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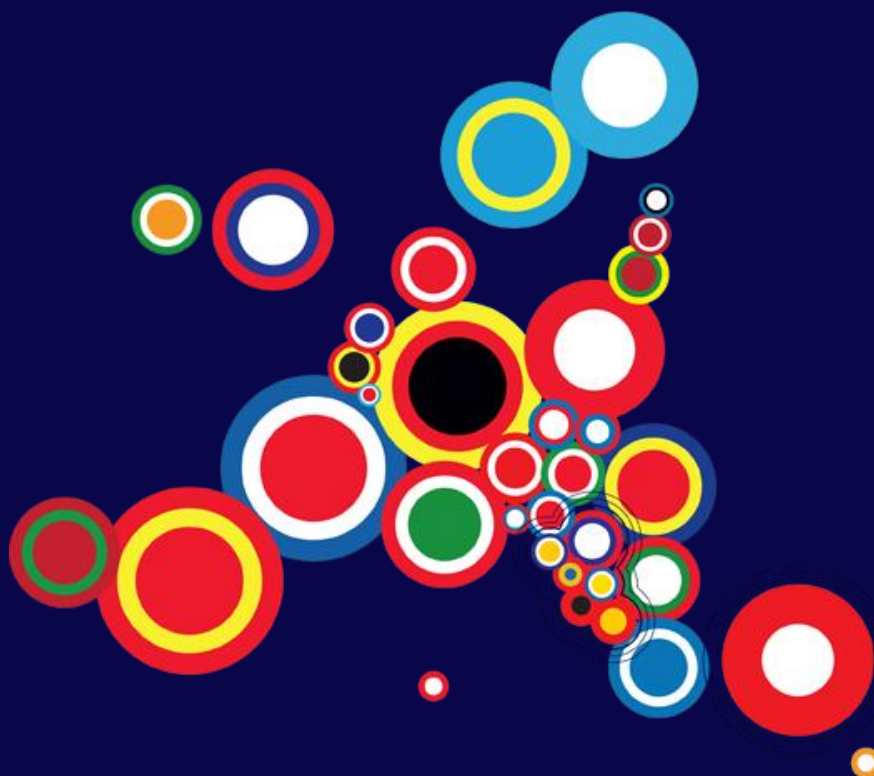
ANNEX

to the

Commission Implementing Decision

**amending Commission Decision C(2014)5861 of 19.8.2014 adopting the Indicative
Strategy Paper for the former Yugoslav Republic of Macedonia
for the period 2014-2020**

INSTRUMENT FOR PRE-ACCESSION ASSISTANCE (IPA II)



REVISED INDICATIVE STRATEGY PAPER FOR THE FORMER YUGOSLAV REPUBLIC OF MACEDONIA (2014-2020)

ADOPTED ON 03/08/2018

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PART I: INTRODUCTION

1. Purpose

The Instrument for Pre-accession Assistance (IPA II)¹ is the main financial instrument to provide EU support to the beneficiaries listed in Annex I of the IPA II regulation in implementing reforms with a view to Union Membership.

This Indicative Strategy Paper (the Strategy Paper) sets out the priorities for EU financial assistance for the period 2014-2020 to support the former Yugoslav Republic of Macedonia on its path to accession. It translates the political priorities, set out in the enlargement policy framework, into key areas where financial assistance is most useful to meet the accession criteria. This Strategy Paper – initially adopted by the European Commission with decision C(2014)5861 final of 19 August 2014 – has been reviewed and updated at mid-term. It may also be revised at any time upon the initiative of the European Commission.

Financial assistance under IPA II pursues the following four specific objectives: (a) support for political reforms, (b) support for economic, social and territorial development, (c) strengthening the ability of the beneficiaries listed in Annex I to fulfil the obligations stemming from Union membership by supporting progressive alignment with, implementation and adoption of, the Union *acquis*, (d) strengthening regional integration and territorial cooperation. Furthermore, the IPA II Regulation states that financial assistance shall mainly address five policy areas: a) reforms in preparation for EU membership and related institution-and capacity-building, b) socio-economic and regional development, c) employment, social policies, education, promotion of gender equality, and human resources development, d) agriculture and rural development, and e) regional and territorial cooperation.

In order to increase its impact, EU financial assistance shall be concentrated on the areas where reforms or investments are most needed to meet accession criteria and tailored to take into account the capacities of the former Yugoslav Republic of Macedonia to meet these needs. Assistance shall be planned in a coherent and comprehensive way with a view to best meeting the four specific objectives and address, as appropriate, the thematic priorities for assistance listed in Annex II of the IPA II Regulation, as well as the thematic priorities for assistance for territorial cooperation listed in Annex III of the same Regulation.

Moreover, EU assistance is only one of the means to achieve the necessary progress. When deciding on priorities for action, due account is taken of the beneficiary's own means as well as of the support provided through other EU instruments and by other stakeholders, in particular bilateral donors or International Financial Institutions. In view of the above aspects, preference shall be given to providing financial assistance under a sector approach, to ensure a more long-term, coherent and sustainable approach, allow for increased ownership, facilitate cooperation among donors, eliminate duplication of efforts and bring greater efficiency and effectiveness.

With a view to delivering on the priorities set for EU financial assistance for the former Yugoslav Republic of Macedonia for the seven years period, this Strategy Paper sets meaningful and realistic objectives, identifies the key actions and actors, describes the

¹ OJ L 77, 15.03.2014, p. 11.

expected results, indicates how progress will be measured and monitored, and sets out indicative financial allocations. The priorities defined for financial assistance will serve as a basis for the (multi-) annual programming of IPA II funds.

The mid-term revision of this Strategy Paper has taken into account the priorities already addressed in the period 2014-2017.

A performance reward exercise has been conducted during 2017 on the basis of an assessment of performance and progress; a second performance reward exercise will be conducted by 2020, as defined in Article 14 of the IPA II Regulation.

2. Consultation on this Strategy Paper

The revised Strategy Paper is an assessment by the European Commission and the Government of the former Yugoslav Republic of Macedonia of the country's needs in the context of its European integration process.

The revision of this Strategy paper is a result of intensive consultations organised in 2016 and 2017. All key stakeholders were involved in the consultative sessions including state bodies and administration, EU Member States, international financial institutions, international organisations and donors. Over 250 civil society organisations took part in the consultation process. Strategic dialogues with the European Parliament were conducted both when the document was initially drafted in 2014 and at mid-term in 2018.

The revision of the Strategy paper integrates the new priorities for the EU and the region that emerged in the last years, notably in relation with the migration crisis and the fight against terrorism. The Strategy Paper takes account of key documents, such as the Pržino Agreement, the Urgent Reform Priorities, the 2015 and 2017 recommendations of the Group of Senior Rule of Law Experts, Commission Reports on the former Yugoslav Republic of Macedonia and recommendations (notably on economic governance), national strategic documents, reports from other relevant organisations, as well as information on current and past EU financial assistance.

PART II: ANALYSIS OF THE NEEDS AND CAPACITIES

1. Political and economic context

The former Yugoslav Republic of Macedonia is a landlocked country of 25,713 square km, situated in south-eastern Europe, bordered by Serbia, Kosovo*, Bulgaria, Greece and Albania. Since its independence in 1991, the country is a parliamentary democracy. In 1993, the country was admitted to the UN under the provisional reference of *the former Yugoslav Republic of Macedonia*, pending a resolution of the name issue with Greece.

