

ANNEX

to the Commission Implementing Decision adopting an Annual Action Programme for the Republic of North Macedonia for the year 2019

1 IDENTIFICATION

Beneficiary	North Macedonia
Basic act:	Instrument for Pre-accession Assistance (IPA-II)
CRIS/ABAC Commitment references and budget line(s):	CRIS: 2019/041-263; EUR 51 000 000 from 22.02 01 02
Total cost:	EUR 58 600 000
EU Contribution:	EUR 51 000 000
Method of implementation	Direct management by the European Commission and Indirect management with the World Bank for the implementation of Activity 9: Construction of a rendering plant, which is a part of Action 2: EU supports rural development and competitive sustainable agriculture
Final date for concluding <u>Financing Agreement(s)</u> with the IPA II beneficiary	At the latest by 31 December 2020
Final date for contracting, including the conclusion of contribution/delegation agreements	3 years following the date of conclusion of the Financing Agreement
Indicative operational implementation period	6 years following the date of conclusion of the Financing Agreement
Final date for implementing the Financing Agreement	12 years following the conclusion of the Financing Agreement

2 DESCRIPTION OF THE ACTION PROGRAMME

2.1 SECTORS SELECTED UNDER THIS ACTION PROGRAMME

- *Rationale for the selection of the specific sectors under this programme:*

The Annual Action Programme will provide funding for two sectors – 'Competitiveness and innovation, agriculture and rural development' and 'Education, employment and social policies'. The selection of these sectors has been made on the grounds of:

- The alignment with the strategic priorities, presented in the revised Indicative Strategy Paper¹ (ISP), which allocates 30% of all EU funds for the period 2014-2020 to these two sectors. By the end of 2018 only half of this provisional allocation has been programmed. Reaching the ISP sector objectives therefore requires well-targeted EU funding.
- The importance of these sectors for the economic development of the country and for the quality of life of the citizens, particularly in the context of economic recovery. The positive near-term economic outlook will allow well-focused supportive policies for sustainable and inclusive growth to create development momentum and to make the convergence with the EU standards faster. This programme balances job creation measures (through support to business and agriculture) with measures for improving employability and functioning of the labour market, thus supporting the structural reforms for the economic growth.
- The improved political perspectives for the country, projected in an enhanced dialogue with North Atlantic Treaty Organisation and the EU increase investors' confidence and create a positive economic context expected to improve commercial exchange with the EU. Insufficient alignment with the EU internal market rules for products, services and capitals will impede this exchange and will slow the economic growth of the country. This programme therefore enhances the harmonisation with the EU *acquis* as regards the goods, services, food safety and agri-environmental area.
- The willingness of the national authorities to pilot a sector reform contract in Sector 7: 'Education, employment and social policies', which would have not been possible in any other of the other sectors.
- The need to improve effectiveness of the EU aid by concentrating financial assistance on a limited number of key priorities, thus improving the dynamics of changes in the selected sectors and strengthening the impact of the Instrument for Pre-Accession Assistance (IPA II) funds on the relevant reforms.
- The maturity in the implementation of the sector approach, where significant progress was achieved in both selected sectors. The strategic framework was completed and the sector coordination was improved significantly with the establishment of two Sector Working Groups, chaired by the relevant Ministers, comprising authorities, donors and civil society and meeting regularly in three formats: core/expert, technical and decision-making (over 30 meetings in 2018). The Sector Working Groups embed the IPA programming and ensure the relevance of the EU funding to the national priorities and needs.

¹ C(2018) 5024 of 03/08/2018

- ***Overview of past and on-going EU's, other donors' and/or IPA II beneficiary's actions in the relevant sectors:***

The country has benefited from IPA support in the selected sectors since 2007. Over this period over 250 EU-funded projects have been implemented across the national territory. With a total of EUR 200 million of financial aid the EU ranks as the biggest donor in these sectors. Considerable support is also provided by Switzerland, Germany, the United Kingdom and the United States. International organisations, namely the World Bank, the European Investment Bank and European Bank for Reconstruction and Development are also investing in business development and social reforms. Other smaller donors, including many of the EU Member States, are also present in the country. The established sector working groups significantly improved the sector coordination in the last two years, allowing a comprehensive view on the implementation of sector reforms and synergetic effects of donors' funding. The experience gained so far clearly outline a number of factors influencing the implementation of the EU aid for the country:

- Political turbulences in the past have affected the effectiveness and efficiency of the public administration in conducting the planned reforms. Since EU funds are granted in support of these reforms, the impact of the IPA assistance weakens in the absence of an engaged state leadership able to drive the reform process. Therefore, strong governmental commitment, particularly to difficult and far-reaching reforms, as well as an inclusive high-level sector dialogue are pre-requisite for successful implementation of the reform measures and a purposeful use of the EU funds.

