strives to achieve the main targets of the EU Green Deal¹⁷, which include achieving no net greenhouse gas emissions by 2050 (climate neutrality by 2050), decoupling economic growth from resource use, and ensuring that no person or place is left behind. These objectives are in line with the 2030 Agenda for Sustainable Development and its Sustainable Development Goals (SDGs), particularly the goal of "Leave no one behind." The country also upholds the "Do no harm" principle within the Paris Agreement (Article 6), considering the intersection of human rights and climate change.¹⁸

The ERP 2022-2025 aims to facilitate a gradual transition towards a sustainable energy policy. This includes reducing dependence on coal, enhancing energy supply security and efficiency, and promoting expanding renewable such as small hydropower, biogas, solar and wind. Additionally, efforts will be made to integrate these renewable sources into the regional energy market.

North Macedonia heavily relies on coal and imports to meet its energy needs. However, the Government is trying to increase the share of renewable energy consumption and has set annual targets to achieve this goal. The Energy Law was aligned with the Third Energy Package in the electricity and natural gas sector, along with the Renewable Energy Directive 2009/28/CE. Additionally, the Energy Efficiency Law and relevant by-laws are being used to ensure alignment to the Energy Efficiency Directive 2012/27/EU and the Energy Performance of Buildings Directive 2010/31/EC. These laws also mandate the preparation of Energy Efficiency Action Plans.

The energy policy in the country is stipulated in the *National Energy Strategy until 2040*, adopted in December 2019. The National Energy Strategy is valid until 2040, and the relevant ministry is in the process of adjusting the document to the EU strategic long-term vision for climate-neutrality by 2050, with USAID support.

Additionally, the Government has developed and adopted a *National Energy and Climate Plan (NECP)* covering 2021 to 2030. Following the Energy Community Ministerial Council Decision of December 2022, where more ambitious 2030 targets were set for greenhouse gas reduction, energy efficiency and renewable energy, both documents need to be updated.

North Macedonia has taken steps to address the **security of supply** concerns, including enacting the *Law on Compulsory Oil Reserves* in 2021 and implementing legislation and plans for releasing stocks in an emergency. However, the oil stocks only correspond to 57 days of average daily consumption, 63% of the recommended level, which could be a vulnerability if supplies are interrupted. Identified potential risks for the security of supply include limited use of domestic resources in energy production, depleting coal resources, a single interconnection point for natural gas supply, and high dependence on energy imports. To reduce this dependence, increasing the share of Renewable Energy Sources (RES) and improving energy efficiency are crucial, along with the electrification of transport for system flexibility. North Macedonia also plans to diversify supply routes by developing the gas transmission network and using natural gas in the industry sector to reduce GHG emissions and improve air quality.

The electricity and gas sectors are open for competition in the **internal energy market**. The necessary secondary legislation has been adopted, and the process is well-advanced. In September 2020, a subsidiary of MEPSO, the National Electricity Market Operator (MEMO), was designated by the government as the operator of the organised electricity market. The EU *acquis* unbundles the electricity transmission and distribution network operators. However, the gas transmission system operator is yet to be unbundled in line with the Third Energy Package. There is a need to align legislation with the EU Regulation on wholesale energy market integrity and transparency. In terms of electricity interconnectivity, the country aims to improve the current level of connectivity by completing the new interconnection with Albania, which will enhance interconnectivity in the region. The government also plans to diversify supply routes

¹⁷ European Commission: The European Green Deal, Brussels, 11.12.2019, available at: <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=COM%3A2019%3A640%3AFIN>

¹⁸ UNFCCC: UN Doc. FCCC/CP/2015/10/Add.1 Decision 1/CP.21

by establishing a natural gas interconnection with Greece and interconnections with Kosovo and Serbia. These plans will ensure the security of the supply in the region.

The *Energy Efficiency Law* partially aligns with the *EU Energy Efficiency Directive* pending the adoption of the corresponding secondary legislation. The need for more human and technical capacity at the Energy Department of the Ministry of Economy and the Energy Agency has limited implementation. The revision of the *Law on Energy Efficiency* and the establishment of the Energy Efficiency Fund still needs to be completed. Also, financial initiatives should be provided to support the private sector in the green transition. Household heating exacerbates air pollution and remains a severe problem, and municipalities should fulfil their obligation to develop and implement municipal energy efficiency programmes. Concerning transportation, the country prioritises policies for replacing the road vehicle fleet, including promoting electric vehicles, advanced mobility options such as biking and walking and using collective modes of transportation. The country also seeks to shift freight transport from road to rail. The country prioritises policies are aligned with the proposed actions regarding energy efficiency in the ERP 2023-2025.

The national **renewable energy** action plan needs more efforts towards renewable energy deployment to achieve binding targets of 23% and 24% renewable energy sources by 2020 and 2025. The use of feed-in tariffs and premiums to support deployment has been successful, but the government should reconsider supporting small hydropower plants due to adverse environmental impacts. The capacity cap per type of renewable energy technology must be removed to achieve the 2025 renewable energy target. Efforts must also be made to improve the sustainability of biofuels (the draft Law on Biofuels, compliant with the Renewable Energy Directive 2018/2002 is still to be adopted) consistent with the National Strategy on Agriculture and Rural Development and the draft Law of Climate Action and address administrative obstacles hindering the implementation of renewable energy rulebooks from encouraging electricity prosumers. The successful implementation of the **Just Transition Roadmap** requires the Government's direct support towards the three components. These components include retiring and replacing coal-fired power generation, regional economic regeneration (economic regeneration programme and entrepreneurship credit lines), and increased energy efficiency, clean heating and distributed generation programme. The Ministry of Economy must incentivise investments in renewable energy and energy efficiency projects, develop policies and programs to encourage private sector investment in green infrastructure, collaborate with stakeholders to establish necessary policies and legal frameworks for renewable energy and develop training programs and initiatives to provide skills needed for a low-carbon economy. There have been significant efforts in the financial sector for providing funds for such investments. The National Bank of North Macedonia became a member of the International Network for Greening the Financial System in 2021, aiming to improve the resilience of the financial system to climate-related and environmental risks, and encourage the scaling up of the financing flows needed to support the transition towards a sustainable economy. This is iterated in the National Bank's Strategic Plan 2022-2024.¹⁹ Various local banks have joined efforts with international finance institutions to crowd in and support the efforts for green energy. For example, the Development Bank of North Macedonia and local commercial banks will receive EUR 100 million from European Investment Bank Global (EIB Global). The financing package will address the liquidity and investment needs of small and medium-sized enterprises (SMEs) and finance energy and green transition projects. The investments will support low-carbon and climate-resilient growth in North Macedonia, in line with the European Union's Economic and Investment Plan and the Green Agenda for the Western Balkans. The Green Finance Facility in North Macedonia of up to EUR equivalent of USD 30.4 million in favour of Participating Financial Institutions was established in North Macedonia for on-lending to SMEs for investments in renewable energy and energy efficiency. The Sparkasse Bank Skopje, for example, is enabling a long-term senior unsecured loan

¹⁹ Strategic objective 8: Increasing awareness of climate change and contribution to a green sustainable economy. [Strategic Plan of the National Bank of North Macedonia 2022-2024](#)

of up to EUR 7 million to be provided in two equal tranches for on-lending to small and medium-sized enterprises as part of the Green Finance Facility.

The Climate Investment Fund (CIF) set up the Accelerating Coal Transition Program under the Clean Technology Fund. It is a holistic toolkit to support countries transitioning from coal, tackling challenges linked to three pillars: 1) governance, 2) people and communities, and 3) infrastructure, targeting transformational change. North Macedonia was invited to participate in the programme and develop an Investment Plan (IP) of up to USD 85 million. The CIF granted North Macedonia up to USD 0.5 million as an Investment Plan Preparation Grant (IPPG) to support the preparation of the IP. The preparation of the IP is ongoing with assistance of the multilateral development banks with the deadline for approval - March 2024.

Relevant national strategies in the area of support #2

The Action will contribute to the implementation of the following **relevant national strategic documents**:

- The **Strategy for Energy Development of North Macedonia until 2040** with the integrated National Energy and Climate Plan. The Strategy provides a platform for the overall energy sector modernisation and transformation in line with EU energy trends, contributing to increased access, integration and affordability of energy services, reduction in local and global pollution, and increased private sector participation. The Strategy integrates climate and environmental aspects of the energy sector while proposing affordable, reliable and sustainable energy for the future.
- The **National Energy and Climate Plan 2021-2030**, which takes a holistic approach and addresses the five main dimensions of the Energy Union in an integrated way, recognising the interactions between the different dimensions: decarbonisation (addressing two segments: greenhouse gas emissions and renewable energy sources), energy efficiency, security of energy supply, internal energy market, and research, innovation, and competitiveness.
- **Nationally Determined Contributions**. The Government of North Macedonia updated their commitments to the 2015 Paris Agreement developed within the UNDP Climate Promise Initiative that include target emissions reductions by 2030 and an NDC Implementation Roadmap. North Macedonia became the twenty-third country in the world that submitted its Intended Nationally Determined Contributions for Climate Change (INDC). The focus of North Macedonia's NDC is put on climate change mitigation, that is, on policies and measures which lead to GHG emissions reduction, and particularly to CO₂ emissions from fossil fuels combustion which covers almost 80% of the total GHG emissions in the country. The following sectors are of dominant share: energy supply, buildings and transport.

Area of support #3: Agriculture and Rural Development

North Macedonia has made significant progress in agriculture and rural development. The socio-economic importance of this sector and its importance for the accession process pushed the country to develop the necessary strategic and legal framework and establish good institutional capacity, mainly with EU support. The **strategic framework for Agriculture and Rural Development** covers and defines several strategic priorities, including the following:

- To improve the market organisation (e.g., cooperatives and farmers' associations), vertical integration and quality improvements;
- To promote territorially balanced and sustainable development in rural areas;
- To enhance farm viability and competitiveness of all types of agriculture and primary food processing;
- To develop human and physical capital (irrigation and mechanisation);
- To reduce the fragmentation of the farms and to increase the size of the small land holdings;
- To improve plant health;
- To increase the international competitiveness of North Macedonia's agricultural production and agri-food industry.

The Action considers the priorities established in the **NPAA** about promoting organic agriculture and developing organic agricultural production, capacity-building activities, and harmonising the laws and regulations of organic production. The priority is to prepare a new Organic Production Law in the medium term, among other. Regarding the quality policy, the focus is to strengthen the brand of agricultural products with protected designation of origin, geographical indications and guaranteed traditional speciality. Regarding food safety, veterinary and phytosanitary policy, the Action is consistent with the priorities of the NPAA regarding the harmonisation of national legislation with the EU *acquis* and the need to increase the capacities of the Competent Authorities in the phytosanitary sector and Food and Veterinary Agency, both at central level, IT systems and local level regarding official controls. The priorities focus on amending existing acts or adopting new ones in line with European requirements in terms of fisheries. Finally, regarding energy, the NPAA highlights, as its main strategic objective, a greater use of renewable energy sources, which is relevant for securing clean energy, creating conditions for sustainable energy development and complying with the obligations derived from the Treaty establishing the Energy Community.

Agriculture policy, quality of food and the supply chains

The agricultural sector's contribution to North Macedonia's gross value added decreased in relative terms from 10.2% to 7.2% between 2014 and 2021, as other industries experienced more robust growth. However, combined with the processing industry, including beverages and tobacco, the sector still accounts for 12% of the country's Gross Domestic Product. It engages some 14% of the labour force, making it the third largest contributor after industry and services. During the same period, the national agricultural production and food industry recorded a continuous, gradual increase in competitiveness in foreign markets, with an increase in the value of exports of agri-food products by 28%. In 2020, 637 businesses were registered as food operators or processors of agricultural products, plant and animal-origin food, and food distributors. Small and medium-sized enterprises (SMEs) make up most of these companies. The most significant segments of food processors are those that produce fruits and vegetables (29.8%), meat (17.7%), dairy products (12.9%), and wine (11.9%). Of the total number of approved food operators from animal origin, 25 establishments are approved for export to the EU, including six slaughterhouses for sheep and cattle, three meat processing facilities, six egg calibrating and packaging facilities, two fish product facilities, and one snail processing facility. Still, the sector's development is hampered by many challenges, including, but not limited to, agricultural land fragmentation, limited access to productive assets (such as infrastructure, land, water, energy, knowledge, and financial services), weak value chains, and high vulnerability to climate change.

The *organic farming* sector is growing in North Macedonia. The National Strategy for Agriculture and Rural Development promotes organic production and agri-environmental practises as pillars for the development of the agriculture sector. It envisages further expansion of adopting organic principles among small-scale farmers to increase their competitiveness. However, the number of certified organic or transitioning agriculture holdings is still relatively small compared to the country's total number of agricultural holdings. It varies between 907 registered operators in 2020, 929 in 2021, and 913 in 2022. Despite increasing interest from farmers and the number of certified organic agriculture holdings, including processors and traders, the registration figures show a slow increase since the system is operational.