* This designation is without prejudice to positions on the status, and in line with UNSCR 1244/1999 and the ICJ Opinion on the Kosovo declaration of independence.

The 2001 census – the latest available – put the population at approximately 2.05 million. More than 580,000 people live in the capital Skopje, with another 13 towns and cities having a population above 50,000. The country is organised into 80 municipalities. Ten of the municipalities constitute the City of Skopje, a distinct unit of local self-government.

Since the country declared independence, it has undergone a profound transformation process towards democracy and has made progress towards becoming a functioning market economy. Its first decade of independence was marked by significant political and economic challenges. Most notably, the country went through a security crisis in 2001 when ethnic Albanian groups took up arms in pursuit of greater rights, a conflict which ended with the internationally-brokered Ohrid Framework Agreement.

After 2001, in its second decade of independence, the country concentrated on building up its democratic institutions and stabilising its economy. Political and economic reforms, free trade agreements, and regional integration had a positive impact on the country's overall stability.

The country has finally overcome the most severe political crisis since 2001. Following the early parliamentary elections in December 2016, the new Government is committed to advance the EU reform agenda in order to bring the country back on its EU path. It is important that both Government and opposition deliver on the implementation of the Pržino agreement and the Urgent Reform Priorities, which address underlying rule of law issues. In addition, the 2015 and 2017 recommendations from the Senior Experts' Group on systemic Rule of Law issues, the challenges identified in the Commission's reports, as well as recommendations from other relevant international organisations need to be addressed. Political dialogue with the country, focusing on fundamentals, will be essential.

The backsliding which took place in the judiciary has started to be reversed. Measures aimed at strengthening the independence, efficiency and the professionalism of the justice system need to be fully implemented. Concerning the reform of intelligence services, work is underway to reform the system of interception of communications and internal measures have been taken to prevent illegal wiretapping from occurring now or in the future. The country needs to demonstrate a much more proactive attitude to effectively fight corruption and establish a modern, digital, transparent and merit-based public administration.

As regards good neighbourly relations, positive momentum was created by the agreement on the name issue with Greece, as well as the entry into force of the Treaty on Friendship, Good-neighbourliness and Cooperation with Bulgaria, both of which were welcomed by the June 2018 European Council.

The inter-ethnic situation remains fragile. The process of national reconciliation needs to continue and greater trust should be built among communities. The review of the Ohrid Framework Agreement needs to be completed in a transparent and inclusive manner. The decentralisation process merits greater attention.

At the same time, macroeconomic stability was maintained. The average annual economic growth in the period 2011-2017 was 2.1%, which was among the strongest in the South East Europe, although still too low to translate in a real catch-up with EU Member States. Following relatively rapid GDP growth in 2014 and 2015 at around 3.7%, for 2016 and 2017 the country recorded GDP growth of 2.9% and 0% respectively, as the enduring political crisis in the country increasingly took its toll on economic development, especially on private and public sector investment. GDP per capita stood at EUR 3,700 or 34% of the EU average in 2012, and by 2016 it had slightly increased to EUR 4,690 or 37% of the EU average. Hence, while the trend is positive, significant convergence to EU Member State living

standards remains a serious challenge. Despite economic reforms, total unemployment remains high at 23.7% (being 36% female unemployment²) of the labour force for 2016. This is one of the highest unemployment rates in the region and well above the EU average of 9.4%³. The country needs to bring down structural and long-term unemployment and improve its socio-economic development through, inter alia, support for the business environment, digital projects, agricultural sector, research and innovation capacities, linking education and training programmes to labour market requirements and through investments in its infrastructure.

In the field of gender equality, which is guaranteed by the Constitution, the former Yugoslav Republic of Macedonia has adopted several laws and mechanisms, obliging public institutions to ensure equal rights and opportunities and to mainstream gender into policies, strategies and budgets through specific measures. Nonetheless, gender gaps, inequalities and stereotypes exist, along with still weak administrative capacity.

The participation of women in the labour market remains low (38.7%, earning 17.9% less). Women's participation in decision making remains limited (32.5% of MPs and 35-40% at municipal level, albeit only six out of 80 mayors), despite quotas (including one of 40% on electoral lists). The country ratified in 2017 the Council of Europe Istanbul Convention on preventing and combating violence against women and domestic violence, but capacity is limited.

In 2015, the country was heavily affected by the refugee/migration crisis, given its geographic location on the Western Balkans route. The unprecedented refugee/migration crises put under pressure infrastructure, institutional capacities and human resources in communities located at the main entry and exit points used by transiting migrants/refugees, and highlighted the urgent need to reinforce the national systems of migration management.

For the sake of a low carbon and climate resilient development and the reduction of pollution levels, the country will have to address environmental and climate change challenges through reforms in the environmental, energy and transport sub-systems, capacity-building efforts and capital investments. The implementation of the environmental *acquis* is a funds-intensive process, which would require the EU support. In addition, the December 2015 Paris Agreement establishes an additional commitment and requires substantial contributions to ensure the transition to a low carbon, resource efficient and circular economy. The country has ratified and now needs to start implementing the Paris Agreement, also by developing a comprehensive strategy on climate-related action consistent with the EU 2030 framework for climate and energy policies.

The revised Strategy Paper is intended to guide EU support to the country in meeting the identified needs, and supporting the reform process. In order to track the results of reforms, to which the EU contributes either through policy dialogue or financial assistance, outcome/impact indicators will be used.

² Source: World Bank – Regional report Western Balkan labour market trends 2017

³ Source: Eurostat

2. Context for the planning of assistance

2.1. EU enlargement strategy

A Cooperation Agreement with the EU was signed in 1996 and the country was the first in the region to sign a Stabilisation and Association Agreement (SAA) in 2001, providing a duty-free access to the EU market and a political framework for its European integration process. The country formally applied for EU membership in March 2004 and was granted candidate status by the European Council in December 2005. Since 2009, the Commission has recommended opening of accession negotiations and, in 2018 the Council agreed to set out a path towards the opening of accession negotiations in June 2019. The Council also agreed to the passage to the second stage of the SAA.

The sustainability of EU financial assistance is linked to a credible EU perspective for the country. A key lesson of previous enlargements is the importance of addressing early on the fundamental reform priorities identified by the Enlargement Strategy 2016-2017.⁴

On 6 February 2018, the Commission adopted a Communication on "A credible enlargement perspective for and enhanced EU engagement with the Western Balkans"⁵. This strategy aims to generate renewed reform momentum in the Western Balkans and provide significantly enhanced EU engagement to better support their preparations on the European path.

For the period 2018-2020, this Strategy Paper has been revised to ensure coherence with the new strategic orientations, in particular as regards the implementation of the six Flagship Initiatives presented in the Communication.