In addition, the national authorities need to demonstrate strengthened commitment to achieving the expected results independently of the implementation modality. While the EU Delegation may act as contracting authority, achieving the outcomes and impact of the actions remains primarily a responsibility of the national authorities.

In this context, the transparency of the country's progress on the reform agenda is a vector of development: clear information on how the objectives are met feeds into decision-making, supports resource mobilisation at all levels and enhances the public control mechanisms. Therefore, structured and reliable information on the implementation of the reforms is crucial. It requires putting in place of a planned performance assessment framework as well as shifting the focus of the sector dialogue from identification of priorities and needs to implementation and indicators-tracking.

- Institutional coordination remains weak despite some progress in the last years. The development of a new administrative culture of cooperation needs to be strongly encouraged. Two mechanisms will be applied to achieve this. First, the enhanced participation in the sector working groups, established within the sector approach, requires an intensive exchange of information and co-working among the various institutions and a stronger communication with the partners and stakeholders. Stronger sector working groups mean a more effective sector policy dialogue and more effective institutions. Second, the proposed implementation method involves cross-institutional projects, involving all relevant authorities, thus obliging them to work together to achieve common objectives. Going beyond the classic one institution – one project approach, will support the collaborative exchanges among the participating institutions.

List of Actions foreseen under the selected Sectors:

Sector/Priority/Action	Direct management (EUR)	Indirect management	
		With entrusted entity (EUR)	With IPA II beneficiary (EUR)
Competitiveness and Innovation, Agriculture and Rural Development			
1 - EU Supports Competitive and Fair Markets	14,000,000	0	0
2 - EU Supports Rural Development and Competitive Sustainable Agriculture	9,500,000	4,500,000	0
TOTAL for the sector	23,500,000	4,500,000	0
Education, employment and social policies			
3 - EU for YOUTH (SBS + complimentary support)	16,500,000	0	0
4 - EU for Inclusion	6,500,000	0	0
TOTAL for the sector	23,000,000	0	0

2.2 DESCRIPTION AND IMPLEMENTATION OF THE ACTIONS

The envisaged assistance is deemed to follow the conditions and procedures set out by the restrictive measures adopted pursuant to Article 215 TFEU².

SECTOR	Competitiveness and Innovation, Agriculture and Rural Development	EUR 28,000,000
Action 1	EU Supports Competitive and Fair Markets	EUR 14,000,000

(1) Description of the Action, objectives, expected results and key performance indicators

- Description of the action and objectives

The overall objective of this Action is to achieve competitive economy based on knowledge and innovation and improved economic convergence with the EU *acquis*.

The specific objectives of this Action are:

- 1: To improve compliance of the local economy with the EU *acquis*;
- 2: To support start-ups and small and medium enterprises (SMEs) in selected under-developed regions to grow, produce added value and create local living.

- Expected results and key performance indicators:

- 1: Strengthened legal alignment and enforcement in the fields of Free Movement of Goods (Chapter 1), Free Movement of Services (Chapter 3), Company Law (Chapter 6) and Chapter 28 (Consumer's rights);
- 1: Improved access of start-ups and SMEs to financing and high value added business services in selected regions.

The key performance indicators include:

- ✓ Number of EU Directives and Regulations, for which the alignment process is completed and implementation is in place;
- ✓ Number of procedures and formalities, which can be completed online and which support cross-border businesses;
- ✓ Number of users of the services of the established Single Point of Contact and national Product Contact Point(s);
- ✓ Rate of companies reporting according to the new Company Law;
- ✓ Number of beneficiaries (people) trained on the new legal provisions (of them female);
- ✓ Number of beneficiaries (institutions) trained on the new legal provisions;
- ✓ Number of beneficiaries (companies) trained on the new legal provisions;
- ✓ Indicators for market surveillance record³ (index);

² https://eeas.europa.eu/headquarters/headquarters-homepage/8442/consolidated-list-sanctions_en

³ - total number of inspections to check product safety and compliance;

- number of inspections on the basis of consumer reports of non-compliant products

- ✓ Number of consumers concerns submitted through the e-Consumer and addressed (as % of the total);
- ✓ Number of metrology laboratories accredited within the Bureau of Metrology;
- ✓ Number of start-ups and SMEs supported (of them women-run businesses);
- ✓ Improved performance of supported companies (turnover and profit);
- ✓ Level of average salaries in the supported companies compared to the one in the country.