Organic production in North Macedonia is primarily exported, as the domestic market is still developing and has limited demand. According to the National Strategy for Agriculture and Rural Development, EU Member States are targeted markets for increasing exports of organic products. EU is the leading trading destination for exports of agri-food products making the European markets the main opportunity for the export of organic production. To export organic products to the EU, North Macedonia needs to align its regulation to the new EU regulation and strengthen the traceability and control systems along the value chain. For exporting organic products to the EU market - organisations that assess and inspect organic producers or distributors from non-EU countries shall apply to be recognised as control bodies. Having an EU-recognised control body will scale up the export opportunities and potentially extend the variety of organic products.

The supply of processed organic products is minimal, and there is limited collaboration between organic farmers and processors. The largest share in organic crop production goes to forage (25.52%), followed by grains (16.81%), fruit (12.67%), fresh vegetables (7.31%) and grapes (2.69%). An increased share in organic production in the last years is observed for aromatic/medical herbs (8.71%). In livestock production, the leading sector is sheep breeding (52% of certified organic livestock producers). Organic goat and cattle breeding share is 23-25% each. A lack of expensive organic feed impedes organic livestock production. The sheep breeding practices are mainly nomadic on “clean” mountainous pastures; this sector is much “easier” to be certified as organic.

Organic certification and control systems are established in the existing national legislation – Law on organic production. The Law establishes the competent authority and control bodies, and the accreditation and certification system is established and operational. There are two certification bodies (Balkan Biosert and Pro-Cert); authorised by MAFWE for control and certification in organic production. The control bodies conduct expert management and accreditation per the MKC EN 45011 (General requirements for bodies working with product certification systems). The confirmation that controls and certification bodies work by this standard is provided by the Institute of Accreditation of North Macedonia as a result of the process of accreditation. The institute is a full member of the European co-operation for Accreditation (EA), and in 2012 it signed the Mutual Recognition Agreement of Accreditation Certificates (EA-MLA) with the European Cooperation for Accreditation.

Limited domestic demand and lack of valorisation of the organic certificate on the external markets have been attributed as the leading cause of the slow growth of organic production versus the existing potential. Domestic consumption is limited partly due to the weak traceability of organic products, lack of consumer information and limited production varieties and quantities. Growing awareness of the consumers and a continuous increase in the demand for organic food will contribute to an inevitable rise in the supply of certified organic products. Low consumer income and high trade margins imposed by the retail network make organic products available only to a high-income category of consumers. There are significant weaknesses to be noted, and they largely remain a barrier to more intensive development of organic plant production: 1) a low supply of input materials for plant production at the domestic market, including seeds and seedlings and protection products, 2) the absence of animal feed and veterinary medicines appropriate for organic livestock farming causes less development of certified organic meat and dairy products. 3) the lack of consistent promotion of the benefits of organic products for the environment and human health leads to low consumer awareness and understanding of these products. 4) the inadequate education and organisation of organic farmers at local and national levels; 5) the adequacy of financial support schemes for organic production.

The legal framework for Geographical Indication (GI/PGI) has been established in North Macedonia, but it is not yet fully harmonised, particularly with regard to the EU GI regulations concerning the wine and spirits sector. However, the legal framework for the quality and marketing of agri-food products has been aligned with *Regulation (EU) No 1151/2012*, and it is currently in the process of implementation. A competent institution for implementing and adopting amendments to the *Law on Quality* is the MAFWE through its designated Department for marketing and quality of agricultural products. The competent authority responsible for official controls carried out to verify compliance with the legal requirements related to the quality schemes is the State Agriculture Inspectorate. Financial support for establishing and maintaining quality schemes is available as regulated in the *Law for Agriculture and Rural Development* and the respective *Law on Quality and Marketing*. In this sector, evident progress has been made in implementing the legal framework for GI in the last couple of years. At the end of 2021, through a public call, financial support was provided to register protected geographical names. At the same time, in addition to budget funds, the country secured support from other external donors. In 2022, this resulted in three new requests for protection of geographical indication (Prespa apple, Belasicki chestnut honey and ‘Macedonian lamb’ from Ovchepolska pramenka). In December 2022, the protection procedure for the Prespa apple was completed, so this product is already the second registered product with a protected geographical indication. For the other two products, the procedure is in an advanced stage and it is expected that they will be protected soon. Support has been granted for three other products (Mariovo honey, Bukovska pepper and Mariovo whipped cheese) and the start of the procedure for their protection is

expected soon. However, farmers still have limited awareness of how the GI/PGI system works and the benefits of registering. GI/PGI is a way to create opportunities for agri-food, wine, and spirit drink producers to register their products as GI/PGI and further export to the EU markets.

AFSARD – Agency for Financial Support of Agriculture and Rural Development

With the start of the IPARD program, 20% of the total value of the instrument for pre-accession support was used within IPARD I (2007-2013), while 98% of the program's total value was used within the IPARD II program. (2014-2020).

With the implementation of IPARD II, a significant increase in the utilisation of funds has been observed, which is the result of the implementation of the measures for direct payments in agriculture through the constant allocation of financial support to the agricultural holdings, implementation of the rural development measures, implementation of fisheries and aquaculture measures, implementation of state aid measures in agriculture, increasing the quality of services to the final beneficiaries as well as increasing their satisfaction by fulfilling their requirements and expectations enabling financial assistance for rural development in rural areas in North Macedonia, and thereby improving the living standards of the population in those areas and development of the municipalities.

The overall operation of AFSARD produces a value that improves the population's living standard in rural areas. Following the growth trend, the IPARD III fund has increased in contrast to IPARD II by 60%, i.e. IPARD III is EUR 97 million.

Veterinary and food safety system

The free movement of food products within the EU is one of the founding factors of the single market. It represents the core of establishing the harmonised EU rules and guaranteed uniform protection of the consumers. All food products from North Macedonia are to be part of the EU internal market. Favourable animal health status aligned with the EU MS provides safe trade with other parts of the EU internal market. By achieving equivalent response preparedness in the animal health sector, North Macedonia will benefit from intra-union trade to its full potential. Animal diseases are highly contagious, and they can spread easily across borders, through the movement of farm animals and products thereof, through the movement of wild animals or spread by vectors.

As the EU experience has shown, the control of these diseases can only be dealt with through a sustainable animal health system and applied measures closely integrated and based on the assessed risks.

The Food Safety Strategy 2021-2025 ensures the consistency of the national food safety policy, the strategy with the EU requirements, and the international organisation standards (WTO, WAHIS and Codex Alimentarius). The Strategy establishes a sustainable and self-sufficient system for food safety, food security and food defence, and it is based on the following principles: 1. Coverage of the complete food chain from primary production to the final consumer, “from field to table”; 2. Effective implementation of EU acts regulating food safety; 3. Application of the principles of risk analysis and risk management; 4. The priority of the greatest health risks; and 6. Establishment of a system to ensure the safety and security of food.

The Action considers the priorities established in the NPAA as regards food safety and veterinary policy prioritisation of harmonisation of the EU legislation in particular the implementation of the newly adopted EU rules. Improvement, revision and consolidation of the IT systems in the veterinary and food safety are inevitable actions to comply with new developments in the legislation and trends.

Phytosanitary system

Plant health is important for plant production, forests, natural and planted areas, ecosystems, ecosystem services and biodiversity in the country. It is threatened by plant pests which present a greater risk of being introduced into the country owing to the globalisation of trade and climate change. The need for a strong plant health sector has been recognised and is subject to international agreements and conventions, including the International Plant Protection Convention (IPPC).

Achieving safe, sustainable, climate-responsible, and affordable food production, respecting sustainability principles, and the environment, and safeguarding biodiversity and ecosystems while ensuring food security is of great concern for citizens and relevant stakeholders.

Relevant national strategies in the area of support #3

The Action will support the implementation of the following national strategies:

- The **National Strategy for Agriculture and Rural Development (NARDS) 2021-2027**, which aims to increase the international competitiveness of North Macedonia's agricultural production and agri-food industry and secure the sustainable development of rural areas. The Strategy has specific objectives related to market regulation, food chain organisation and improving agricultural product quality, and the agri-food sector's modernisation.
- The **IPARD III Rural Development Programme 2021-2027**, aimed at enhancing farm viability and competitiveness of all types of agriculture and primary food processing, while progressively aligning with the Union standards/developing human and physical capital; restoring, preserving, and enhancing ecosystems dependent on agriculture, fishery, and forestry; promoting balanced territorial development in rural areas; and transferring knowledge and innovation in agriculture, forestry, and rural areas.
- The **Food Safety Strategy 2021-2025** ensures the consistency of the national food safety policy and the strategy with the requirements of the EU and the international organisation standards (WTO, OIE and Codex Alimentarius). The Strategy establishes a sustainable and self-sufficient system for food safety, food security and food defence, and it is based on the following principles: 1. Coverage of the complete food chain from primary production to the final consumer, "from field to table"; 2. Effective implementation of EU acts regulating food safety; 3. Application of the principles of risk analysis and risk management; 4. The priority of the greatest health risks; and 6. Establishment of a system to ensure the safety and security of food.

2.2. Problem Analysis

Area of support #1: Private sector development, trade, research and innovation

Short problem analysis

Services

Harmonization with the **Services Directive** has been ensured in North Macedonia by combining a horizontal law, the Law on Services²⁰ adopted in 2019, and sector-specific legislation, in line with the *National Action Plan for compliance with the EU Services Directive* adopted in December 2020.

The most recent screening of more than 450 national legal acts identifies **155 legal acts** (55 laws and 105 by-laws) as falling under the scope of the *Law on Services*. This number of legislation are **regulating 475 services/professional activities**, which are subject to alignment with the Services Directive under the new *Draft Action Plan for Compliance with the Services Directive* planned for adoption in 2023. Consequently, out of 155 national acts, 72 legal acts (40 laws and 32 by-laws) will have to be amended, aiming to align them with the articles of the Law on Services.

According to the 2022 Commission **Report**²¹, there were no developments to further harmonise with the EU *acquis* on recognition of professional qualifications and services. The Law on recognising **professional qualifications** prepared and aligned with the EU *acquis* has not been adopted yet. The national public administration bodies do not recognise the certifications on quality systems issued by companies registered in EU Member States, which is not in line with the multilateral agreement for the mutual recognition of certifications. Legislation must still be harmonised with the EU Directive

²⁰ Official Gazette 98/21.05.2019

²¹ SWD (2022) 337 of 12.10.2022. [North Macedonia Report 2022.pdf \(europa.eu\)](#)

2005/36/EC to comply with minimum training requirements. The authorities have withdrawn the list of the regulated professions issued in 2019 for further harmonisation. The institutional capacity of the Ministry of Education and Science's section dealing with mutual recognition of professional qualifications needs to be strengthened. Furthermore, it was recommended by the European Commission to further align the national legislation with the EU *acquis* on postal services, including the Postal Services Directive and the Regulation on cross-border parcel delivery.

The Point of Single Contact for services as an electronic platform (www.uslugi.gov.mk) is available and has been regularly updated. By September 2022, the portal contained information for about 819²² services for citizens and businesses, of which 203 allow e-application. However, further development is required to increase the scope of information and introduce new functionalities and online access to services available under the Point of Single Contact. Implementation of guidance and recommendation for PSC is expected to be finalised by the end of 2023.

From 2011 - 2021, the share of services in the GDP ranged from 53% to 56%. This indicates that the potential of the service sector has not yet been sufficiently utilised. Modernisation of the regulatory framework will contribute to the facilitation of trade in services, which will further encourage the development of this sector of the economy. Regarding the participation of small and medium-sized enterprises in individual service sectors that the Services Directive covers, the largest participation is in distribution services, other services (which include professional services) and construction services.

Market Surveillance

The *Law on Inspection Supervision* adopted in 2019 aims to streamline the inspection procedure and envisages improved risk alert mechanisms, as well as deadlines for corrective actions. Risk-based assessment inspections began in 2021, in line with the Law to establish transparent and consistent inspection procedures to increase the ease of doing business. The State Market Inspection (SMI) is performing risk calculations by collection and data processing manually through Excel spreadsheets. This time-consuming process may lead to omissions and fewer inspections throughout the year. The 2023 Commission Report indicates a lack of an efficient software system for market surveillance document management in place, including for the recording of inspection results or proper risk planning and management.

The digitalisation of internal operational DMS and putting in place applications for the electronic processing of SMI activities (e.g. Document Management system software, Risk management software, Software for inspections, etc.) to improve and increase the transparency of the SMI activities are related to the new consumer protection legislation adopted by the end of 2022 and general product safety legislation adopted in 2020. This is also supported by the *Law on Technical Regulation and Conformity Assessment*, adopted by the end of 2022. Implementing the legislative framework must be supported by setting up automated data processing and improving inspectors' competence in this area (training, development of checklists, manuals, etc.). The aim is to enhance the following:

- Risk-focus in resource allocation, planning and implementation of inspection visits – relying on a comprehensive and up-to-date information system.
- Transparency of requirements and clear guidance allow businesses to know what is expected of them and what they can expect from the inspections.