Rule of law and fundamental rights are at the heart of the enlargement process. The "new approach", endorsed by the Council in December 2011, requires that countries tackle judicial reform and the fight against organised crime and corruption early in accession negotiations. This maximises the time to develop a solid track record of reform implementation. The visa liberalisation process has brought significant benefits to citizens and has given the country incentives to implement reforms in the field of justice and home affairs, in particular on border management, migration and asylum, corruption and organised crime. The Government has consolidated its efforts and systems to prevent possible abuse of the liberalised visa regime and the efforts in this direction are to continue.

The global economic crisis has underlined the need for the country, which is not yet a functioning market economy, to strengthen its economic governance. The Government prepares an annual Economic Reform Programme (ERP), which is evaluated by the Commission. The EU also provides guidance on the reforms needed to achieve further progress towards meeting the economic accession criteria. The country has adopted the EU macro-economic criteria, and is also invited to embark on a comprehensive and credible reform of its public financial management system, to enhance competitiveness of the local business and support job creation and employment.

The Digital Agenda for the Western Balkans will also induce a stronger emphasis on preparing the country for a digital transformation in order to maximally reap benefits of

⁴ COM(2016) 715 of 9.11.2016

⁵ COM(2018) 65 of 6.2.2018

today's digital economy and society. Investing in digital projects can also contribute to the success of the other sectors. For example, the use of digital technology and services can enhance transparency, reduce fraud, make it easier to establish businesses, and help modernise public administration. Five areas will be placed central and should lead to several deliverables over the next three years. These five actions areas are: the lowering the cost of roaming; the deployment of broadband; the development of eGovernment, eProcurement, eHealth, & digital skills; capacity building in digital trust and security, in parallel to efforts to enhance digitalisation of industries; the adoption, implementation and enforcement of the *acquis*.

Regional cooperation and good neighbourly relations are essential elements of the Stabilisation and Association process.

Since 2014, the country has been participating in the Berlin Process initiative aimed at improving regional cooperation in the Western Balkans on the issues of infrastructural and economic development. Improved connectivity between the Western Balkan countries and between them and the EU is a key factor for growth and jobs in the Western Balkans.

Strengthening democratic institutions and ensuring more inclusive democratic processes remains very important for the country's EU perspective. The EU is founded on common values and principles, including respect for fundamental rights. Among the current priorities are respect for freedom of expression and the protection of minorities, as well as protecting other vulnerable groups from discrimination.

The implementation of IPA provided some key recommendations for proper implementation of EU aid: to reinforce the sector approach and achieve synergy of the national and EU reform efforts, to focus not on the process but rather on the impact of the EU development instruments (funds and policy dialogue), to raise the visibility of the EU contribution to the country development.

2.2. Relevant national/regional strategies

The Government's four-year Programme (2014-2018) sets out five strategic objectives:

- To increase economic growth and employment
- To integrate the country into the EU and NATO
- To fight corruption and crime and implement laws efficiently
- To maintain good inter-ethnic relations based on the principles of mutual tolerance and respect and implementation of the Ohrid Framework Agreement
- To invest in education, science and information technology for a knowledge-based society

These largely coincide with the main objectives for IPA II assistance, namely improving socio-economic development, rule of law and good governance, and are reflected in the National Programme for the Adoption of the *acquis* (NPAA) and the Pre-accession Economic Programme (PEP). In addition, IPA II will support environment protection and climate action.

To improve economic growth and employment, the Western Balkan countries have developed a common regional strategy for economic development in South East Europe (SEE 2020), supported by a set of pertinent policy objectives, implementation measures and monitoring

mechanisms. The Government of the former Yugoslav Republic of Macedonia has set itself a number of ambitious targets for 2020.⁶

As regards infrastructure, the country established a National Investment Committee and defined a single investment pipeline which is a crucial step towards establishing a credible medium-term planning process for public infrastructure investments in conjunction with the relevant sector strategies.

The country is an active participant in regional cooperation, including the South East Europe Investment Committee (SEEIC), the Regional Cooperation Council (RCC), the Central European Free Trade Agreement (CEFTA), the Western Balkan Six, the South East Europe Transport Observatory (SEETO), the Transport Community Treaty, the Western Balkans Investment Framework (WBIF), the Energy Community (EnC), the European Common Aviation Area Agreement, the Central European Initiative (CEI), RECOM, Regional Initiative for Migration and Asylum and the Western Balkans Platform on Education and Training, all of which can help the Government to improve socio-economic development and address relevant regional challenges.

In 2018, the process has been initiated of including the former Yugoslav Republic of Macedonia in the *EU Strategy for the Adriatic and Ionian Region (EUSAIR)*, a macro-regional strategy to enhance cooperation, socioeconomic development and territorial cohesion among the Member States and non-EU countries in the region. Macro-regional strategies foster cooperation with neighbouring countries and facilitate the preparation of candidates and potential candidate countries for EU integration.

Priorities are aligned with the 2030 Agenda and its Sustainable Development Goals (SDGs). In 2016, the former Yugoslav Republic of Macedonia and the UN agreed on the Partnership for Sustainable Development: United Nations Strategy 2016-2020. The Partnership for Sustainable Development aligns UN activities globally with SDGs on the regional level with European Union accession as the overarching national priority, and at the national level with the National Sustainable Development Strategy and Action Plan as well as sectoral strategies. The Partnership embraces the SDGs by prioritizing the goals, targets and indicators that UN agencies and national partners have agreed have particular relevance for the country in the first five-year period of implementation of the 2030 Agenda.

On gender issues, there are different strategies in place, the National Strategy on Gender Equality 2013–2020; the Strategy for protection against domestic violence 2016-2020 and the Strategy for Equality and Non-Discrimination 2016-2020. The main goal of the latter strategy is to improve the status of the most vulnerable citizens in the country and ensure continuous development in achieving equality and non-discrimination. The implementation of these strategies is slow.

Important sector strategies that guide reforms in all defined sectors have been developed. (listed in Part IV, under the respective sectors). They link closely with the main objectives for IPA II assistance, providing long-term vision for the progress to be achieved.

⁶ Cf. South East Europe 2020 Strategy (<http://www.rcc.int/pubs/0/20/south-east-europe-2020-strategy>).

2.3. Conditions for managing pre-accession assistance

In 2009, the Commission conferred IPA management powers to the national administration for IPA Component V without *ex ante* controls. In the same year, the Commission also conferred management powers with *ex ante* control for IPA Components III and IV, and, in 2010, for IPA Component I. In that context, management of funds was ensured by the so-called Decentralised Implementation System (DIS), based on accredited operating structures employing around 400 staff. Under IPA II, indirect management with the beneficiary country may be used mainly for the programmes aimed at preparing the country for the management of EU Structural Funds (notably in the sectors of environment and transport, agriculture and education, employment and social policies). The Commission will decide what proportion to be allocated to indirect management based on an assessment of the administrative capacity of the beneficiary. In this respect the national authorities could use the IPA good practices to strengthen the administrative capacity in other parts of the public administration.

The administrative capacities of the country's IPA structures have improved in recent years, but there are still shortcomings which have led to a backlog in procurement, a low rate of contracting and a risk of de-commitment of IPA funds. The management and control system shows some systemic problems in exercising internal controls and ensuring the inter-institutional coordination. Further efforts in this area are necessary to improve management of resources and processes. The country must continue improving administrative capacity, to lower the risk of de-commitments of EU funds and make full use of the IPA assistance.