(2) Assumptions and conditions

- The commitment to the EU accession is strengthened.
- The economic development is steady (no economic and financial crisis).
- There is a clear country policy encouraging the development of SMEs and regional development.
- Strong commitment exists on behalf of the Government and the relevant institutions to engage in far-reaching reforms.
- The staffing level in the Ministry of Economy and the other stakeholders is adequate.
- The coordination between various institutions is effective.
- Business service networks and SMEs are interested and committed to participate in the programme.

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

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

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

(3) Implementation modalities:

(3)(b) Direct management (project approach)

Procurement:

Procurement will be used for achieving Specific Objective 1: To improve compliance of the local economy with the EU *acquis*, and in particular to achieve Output 1: Strengthened legal alignment and enforcement in the fields of Free Movement of Goods (Chapter 1), Free Movement of Services (Chapter 3), Company Law (Chapter 6) and Chapter 28 (Consumer and Health Protection). Procurement will also be used for the evaluation of the Action.

The **global** budgetary envelope reserved for procurement: EUR 5,000,000.

-
- number of inspections involving laboratory testing & number of products found to be non-compliant in testing;
 - number of inspections in which a product was found not to comply with the requirements of the legislation;
 - number of inspections which led economic entities to take voluntary measures;
 - number of inspections which resulted in a ban on placing a product on the market;
 - number of inspections which resulted in penalties being imposed for an infringement;

Grants:

➤ **Call for proposals 'EU for Economic Growth':**

- a) Purpose of the grant: This call for proposals for a conclusion of one grant contract will aim at achieving Output 2: Improved access of start-ups and SMEs to financing and high value added business services in selected regions through the implementation of Activity 6: Improving the business advisory services for start-ups and SMEs, Activity 7: Improving business support infrastructure and Activity 8: Support for selected high-value added business initiatives.
- b) Type of applicants targeted: Applicants must be legal persons, established in EU Member States and mandated with the tasks to support the private sector development.

The **global** budgetary envelope reserved for grants: EUR 9,000,000.

(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:

- a) With regard to the global nature of this Action, the Commission decides that natural and legal persons from the following countries, territories or regions shall be eligible for participating in procurement and grant award procedures: North Macedonia, European Union Member States. The supplies originating from there shall also be eligible.
- b) The Commission's authorising officer responsible may extend the geographical eligibility on the basis of urgency or of unavailability of products and services in the markets of the countries concerned, or in other duly substantiated cases where the eligibility rules would make the realisation of this Action impossible or exceedingly difficult.

Action 2	EU supports Rural Development and Competitive Sustainable Agriculture	EUR 14,000,000
-----------------	--	-----------------------

(1) Description of the Action, objective, expected results and key performance indicators

- Description of the action and objectives

The overall objective of the Action is to strengthen the sustainable development of rural areas.

The specific objectives of the Action are:

- 1: To improve farm productivity and a sustainable use of forests;
- 2: To ensure food safety and improved animal and plant health.

- Expected results and key performance indicators

- 1: Modernised and optimised farming and forestry;
- 2: Decreased risks to human, animal and plant health.

The key performance indicators include:

- ✓ Number of hectares of consolidated land in the four selected areas;
- ✓ Hectares irrigated on the basis of the cadastre;
- ✓ Number of farmers benefitting from advisory services (men and women);
- ✓ Number of new procedures introduced in supported entities;
- ✓ Number of hectares of high forests (seed origin, high quality forests) within three regional Forest Management Unit in the regions North East, South West and Polog certified by a recognised certifier;
- ✓ Tons of animal by-products safely disposed yearly at a rendering facility;
- ✓ Number of plant protection products approved;
- ✓ Number of accredited methods;
- ✓ Number of species/cultivars stored in the gene bank.

(2) Assumptions and conditions

- Migration from the countryside to the capital slows down thus ensuring the human resources needed for rural development.
- Capacity of the municipal administrations in rural areas to implement the development-based agenda is improved.
- Farmers have access to credit to finance on-farm equipment.
- Water availability does not deteriorate.
- The Ministry of Agriculture, Forestry and Water Economy has dedicated sufficient resources for maintaining the advisory system.
- Sufficient funds are provided in the National Rural Development Programme for measures related to delivering of services.
- There is interest of private providers to participate in the support scheme.

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

- Formal establishment of a public enterprise that will be responsible for the establishment and operations of the rendering plant.
- The Law on Farm Advisory System as well as the related by-laws must be in place before the activities related to the Advisory services are implemented.

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

(3) Implementation modalities

(3)(a) Indirect management with international organisation:

(ii) A part of this Action may be implemented in indirect management with the World Bank.