Addressing certain factors that limit domestic companies' competitiveness can be achieved by increasing the efficiency and transparency of the public administration, reducing the time and costs associated with commercial disputes, and promoting alternative dispute resolution mechanisms. Therefore, it is also required to support relevant authorities in the alignment with *Directive 2013/11/EU of the European Parliament and of the Council of 21 May 2013 on alternative dispute resolution for consumer disputes and amending EC Regulation (EC) No 2006/2004 and Directive 2009/22/EC* which is considering setting up

²² Ibid.

the alternative dispute resolution system, i.e. development of the Alternative Dispute Resolution (ADR) mechanism and legislation as well as building capacities of the relevant national authorities and stakeholders on the functioning of this system.

Intellectual Property Rights (IPR)

To tackle the envisaged measures under the draft **National Strategy on Intellectual Property 2022-2026**, the Action will support the harmonisation of the National Laws on Industrial Property and their alignment with the legislation of the European Union and the international legal acts for industrial property. To ensure proper implementation of the harmonised Law and contribute to the implementation of the Strategy, capacity building of the relevant national authorities is required on competencies for the enforcement and acting on Law on Industrial property. To facilitate creation of a credible enforcement record and gather reliable statistics on the institutional handling of IPR infringements, it is envisaged to digitalise the IPR Office and ensure the electronic data exchange in the IPR-protection network to boost the fight against counterfeiting and piracy and protect better the interests of rights-holders.

The process of granting IPRs (excluding AOs and GIs) was automated in 2000 by the WIPO donation of the IPAS57 software. Despite the numerous procedure changes, after the initial harmonisation of the IPAS with the national legal framework, almost no further customisation was made to the automated system for granting rights. The inadequate use of the IPAS system is the lack of employed and trained IT staff who will be able to perform the necessary adaptation of the IPAS system to the needs of the Office.

The Strategic Plan of SOIP 2021-2023 envisages, within the cooperation framework with WIPO, eliminating the shortcomings of the IPAS system through the appropriate training of IT staff, who will implement the necessary customisation. In addition to the deficit of human resources, there is an evident lack of appropriate technical equipment. SOIP, to be up to date with the latest technologies, should provide appropriate equipment: servers; network equipment; desktop computers; scanners; printers. Industrial property rights databases are available to the public. Bibliographic data and the legal status of patents, trademarks and industrial designs can be searched. GIs are not included in the SOIP database. Electronic filing and E-services within the framework of the Cooperation Agreement with the European Intellectual Property Office (EUIPO), SOIP implemented the tools TMclass, TMview, DesignClass and DesignView. Implementing the CESTO tool, designed to facilitate examining the absolute grounds for refusal, is still pending. Front Office - a tool for e-filing for trademarks and designs is in the process of realisation. The preparation for the e-filing of patent applications started in bilateral cooperation with the European Patent Office (EPO) in 2015. In cooperation with the EPO expert, the analysis of the IT infrastructure of SOIP has been done, activities have started to prepare the e-filing of patent applications starting in January 2016. The activities have not been completed yet. SOIP needs assistance to introduce e-filing and e-services as a set of activities. Developing an E-network for the exchange of IP data among the enforcement institutions. The creation of databases and exchange of information with other competent authorities in protecting IPRs started in 2006 under the CARDS program. The IRIS system for data exchange between the SOIP and the competent authorities for implementing IP protection was prepared, but the system - the web platform was never implemented. The issue of e-network has already been emphasised in the Strategy for IP 2009 – 2012 and reiterated in National Industrial Property Strategy (2016 – 2018). The topic is, similarly to e-filing and e-services, one of the main goals of the National Strategy on Intellectual Property 2022-2026. None of the above has been implemented yet.

Support for the development and implementation of the relevant IPR IT solutions are structured under the Action in the following way:

- Developing and implementing a software solution that will allow IP rights holders and companies from North Macedonia to report, in a structured format, information about IPR infringements in the internal market and neighbouring countries in which they were victims. This platform will collect information on the follow-up by local authorities or, if no action was taken, let the companies explain their reasons for acting. Relevant stakeholders, such as CBIP chaired by SOIP, Customs, State Market Inspectorate, Courts, and other enforcement authorities, will have access to the full details of all the submitted cases based on their roles. Such information collection will

enable policymakers to draft new laws and the government to address the issues when negotiating with respective countries.

- Development and implementation of a publicly available database register composed of a collection of works whose authors cannot be identified and which, after diligent research, are labelled as orphan works. The orphan works are copyright-protected works for which IP rights holders cannot be identified or, even if one or more of them is identified, they cannot be located. A work can become orphaned through rights holders being unaware of their holding. The inability to request permission from the right holders of the copyright, it means orphan works cannot be used in new works nor digitised, except when fair use exceptions apply. Public libraries, museums etc., can't distribute orphaned books without avoiding the risk of getting legal action against them in case the owner of the copyright was to file a copyright violation. Therefore, this database will inform the public about orphan works in the collections of publicly accessible libraries, educational establishments and museums, archives, film or audio heritage institutions and public-service broadcasting organisations established in North Macedonia. The database will provide a workflow of diligent research to determine the author for cases when authors or creators claim the work.
- Development and implementation of an online platform to help find legally digital content easily, hosted by the State Office of Industrial Property as a key stakeholder and law enforcement institution in North Macedonia. This platform will provide fast and easy access to national portals that link to websites which offer this content nationally or regionally, respecting the intellectual property rights of authors and creators. The platform will provide an alternative legal option to non-licensed, illegal internet content, which, if accessed, might be detrimental to yourself and others. Such a gateway allows users to reach these alternative options and publishers of legal content to become part of a register of legal streaming services.

Furthermore, raising the IP awareness of society is highly important, considering the rate of piracy and the presence of counterfeited goods on the domestic market, showing that their level of knowledge is not satisfactory. It is necessary to continuously raise and strengthen the public's awareness about the importance of protection and its economic benefits. Therefore, the Action will also support raising public awareness at national and local levels about the IP, its social and economic importance and the value of increasing the effectiveness of the legal enforcement of IPRs.

Smart Specialisation Strategy (S3)

Key factors undermine the country's competitiveness, investment, and integration into Global Value Chains (GVCs). These factors include a challenging business environment, skills shortage, inadequate innovation and technology adoption, and low productivity. The country's businesses suffer from unsophisticated technology, limited capacities of production and innovation, inconsistent quality of goods and services, low investment in human and physical capital, frequent changes to the regulatory framework, low productivity and competition from a large informal sector. According to the latest OECD Competitiveness Outlook, North Macedonia progressed in various policy areas; its policies to increase competitiveness must be effectively, continuously implemented, and stepped up to have a more sustainable impact. The future success of the economy mainly hinges on the success of a broad range of structural economic reforms, especially ones aiming to improve further the business environment (e.g. measures to combat the informal economy, simplification of the legal framework for doing business and the establishment of a fully functional state registry), enhanced support to innovation and technological development and promotion of human capital (i.e. skills development). Such reform efforts could also help attract foreign investment to high-value-added sectors.

To continue the support to innovation, it is relevant to create and implement the strategic concept with an adequate policy mix and work on strengthening institutional capacities. The smart specialisation concept is not new in EU countries. It was one of the preconditions to enable access to the cohesion funds. This place-based innovation strategy gives priorities and stimulates a continuous entrepreneurial discovery process, where jointly academia, business, NGOs and the Government will identify the biggest potentials and strengthen the comparative advantages, finding new markets and new business opportunities. These days EU is developing the concept towards Partnership for Regional Innovation networking and

strengthening the links between countries and regions to stimulate smart specialisation, innovation, research, and development.

North Macedonia adopted their first Innovation Strategy in 2013, when the Fund for Innovation and Technology Development was created as a key implementing institution. What was learned from the previous innovation strategy is that key pillars for success are: continuous capacity building of all stakeholders in the system, the structure of the policy mix offering stimulation and support to innovation, the need for continuous dialogue on the highest political level confirming the commitment and coordination between institutions, as well dialogue between stakeholders especially academia and business, need for better understanding and getting acquainted with EU programs that provide access to finance for the stakeholders, continuous development of the innovation infrastructure (accelerators, digital innovation hubs, centres of excellence, science technology park etc.).

In this direction, the adoption of the **S3** within the last quarter of 2023 envisages further development of the innovation ecosystem, having the horizontal approach for general stimulation of the innovation ecosystem but also a vertical approach for supporting domains for smart specialisation that are identified as areas with highest economic, science and innovation potential. Setting the institutional infrastructure to support the academia-business collaboration is particularly important. In creating a competitive economy based on knowledge and innovation, there should be a strong link to enhancing innovation and stimulating cooperation between academia and business for transferring knowledge, skills development, increasing capacities for research and development etc. In creating a favourable environment for innovation-based growth, it is necessary to provide a strategic framework as policy guidance with a clear vision for inclusive and smart growth and strengthen the institutional support infrastructure for R&D&I to get closer to science and technology and become more competitive in the regional economy.

The proposed Action is designed to contribute to implementing the new strategy, in particular, to improve communication and coordination among stakeholders, increase administrative and monitoring capacity, improve the policy mix aligned with EU S3 good practices, and improve participation in EU programs and projects.

Main stakeholders

Main stakeholders and corresponding institutional and/or organisational issues (mandates, potential roles, and capacities) identified to be covered by the Action in the area of the private sector development:

- **Ministry of Economy (MoE)** is the policy-making body for the competitiveness, goods and services sector and SMEs.
- **The Ministry of Education and Science** has responsibility for strategy formulation and planning in the field of science and technology, takes responsibility for the legislative aspect of science and technology, technological development and technical culture and organises international scientific cooperation and bilateral, multilateral and European activities in North Macedonia. It supports and encourages the development of scientific research infrastructure in the country (institutes, universities and independent research groups), aiding the development of young researchers and the overall technological development of the country.
- **State Market Inspection (SMI)** is a surveillance authority in the framework of the Ministry of Economy. SMI operates also through regional offices in Skopje, Štip, Strumica, Bitola and Ohrid and employs 165 employees, mostly inspectors.
- **State Office for Industrial Property (SOIP)** is an administrative body with a status of an independent state administrative body with responsibilities laid down by the Law. SOIP has the capacity of a legal entity, and it is supervised by the Ministry of Economy (MoE), which, according to the Law, supervises the implementation of the provisions of the Law and the respective bylaws. SOIP is managed by a director who represents the Office.

The Fund for Innovation and Technology Development (FITD) is a leading government institution for supporting start-ups and innovative companies in North Macedonia, aiming to improve access to financial support for innovation and technological development and promotion and encouragement of innovation activity. The Fund is currently managing the portfolio of some EUR 90 million, funding mainly start-ups and supporting accelerators. In 2021, FITD Programmes were subject to external expert analyses performed by “Finance Think”²³. Due to FITD support, the recipients were able to increase their sales revenue and labor productivity. The cost of additional euro of sales generated, in gross terms, has been slightly over a euro. The FITD support has been found responsible for the increase in investment in technology of non-tangible form, which was particularly important finding given: i) the definitional role of FITD to spur technological growth and innovation; and ii) the declining investment in non-tangible assets among non-recipients over the same period.

Area of support #2: Energy transition from fossil fuels toward clean energy

Short problem analysis

North Macedonia's energy sector faces challenges arising from a fragmented legislative framework. Although the *Energy Efficiency Law* was adopted in 2020, the implementing rules are yet to be fully established. To address this, the draft laws on energy infrastructure and biofuels need to be adopted and harmonised with the relevant EU Regulations. Additionally, measures must be taken to align the country's legislation with the *Clean Energy* package. Furthermore, North Macedonia must prepare an assessment required by the Energy Efficiency Directive and implement PROSUMER-related legislation to support households and small businesses in producing renewable energy.

To achieve the country's goal of generating 38% of gross final energy consumption from renewable sources by 2030, as outlined in the **National Energy and Climate Plan (NECP)**, consistent advice on policy actions and incentives must be provided to the Government. Such activities could include support for renewable energy investments, establishing a feed-in tariff system, and promoting energy efficiency measures. By implementing these measures, North Macedonia can successfully work towards meeting its renewable energy targets.

Although there is a growing interest in investments in Renewable Energy Sources (RES) based on the PROSUMER concept, the number of households and registered commercial "prosumers" remains insignificant due to administrative and legal barriers. Modifications and amendments should be made to existing legislation, such as the Energy Efficiency Law, the Rulebook on RES, the ERC tariff system for electricity, and the Value Added Tax Law. Recent Energy Community policy documents and stakeholder requests suggest broadening eligibility criteria for prosumers, increasing the maximum installed capacity, introducing advanced forms of prosumer schemes, and improving compensation and billing periods and network cost calculations.