In general, under IPA II, the implementation modalities will be used more selectively with a view to improving the effectiveness and the efficiency of the EU funds. In this respect, IPA II support may also be delivered through direct management by the Commission or through sector reform performance contracts to support key reforms in the enlargement countries upon meeting the eligibility criteria: a stable macro-economic framework; a credible and relevant programme to improve public financial management; transparency and oversight of budget; and credible and relevant sector strategies that are consistent with the EU accession strategy.

IPA II also introduces the sector approach in planning and managing the EU funds. The sector approach is an overarching principle of IPA II for which assessment criteria have been established to determine the level at which a beneficiary qualifies for fully-fledged sector support. The ability of beneficiaries to design sector support programmes is an important success factor for IPA II programming and therefore represents also a key element of performance measurement.

In this respect, the country has established eight sector working groups covering all sectors and composed of representatives of all relevant national institutions responsible for policy making, implementation and monitoring in their respective sectors. Sector working groups developed sector roadmaps, outlining the necessary actions and steps needed to meet the sector approach criteria. Sector strategies are being developed in all sectors. The establishment of a medium-term expenditure framework to support the sector budgeting has been launched. An integrated monitoring and performance assessment framework will be developed by 2018. Functional and institutional analyses are being envisaged as a part of the public administration reform or sector approach to clarify the needs of re-organisation and shift of resources with the public administration. It is expected that by 2019 the sector approach is applied in all defined sectors.

IPA II introduces a stronger results-oriented approach. In this manner, it reshifts focus on the monitoring and evaluation of the use and impact of the EU funds. Monitoring and evaluation

are ensured at project, programme and sector level and involve closely the national authorities, the NIPAC and the established sector working groups in particular.

The thematic evaluation on the sector approach launched in 2017 by the Commission will be relevant for future orientation on the sector approach in the former Yugoslav Republic of Macedonia.

2.4. Donor coordination, complementarity with other EU assistance

Donor assistance to the country has decreased over the last years. The EU remains by far the largest donor. In addition, significant bilateral support is provided by the EU Member States where France, Germany, Italy, the Netherlands, the United Kingdom, remain key donors along with still important contribution of other EU Member States such as Sweden, Austria, etc. Other large bilateral donors include Switzerland and the United States. Multilateral donors include the Council of Europe, the Organization for Security and Co-operation in Europe (OSCE) and the United Nations. The main lenders are the Council of Europe Development Bank (CEB), the European Bank for Reconstruction and Development (EBRD), the European Investment Bank (EIB), the International Monetary Fund (IMF) and the World Bank (WB). Where resources are granted through the budget of the State, or where the State contributes to the selection of the specific interventions to be supported, applicable State aid rules should be complied with.

Donor coordination is ensured by the National IPA Coordinator (NIPAC), supported by the Secretariat for European Affairs (SEA) in its role of a NIPAC Secretariat. In 2016, the NIPAC developed a sector and donor coordination framework, based on eight sector working groups meeting in three level formats – policy-making, senior operational and technical. These working groups are also designed as a consultation platform with the civil society, donors and development partners on the relevant sector policy, reforms and projects. Regular donor coordination meetings take place in the context of the annual/multi-annual IPA programming exercise and involve EU Member States, international organisations, other donor organisations, civil society and other relevant stakeholders. While some progress was achieved, further efforts will be needed to make the donors coordination at sector level a regular and effective tool for building synergies in aid policies. Complementarity with other EU thematic instruments, such as European Instrument for Democracy and Human Rights (EIDHR), will be ensured.

2.5. Consistency with EU policies

Financial assistance to the sectors identified in this Strategy Paper will be granted in line with and in support of the EU enlargement strategy for the former Yugoslav Republic of Macedonia. It will be shaped to contribute to EU policies relevant for the respective sectors. Attention will be paid in particular to ensure alignment with the European Agenda on Migration, the EU Better Regulation Agenda, the EU Gender Action Plan 2016-2020, as well as with the Europe 2020, and the SEE 2020 strategies as EU flagship initiatives to boost growth and jobs and promote smart, inclusive and sustainable growth initiatives. The objectives set until 2020 reflect the level of economic development and country's level of preparedness in the accession process. Finally, priorities for IPA II assistance shall also contribute to the reaching of the 17 goals of the Agenda 2030 for Sustainable Development and to objectives of the Paris Agreement on climate change.

PART III: THE OVERALL DESIGN OF PRE-ACCESSION ASSISTANCE TO THE COUNTRY

The EU is determined to strengthen and intensify its engagement at all levels to support the region's political, economic and social transformation, including through increased assistance based on tangible progress in the rule of law, as well as in socio-economic reforms, by the Western Balkans partners. In view of the priorities of the latest Enlargement Strategy, the Commission's Reports on the former Yugoslav Republic of Macedonia and the Government programme, IPA II assistance will focus on the key strategic priorities set out below with a particular focus on strengthening the sector approach and ensuring visibility of the EU efforts in the country.

Democracy and rule of law

Good governance and public administration reform (PAR) are key elements in the accession process and priorities, which are reflected inter alia in the Pržino Agreement, the Urgent Reform Priorities and the High Level Accession Dialogue (HLAD). IPA II will support efforts aimed at establishing a more professional, impartial, digital, effective and accountable public administration and improving public financial management. The country will furthermore need to continue the process of aligning its legislation with the EU *acquis*, intensify the efforts to develop administrative capacity to ensure its proper and full implementation. Dialogue and cooperation between the Government and non-state actors will be supported throughout all sectors.

Keeping in mind the importance of the public administration reform in the enlargement process, the commitment of the former Yugoslav Republic of Macedonia to meet the Principles of Public Administration in its PAR strategy and the commitment of the EU to the Better Regulation Agenda, the key elements of PAR will be systematically addressed in all IPA II sector interventions. IPA II assistance will especially ensure the Better Regulation approach, whereby policies and legislation in all sectors are prepared on the basis of best available evidence (impact assessments) in an inclusive approach involving both internal and external stakeholders.

Continued reforms in the fields of rule of law and fundamental rights are of key importance to the overall development of the country. The sector's prominence is also reflected in the Pržino Agreement, the Urgent Reform Priorities, 2015 and 2017 recommendations of the Senior Experts' Group on systemic Rule of Law issues, the priorities of the High Level Accession Dialogue (HLAD) and the Commission's "new approach" in this area. Further progress in this sector will ensure the country's stable and democratic future and may also benefit its socio-economic development, including through increased inward investment.

The backsliding which had been taking place in the judiciary needs to continue to be reversed. One of the key priorities under IPA II will be support for the country's judicial and police reforms. Assistance will be provided for activities safeguarding the independence and professionalism of the judiciary, effectively combating corruption and organised crime, strengthening freedom of expression, tackling the issue of online disinformation, fake news and cybersecurity threats, enhancing capacities for the protection of fundamental rights and tackling new challenges emerging in the fields of migration and asylum, as well as improving the effective management of external borders and the implementation of visa, migration and asylum policies, in line with the EU *acquis*.