- This implementation entails the realisation of Activity 9: Construction and putting in operation of a Rendering Plant to ensure the disposal of the animal by-products in line with the EU and national legislation. The rendering plant will make it possible to collect and process all categories of materials of animal origin subject to disposal. The plant's capacity is calculated to process 8,000 tons of animal by-products every year. This is a classic circular economy investment, allowing the collected and processed material to be transformed from polluting waste into products that can be used in other production cycles. The implementation of this activity will support the achievement of Output 2: Decreased risks to human, animal and plant health.
- The envisaged entity has been selected using the following criteria:
 - Financial and operational capacity of the World Bank globally and significant support for the agriculture in the North Macedonia. A USD 40 million Agriculture Modernisation Project is being put in place to promote the agriculture sector's competitiveness, through establishing advisory one-stop shop and agriculture purchasing and distribution centres and strengthening the capacity of the Ministry of Agriculture Sector for Rural Development, the Paying Agency and the Food Safety Agency to implement effective agriculture policy in support of farmers and operators in the agri-food businesses. The World Bank was also contracted by the Commission to conduct a functional review of the Ministry for Agriculture, Forestry and Water Economy.
 - Interest on behalf of the World Bank to support the construction of the rendering plant and synergy of donors' operations. Preliminary discussions on possible loans were held with KFW, European Bank for Reconstruction and Development and European Investment Bank, none of which expressed interest to participate in the project due to the very small size of the operation. In addition, the option of indirect management with the beneficiary country was also analysed but was rejected due to the administrative and procedural burden which would be created for ensuring a conferral of management for one single project. In March 2019, the Government of North Macedonia decided to ensure the national co-financing through the loan from the World Bank for the Agriculture Modernization Project. Blending an IPA grant with the World Bank loan for the agriculture sector will increase the financial leverage of EU funds and strengthen the ownership. The financial structure is 50:50.
- The international organisation identified above is currently undergoing an ex-ante assessment of its systems and procedures. Based on its compliance with the conditions in force at the time previously other indirect management actions were awarded to the

organisation and based on a long-lasting problem-free cooperation, the international organisation can also now implement this Action under indirect management, pending the finalisation of the ex-ante assessment and, where necessary, subject to appropriate supervisory measures in accordance with Article 154(5) of the Financial Regulation.

- If negotiations with the above-mentioned entrusted entity fail, this part of the Action may be implemented through a call for IFIs' participation to select another partner in indirect management
- In case the envisaged entity would need to be replaced, the Commission's services may select replacement entity using the same criteria.
- Indicative EU budget allocation for this Action is EUR 4,500,000.

(3)(b) Direct management (Project approach):

Procurement:

Procurement will be used for achieving both objectives of the Action.

Under Output 1: Modernised and optimised farming and forestry, procurement will be used for the implementation of Activity 1: Modernisation of the advisory services for operators in the agriculture field and Activity 4: Construction of five small scale irrigation systems.

Under Output 2 Decreased risks to human, animal and plant health, procurement will be used for the implementation of Activity 6: Improvements of food safety standards, legislation and control systems.

Procurement will also be used for the evaluation of the Action.

The **global** budgetary envelope reserved for procurement: EUR 5,400,000.

Grants:

➤ **Call for proposals 'Enhancing Land Consolidation':**

- a) Purpose of the grant: This call for proposals for a conclusion of one grant contract will aim at achieving Output 1: Modernised and optimised farming and forestry through the implementation of Activity 3: Enhancing land consolidation.

This activity entails:

- Development and implementation of four land consolidation plans primarily located in the South-West and North-East regions, and selected on the grounds of completed feasibility studies;
- Support to the Ministry of Agriculture, Forestry and Water Economy to improve the National Land Consolidation Programme, implementing procedures, institutional setup, financial and legal framework;
- Development and implementation of a communication policy to ensure that the land consolidation process is well understood by local communities and supported by relevant stakeholders.

- b) Type of applicants targeted: Applicants must be legal entities, local authorities, public bodies, economic actors, cooperatives, farmers associations or non-profit organisations, established in the North Macedonia or international organisations.

➤ **Call for proposals 'Enhancing modernisation and innovative management in the sector of agriculture':**

a) Purpose of the grant: This call for proposals for a conclusion of a number of grant contracts will aim at achieving Output 1: Modernised and optimised farming and forestry through the implementation of Activity 2: Support to modernisation and innovative management in agricultural sector.

This activity entails financing of innovative investment projects and business operations of entities active in agricultural and agri-food industry, including cooperatives. At least one of the supported projects should be linked to enhanced participation of women in agricultural development.

b) Type of applicants targeted: Applicants must be legal entities, local authorities, public bodies, economic actors, cooperatives, farmers associations or non-profit organisations, established in the North Macedonia.

➤ **Call for proposal 'Supporting the reforms in forestry'**

a) Purpose of the grant: This call for proposals for a conclusion of a number of grant contracts will aim at achieving Output 1: Modernised and optimised farming and forestry through the implementation of Activity 5: Strengthening the management of the forestry sector.