There are concerns about the public sector's limited capacity at central and local government levels to implement or enforce energy management systems (EMS) in public buildings and develop Energy Efficiency (EE) measures. To address this, municipalities must adopt and implement a three-year EE program, as the Energy Efficiency Law requires, with coordination and support from the Energy Agency (EA) under the Ministry of Economy. However, the monitoring system for verifying energy savings needs to be fixed, and there is no obligation for energy audits and issuing efficiency certificates for public buildings.

The Energy Efficiency Fund, which is expected to serve as the primary financial mechanism for energy efficiency (EE) and renewable energy sources (RES) in the public sector and is supported by the World Bank, will be established by Q1 2024. Additionally, the market for energy services needs to be developed

²³ (supported by the Norwegian Embassy in Belgrade and the Balkan Trust for Democracy of the German Marshall Fund of the US) named: “MEASURING ECONOMIC EFFECTS OF STATE AID GRANTED TO PRIVATE ENTERPRISES IN NORTH MACEDONIA - The case of the Government’s Plan for Economic Growth” (<https://www.financethink.mk/wp-content/uploads/2021/04/Measuring-economic-effects-of-state-aid-granted-to-private-enterprises-in-North-Macedonia.pdf>)

in line with the Energy Service Company (ESCO) model, which can help overcome the public sector's financial and technical resource constraints. However, promoting the ESCO market in the public sector requires the development of a contract template and clearly defined procedures that cover everything from public procurement of energy services to accounting procedures, monitoring, and verification of energy savings.

Energy sector innovations will be enhanced with the support of the Innovation Fund. The establishment of “**Greening Business**” Facility has been planned and approved via IPA III Annual Action Programme for 2021, Action 6 - EU for Green Economy. The EU funds will be geared towards greening, recovering, and modernising the economy and enhancing the circular economy. At least 300 companies will be stimulated to innovate in a sustainable way, grow and create jobs in green businesses. The Action will provide for over 180 companies to introduce quality and sustainability standards to be able to integrate into the EU and the regional value chains. The EU investments are expected to create 700 new (green) jobs. The advisory and financial mix should decrease the use of natural resources by 20% and increase the turnover of the supported companies by 10%.

Innovators will have the opportunity to fund their new or enhanced services and products and offer those services and products in the domestic and regional energy markets. Software development including cyber security is one area where such support is needed. The regional **Action Plan for the Green Agenda** must include the concept of **Just Transition** as an essential element to ensure a healthy economy and a clean environment while transitioning away from coal and, at the same time, ensuring sustainable local development and jobs in the areas concerned. To achieve this vision, the country adopted a national Just Transition Road Map in June 2023 and a national structure for its implementation, involving Ministries, local authorities and non-state actors. A national Green Agenda Action Plan is currently being prepared. Regarding energy policy, the country must create a strategy that addresses energy poverty, which is a reality given the current energy crises. Therefore, it is vital to assess energy poverty properly at the central and local levels and to develop and implement a well-informed plan and impactful energy poverty projects.

Main stakeholders

- **Ministry of Economy-Energy Department.** The Ministry is in charge of energy policy-making. Responsibilities include elaborating the energy strategy, preparing and implementing the legislative framework, and coordinating activities in the energy field. Part of the energy-related responsibilities belong to the Ministry of Environment and Physical Planning and the Ministry of Transport and Communications.
- **Energy Agency (EA).** This Agency supports implementing the Government's energy policy by preparing energy strategies, developing plans and programmes, collating and analysing data and drafting reports, fostering the introduction of energy efficiency measures and creating conditions for increased use of renewable energy sources for electricity production.
- **Energy and Water Services Regulatory Commission.** This Commission is an independent regulatory body established in 2002 under the Law on Energy. It takes care of a safe, secure and quality supply to the energy consumers; nature and environment protection; consumer protection; protection and improvement of the position of those employed in the energy sector; and introduction and protection of a competitive energy market on the principles of objectivity, transparency and non-discrimination.
- **Council of the city of Skopje.** Upon a proposal from the mayor and after acquiring an opinion from the Ministry of Economy, this Council enacts an energy development programme for the municipality of Skopje. It is responsible for the energy activities of public interest and of local significance.
- **Other Municipalities.** Energy planning responsibilities are increasing for all municipalities, including in relation to designing and implementing energy efficiency measures for public facilities and central heating and cooling projects.
- **State Statistical Office.** This Office performs customer surveys, gathers energy sector data, performs analysis of energy sector data and publishes data and associated energy reports.

- **Prosumers, including Energy Communities.** Energy consumers are increasingly deciding to install energy production facilities jointly through energy communities.
- **Academy of Science and Arts** supports long-term planning analysis/modelling and provides recommended policies and strategies.
- **Cabinet of the Deputy President in charge for Economic Affairs and Coordination of Economic Sectors.** The Green Climate Fund (GCF) provides funding for clean energy projects managed by the Cabinet. **Central Bank.** The Central Bank (as per guidance of the International Platform on Sustainable Finance of the Network for Greening the Financial System) will include climate risk as a prudential risk for local financing of clean energy projects. In early 2021, the Central Bank became a member of the international network for green financial system, which has 100 members and 16 supervisors from the central banks and supervisory institutions globally. The Central Bank, as a signatory of Glasgow Declaration ²⁴, declared a clear and firm determination with responsibilities to contribute to the development of risk management in the financial sector resulting from climate change.
- **UNDP.** Clean energy developers can seek financing of RE and EE projects under the UNDP Green Financing Program.
- **Western Balkans Regional Energy Efficiency Programme (REEP).** The Programme is funded by EU IPA, the European Western Balkans Joint Fund and EBRD Shareholders Special Fund, and implemented by EBRD in cooperation with the Energy Community Secretariat. The programme supports ESCO development, intermediated financing through local banks, direct financing to the private sector, technical assistance for policy dialogue, and direct financing to the public sector.
- **EBRD's small and medium sized enterprises (SME) programme supports investments to increase the competitiveness of local businesses.** More than 200 SMEs in North Macedonia have successfully implemented investment projects with funding from EBRD's SME Competitiveness Programme. The programme, which started in 2019, combines EBRD loans and EU-funded grant incentives which are on-lent to small businesses in partnership with local commercial banks. A total of EUR 51 million in loans was extended to small businesses in North Macedonia for 316 investment projects by the end of 2022.
- **The GGF is a joint initiative of the EIB (European Investment Bank) and Germany's KfW Development Bank.** The GGF is strategically designed to complement existing programmes and funding sources within its operational regions. Since its establishment in 2009, the fund has remained active, with total assets under management in the Western Balkans region amounting to EUR 730 million. The GGF focuses on generating significant environmental benefits by targeting investments that aim for a minimum 20% reduction in energy consumption and/or CO₂ emissions.

Area of support #3: Agriculture and Rural Development

Short problem analysis

Agriculture policy, quality of food and the supply chains

The National Strategy for Agriculture and Rural Development 2021-2027 emphasises *organic production and agri-environmental practices* as pillars for the development of the agricultural sector. It foresees a greater alignment of the sector with the EU *acquis* and the expansion of the adoption of organic principles among farmers to increase their competitiveness.

New legislation for organic production was prepared for harmonisation to the Regulation (EU) 848/2018 and is expected to be adopted by the end of 2023. This legislation seeks to respond to the challenges posed by the rapid expansion of organic farming by providing a more effective legal framework for the industry. However, the system needs more systematic monitoring and control of the certification procedures and the products' certification. Domestic consumption is further limited due to a lack of consumer information and limited production quantities. The labelling of organic products exists in legal terms, but it is hardly

²⁴ <https://www.ngfs.net/sites/default/files/medias/documents/ngfsglasgowdeclaration.pdf>

distinguished on the market or falsely used. On the supply side, farmers are reluctant to expand despite the growth potential due to a lack of domestic market opportunities and higher unit production costs. To export organic products to the EU, North Macedonia needs to strengthen the traceability and control systems along the value chain of organic products. Exporting organic products to the EU market must comply with the standards to those applying to goods produced in the European Union. Further research and development is needed to obtain more information on organic farming in North Macedonia, both in production and marketing and market studies for identifying national organic products. Promotion of and raising the awareness of farmers and agricultural communities on environmentally friendly agriculture and organic farming practice is required, as well as comprehensive capacity building for organic farmers to familiarise themselves with the rules and procedures prescribed by the new Law on organic agriculture production. It is required to raise awareness of the economic, environmental and social benefits to producers and consumers.

Control authorities and control bodies that assess, inspect, and certify organic production or distributors must be recognised as control bodies. EU-recognised control bodies would scale up the export opportunities and potentially extend the variety of organic products. For the traceability of organic products, it is necessary to develop a digital database for the certificates of all operators in organic production. It is necessary to upgrade the IT software system, education, and equipment for all beneficiaries in the organic control system (control/certification body, inspectorate and administration).

Following the recommendations of the IPA II 2015 CMO project, further alignment of the GI system to the EU *acquis* is required. Protected designation of origin and geographical indications safeguard and promote agricultural products and traditional specialities. GI systems promote jobs for the young population and women. The Action will work on identifying product potential for GI, support the development of technical specifications for selected GI products, support MAFWE in the process of legal alignment, and support the associations of producers in the registration process, which assumes activities for training and education of the producers to standardise the products subject to GI.

The system for Geographical indication is legally established in North Macedonia, but its implementation is lagging behind. The first GI product - Ohrid cherry, was recognised in 2020, since the first adoption of the law on quality and marketing of agriculture products in 2011. Slow implementation of the system was due to low capacities and administrative and control levels and lack of clear strategy and priorities on agri-food products potential. Although there is a national support scheme for establishing a GI or for supporting the farmers groups to maintain and expand the GI – it is poorly implemented and without any significant effect. There is also a limited awareness among farmers of how the GI system works and what the benefits to register are. GI system also promotes ‘working together’ as common production and product technical specifications apply for all farmers and the monitoring of the GI maintenance is by large vested to the farmers’ group with the supervision of the control and inspection body. The capacities of the farmers’ group to manage the registered GI products are yet to be strengthened.

Weaknesses in the application of quality policy, is perpetually noted. The Commission's 2023 Report on North Macedonia points out that *“progress in implementing quality schemes has been limited but 2023 saw some developments in the registration process for a number of products. The legislative framework, including on spirit drinks remains to be fully aligned with the EU acquis. Administrative capacity remains insufficient, despite the sector's potential”*.

The main issues identified in the implementation of quality schemes relate to lack of knowledge and recourses for implementation of unified hygiene rules by the small producers; limited knowledge of how which could help in improving quality and productivity; lack of interest in joint cooperation, difficulties to establish collaborative production methods and limited involvement of the local authorities in the promotion of the potential. Also, there are many similar traditional products in the Western Balkans. Regional cooperation is of utmost significance in delineating the product specifics and defining various products' generic names. This Action will promote knowledge and information among various stakeholders and stimulate regional collaborations using generic terms.

The EU geographical indications system protects the names of products originating from specific regions with specific qualities or enjoying a reputation linked to the production territory. North Macedonia has a

great potential for GI products, both primary and processed products. There is also a great potential for synergies between localised agri-food systems and short supply chains for geographical indications. Protected designation of origin and geographical indications safeguard and promote agricultural products and traditional specialities. GI systems promote jobs for the young population and women. Geographical Indications are a way forward in view of ensuring creating opportunities also for producers of agri-food, wine, and spirit drinks to register their products as GIs and further export as such on the EU markets. This Action aims to assist the upscale of the existing system and its further expansion to the full potential existing in the pallet of agri-food products in North Macedonia.

Inspection and control of the implementation of quality standards – GI's, designation of origins and traditional specialities, as well as organic production, is in the authority of the State Agricultural Inspectorate and FVA. There is a potential for overlapping mandates with the intellectual property policy and legislation on processed agri-food products and wine and spirits GIs, which will be clarified under this Action.

The Action, in the area of organic production and promotion of GI, will also complement the IPARD III, promoting the expansion of new programme measures for support to producer groups, small supply chains, support organic production and agri-environment.

In addition, following the screening and start of negotiation for Chapter 11, **Agriculture and rural development**, a quite demanding and complex chapter, additional assistance may be needed to address several aspects for the Reinforcing of the Agricultural and Rural Development Policies and their legal alignment following the start of the screening process.

The Action will directly contribute to the implementation of the **Green Agenda for the Western Balkans 2021-2030, Pillar 4) Sustainable Agriculture** – action 46 of the Action plan, i.e., “Promote environmentally-friendly (zero pollution) and organic farming and reduction of synthetic chemical products used in food production”.

Agency for financial support of Agriculture and Rural (AFSARD) Development

Following the implementation of IPARD I and II, a significant trend of increasing utilisation of IPARD funds can be observed by implementing projects of vital importance for agriculture and rural development. The Sector for Control, as an independent internal organisational unit, is responsible for performing on-the-spot controls of the applicant or the beneficiary of financial support to determine the actual situation, before project approval, before making payments, ex-post controls, as well as additional controls as required and act according to reports to prevent irregularities.