IPA II will support the implementation of the Ohrid Framework Agreement, in particular local governance and local economic development, in accordance with the principles of subsidiarity and participatory development, as well as social cohesion and good inter-community relations, based on the principle of mutual tolerance.

Specific attention will be paid to equality between women and men, which is a fundamental value of the EU. Apart from specific targeted measures, gender mainstreaming will ensure that EU assistance will in all cases analyse and take into account the differences between women and men, thus ensuring the impact of the EU funds on promoting gender equality, in line with the EU Gender Action Plan 2016-2020.

The 2018 "Western Balkans Strategy" reiterates the importance of Roma integration as part of the Fundamental Rights enlargement priority. Furthermore, the EU Roma integration Framework (2011-2020) mandates the Commission to improve the delivery of support under IPA towards a strategic and results oriented programming. The Roma integration objective will be supported both by including Roma integration benchmarks in mainstream actions and through targeted projects. IPA II assistance will also take into account the national policy framework (Roma integration Strategy and Action Plan), the enlargement related Roma integration commitments taken under the negotiation chapter 23, the visa liberalisation and the conclusions of the Roma Seminar.

Civil society organisations (CSOs) and women's rights organisations play an important role in supporting the democratic processes, in the sector dialogue and in the implementation of sector reform activities. Their inclusion will be encouraged and supported with EU funds to ensure the views of the civil society are taken into consideration.

IPA II will further contribute to the 2030 Agenda for Sustainable Development, notably in fulfilling its "leave no-one behind" pledge, by applying the Rights-Based Approach (RBA) principles (i) legality, universality and indivisibility of human rights, (ii) participation, (iii) non-discrimination, (iv) accountability, and (v) transparency in each step of the programming, implementation, monitoring and evaluation of its support.

Keeping in mind the external dimension of EU's migration policy (the policy framework of which is set by the Global Approach to Migration and Mobility and the European Agenda on Migration), IPA II supports: legal migration and mobility, including through maximising the development impacts of migration; the development of functioning asylum systems; the improvement of integrated border management; and reduction of irregular migration through both focused actions and technical assistance. The EU assistance should aim to improve the efficiency of the national systems of migration management and enhance the bilateral and regional cooperation frameworks.

The issue of radicalisation leading to violent extremism is increasingly a part of policy discussions in the Western Balkans. The prominence of the topic has been driven to a large extent by the concerns of ISIL-inspired terrorist acts, the threat of foreign terrorist fighters (FTFs) returning to their home countries and the media attention surrounding terrorist activities.

As stated in the EU Global Strategy on Foreign and Security Policy (dated June 2016), the EU will work on preventing and countering violent extremism by broadening partnerships with civil society, social actors, the private sector and the victims of terrorism, as well as through inter-religious and inter-cultural dialogue.

Within the scope of the current enlargement policy, which also represents a strategic investment in Europe's security and prosperity, the challenges of terrorism and organised crime are shared between the EU and the Western Balkans and should be tackled in cooperation, as highlighted by the Integrative Internal Security Governance adopted by the JHA Council and endorsed by the Western Balkans. A comprehensive EU response would therefore include strengthening partnerships with key countries, supporting capacity building, countering radicalisation and violent extremism, as well as addressing underlying factors and the ongoing crisis.

Competitiveness and growth

Economic governance is one of the three key pillars of the EU enlargement policy with the aim to strengthen economic fundamentals and growth. EU funds will be used to ensure coordination of economic policies to promote economic and social development. Along with the strengthening of the fiscal and macroeconomic policies, IPA funds will support measures to enhance competitiveness, digitalisation and job creation.

Assistance under IPA II will be used to improve both the business environment and the support systems for business, particularly where small and medium-sized enterprises (SMEs) are concerned. SMEs need to be better prepared for a digital transformation in order to optimally benefit from the increasing digitalisation. Another axis of support will cover the strengthening of the educational system and aligning the national employment programmes with the labour market requirements, in addition to linking research and development institutions to the business and employment sector.

As a landlocked country, the former Yugoslav Republic of Macedonia is particularly dependent on a well-developed and inter-connected land transport network for its economic and social development. Therefore, IPA II will help to develop the national and international trade and transport routes along the comprehensive and core indicative extension of the TEN-T network to the Western Balkans and in accordance with the Transport Community Treaty.

Investments in the digital sector are also needed to rollout large-scale broadband infrastructure development projects to address the low penetration rates, rural-urban divide and to bring the country closer to the EU's ambitious 2025 Gigabit targets.

Since grant funding for investments and the national budget are limited, the country can use the Western Balkans Investment Framework (WBIF), a unique facility for blending loans and grants, which also provides a mechanism for coordinating priority investments in national and regional projects.

Agriculture is one of the most significant economic sectors in the country. IPA II assistance will continue to provide substantial funding to this sector to increase its competitiveness and its growth potential. Particular attention will be paid to the economic development of the country's bordering regions with Albania, Bulgaria, Greece, Kosovo and Serbia. This will help to improve economic growth and reduce the high unemployment rate.

Alignment in the environment and climate sectors are of key importance for the EU accession process and should lead to a cleaner environment and improved quality of life. This will also contribute to the implementation of the Europe 2020 Strategy, helping to ensure sustainable growth and a low carbon, climate resilient and resource-efficient economy. This will notably be done in the framework of the implementation of the 2015 Paris Agreement and the EU 2030 framework for climate and energy policies to help the country meet their own targets. Moreover, switch to circular economy principles goals with measures covering the whole

cycle: from production and consumption to waste management and the market secondary raw materials will boost its global competitiveness, foster sustainable economic growth and generate new jobs. The aim is to contribute to "closing the loop" of product lifecycles through greater recycling and re-use, by this bringing benefits for both the environment and the economy.

Macro-economic relevance of the circular economy and improved resource efficiency are particularly significant in the area of green public procurement, investments in waste and water infrastructure, sustainable construction, critical raw materials, biofuels and biochemicals. Energy and climate related investments should also reflect the alignment with the relevant *acquis*.

IPA II will help to transpose and implement the *acquis* in these key areas, by capacity building and investment-related assistance. Climate relevant expenditure will be tracked across the range of IPA II interventions in line with the OECD-DAC's statistical markers on climate change mitigation and adaptation.

The Connectivity Agenda contributes to the overall strengthening of the beneficiaries' competitiveness, not only through building new infrastructure, but also integrating markets to ensure use of existing ones, as well as providing relevant soft measures to ensure their full and efficient use.

In addition to assisting the above areas, IPA II support may also be mobilised in response to unforeseen priority needs relevant to the accession process which do not fall under the aforementioned priority sectors. In particular, this may include, but will not be limited to, ad hoc and short-term technical assistance provided under the Technical Assistance and Information Exchange instrument (TAIEX) and through Twinning.

The indicative financial allocations per policy area and sector resulting from the priorities defined in this Strategy Paper are set out in Annex 1.