This activity entails:

- Improving the legal compliance with the EU *acquis* and requirements on forestry;
- Improving the strategic and institutional set-up of the forestry sector;
- Establishing a web-based Forest Information System addressing the management of economic activities in the forestry sector;
- Enhancing prevention and control of abiotic and biotic damages in forests and upgrading measures for forest biodiversity protection;
- Implementation of a forest certification scheme.

b) Type of applicants targeted: Applicants must be legal persons, established in EU Member States and mandated with the tasks to ensure the management of the country forestry resources.

➤ **Twinning – 'Towards a modern protection of plant and biodiversity':**

a) Purpose of the grant: This call for proposals for a conclusion of one twinning contract will aim at achieving Output 2: Decreased risks to human, animal and plant health through the implementation of Activity 8: Harmonisation of the phytosanitary legislation and introduction of best practices on plant protection.

This activity entails:

- Harmonization of the national legislation with the EU *acquis* in phytosanitary area and improving national capacities to implement the new legislation including enhancing the phytosanitary inspection controls and improving the identification, diagnosis and reporting of harmful organisms on the territory of the country;
- Further development of the Plant Health Status in the country;
- Promoting the Integrated Pest Management and ensuring the implementation of the Law on plant protection products;

- Further development of a control system in potato cultivation;
 - Establishment of a Committee of evaluators of the Plant Protection Products;
 - Establishment and electronic registration of areas of provenience for basic reproductive material from forest tree species;
 - Strengthening of the National Gene Bank of the seed genetic resources.
- a) Type of applicants targeted: Applicants must be EU Member State's administrations or mandated bodies.

The **global** budgetary envelope reserved for grants: EUR 4,100,000.

(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:

- a) With regard to the global nature of this Action, the Commission decides that natural and legal persons from the following countries, territories or regions shall be eligible for participating in procurement and grant award procedures: North Macedonia, European Union Member States. The supplies originating from there shall also be eligible.
- b) The Commission's authorising officer responsible may extend the geographical eligibility on the basis of urgency or of unavailability of products and services in the markets of the countries concerned, or in other duly substantiated cases where the eligibility rules would make the realisation of this Action impossible or exceedingly difficult.

SECTOR	Education, employment and social policies	EUR 23,000,000
Action 3	EU for YOUTH	EUR 16,500,000

(1) Description of the Action, objective, expected results and key performance indicators

- Description of the action and objectives

The overall objective of this Sector Reform Performance Contract is to support the Government of North Macedonia in improving the employment of young women and men.

The specific objective is to contribute to the efforts of the Government of North Macedonia:

1. To improve quality, relevance and inclusiveness of the national vocational education and training system;
2. To improve employment opportunities for young women and men.

- Expected results and key performance indicators

The Sector Reform Performance Contract will contribute to the following expected results:

- 1) Improved offer of accredited Vocational Education Training (VET) programmes and providers;
- 2) Competences of staff of the regional VET centres aligned with the Human Resource Development plans and the accreditation criteria;
- 3) The Youth Guarantee (YG) implemented.

The key performance indicators include:

- ✓ I0-Youth Employment rate (15-29);
- ✓ I1- Early leavers from education and training rate by sex (18-24);
- ✓ I2-Percentage of participants who successfully completed Youth Guarantee (exit level), sex disaggregated;
- ✓ I3 - Regional VET centres established in the target regions;
- ✓ I4 -Number of VET qualifications open for validation of non-formal and informal learning;
- ✓ I5 - Percentage of staff of the Regional VET Centres trained in line with the Human Resources Development Plans / Percentage of staff of the Regional VET Centres trained to work with students with special needs;
- ✓ I6 - Number of participants registered in the Youth Guarantee (entry level), sex disaggregated;
- ✓ I7 -Number of Youth Guarantee staff trained, sex disaggregated;
- ✓ I8 - Number of Employment Service Agency centres modernised in the target regions.

The **direct outputs** of the sector reform contract and the complementary support involve:

- Improved policy dialogue on the sector reforms;
- Improved system for monitoring of the sector reforms;
- Improved capacity of the Ministry of Education and Science and Ministry of Labour and Social Policy to coordinate, implement and monitor the education, employment and social policy reform agenda with special attention to the Sector Reform Performance Contract 'EU for Youth' and EU budget support programme in general;
- Increased awareness of the reforms in the education, employment and social policy sector among the main stakeholders, as well as the wider public in general.

(2) Assumptions and conditions

The following preconditions will apply to this Action:

- North Macedonia will revise the current Employment and Social Reform Programme (ESRP) in order to include the Youth Guarantee under the priority measure for youth employment, and extend the time horizon of the ESRP to the end of 2022. This revision will be completed by the end of 2019. Failing to comply with this, the Sector Reform Performance Contract will not be signed.