The control sector faces many challenges caused by outdated IT equipment for performing field controls, such as non-functional laptops, non-functional mobile printers, outdated models of GPS trackers, and the necessary work equipment of the employees who perform controls in the field (protective uniform). In 2020, 5,908 controls were performed. In 2021, 5,247 controls were performed; in 2022, the number of on-site controls was 5,537. A larger number of controls is expected from 2023 with the start of the IPARD III Programme.

Given that IPARD III 2021-2027 has a significantly higher value than IPARD I and II, i.e. about 97 million EUR, maximum focus and dedication of employees are needed to perform their tasks in a timely and professional manner. To raise the level of professionalism, it is necessary to improve the working environment, which will enable the successful functioning of the AFSARD. IPARD II cannot cover the purchase of supplies due to the final phase of implementation.

Veterinary and food safety system

North Macedonia has achieved good level of preparation in the area of food safety and **veterinary** policy. However, further efforts are needed to ensure alignment with the new EU *acquis* on animal health, which entered into force in April 2021 and covers over 80 animal diseases. The EU's new legislative package on animal health comprises a comprehensive set of more than 25 legal acts.

Further harmonisation and implementation of implemented and delegated legal acts stipulated by official control regulations are needed. The most recent audits carried out by the European Commission to evaluate the level of animal health preparedness in the context of the EU pre-accession, as well as the control systems established in the country, have highlighted the need to enhance the official controls on food safety and the animal health system, with a specific focus on verifying the effectiveness of the animal health control system. A draft law on official controls in line with EU Regulation 2017/625 has been prepared and is expected to be adopted in 2023. The practical implementation of the law requires upgrading methodological concepts and practices for epidemiological investigations, passive and active surveillance plans for animal diseases, early detection and emergency preparedness, and preparing and enforcing eradication programmes for category B and C listed diseases. The European Commission emphasised the importance of enhancing data collection, validation, and analysis and creating effective risk assessments for animal diseases to establish credible risk management strategies.

Additionally, improvements are needed in the FVA IT systems to enable complete traceability of animals and food products, as well as measures applied for prevention, control, and eradication of diseases and food safety, in line with the Official control regulation 2017/625. The FVA IT system should ensure information exchange, reporting and notification of data and documents necessary for the performance of official controls, results and records from the performed official controls on animal health and food safety. The information system in North Macedonia was developed over 12 years ago, and it is tailored as a country-specific and legislatively bound system. As such, the system is becoming obsolete from a technological perspective, as well as outdated in terms of legislative viewpoint due to the continuously evolving EU legislation and ongoing EU approximation, in particular the EU Regulation 2016/429 (Animal Health Law) and 2017/625 (official control regulation). FVA has requested support from FAO for customisation and introduction of the IT system (NAITS) developed for Georgia to support its EU approximation efforts, as it already includes some modules aligned with the new EU Regulation 2016/429 “Animal Health Law”. However, to ensure a sustainable IT system able to provide full traceability of the animals and food products and the integrity of the data on the system, certain upgrades/remodelling will be required to adjust to the FVA need. Therefore, this Action will support the development/upgrade of the following modules:

- in the area of food of animal origin and food of non-animal origin
- in the area of other veterinary public health competencies (VMP, ABP, etc.)
- official controls over the entire food chain
- ensuring data and reports to report to international organisations (EFSA, WAHIS etc.)

Phytosanitary system

The country must enhance its implementation and strive for alignment with the European Union's Farm to Fork and Biodiversity Strategies within the framework of the European Green Deal. These efforts should include adopting and implementing a legislative package on plant health and official controls and the new proposal of EU Regulation related to the sustainable use of plant protection products.

EU Plant Health Regime, regulated by Regulation (EU) 2016/2031 and Official Control Regulation (EU) 2017/625, aims to ensure a harmonised approach concerning protective measures against quarantine and other regulated plant pests. The Phytosanitary Directorate drafted a new Plant Health Law transposing regulations and relevant secondary legislation. The new Law focuses on protecting plants against pests that pose plant health risks and reducing those risks to an appropriate level, with strict connections on producing and marketing seeds and other propagating material. Additionally, prevention and early detection of pests are essential for timely and effective eradication. Therefore, surveillance is an integral part of the plant health regime, including specific survey programs for particular pests based on Multi-annual and Annual survey programmes, as well as contingency planning and action planning for priority pest of quarantine concern.

In line with the adopted Law on Phytopharmacy, secondary legislation must be adopted based on the National Action Plan (NAP) for the sustainable use of plant protection products. An essential part of NAP is the Integrated Pest Management (IPM), aiming to promote the application of all good agricultural

practices to reduce the use of pesticides and other chemicals in agricultural production to an ecologically friendly, technically justified, and safe level. There is a need to promote the IPM at the territorial and field levels, with the involvement of the relevant public institutions. The assistance will improve the capacities of the Competent Authorities and other stakeholders to create and implement phytosanitary policy and legislation, both in plant health and sustainable use of pesticides area.

Main stakeholders

Main stakeholders and corresponding institutional and/or organisational issues (mandates, potential roles, and capacities) identified to be covered by the Action in the area of rural and agriculture development are as follows:

- **Ministry of Agriculture, Forestry and Water Economy (MAFWE)** is responsible for developing and implementing agriculture, forestry, and water management policies. The Ministry is responsible as a control body for organic production and registration of the quality of agriculture and food products. **SAI - State Agricultural Inspectorate and FVA - Food and Veterinary Agency** as mandated for inspection and control of the implementation of quality standards – GI's, designation of origins and traditional specialities, and organic production.
- **Food and Veterinary Agency (FVA)** is a central competent authority for food and feed safety and veterinary policy. FVA is an independent public administration body in the role of a legal entity.
- **Phytosanitary Directorate** is a body within the Ministry of Agriculture, Forestry and Water Economy responsible for creating and implementing the policy and legislation related to plant health and the sustainable use of plant protection products. The other Competent Authorities involved in the plant protection sector are State Phytosanitary Laboratory (SPL) for laboratory analysis, State Agricultural Inspectorate (SAI) within which is border and in-land phytosanitary inspection and the Seed and Seedling Directorate for the issues related to the plant propagating material.
- **Agency for Financial Support in Agriculture and Rural Development (AFSARD)** is responsible for the full, timely and accurate implementation of the Programs for Financial Support of the Agriculture and Rural Development through an established, efficient, effective and economical control and management system. AFSARD applies the quality management system - ISO 9001:2015.

2.3. Lessons Learned

The EU is the largest donor in the country for the competitiveness, agriculture and rural development sectors, benefiting from EUR 165.3 million in EU grants under IPA II. A new package of EUR 25.85 million, focused on greening the economy through establishing the Green Economy Fund, is funded under IPA III. Under IPA II and III, the EU grants amount to EUR 456 million for North Macedonia in the environment, climate change, transport, and energy sectors. The implementation of the EU-funded interventions led to the following conclusions:

- Clear strategic vision and political commitment to far-reaching sector reforms are crucial for national and EU investments. With adopting the performance assessment framework in 2021 and the Strategic Response in 2022, North Macedonia has established targets for 2027 for several sector reforms. These targets have supported well the definition of strategic priorities for the new generation of strategies and helped the programming process channelling the EU and national investments in the right direction to achieve the targets. However, the current strategic framework only covers some areas. The strategic gap from 2018 led to significant delays in the reforms, weakened the existing capacities and hampered national and donors' investments. Therefore, adopting a new IPR strategy has been considered a precondition for any EU investments, even under the project approach.
- The clear political vision has to be backed by sophisticated, well-coordinated and inclusive policymaking, implementation and reporting processes. Involving stakeholders, namely the

business and farmers' communities, researchers, innovators, and local community organisations, is a success vector for any action. They must be partners in the activities, not only beneficiaries. This approach, ensuring the sustainability of the EU investments, requires strong communication and outreach policy, and this has been streamlined through all action components. In addition, the Action relies on the involvement of three sector working groups – on competitiveness, on energy and on agriculture and rural development - where the authorities' interests meet those of the donors and civil society.

- Investing in capacities remains the most important tool for minimising risks to assistance, promoting sustainability, and maximising impact. These investments must cover all aspects of administrative capacities: clear competencies and institutional roles, preparedness and knowledge of staff, business processes at the institutional level, inter-institutional coordination, quality assurance and standards at work, etc. While the ongoing public administration reform will target a significant part of these priorities horizontally, the capacity-building measures in specific institutional and sectoral contexts provide additional value and ensure a solid synergic effect.
- A significant part of the EU assistance targets alignment with the EU legislation and preparation of the stakeholders to implement it in support of the early integration concept. It has never been easy to follow on the level of alignment. Despite the NPAA, there is still no reliable system for monitoring the *acquis* alignment level and implementation. Giving the progress in the EU accession negotiations process with North Macedonia and the efforts of the Government to establish a well-functioning negotiation system gives some assurance that this issue may be resolved in due time by putting in place a new comprehensive IT solution. Equally important is to back up the data with improved digitalisation at institutional and sector levels which is one of the action's objectives.
- The sectors of environment and climate change, energy and transport are fund-intensive; this requires parallel use of different funding instruments and stronger involvement of the private sector and the citizens. To streamline the funding sources, the Government must ensure a single project pipeline with a transparent methodology and selection criteria for prioritising investments encompassing relevance and maturity assessment which should be regularly updated.
- EU investments in the energy and climate change areas must continue to be guided by the green agenda, conditioned on accelerating the green and just transition, and aligned with the EU policies.

3. DESCRIPTION OF THE ACTION

3.1. Intervention Logic

The **Overall Objective/Impact** of this Action is:

To contribute to unleashing sustainable economic potential of North Macedonia.

The **Specific Objective/Outcome** of this Action is:

Accelerated business environment transformation and climate change-related structural reforms in the energy and agri-food sectors.

This Outcome will be achieved through the delivery of the following **Outputs**:

Output 1: *Improved legal, administrative and operational framework for private sector development.*

Output 2: *Strengthened strategic, institutional, and operational capacity for effective energy policy in response to the climate change.*

Output 3: *Enabled national policies for sustainable food system towards EU objectives for green agriculture.*

3.2. Indicative Activities

The Action will be implemented through the following indicative activities:

Output 1: (Window 4): Improved legal, administrative and operational framework for private sector development, with a focus on:

(1) Right of establishment and freedom to provide services – the Action will:

- Align further the national legislation with the *EU Directive on Services 2006/123/EC* covering amendments to the law on services and the specific legislation on the notification procedure, Point of Single Contact (PSC) and Internal Market Information System (IMI), in line with the *National Action Plan for the compliance with the EU Services Directive*.
- Upgrade the *Point of Single Contact (PSC)* to address the EU guidance and recommendation and ensure continuous functionality of the PSC and full access of the service providers to information and administrative services online.
- Strengthen the capacity of the Ministry of Economy and other national institutions to understand the EU policy on services (including the new trends linked to the Green Deal and the digitalisation and innovation drive) and the benefits and implications of the alignment process, as well as to monitor and analyse the service markets and infrastructure and provide an adequate response. This activity implies training in various forms (structured training, advising, coaching, on-the-job support, peer-to-peer change).
- Raising the awareness of the private sector, authorities and the general public on the new requirements, rights and obligations related to the improvements in the national legislation on services and the national support framework.

(2) Market surveillance and consumer protection - the Action will:

- Strengthen the capacities of the State Market Inspectorate (SMI) to exercise the legally prescribed competencies according to the Law on Consumer Protection, the Law on General Product Safety and the Law on technical requirements for products and conformity assessment. This activity implies training in various forms (structured training, advising, coaching, on-the-job support, peer-to-peer change).
- Digitalise the business processes in the State Market Inspectorate and implement software applications that allow effective and highly automated business circuit and process management, effective data collection and processing, and improved transparency.
- Establish an Alternative Dispute Resolution System on consumer matters encompassing the development of the necessary legislation and capacity building of the relevant staff to understand and pursue implementing the legislation protecting the consumers.
- Raising public awareness on consumer rights and liabilities for the general public and business chambers through targeted consumer protection campaigns.

(3) Intellectual Property Rights - the Action will:

- Align the national legislation on industrial property with the EU *acquis* and the international agreements with EPO, EUIPO & WIPO.
- Strengthen the capacity of the State Office for Industrial Property (SOIP), State Market Inspectorate (SMI) and Customs to protect the rights holders by applying proactive measures, providing adequate responses to counterfeiting and pirating goods, and enforcing the national legislation.
- Digitalise the IPR enforcement process by putting it in place.
 - (a) An anti-counterfeiting software solution which will allow IP rights holders and companies from North Macedonia to report, in a structured format, information about IPR infringements that have occurred in the internal market and neighbouring countries in which they were victims.
 - (b) Orphan Works database register
 - (c) Legit-stream platform to help find legally digital content easily and provide an alternative legal option to non-licensed, illegal internet content.

- Raise public awareness on Industrial property rights, including Anti-Counterfeiting, to the general public, right holders and users through targeted campaigns focused on youth, the private sector and the public in general.