PART IV: EU ASSISTANCE DURING THE PERIOD 2014-2020

1. Democracy and governance

1.1. Needs and capacities in the sector

Good governance and **public administration reform** (PAR) are key elements in the accession process. The country has finally overcome its deep political crisis, which arose from the 2015 revelations of widespread illegal interception of communications (wiretaps). The political agreement (also called "Pržino Agreement") has been largely implemented and the political will to embark on EU-related reforms has been restored by the new government. The credibility of government's commitment for a comprehensive public administration reform, including on public financial management, in line with the Principles of Public Administration has also been re-established. The Public Financial Management Reform Programme for the period 2018-2021 has been adopted in December 2017 and the Public Administration Reform Strategy and an action plan for the period 2018-2022 at the beginning of 2018.

The legal framework and institutional structures for a coherent **policy-making system** are in place. This policy-making system is sufficiently developed to manage the process of EU integration. However, policy implementation suffers from lack of proper coordination among

the key institutions. Both policy planning and central coordination need to be improved. There are no minimum requirements or guidance for sector planning by ministries. As a result, sector planning remains weak, as also demonstrated by incomplete and only on paper financial planning. The quality of the European integration coordination system for both policy measures and assistance implementation remained low. Information on PAR to the public needs to be significantly improved, notably on achieving the targets of the PAR Strategy.

The 2015 Law on Administrative Servants is not systematically applied to ensure merit based recruitment and promotion of civil servants. There are even some laws, for example the Law on Internal Affairs, which have been adopted after the Law on Administrative Servants that allow employees to be excluded from the application of the Law on Administrative Servants. This results in inconsistent rules for public-sector employees and should be remedied. There is no clarity on the extent of the use of temporary, service or other types of recruitments in the public administration which raises concerns over the application of the merit principle. Strong political commitment to guarantee professionalism of the public administration, especially on senior management appointments, and the respect for the principles of transparency, merit and equitable representation remains essential. The Government should ensure full respect of merit-based recruitment for public service positions and avoid the excessive use of temporary, service or other types of recruitments that bypass the merit principle and use instead open competitions for all recruitments.

Organisation of the state administration is fragmented. This is because the Law on the Organisation and Operation of State Administrative Bodies does not provide a clear distinction between different types of institutions. The **lines of accountability** between and within institutions are not clear. Managerial accountability within institutions is not systematically implemented and there is little delegation of responsibility to middle management. Numerous agencies are directly subordinate to the Assembly. Some state institutions continue to report in parallel both to their 'line' ministry (the ministry responsible for their activities) and government. As part of the new public administration reform strategy, the Government should prepare and implement a review to assess the effectiveness of the organisation of the public administration.

The quality of the services to citizens and businesses is a key challenge to be addressed. The interoperability needs to be ensured in order to further enhance e-Government and to enlarge the so far modest in number and type e-services. The country needs to commit to some key principles such as digital-by-default, digital inclusiveness and accessibility; the once-only principle for key public services; and solutions to ensure information security and privacy, including the uptake of a national eID scheme and by establishing a national interoperability framework based on the European Interoperability Framework (EIF). Equal access to public services and public information needs to be ensured.

At the same time extending e-Governance must be accompanied with strengthened data protection capacity. The country has to align their national legislation and frameworks to the eIDAS Regulation. The Law on General Administrative Procedures, which entered into force in August 2016, has aimed to simplify administrative procedures. However, it is not systematically applied by the administration, even though considerable efforts were made to harmonise 169 special laws with the law. The Ministry of Information Society and Administration has so far not provided systematic training or organised public awareness campaigns to inform people of their rights and obligations.

The commitment to modernise **public financial management** (PFM) is outlined in a comprehensive reform programme, covering the needs in the relevant public finance sub-systems, including revenue collection, budget preparation and execution, public procurement, assets, cash and debt management, granting of concessions and state aid, public internal financial control and external audit. The preparation of mid-term budgetary framework and improved budget classification needs to be enhanced. Key challenge will be to increase the transparency of the PFM and ensure public information on the full budget cycle. The modernisation of the IT tools and the optimisation of the business processes remain a priority along with achieving interconnectivity and interoperability of the customs and tax IT systems with the EU systems and ensuring business continuity and disaster recovery facilities. Implementation of the PFM Reform Programme for 2018-2021 will require serious mobilisation of resources and additional financial support. In addition, priority issues such as assets and debt management, granting of concessions and state aid will remain out of the scope of this PFM Programme and will be tackled separately or at a later stage. There is also need to continue supporting the national structures that have been established to manage EU funds with the perspective of preparing for the Structural and Cohesion Funds upon accession. Greater political commitment and operational improvements are needed to facilitate the inter-institutional cooperation, implement the established procedures, and ensure timely implementation of the programmes. Furthermore, an enhanced focus on eProcurement is needed to simplify participation for businesses by creating more transparency and simpler processes.

The development of **democratic institutions**, including through the development of trust in the democratic process, also needs to continue. The implementation of recommendations of the independent Senior Experts' Group on systemic Rule of Law issues enable the new Government and other institutions to address persistent shortcomings in several rule of law areas and to consequently strengthen democratic processes. There is a need to strengthen trust of citizens in key institutions. The involvement of civil society organisations in policy-making and legislative processes needs to continue in an inclusive and transparent manner.

The administrative capacities of the authorities and bodies to conduct reforms need to be strengthened. Efforts have been made by the country to ensure legislative alignment with the EU acquis in various sectors, since the country became EU candidate country in 2005. Commitment to full and proper implementation of the transposed legislation remains to be ensured, requiring proper staff competences, adequate equipment and other resources. The capacity of the Ministry of Information Society and Administration to drive and coordinate public administration reform needs to be improved.

The challenges in relation to **decentralisation** include strengthening of all transferred and yet to-be-decentralised competencies by ensuring the full implementation of all relevant laws and strategies in a consistent way across the country. Assessing the division of competences between the central and local governments could provide valuable inputs for continuation of the reforms. The increasing gap between the capital and the regions needs to be addressed appropriately through strengthening the citizens' participation, improving the efficiency, effectiveness and accountability of the municipal administrations and their association, optimising the public finance management at local level.

The country's **economic governance** should be strengthened. Challenges related to macroeconomic stability and a functioning market economy will be dealt with through the Economic Reform Programme, which together with the policy guidance jointly adopted by the EU and the Western Balkans and Turkey annually, are the EU's main instruments for

economic policy dialogue with the country. The ERP contains a thorough diagnostic of key structural obstacles to long-term growth by sector and a list of structural reform measures to address these. Assistance under IPA II shall take the identified key constraints and the reform priorities identified by the country in the ERP and in the jointly adopted policy guidance into account in its programming and shall support the implementation of both the reform measures included in the ERP and the policy guidance.

Implementation of these recommendations will be subject to an annual cycle of stock-taking, which will identify the steps to be taken towards meeting the economic accession criteria. Based on these recommendations, annual follow-up actions will be prepared in cooperation with relevant partners.

Modern decision-making is based on reliable data and information. Meeting the EU standards in the production of **statistics** and the implementation of the European Statistics Code of Practice require additional investments. Statistics is used in planning, monitoring and assessment of all reforms, hence the need to enhance the capacity of the State Statistical Office to produce statistics, supervise the national statistics system, ensure the quality of the data as well as their transmission to Eurostat for comparability and assessment purposes. Focus needs to be put on improving the methodologies for data collection and production as well as the availability of statistics, enhancing the coordination between the data providers and the assurance of data quality.