(3) Implementation modalities

(3)(b) Direct management (Project approach):

Procurement:

Procurement will be used for achieving the objectives of the complementary support to the Sector Reform Performance Contract. It entails one service contract for strengthening the capacities of the Ministry of Education and Science and the Ministry of Labour and Social Policy to effectively develop, budget and implement sector policies, monitor the implementation and report on results of sector reforms.

The **global** budgetary envelope reserved for procurement: EUR 1,500,000

(3)(c) Direct management through Budget Support

a) Eligibility for budget support

- **Public policy** - There is a reasonable ground to assess the sector policy framework as relevant and credible. Strong high-level political commitment exists to back up the progress on the sector reforms. Significant financial resources have been allocated under 2018 and 2019 budgets for the implementation of the planned interventions for improving education and for enhancing youth employment. There is a strong coordination in the sector channelled through established sector working group chaired by 2 ministers and involving national stakeholders, donors, international partners and civil society. There is a good progress in establishing a performance assessment framework which would allow a follow-up of the sector reforms in a participatory way, based on evidence and transparency of both the results of the efforts and use of public funds for sector reforms.

- **Macroeconomic stability** - There is a reasonable ground to consider that the eligibility criterion related to macroeconomic stability of the country is met. High-level political commitment exists to preserve the macroeconomic stability in the country and pursue the required structural reforms. This commitment is visible through the efforts invested in creation of a mid-term budgetary framework and introduction of key improvements in the organic budget law. The country adopts and implements the Economic Reform Programme (ERP), which maps out the measures to address the major risks to macro-economic stability. The established control over risks along the positive trend in the implementation of the ERP measures decrease the probability of a significant challenge to the macro-economic stability of the country.
- **Public Finance Management (PFM) and Budget Transparency and Oversight** - There is a reasonable ground to consider that the eligibility criteria are met by the country. High-level political commitment has been demonstrated by the Ministry of Finance and by the Government as a whole towards significant improvements in the PFM system. This has been also confirmed by both the State Audit Office and the Parliament. The 2018-2021 PFM Reform Programme and relevant 2018/2019 Action Plans are under implementation. They address major deficiencies of the system, including weaknesses in budget transparency and oversight. There are sub-systems strategies that are currently implemented and good monitoring, coordination, and performance assessment mechanisms exist to assess progress made on the reforms. The needed legal and institutional framework is established to a great extent and it will support the measures included in the PFM programme. There are sufficient human and financial resources allocated to ensure the PFM reforms. Good coordination is established in the PFM sector, channelled through a Sector working group embedding the PFM policy dialogue. There is a positive trend in increasing the involvement of civil society, businesses, academia etc. as correctives in both the budgetary cycle and the oversight processes.

b) Objectives

The Sector Reform Performance Contract will support the achievement of the following priorities of the Employment and Social Reform Programme:

- 1) Labour market and employment;
- 2) Human Capital and skills.

The overall objective of this Sector Reform Performance Contract is to support the Government of North Macedonia in improving the employment of young women and men.

The specific objective is to contribute to the efforts of the Government of North Macedonia to:

- 1) improve quality, relevance and inclusiveness of the national vocational education and training system;
- 2) improve employment opportunities for young women and men.

c) Expected results

The Sector Reform Performance Contract is expected to achieve the following results:

- 1) Improved offer of accredited VET programmes and providers;
- 2) Competences of staff of the regional VET centres aligned with the Human Resource Development Plans and the accreditation criteria;
- 3) The Youth Guarantee implemented.

The **direct outputs** of the sector reform contract and the complementary support involve:

- Improved policy dialogue on the sector reforms;
- Improved system for monitoring of the sector reforms;
- Improved capacity of the Ministry of Education and Science and the Ministry of Labour and Social Policy to coordinate, implement and monitor the education, employment and social policy reform agenda with a special attention paid to the Sector Reform Performance Contract 'EU for Youth' and the EU budget support programme in general;
- Increased awareness of the reforms in the education, employment and social policy sector among the main stakeholders, as well as the wider public in general.

d) Main budget support activities

The main activities to implement the budget support package are policy dialogue, financial transfer, performance assessment, reporting and capacity development, engagement in dialogue around conditions and government reform priorities, verification of conditions and payment of budget support.

e) Complementary actions

The EU has provided systemic support for enhancing youth employment for a long time. Under the IPA I, within the framework of the IPA's Component IV on Human Resource Development, the EU contributed to improving active labour measures in the country, supported reforms in the educational system and improvement of the quality and inclusiveness of education. The IPA 2017 invests further in measures to reduce the high rate of unemployment, increase labour market participation, in particular of young people and women, increase access to quality education and training, improve skills matches and modernise the social protection system.