(4) **Research and Innovation** - the Action will directly support strengthening of capacities for policymaking and implementation of the national Smart Specialization Strategy (S3) with the following indicative activities:

- Support the effective and efficient functioning of the national coordination and advisory bodies for Competitiveness, Innovation and Smart Specialization and the continuous S3 Entrepreneurial Discovery Process, promoting a sustainable consultative process among stakeholders (quadruple helix - policy, industry, science and society). This activity also implies putting in place and S3 integrated management and information system for stakeholders' coordination and visibility in line with the digital transformation policy of the country.
- Design and implement selected support measures to support technological and practice-based innovation (e.g., SMEs' digital and green transition; mobility scheme between academia and industry improving brain circulation and allowing highly qualified young researchers and professionals to transfer know-how in the production environment, etc.). This process will be backed up by an assessment of the effectiveness of the S3 policy mix support measures for the private sector, research and innovation in the previous period, analysis of the gaps, mapping and analysis of the available S3 policy mix funding source, and identification of the adequate finance sources for the stakeholders (policy, industry, agriculture, science and society). The action will pilot up to three support measures impacting green and digital transition and gender equality.
- Conduct a feasibility study to establish innovation infrastructure in line with the S3 policy mix (e.g., centers of excellence and technology transfer offices) that is complementing the S3 strategic objective 2.1 *Develop institutional infrastructure and platforms for innovations, knowledge and technology transfer*
- Promote the EU programs and strengthen the capacity of national stakeholders to support the national participation in the Union programs in line with S3 (MSMEs, academic institutions, TTOs, intermediaries, etc.) as well as European Research Area and the European Innovation Area.

The proposed indicative activities are based on the conclusions of the *Proposed Vision, Intervention Logic, Policy Mix and Funding Gap Analysis for the Smart Specialization Strategy in North Macedonia based on the Entrepreneurial Discovery Process (EDP)* developed by the relevant institutions with the World Bank support. The activities are complementary to the government and other donor efforts in the area, such as EBRD, Swiss, GIZ, UNDP, USAID.

Output 2: (Window 3): Strengthened strategic, institutional, and operational capacity for effective energy policy in response to the climate change

(1) The National Framework – the Action will:

- Align the national legislation with the new EU *acquis* and improve the effectiveness of the implementing regulations and methodological tools on energy efficiency and renewable energy.
- Support the development of a national hydrogen policy as part of North Macedonia's low-carbon energy solutions, national plan for public buildings reconstruction, stimulating investments of households and businesses and their connection to the grid, especially regarding vulnerable groups and those at the highest risk of energy poverty.
- Assess key aspects of the renovation and construction (EE) and renewables (RE) sectors to determine the critical market, human capacity and other barriers (e.g., the capacity to undertake energy audits, development of technical designs, construction, construction supervision, equipment and material supply, construction workers skills, etc.) hampering the wide deployment of energy efficiency and renewable energy.
- Develop measures and solutions to the existing technical/financial/market barriers and propose financial mechanisms and incentives to stimulate public and private investment in energy efficiency and renewable energy. Involve and mobilise local FIs for green energy financing,

strengthen their Environmental and Social Management System and capacity to report on GHG emissions savings.

- Build a standardised national catalogue of technical measures and guidelines for buildings renovation.
- Support the implementation of the National Energy and Climate Plan and de-Carbonisation Road Map on the Energy Community.
- Support the implementation of the Just Transition Roadmap.
- Promote the PROSUMERS concept, simplify and streamline the procedures to reduce the required documentation and establish the one stop shop for administrative permits for renewables.
- Support awareness-raising measures for community financing of small-scale renewable energy projects.
- Improve the national statistical data and development of energy efficiency and renewable energy indicators to assist policymakers in nationally monitoring energy efficiency uptake.
- Establish a single, transparent depository of energy information and data that ministries, agencies, CSOs, and the general public can access for general information, studies, and analysis.
- Establish a one-stop-shop (physical, virtual or a combination of both) on energy issues to inform and assist consumers, businesses, and municipalities about renewables, energy efficiency renovations and relevant financial instruments.
- Strengthen the capacity of the Energy Department of the Ministry of Economy, the Energy Agency and other relevant government institutions, municipalities, the private sector and academia for developing, planning and implementing projects in the framework of Horizon Europe and other relevant EU programmes on Sustainable Energy R&D and deployment.
- Support the implementation of climate risk as a prudential risk managed by the Central Bank (as per guidance of the International Platform on Sustainable Finance of the Network for Greening the Financial System)

(2) Reaching out to municipalities – the Action will:

- Enhance the capacity of municipalities to analyse energy sector issues, plan EE improvements and RE expansion, attract financing for green energy and promote green energy to businesses and residents.
- Support the municipalities to develop and implement energy efficiency programmes and projects (in street lighting and buildings).
- Assist municipalities in completing (a) the spatial mapping of natural gas distribution that provides a diversity of supply, including for proposed CHPs, industrial customers, and areas unsuitable for central heating and cooling, and (b) the mapping of cities areas where CHPs and central heating and cooling are recommended.
- Establish a network of regional energy centres in the 8-planning region to facilitate EE and RE uptake and local EE information points in smaller locations. The network will be the backbone for developing, promoting and implementing community building and empowerment activities targeting women and members of vulnerable groups to promote savings of energy and environmental resources, adopting earth-friendly behaviour and changing the mindset.
- Support the establishment of the local centres and building their capacities to serve the local communities, implement awareness-raising programmes and exchange best practices and knowledge.

(3) Improved analysis of the green energy transition – the Action will:

- Develop feasibility and technical studies for the potential use of hydrogen, renewables, including wind, geothermal and biomass and small distribution systems, as well as for the national gas network and energy storage, including a component on the socio-economic impacts and risk assessment of the transition regarding women and members of vulnerable groups.

- Develop feasibility and detailed technical studies for the conversion of the lignite power plants, including potential thermal molten salt storage, the production of green gas to be utilised in power blocks or otherwise, the installation of large-scale stationary storage in batteries on-site, energy crops (biomass), conversion to natural gas, and addition of carbon capture and storage (CCS).
- Conduct energy poverty diagnostic on the central and/or local level and create the necessary action plans, following the EU Energy Poverty Advisory Hub (EPAH) methodology.
- Support the Public Utility Companies (PUCs) to prepare feasibility studies for PPP and investment projects to save energy and reduce the emission of GHG. Support the PUCs for enabling electricity smart grids to interconnect energy networks better.

Output 3: (Window 4): Enabling national policies for sustainable food system towards EU objectives for green agriculture

(1) Promotion of fair, healthy and environmentally friendly food systems – the Action will:

- Align the national regulations with the EU *acquis* on organic production and prepare rulebooks according to the new Law on organic agriculture production.
- Further alignment of the national PDO/PGI legislation with the EU *acquis* for geographical indication of wine, spirit drinks, and mountain products.
- Establish systematic monitoring and control of the certification procedures, the products' certification, and ex-post maintenance of the certificates and product qualifications for recognised quality and organic products.
- Support the process for recognition of control bodies for exporting recognised organic production to the EU. Strengthen capacities for export to the regional and EU market through analysis of the organic value chain in North Macedonia and market assessment for identified national organic products with export potential.
- Promote and raise awareness of farmers and agricultural communities on environmentally friendly and organic farming practices. Raise awareness of producers and processors of potential GI products on the protection rules, benefits and impact on the rural economy. Promote regional collaborations on the use of generic terms for traditional specialities.
- Promote a national logo for recognised quality agriculture products and for organic to increase consumer awareness of the use of organic and quality products, as well as prepare a comparative analysis of the economic, environmental and social benefits of the population using organic and quality schemes.
- Built capacities of organic farmers at local and national levels on implementing new rules according to the new Law on organic agriculture production and organising organic farmers in a "producer organisation" to increase the market offer in the overall food sector.
- Capacity building, training and education of administration and advisory services for providing support/advice for the elaboration of GI applications and examination of control plans and activities for registration, monitoring and control of registered quality schemes. Support farmers groups for establishing selected new quality products, registration and farmers monitoring and (internal/external) control to ensure compliance with the specifications and recording specific information, including providing support for better marketing of recognised quality products.
- Support national authorities to initiate preparatory activities for EU recognition of selected quality scheme products according to readiness and compliance with EU requirements.
- Upgrade IT software system for monitoring and inspection controls of organic farmers and training all beneficiaries in the organic control system (control/certification body, inspectorate and administration).
- Renew IT equipment for AFSARD Sector for control for implementation of on-the-spot checks this will ensure better implementation of the EU funds in the sector and improve the control standards of the management of the EU assistance.
- Assist the alignment of legal and institutional framework linked to **Chapter 11, Agriculture and rural development**, following the screening process and during the negotiations process. This may include the preparation or review of legislation and functional analysis of the bodies involved.

- Provide capacity building to the MAFWE staff and the subordinated bodies to address any challenges while preparing for negotiations. This will assist the above authorities to deliver on the sectorial structural reforms, align the sector systems and standards with the EU ones and ensure that the invested EU and national funds in the agriculture sector will create value-added and improve the everyday life of the farmers.
- Provide *ad hoc* assistance and expertise on any issues related to the approximation of the Agriculture and Rural Development sector to the EU *acquis*. This may include preparing studies, sector assessments, strategic planning, reporting etc.
- Assistance in mainstreaming the national support system for quality schemes and organic production in line with the EU and support preparations of implementing IPARD III measures namely for support to agri-environment and organic production.

(2) Enhancing the Veterinary system – the Action will:

- Further align the national legislation with the EU *acquis* on veterinary, environmentally friendly food production, animal health and official controls.
- Develop and implement animal disease risk analysis, strengthen the capacities for early detection of animal diseases and emergency preparedness, and implement integrated IT solutions for monitoring animal health and food safety.
- Improve the effectiveness of the official controls through (a) capacity-building measures and procedural improvements, (b) modernised equipment for the performance of official controls, and (c) the digitalisation of the control routine and business management process.

(3) Improving the Phytosanitary system – the Action will:

(a) Reform-focused measures:

- Further aligning the national legislation with the *acquis* on plant health and plant protection products.
- Development and implementation of the necessary risk based phytosanitary measures to prevent introduction and spread of quarantine pests, as well as eradication and containment where is relevant. Capacity-building activities to increase the efficient implementation of legislation and phytosanitary information system.
- Development of risk-based and preventive measures to protect the country’s territory from pests that plants, plant products or other objects from a third country might introduce.
- Further development of the system of phytosanitary certification for export.
- Extension of the IPM within the whole territory, involving all stakeholders on the central and regional levels.

(b) Procurement and distribution of laboratory and inspection equipment of the competent authorities involved in the phytosanitary system (Phytosanitary Inspection, Phytosanitary Directorate and State Phytosanitary Laboratory) Mainstreaming

Environmental Protection, Climate Change and Biodiversity

North Macedonia is committed to using the EU experience and support to improve its economy’s performance in line with the EU *acquis* and EU policies, namely the Green Agenda and the Digital Transformation. EU funds will be channelled into greening business practices and implementing the EU environmental and quality standards in industry and agriculture. The action will promote an innovation policy focused on the sustainable use of natural resources, resource-saving in industry and agriculture, and nature-based solutions to decreasing pollution. In implementing S3, support measures will be piloted to impact SMEs' green and digital transition. No support will be provided to “environmentally non-friendly or neutral” business activities.

The Action also responds to the climate change imperatives; it addresses the need for innovative policies in line with the EU climate change objectives. Promoting energy efficiency measures, wider use of renewable energy sources and the prosumer concept will support the decarbonisation of the economy of

North Macedonia. This, paired with strong capacity building for the authorities and other stakeholders at the national and regional levels, will create an enabling environment to push the green transition forward. In particular, strengthening the Environment and Social Management System and Safeguards used by banks is an efficient way to mainstream environment and climate change in finance.

The activities linked to promoting organic agriculture and modern veterinary and phytosanitary policy will positively impact the environment, biodiversity, climate change mitigation and saving of natural resources. This will support the implementation of the Agriculture and Rural Development Strategy 2017-2027, which emphasises the need to encourage sustainable agriculture practices, such as agri-environmental measures, integrated natural resource management, and organic agriculture. The Action will maximise the agricultural sector's contribution to a modern, resource-efficient, competitive economy. In the long term, this will improve the quality of life for rural residents and increase resilience to the impacts of climate change, reducing exposure to natural disasters.

Gender equality and empowerment of women and girls

As per OECD Gender DAC codes identified in section 1.1, this action is labelled as G0, yet it remains gender-sensitive. The country has established the legal framework for gender equality, equal opportunities and protection from discrimination, and this Action will contribute to implementing the legal framework in practice. In implementing S3, the piloted support measures will promote gender opportunities for women researchers and businesswomen. The agriculture-related activities will also promote -related output, and a special focus will be on involving women. In North Macedonia, the percentage of women owning land and production tools is very small. Therefore, the Action will actively promote equal opportunities, focusing on engaging women in self-support cooperative activities. During the implementation, equal opportunities and gender mainstreaming will be ensured through gender-sensitive analysis, training, standards review, skills development and information. In addition, all implementing partners will be requested to provide monitoring data recording the participation of men and women by age regarding expert inputs and staff hired by the project.