An empowered **civil society** is a crucial component of any democratic system and should be recognised and treated as such by state institutions. It contributes to more transparent, accountable, effective and legitimate governance, greater social cohesion and more open societies. The awareness and skills of the public administration to cooperate with civil society in an inclusive and transparent manner should be strengthened. Constructive interaction of Government with civil society on all Government policies should continue, particularly in the areas covered by the Urgent Reform Priorities, social reform, gender equality, and with regard to vulnerable groups, including the LGBTI (lesbian, gay, bisexual, transgender and intersex) community and minorities. The Roma community merits particular attention in all respects. The integrity, transparency and accountability of the civil society organisations need to be strengthened along with the capacity for self-regulation, representation and coordination. Particular efforts are required to optimise the funding flows and improve the financial sustainability in the CSO sector, as well as encouraging the corporate social responsibility. The participation of civil society in the programming and use of the EU funds will be ensured. Moreover, a particular attention should be devoted to support the establishment of fair and transparent procedures for the funding of civil society organisations at central and local level.

Under IPA, around EUR 77 million have been programmed for the above areas. The lessons learned from IPA I indicate that reforms in areas without hard EU *acquis* take longer and need stronger political support, commitment from all layers of the administration and an effective coordination of the various stakeholders involved. Assistance needs to be sequenced appropriately and the quality of project outputs needs to increase to achieve a greater impact.

Reforms in the sector have been based on PAR Strategy, as well as some specific strategies, i.e. for public procurement, public internal financial control, development of the national statistical office, development of the state audit, Strategy for Cooperation with Civil Society (2012-2017). Recent developments include the adoption of a new public financial management reform programme for 2018-2021 and public administration reform strategy and action plan for 2018-2022. These last two strategies being comprehensive and well-

coordinated demonstrate progress in implementing the sector approach, which needs to be encouraged and the coordination further enhanced.

1.2. Objectives, results, actions and indicators

The **objectives** of IPA II assistance for this sector are:

- to improve the professionalism, transparency, accountability and independence of the public administration at central and municipal level, taking into account the principles of merit and equitable representation
- to strengthen the capacities of the administration to craft and implement reforms, deliver quality services, ensure macroeconomic stability, sound public financial management, good governance and gender equality
- to enhance the democratic process at country and local level and encourage participation of civil society and local communities with specific emphasis on fostering women's participation.

The **results** to be achieved include:

- Progress towards strengthened, accountable, digital, professional and depoliticised public administration in line with the Principles for Public administration
- Improved administrative capacity to deliver reforms and ensure progress
- Fiscal and macroeconomic policies in line with the EU macro-economic (debt and deficit) criteria and a robust framework for the management of financial crises is established
- Statistical methods and tools almost completely compliant with the requirements of the European Statistical System by the end of the implementation
- Enhanced quality and availability of (sex-disaggregated) statistics
- Interconnectivity and interoperability with the relevant EU systems achieved
- Improved functioning of democratic institutions and the independent regulatory and supervisory bodies
- Improved quality of public services at all levels of government
- Improved legal predictability and enforcement of laws and court decisions
- Strengthened financial sustainability and autonomy of the municipalities
- Improved compliance of the public financial management with the international/EU standards
- Efficient and transparent management of EU funds by the national authorities
- Stronger and more independent civil society

In the field of **PAR**, support will be provided for policy coordination, policy making, and implementation of legislation. IPA assistance will be used to ensure greater respect of the principles of merit based and equitable representation, as well as to strengthen the framework for management of the human resources at state and local level. IPA will also invest in improving the services to citizens and businesses, with a particular focus on development of e-services and e-procurement, and free access to public information.

Further on, aligning with the **EU *acquis*** will be supported including for upgrading of IT systems for operational efficiency and interconnectivity with the respective EU systems (e.g. tax and customs-related ones). The efficient implementation of the **EU *acquis*** requires significant resources and capacities, not only for harmonisation process but most important – to ensure the implementation of the *acquis*. In this aspect support will be provided for the supervisory and regulatory bodies along with numerous implementing bodies and authorities in various areas. Support will also be extended to **democratic institutions**, particularly the

Parliament, the Ombudsman, the Supreme Audit Office as well as other independent bodies and agencies. Assistance will continue to be provided to improve electoral processes in the country in order to enhance women's participation. Assistance will finally be used for the programming, identification, formulation, monitoring and evaluation of EU assistance, as well as for co-financing entry-tickets to relevant Union programmes

In the field of **decentralisation** and local governance, support will be given for implementation of local development policies and legislation, fostering accountability and transparency of local administrations and enhancing citizens' participation in local decision-making. In addition, IPA II will support the national authorities in analysing the progress and constraints as regards the decentralisation process. Improving the quality and sustainability of the municipal services to citizens and businesses will remain a priority. Focus will be put on optimising the revenue collection, sound financial management, economic and financial planning and distribution of resources as well as on inter-municipal cooperation. Finally, support will be given for enhancing the inter-community relations based on the principles of mutual tolerance and respect.

In the field of **economic governance**, assistance will be given for the implementation of the country-specific policy guidance of the annual Economic Reform Programme. Along with improved capacities for macro-economic planning IPA will also invest in establishing a robust framework for the management of economic changes and financial crisis. Support will also be provided for the preparation and implementation of a comprehensive public financial management reform programme. Specific focus will be put on improving the revenue administration and collection (customs/tax) and strengthening the operational and institutional capacities including the IT interconnectivity and interoperability of customs and tax administrations with EU systems. A key priority will be the improvement in the medium term budget planning and introduction of a solid programme-based budgeting. At the same time IPA funds will also be invested in optimising the budget preparation, budget execution and cash management, including the introduction of the integrated PFM IT System, covering all key PFM sub-systems and gender responsive budgeting.. Assistance will be allocated for ensuring the efficiency and effectiveness of the public procurement system. Strengthening the public internal financial control and the external audit remains among the key priorities of the sector as well.

Particular focus will be put on **statistics** where investments will be made into the data collection (sex-disaggregated), processing and publication and ensuring the compliance with the EU statistical criteria for production of statistics and organisation of the statistical system.

Support will be provided for the implementation of the Civil Society Strategy with a focus on ensuring the representation and participation of the civil society, including women's rights organisations, and enhancing the dialogue between the Government and the civil society. In this aspect, IPA will fund improvements in the legal and financial environment, capacity-building activities and optimisation of the coordination at sector level. Improving the access to public information and inclusion of CSOs in the formulation, implementation and monitoring of sector policies will be also in the focus of IPA. Civil society involvement must be ensured in the identification, planning, implementation and monitoring of the planned action in all sectors.

Indicators:

- Extent of progress made towards meeting accession criteria (EC);
- Composite indicator Government Effectiveness (WB), Burden of Government Regulation

- (WEF) and Regulatory Quality (WB);
- Composite indicators Global Corruption (TI) and Control of Corruption (WB);
- Statistical compliance (Eurostat);

1.3. Types of financing

Reforms will be supported through twinning, service, supply, works and grant contracts, implemented under direct and/or indirect management. SIGMA and the Regional School for Public Administration (ReSPA) can also support reforms in this area. TAIEX can be used for ad hoc and short-term technical assistance. Support for non-state actors will also be provided through the Multi-country IPA programmes, notably the Civil Society Facility (CSF). The use of sector budget support for sector reforms can be considered, once the conditions have been met. Assistance can also be provided through co-financing the country's participation in relevant Union Programmes and Agencies in all sectors of this Strategy Paper.