The implementation of the Youth Guarantee in the country is a part of these efforts. It was piloted in 2018 and its roll-out across the country started in 2019. The majority of the funding is provided from the national budget and channelled through established national structures, in particular the Employment Service Agency. The EU is the only donor for the Youth Guarantee in North Macedonia and the planned Sector Reform Performance Contract is the single action dedicated to the Youth Guarantee in the country.

The proposed intervention on VET is a continuation of the previous EU funding. Under the IPA 2017, the EU supports the preparation of a country map of VET schools, the identification of schools having potential to become centres of excellence and systematisation of measures necessary to achieve this target. The 2019 IPA will invest in implementing the identified measures. The EU will cooperate with other donors in the country, such as Switzerland and Germany, whose support is focused on soft measures, primarily on strengthening the link between the VET and business. With the EU focusing on the technological investments in VET, synergy of donors' funding can be achieved and the impact on vocational training of young men and women will be improved. The donor coordination and sector policy dialogue are channelled through the

established sector working group, which will also acquire the function of a public body following the progress on the Sector Reform Performance Contract.

(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:

- a) With regard to the global nature of this Action, the Commission decides that natural and legal persons from the following countries, territories or regions shall be eligible for participating in procurement and grant award procedures: North Macedonia, European Union Member States. The supplies originating from there shall also be eligible.
- b) The Commission’s authorising officer responsible may extend the geographical eligibility on the basis of urgency or of unavailability of products and services in the markets of the countries concerned, or in other duly substantiated cases where the eligibility rules would make the realisation of this Action impossible or exceedingly difficult.

Action 4	EU for Inclusion	EUR 6,500,000
-----------------	-------------------------	----------------------

(1) Description of the Action, objective, expected results and key performance indicators

- Description of the action and objectives
 The overall objective is to reduce poverty in the country.
 The specific objective is to improve social, education and economic inclusion of people belonging to the most vulnerable groups.
- Expected results and key performance indicators:
 - Improved housing, education, and economic opportunities for Roma and people living in deep poverty;
 - Improved accessibility of educational facilities to persons with disabilities;
 - Improved access to community-based services for vulnerable groups of people.

The key performance indicators include:

- ✓ Number of persons (Roma and people living in deep poverty) benefiting from employment-related services, sex disaggregated data / Number of persons employed (Roma and other people living in deep poverty) as a result of the Action, sex disaggregated data;
- ✓ Number of children (of Roma families and families living in deep poverty) involved in educational process, sex disaggregated data;
- ✓ Number of Roma settlements that are legalised;

- ✓ Number of houses for Roma and families living in deep poverty that are built, refurbished or connected to the municipal sewerage system;
- ✓ Number of primary and secondary schools and university faculties made accessible to people with disabilities as a result of the Action / Number of students with disabilities with improved access to education, sex disaggregated data;
- ✓ Number of community-based social services established as a result of the Action / Number of vulnerable citizens, who benefit from social services offered by community based social service (data disaggregated by sex, age, health status).

(2) Assumptions and conditions

- Steady economic growth allowing natural business development and job creation;
- Macroeconomic and political stability and strong commitment of the Government to implement important reforms in the areas of social benefits, labour relations and taxation, education;
- Local governments and Civil Society Organisations (CSOs) are motivated and interested in cooperating on provision of community-based social services, including for Roma people and persons in deep poverty.

(3) Implementation modalities

(3)(b) Direct management (Project approach):

Procurement:

Procurement will be used for achieving Output 2: Improved accessibility of educational facilities to persons with disabilities, and in particular in the implementation of Activity 3: Adapting the buildings and facilities of primary and secondary schools and university faculties to inclusive education.

Procurement will also be used for the evaluation of the Action.

The **global** budgetary envelope reserved for procurement: EUR 3,000,000.

Grants:

➤ Call for proposals 'EU for Roma and people living in deep poverty':

- c) Purpose of the grant: This call for proposals for a conclusion of a number of grant contracts will aim at achieving Output 1: Improved housing, education, and economic opportunities for Roma and people living in deep poverty through the implementation of Activity 1: Improving housing conditions and access to community-based social services for Roma and people living in deep poverty.
The grants entail improving the housing and living conditions, social and health services for Roma and poor people as well as at enhancing school enrolment and school graduation rates for children of Roma families and very

poor families and strengthening the targeted gender sensitive employment-related services.

- d) Type of applicants targeted: Applicants must be legal entities, local authorities, public bodies, economic actors, non-profit organisations, established in the North Macedonia or international organisations.