Human Rights

The Action will support the greening of the economy and the just transition. It will reinforce the principles of social justice, equality, and non-discrimination, which are fundamental human rights values. It will support North Macedonia in enforcing the right of the citizens to have a job and decent living and to live in a clean environment where natural resources benefit all citizens. The Action aims to ensure equal access and opportunities for all, without discrimination based on sex, race, ethnicity, religion, disability, age, or sexual orientation. It will also actively promote equal participation of women and men through accessible information and design and consider equal opportunities throughout the project cycle. The Action will work to create an inclusive environment that supports gender equality and the participation of individuals with disabilities.

Conflict sensitivity, peace and resilience

Transitioning from conventional fuels, such as coal, to renewable energy requires special attention to maintaining supply, independence, national security and resilience. Energy storage, hydrogen, and energy efficiency resources will all contribute to replacing coal and other conventional energy production in the region. This Action Document focuses on support of analysing the various options and supporting the implementation of a resilient energy plan.

Civil Society Organisations

The consultation and communication processes with civil society and the general public are of utmost importance in establishing and promoting a competitive economy, facilitated by private sector development, research and innovation, and the fortification of agriculture and fisheries. CSOs will be included directly in implementing activities, with their significant contribution expected. Furthermore, they serve as an essential platform to check the progress against the real needs on the ground. For this reason, communication and coordination with the CSOs will be integral to the contracts.

3.3. Risks and Assumptions

Category	Risks	Likelihood (High/Medium/Low)	Impact (High/Medium/Low)	Mitigating measures
People and the organisation	Lack of political consensus to continue with the implementation of reforms in the private sector development, trade, research and innovation and Agriculture and Fishery sectors	M	H	Keeping the dynamics of the accession process is an important leverage tool to align political visions. The progress with the ongoing screening will help enhance the societal support for the accession process. The active strategic communication on the concrete benefits of the EU accession, including outreach to smaller locations and rural areas will support the process. Enhanced political dialogue with the political actors will be important as well through engaging in continuous policy dialogue with institutions and authorities of North Macedonia through mainly the SWGs, with strong ownership and leadership by the relevant ministries.
Planning, process and system	Insufficient administrative capacity, lack of adequate number and quality staffing and insufficient coordination among the institutions	M	H	The ongoing Public Administration Reform (PAR) is expected to address the high staff turnover in all institutions by proposing a viable retention and merit-based policy and modern human resource management. As intermediate mitigation approach, technical assistance and capacity building measures, including by this action, will be put in place.

External Assumptions

The following assumptions allow for a successful cause-and-effect relationship between different levels of results:

- Macroeconomic and fiscal stability is ensured.
- The economy and creating a business climate favourable to economic growth remain top priorities for the Government of North Macedonia.
- Corruption is reduced.
- Incentives for RDI gradually increase.
- Continued political will and commitment of the Government and public administration to the accession process and the alignment of the EU *acquis*.
- The political commitment is translated into physical and human resources for the continuation of the sector reforms and the implementation of the EU assistance.
- Willingness on behalf of the economic operators and academia to cooperate.
- Good cooperation and coordination among key stakeholders, including local administration.
- Sufficient personnel are assigned within the municipalities to implement RE and EE programmes.

- Residents will be willing to invest in renewable energy communities, as shown in the cost-benefit analysis.

1.1. Indicative Logical Framework Matrix

Results	Results chain: Main expected results	Indicators	Baselines (values and years)	Targets (values and years)	Sources of data	Assumptions
Impact	<i>To contribute to unleashing sustainable economic potential of North Macedonia</i>	Summary innovation index	46.3(2023)	52.1 (2031)	European Innovation Scoreboard Country Profile (annual)	<i>Not applicable</i>
		Share of renewable energy in the gross final energy consumption ²⁵	19,02% (2020)	≥ 31% (2031)	SSO	
		Energy efficiency measured as Intensity of final energy consumption per unit of GDP (Chain linked volumes (2015) millions of Euros) ²⁶	1856ktoe/9688. mil EUR 0.19 kgoe/EUR (2018)	≤ 0.16 kgoe/EUR (2031)	SSO	
		Value of agriculture products export	624,503,315 Euro (2019)	≥835,000,000 Euro (2031)	WTO	
Outcome	<i>Accelerated business environment transformation and climate change-related structural reforms in the energy and agri-food sectors</i>	Level of progress in negotiation thematic Cluster 2: Internal market (Chapters: 1, 3, 7, 28), Cluster 4: Green agenda and sustainable connectivity (Chapter 15) and Cluster 5: Resources, agriculture, and cohesion (chapters 11 and Chapter 12)	Moderately prepared (2022)	Good level of preparation (2028)	EC Annual Progress Report	<p>Macroeconomic and fiscal stability is ensured</p> <p>The economy and creation of a business climate favourable to economic growth remain top priorities for the Government of North Macedonia.</p> <p>Incentives for RDI gradually increase Government incentives for</p>
		Number of enterprises	58 765 (2019)	>70.000 (2028)	National Statistical office ²⁷	
		Enterprise survival rate ²⁸	54.1%	55% (2028)	National Statistical office ²⁹	
		Level of GHG emissions reduced in the energy sector (Gg CO ₂ -eq)	12.415 (1990)	6.083 (2028)	MoE Energy Department	
		Agricultural area under integrated pest management	5 (2020)	30% (2028)	Ministry of Agriculture	

²⁵ Source: Energy balance 2020, State Statistical Office, table T-01: Energy indicators

https://www.stat.gov.mk/pdf/2021/6.1.21.60_mk.pdf

²⁶ Numerator: Energy balance 2018, State Statistical Office, Final energy consumption from Table T-02: Total energy balance (http://www.stat.gov.mk/pdf/2020/6.1.20.59_mk.pdf)

Denominator: EUROSTAT, GDP and main components (output, expenditure and income) [nama_10_gdp], Chain linked volumes (2015), million euro (https://appsso.eurostat.ec.europa.eu/nui/show.do?dataset=nama_10_gdp&lang=en)

²⁷ http://makstat.stat.gov.mk/PXWeb/pxweb/en/MakStat/MakStat_StruktorniStat/225_StrDel_Mk_03byactivity_en.px/?rxid=46ee0f64-2992-4b45-a2d9-cb4e5f7ec5ef

²⁸ Proportion of SMEs in business economy, active in the fourth year of life, compared to the total number of new SMEs in the year of reference.

²⁹ http://makstat.stat.gov.mk/PXWeb/pxweb/en/MakStat/MakStat_DelovniSubj_DemografijaNaPretprijatija/275_DelSub_Mk_04AN_en.px/?rxid=2d7f8742-3410-4731-ae76-1c3793fbb500

(Select: Column 1: B-N_X_K642 Business economy, except group 64.2 - Activities of holding companies; Column 2: relevant years; Column 3: 4-year survival rate (%))

		Agricultural area under organic farming (without pastures)	2,716 Ha (2018)	≥ 3,100 Ha (2028)	State Statistical Office (SSO)	RDI remain at its current level or increase
Output 1	<i>Improved legal, administrative, and operational framework for private sector development</i>	Number of pieces of EU legislation fully harmonised under Cluster 2: Internal market (Chapters: 1, 3, 7, 28)	N/A	>10 (2028)	Report on implementation of National Action plan on compliance with Services Directive/EC progress report for North Macedonia	Continued political will and commitment of the Government and public administration to the accession process and the alignment of the EU <i>acquis</i>
		Number of new services functional in the Point of Single Contact (PSC)	1 (2023)	50% of the listed in the catalogue of service (2028)	Report on implementation of National Action plan on compliance with Services Directive	
		Number of market inspectors trained on quality controls	0 (2023)	≥150 (2028)	Semi-annual report of the Market Inspectorate	The political commitment is translated into physical and human resources for the continuation of the sector reforms and the implementation of the EU assistance
		Number of consumer complaints finalised annually	1934 (2022)	≥30% (2028)	Semi-annual report of the Market Inspectorate	
		Number of filed applications for IP rights	650 patents (2022) 3,593 trademarks (2022) 157 industrial designs (2022)	≥30% each (2028)	Annual report of the SOIP	
		Number of partnerships between economy and research sectors	0 (2022)	≥10 (2028)	Annual Report on implementation of S3 Action plan	Willingness on behalf of the economic operators and academia to cooperate
Output 2	<i>Strengthened strategic, institutional, and operational capacity for effective energy policy in response to the climate change</i>	Number of Strategy, legal acts, Study and Plans for Energy Efficiency and Prosumer prepared	0 (2023)	≥ 6 (2028)	MoE Project Final report	Good cooperation and coordination among key stakeholders including local administration
		Number of in-depth analyses of feasibility of usage of renewables, and proposals of business models which are replicable and sustainable	0 (2023)	≥2 (2028)	MoE Project Final report	
		Number of EE and RE projects initiated	0 (2023)	≥ 10 (2028)	MoE Project Final report	Sufficient personnel is assigned within the municipalities to implement RE and EE programmes. Residents will be willing to invest in renewable energy communities, as shown in the cost-benefit analysis.
		Number of municipalities trained to support RE and EE programme implementation	0 (2023)	≥ 10 (2028)	MoE Project Final report	
		Number of energy communities established	0 (2023)	5 (2028)	MoE Project Final report	
		Number of FIs providing financing of EE and RE projects	0 (2023)	3 (2028)	MoE Project Final report	
		Output 3	<i>Enabled national policies for sustainable food system towards EU objectives for green agriculture</i>	Number of pieces of EU legislation fully harmonised under Cluster 5: (Chapters: 11 and 12)	N/A	
Number of organic farmers	927 (2022)			≥ 10% up (2028)	Annual reports of MAFWE and State Statistical office	

		Number of indigenous breed of sheep.	12.210 (2022)	≥ 5% up (2028)	MAFWE , the Program for the Protection of Biological Diversity in Animal livestock	
		Number of organic farmers benefitting directly from the EU assistance	0 (2023)	≥ 1,500 (2028)	Project Final report	
		Number of registered products with PDO/PGI, traditional specialties	2 (2023)	≥ 15 (2028)	MoAFWA Register of PDO/PGI products	
		Number of on-spot checks increased on the annual basis for IPARD	7315 (2023)	≥20% increase (2028)	AFSARD Annual Job Reports	
		Number of type of reports generated by the IT solutions (software) for animal health and food safety (FVA)	0 (2022)	≥5 (2028)	EFSA data reporting tools	
		Number of implemented legislations in line with the FVA Action Plan	3 (2022)	≥23 (2028)	European Commission's Report on North Macedonia Sub-committee on Agriculture and Fisheries Report	
		Number of adopted and updated implementing legislation in the phytosanitary area	20 (2022)	80 (2028)	Project Final report	
		Number of registered professional operators based on the Regulation (EC) 2016/2031	0 (2020)	≥785 (2028)	Register of producers, traders exporter, of plant and plants products and Phytosanitary Information System, Phytosanitary Directorate, MAFWE.	
		Number of guidelines and bulletiens and information notes of IPM prepared and distributed to the primary agricultural producer for economic pest and propes application of plant protection products	4 (2023)	30 (2028)	Project progress report Annual Report for implementation of Phytosanitary Policy Programme	
		Number of technicians and advisors for implementation of IPM employed and trained from different institutions that compose IPM network.	10 (2023)	30 (2028)	Project Final report	

4. IMPLEMENTATION ARRANGEMENTS

4.1. Financing Agreement

In order to implement this action, it is envisaged to conclude a financing agreement with North Macedonia.

4.2. Indicative Implementation Period

The indicative operational implementation period of this action, during which the activities described in section 3 will be carried out and the corresponding contracts and agreements implemented, is 72 months from the date of conclusion of the financing agreement.

Extensions of the implementation period may be agreed by the Commission's responsible authorising officer by amending this Financing Decision and the relevant contracts and agreements.

4.3. Implementation Modalities

The Commission will ensure that the EU appropriate rules and procedures for providing financing to third parties are respected, including review procedures, where appropriate, and compliance of the action with EU restrictive measures.

4.3.1. Direct Management (Grants)

4.3.1.1 Twinning Grant

Twining Call for proposals "Strengthening the phytosanitary capacities of North Macedonia".

(a) Purpose of the grant(s)

The twinning grant foreseen is aimed at contributing to achievement of the Output 3: *Enabled national policies for sustainable food system towards EU objectives for green agriculture*. More specifically, it will contribute to achievement of the component (3)(a) foreseen under the Output 3, namely: *"Improving the phytosanitary system - Reform-focused measures"*.

(b) Type of applicants targeted

The applicants must be EU Member State administrations or mandated bodies.

4.3.2. Direct Management (Procurement)

Procurement procedures will be used for:

Output 1: *Improved legal, administrative and operational framework for private sector development*

Output 2: *Strengthened strategic, institutional, and operational capacity for effective energy policy in response to the climate change*

Output 3: *Enabled national policies for sustainable food system towards EU objectives for green agriculture, Activities (1), (2) and (3).*

4.3.3. Indirect Management with a pillar-assessed entity

A part of this action may be implemented in indirect management with a pillar assessed entity, which will be selected by the Commission's services using the following criteria:

- Financial and administrative capacity

- Existing country office in North Macedonia or regional office in the Western Balkans with sufficient operational capacities to allow effective and timely implementation of the project(s)/assignment(s) entrusted to the entity under this action.
- Stable and sufficient financial resources.
- Technical capacity
 - Previous experience in the sector/subject areas addressed by the project(s)/assignment(s) to be entrusted to the entity under this action.
 - Previous experience in implementing projects/assignments similar to the one(s) entrusted to the entity under this action, preferably with EU financing.
 - Sufficient staff timely available with knowledge and experience in the areas addressed by the project(s)/assignment(s) to be entrusted to the entity under this action.

4.3.4. Changes from indirect to direct management (and vice versa) mode due to exceptional circumstances

If the implementation modality under direct management, as defined in section 4.3.1. or 4.3.2, cannot be implemented due to circumstances beyond the control of the Commission, the modality of implementation by indirect management with a pillar-assessed entity would be used according to section 4.3.3.

4.4. Scope of geographical eligibility for procurement and grants

The geographical eligibility in terms of place of establishment for participating in procurement and grant award procedures and in terms of origin of supplies purchased as established in the basic act and set out in the relevant contractual documents shall apply, subject to the following provisions.

The Commission's authorising officer responsible may extend the geographical eligibility on the basis of urgency or of unavailability of services in the markets of the countries or territories concerned, or in other duly substantiated cases where application of the eligibility rules would make the realisation of this action impossible or exceedingly difficult (Article 28(10) NDICI-Global Europe Regulation).

4.5. Indicative Budget

Indicative Budget components	EU contribution (EUR)	Indicative third-party contribution, in currency identified
Methods of implementation – cf. section 4.3		
Output 1 (Windows 4): Improved legal, administrative, and operational framework for private sector development and Output 3 (Windows 4): Enabling national policies for sustainable food system towards EU objectives for green agriculture, composed of:	14 900 000	535 000
Grants (direct management) – cf. section 4.3.1	1 500 000	N.A.
Procurement (direct management) – cf. section 4.3.2	13 400 000	535 000

Output 2 (Windows 3): Strengthened strategic, institutional, and operational capacity for effective energy policy in response to the climate change, composed of:	5 200 000	N.A.
Procurement (direct management) – cf. section 4.3.2	5 200 000	N.A.
Grants – total envelope under section 4.3.1	1 500 000	N.A.
Procurement – total envelope under section 4.3.2	18 600 000	535 000
Evaluation – cf. section 5.2 Audit – cf. section 5.3	may be covered by another Decision	N.A.
Strategic Communication and Public Diplomacy – cf. section 6	will be covered by another Decision	N.A.
Contingencies	0	N.A.
Totals	20 100 000	535 000

4.6. Organisational Set-up and Responsibilities

The Delegation of the European Union to North Macedonia is in charge of the implementation of the action and will collaborate with the Secretariat for European Affairs (NIPAC office), the line ministries involved and all stakeholders and implementing partners.

At policy level, the implementing partners will be accountable to the relevant Sector Working Groups (SWGs) (e.g., the SWG Competitiveness and Innovation, SWG Energy and SWG Agriculture and Rural Development) as well as to the IPA Monitoring Committee and Sector Monitoring Committees. At contract level, the implementation arrangements will be discussed through the project Steering Committees that have advisory functions and are composed of representatives of the EU Delegation, relevant national authorities, and all relevant implementing partners.

As part of its prerogative of budget implementation and to safeguard the financial interests of the Union, the Commission may participate in the above governance structures set up for governing the implementation of the action.

4.7. Pre-conditions

The following pre-conditions will apply:

- For Output 1(3): The National Intellectual Property Strategy and Action Plan 2022-2026, prepared with the support of the EU funded project "*Support of the State Industrial Property Office*", adopted by the Government.
- For Output 1(4): Smart Specialisation Strategy and its Action Plan adopted by North Macedonia.
- For Output 3(3): Updating by FVA of the IT system with modules and features achieved under the FAO project "*Technical Assistance for aligning of the National Animal Health and Food Safety system to the standards of the European Union*".

5. PERFORMANCE MEASUREMENT

5.1. Monitoring and Reporting

The day-to-day technical and financial monitoring of the implementation of this action will be a continuous process, and part of the implementing partner's responsibilities. To this aim, the

implementing partner shall establish a permanent internal, technical and financial monitoring system for the action and elaborate regular progress reports (not less than annual) and final reports. Every report shall provide an accurate account of implementation of the action, difficulties encountered, changes introduced, as well as the degree of achievement of its Outputs and contribution to the achievement of its Outcomes, and if possible at the time of reporting, contribution to the achievement of its Impacts, as measured by corresponding indicators, using as reference the logframe matrix. The Commission may undertake additional project monitoring visits both through its own staff and through independent consultants recruited directly by the Commission for independent monitoring reviews (or recruited by the responsible agent contracted by the Commission for implementing such reviews).

Arrangements for monitoring and reporting, including roles and responsibilities for data collection, analysis and monitoring: the implementation of the Action will be monitored at the sector level through the established 2020 Performance Assessment Framework (PAF), which includes outcome and impact indicators, targets and baseline data. PAF has been established as a web-based application (backed up by a government decision on responsibilities and deadlines), allowing regular electronic data input, processing, and analytics. The PAF data will be used in the Sector Working Groups established for the sectors concerned, which are inclusive platforms for all stakeholders to monitor the implementation of the priorities set at sector level.

At the output level, data about each project and contract implementation will be collected in OPSYS. They will be based on official reports, acceptance certificates or equivalent documents. The competent actors are expected to produce timely and meaningful data to monitor the results and impact of the Action.

5.2. Evaluation

Having regard to the importance of the Action, a final evaluation will be carried out for this Action or its components via independent consultants. It will be carried out for accountability and learning purposes at various levels (including for policy revision).

The Commission shall form a Reference Group (RG) composed by representatives from the main stakeholders at both EU and national (representatives from the government, from civil society organisations (private sector, NGOs, etc.), etc.) levels. If deemed necessary, other donors will be invited to join. The Commission shall inform the implementing partner at least 2 months in advance of the dates envisaged for the evaluation exercise and missions. The implementing partner shall collaborate efficiently and effectively with the evaluation experts, and inter alia provide them with all necessary information and documentation, as well as access to the project premises and activities.

The evaluation reports shall be shared with the partner country and other key stakeholders following the best practice of evaluation dissemination³⁰. The implementing partner and the Commission shall analyse the conclusions and recommendations of the evaluations and, where appropriate, in agreement with the partner country, jointly decide on the follow-up actions to be taken and any adjustments necessary, including, if indicated, the reorientation of the project.

5.3. Audit and Verifications

Without prejudice to the obligations applicable to contracts concluded for the implementation of this action, the Commission may, on the basis of a risk assessment, contract independent audit or verification assignments for one or several contracts or agreements.

³⁰ See best [practice of evaluation dissemination](#)

6. STRATEGIC COMMUNICATION AND PUBLIC DIPLOMACY

All entities implementing EU-funded external actions have the contractual obligation to inform the relevant audiences of the Union's support for their work by displaying the EU emblem and a short funding statement as appropriate on all communication materials related to the actions concerned. To that end they must comply with the instructions given in the 2022 guidance document [*Communicating and raising EU visibility: Guidance for external actions*](#) (or any successor document).

This obligation will apply equally, regardless of whether the actions concerned are implemented by the Commission, the partner country, service providers, grant beneficiaries or entrusted or delegated entities such as UN agencies, international financial institutions and agencies of EU Member States. In each case, a reference to the relevant contractual obligations must be included in the respective financing agreement, procurement and grant contracts, and contribution agreements.

For the purpose of enhancing the visibility of the EU and its contribution to this action, the Commission may sign or enter into joint declarations or statements, as part of its prerogative of budget implementation and to safeguard the financial interests of the Union. Visibility and communication measures should also promote transparency and accountability on the use of funds. Effectiveness of communication activities on awareness about the action and its objectives as well as on EU funding of the action should be measured. Implementing partners shall keep the Commission and the EU Delegation fully informed of the planning and implementation of specific visibility and communication activities before the implementation. Implementing partners will ensure adequate visibility of EU financing and will report on visibility and communication actions as well as the results of the overall action to the relevant monitoring committees.

7. SUSTAINABILITY

The sustainability potential of the action is high, considering mutually related activities and expected results through comprehensive legislative harmonisation, regulative and methodological improvements, digitalisation, institutional and administrative capacity building, and awareness raising measures.

The Action includes a significant component targeting the aligning with the *acquis* in the areas of **internal market, agriculture and food safety**. The investment in legal harmonisation provides a positive outlook for sustainability, as it facilitates the economic partnerships and exchanges, supports the early integration concepts and advances the country's accession. Furthermore, the early alignment provides the country with sufficient time for prepare the systems and economy for accession and for the competitive pressures of the EU market. The improved quality of administrative and business services has the potential to move forward the business development and act as a multiplier of the action results. The capacity building approach for both public administration and business operators is expected to strengthen knowledge and the skills, which represents an investment in the country's human capital and enables sustainability of the results in the areas of support.

The Action also tackles innovation environment which is a key driver of the sustainable development with high potential to support economic growth, create new jobs and contribute to a more sustainable future. The increased investment in research and development and the measures to facilitate the links between researchers and businesses significantly enhance the sustainability potential. The improvements in the business process (services, market surveillance and consumer protection, alternative dispute resolution system on consumers' matters) will contribute to a more rationalised, sustainable and cost-effective management of the public administration and public sources, which is also a factor of sustainability.

Related to the results of the **energy component of the action**, the sustainability can be ensured through strengthening the national energy policy and institutional framework, promoting renewable energy, improving energy efficiency and conservation, and facilitating green energy investments and deployment. A key component to achieving this is improving the analysis of the green energy

transition, which can help identify opportunities and challenges, assess the impact of policies and interventions, and guide decision-making towards more sustainable outcomes. However, ensuring the sustainability of these activities will depend on several factors. First, collaboration and coordination between stakeholders must be efficient which requires strong political commitment and leadership at all levels of government, as well as active engagement from civil society organisations and the private sector. Second, monitoring and evaluation systems must be established to track progress and identify areas for improvement. This will enable decision-makers to make evidence-based decisions and adjust policies and interventions as needed.

It is essential to take a long-term perspective on sustainable energy transitions. These are complex and dynamic processes that require continuous adaptation and innovation. Policies and interventions must be designed to be flexible and responsive to changing circumstances, and stakeholders must be willing to embrace new technologies and approaches. In summary, the sustainability of the Action Document will depend on the practical implementation of specific activities related to sustainable energy, as well as the ability of stakeholders to collaborate and coordinate effectively, maintain solid political commitment, and continuously monitor and evaluate progress towards achieving sustainable energy objectives. A long-term perspective, combined with flexibility and innovation, will be essential to ensure the success of these activities.

Appendix 1: IDENTIFICATION OF THE PRIMARY INTERVENTION LEVEL FOR REPORTING IN OPSYS

A Primary intervention (project/programme) is a coherent set of results structured in a logical framework aiming at delivering development change or progress. Identifying the level of the primary intervention will allow for:

- ✓ Differentiating these Actions or Contracts from those that do not produce direct reportable development results, defined as support entities (i.e. audits, evaluations);
- ✓ Articulating Actions and/or Contracts according to an expected common chain of results and therefore allowing them to ensure a more efficient and aggregated monitoring and reporting of performance;
- ✓ Having a complete and exhaustive mapping of all results-bearing Actions and Contracts.

The present Action identifies as

Action level (i.e. Budget support, Blending)		
<input checked="" type="checkbox"/>	Single action	Present action: all contracts in the present action
Group of actions level (i.e: i) top-up cases, ii) second, third, etc. phases of a programme)		
<input type="checkbox"/>	Group of actions	Actions reference (CRIS#/OPSYS#):
Contract level (i.e. Grants, Contribution Agreements, any case in which foreseen individual legal commitments identified in the budget will have different log frames, even if part of the same Action Document)		
<input type="checkbox"/>	Single Contract 1	N/A
Group of contracts level (i.e: i) series of programme estimates, ii) cases in which an Action Document foresees many foreseen individual legal commitments (for instance four contracts and one of them being a Technical Assistance) and two of them, a technical assistance contract and a contribution agreement, aim at the same objectives and complement each other, iii) follow up contracts that share the same log frame of the original contract)		
<input type="checkbox"/>	Group of contracts	N/A