The **global** budgetary envelope reserved for grants: EUR 3,500,000.

(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:

- a) With regard to the global nature of this Action, the Commission decides that natural and legal persons from the following countries, territories or regions shall be eligible for participating in procurement and grant award procedures: North Macedonia, European Union Member States. The supplies originating from there shall also be eligible.
- b) The Commission's authorising officer responsible may extend the geographical eligibility on the basis of urgency or of unavailability of products and services in the markets of the countries concerned, or in other duly substantiated cases where the eligibility rules would make the realisation of this Action impossible or exceedingly difficult.

3 BUDGET

3.1 INDICATIVE BUDGET TABLE - ANNUAL ACTION PROGRAMME FOR REPUBLIC OF NORTH MACEDONIA FOR THE YEAR 2019

		Indirect management		Direct management	Total EU contribution (EUR)	IPA-II beneficiary or other third party contribution (EUR)	Total (EUR)
		with IPA-II beneficiary	with entrusted entity				
		EU contribution (EUR)	EU contribution (EUR)	EU contribution (EUR)			
OBJECTIVE 2	Sector: Competitiveness, Innovation, Agriculture and Rural Development	0	4,500,000	23,500,000	28,000,000	6,750,000	34,750,000
	<i>Sector 6: Competitiveness and Innovation</i>	<i>0</i>	<i>0</i>	<i>14,000,000</i>	<i>14,000,000</i>	<i>250,000</i>	<i>14,250,000</i>
	EU Supports Competitive and Fair Markets	0	0	14,000,000	14,000,000	250,000	14,250,000
	<i>Sector 8: Agriculture and Rural Development</i>	<i>0</i>	<i>4,500,000</i>	<i>9,500,000</i>	<i>14,000,000</i>	<i>6,500,000</i>	<i>20,500,000</i>
	EU supports Rural Development and Competitive Sustainable Agriculture	0	4,500,000	9,500,000	14,000,000	6,500,000	20,500,000
	Sector: Education, Employment and Social Policies	0	0	23,000,000	23,000,000	850,000	23,850,000
	<i>Sector 7: Education, employment and social policies</i>	<i>0</i>	<i>0</i>	<i>23,000,000</i>	<i>23,000,000</i>	<i>850,000</i>	<i>23,850,000</i>
	EU for YOUTH (SRPC + complimentary support)	0	0	16,500,000	16,500,000	0	16,500,000
	EU for Inclusion	0	0	6,500,000	6,500,000	850,000	7,350,000
	TOTAL	0	4,500,000	46,500,000	51,000,000	7,600,000	58,600,000

*The needed funds for evaluation are included in the respective Action Documents. The total allocation for evaluation for this programme is 400,000 EUR.

4 PERFORMANCE MONITORING ARRANGEMENTS

As part of its performance measurement framework, the Commission shall monitor and assess progress towards achievement of the specific objectives set out in the IPA II Regulation on the basis of pre-defined, clear, transparent measurable indicators. The progress reports referred to in Article 4 of the IPA II Regulation shall be taken as a point of reference in the assessment of the results of IPA II assistance.

The Commission will collect performance data (process, output and outcome indicators) from all sources, which will be aggregated and analysed in terms of tracking the progress versus the targets and milestones established for each of the actions of this programme, as well as the Indicative Strategy Paper.

In the specific context of indirect management by the national authorities of North Macedonia, the National IPA Co-ordinator (NIPAC) will collect information on the performance of the Actions and programmes (process, output and outcome indicators) and coordinate the collection and production of indicators coming from national sources.

The overall progress will be monitored through the following means: a) Result Orientated Monitoring (ROM) system; b) North Macedonia's own monitoring; c) self-monitoring performed by the EU Delegations; d) joint monitoring by the European Commission (DG NEAR) and North Macedonia, whereby the compliance, coherence, effectiveness, efficiency and coordination in implementation of financial assistance will be regularly monitored by an IPA II Monitoring committee, supported by Sectoral Monitoring committees, which will ensure a monitoring process at sector level.

5 EVALUATION

Having regard to the importance and nature of the Actions of this Annual Programme, final evaluation(s) will be carried out for all Actions via independent consultants contracted by the Commission.

The evaluations will be carried out for accountability and learning purposes at various levels (including for policy revision), taking into account in particular the fact that all Actions contain innovative elements for North Macedonia.

The Commission shall inform the implementing partner at least 3 months in advance of the dates foreseen for the evaluation 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 IPA II beneficiary and other key stakeholders. The implementing partner and the Commission shall analyse the conclusions and recommendations of the evaluations and, where appropriate, in agreement with the IPA II beneficiary, jointly decide on the follow-up actions to be taken and any adjustments necessary, including, if indicated, the reorientation of the project.