1.4. Risks

While numerous strategies shape the reforms in particular fields, proper sector strategies exist only in relatively few of the previously defined areas, making the coherence in the reform process at sector level questionable. As mitigation measure IPA II assistance will be used for development of new sector strategies or ensuring compliance of the existing strategies. Governmental commitment to the adoption of key strategies and providing the required resources for their implementation needs to be ensured through high level policy dialogue.

The lack of commitment to a medium-term expenditure framework, and the insufficient allocation of resources, which affects the capacity and independence of institutions, can be mitigated through supporting a comprehensive reform of the public financial management, intended to optimise the use of the state resources. The IPA assistance, complemented by intensive policy dialogue on PFM, is expected to ensure stable mid-term fiscal and budget planning to anchor the annual budgets in accordance with the costs of the sector reforms.

The lack of an enabling environment for civil society participation and limited commitment to dialogue with civil society can be mitigated by supporting more participatory decision-making processes at country and local levels, by putting the participation of civil society on the EU-country political agenda and by building the advocacy and participation capacities of the CSOs. Raising the skills of the administration to cooperate with the civil society is also in the focus of the EU support.

The risk of corruption has to be addressed through enhanced legislation, strengthened responsibility, ownership and control environment and improved integrity. The implementation of the strategy on prevention and fighting against corruption will be supported as well.

2. Rule of law and fundamental rights

2.1. Needs and capacities in the sector

Despite the progress made, and the substantial assistance provided in this sector, the area of justice and home affairs faces challenges which need to be addressed in a comprehensive manner. Improvements in this area will benefit the stable democratic development of the country, as well as the business environment and the country's economic growth.

The country's **justice** sector underwent major legislative and structural reforms between 2004 and 2017. The backsliding seen over previous years has started to be reversed through decisive steps taken in recent months to start restoring the independence of the judiciary. Sustained efforts are needed to fully ensure the independence, quality and efficiency of the judiciary. Implementing the planned reforms will take time and require a change in behaviour. The adoption of a credible judicial reform strategy lays the basis for the work in this area. Focus needs to be put on restoring independence of judges and that the Judicial Council and Council of Public Prosecutors duly exercise their role of protecting judges and prosecutors from any undue internal and external pressure. In line with recommendations of the Venice Commission, the country needs to ensure appointments and promotions are merit-based and that a harmonised performance management system based on qualitative as well quantitative standards as a basis for all career decisions is introduced. Improving the consistency of rulings and the court practice are also needed. The IT strategy for the judiciary has been adopted and the IT system in public prosecutors' offices continued to improve. However, these remain largely donor funded and their maintenance is hampered by lack of funds and staff. The results of the inspection into the application of the automated court case management information system (ACCMIS) will need to guide further actions to ensure it is systematically used and regularly audited. The electronic case management system at the Public Prosecutor's Office is in place and needs to demonstrate improvement in the office efficiency and integrity. The codification of civil law needs to continue, and should contribute to harmonisation with EU legislation in various fields, as well as improving the efficiency of civil and commercial court proceedings. Functioning of administrative justice and the legislative framework governing misdemeanours need to be subject of a thorough analysis upon which reforms will be developed. Further steps are still needed to improve transparency and access to justice for citizens, including greater use of legal aid and alternative dispute resolution. The quality of justice would benefit from improvements to the tools of the judicial professions (access to legislation and legal commentaries, training on jurisprudence and familiarisation with international and EU law). Strategic planning and human and budgetary resource management within the judiciary and prosecution service still need to be improved considerably.

On the fight against **corruption**, the capacities of the relevant institutions, in particular the Public Prosecutor's Office against organised crime and corruption, the Ministry of Interior, Public Prosecution Offices, the State Commission for the Prevention of Corruption, the Agency for the management of Confiscated Assets and the State Audit Office, need to be stepped up and inter-agency cooperation has to be improved. A sustainable solution to ensure legal accountability for criminal offences surrounding and arising from the content of the wiretaps and enabling the Special Prosecutor's Office is empowered to continue its work needs to be adopted. The existing track record of investigations, prosecutions and final convictions needs to be improved, and in particular the capacity of courts to deal effectively with corruption cases should be enhanced. The existing legislative regimes for the declaration of assets, declaration of conflict of interests and political party financing need to be enforced fully and improved where necessary. More attention still needs to be paid to the prevention of corruption in public finance management (particular in the areas of public procurement, concessions, state aid) and in the field of public administration in general. An enhanced use of e-tools along with an increase in the quality and quantity of public information on the use of state funds will increase transparency and accountability and will allow civil society to monitor the work of the judiciary and public administration. Systematic monitoring and

follow-up of cases which are referred to the public prosecutor by supervisory bodies has not yet been developed.

Increased efforts are needed in the overall promotion and protection of **fundamental rights** of disadvantaged groups, including children, women, the LGBTI community, persons with disabilities and persons belonging to minorities. Despite the Law on the Prevention of and Protection against Domestic Violence, adopted in 2014 and the government's ratification of the Council of Europe Convention on Violence against Women and Domestic Violence (Istanbul Convention), violence against women remains a serious concern. The social and economic integration of the Roma will require particular attention. The national Roma Inclusion Strategy will need to be fully implemented. Continued support for social inclusion of all vulnerable groups is urgently needed. Implementation of policies in this field needs to be strengthened, notably through building capacity and co-ordination among the institutions involved at central and at local level. There is a need for more proactive implementation of the relevant policies, including the Roma Inclusion Strategy at national and local level. Urgent measures need to be taken to address the situation in prisons and places of deprivation of liberty. Continued prison reform should focus on addressing immediate needs related to physical conditions and access to basic rights as well as long-term strategic planning, improved managerial capacity, efficient and safe management of penitentiary and correctional educational institutions. There is a need for increasing the use of alternatives to detention and the probation system needs to be made fully functional throughout the country. The procedural rights of detainees, in particular of juvenile offenders, need to be systematically safeguarded. The situation and the political climate for media have improved. This needs to be followed up through measures promoting an enabling environment for freedom of expression. The support for the civil society organisations working in the field of human rights and acting as watchdogs needs to continue.

On **home affairs**, asylum, visa and migration policies are in place but human and material capacity need to be strengthened, in particular in view of the persistent migration risks inferred by the location of the country on the so-called western Balkan route. Support should be targeted towards the capacity to detect irregular migration; conduct voluntary and non-voluntary return while respecting the international human rights standards; systematic registration of migrants and protective-sensitive profiling; registering victims of trafficking and victims of smuggling; improving reception and accommodation capacities and the provision of assistance to asylum seekers, vulnerable irregular migrants and victims of human trafficking and the capacity of the administrative justice system to deal with asylum cases. The article 23 of the Law for asylum for the protection of persons with disabilities and vulnerable persons regulate obligations to provide necessary rights and priorities based on gender.

The Ministry of Interior needs to continue to reform the police as there is a need for further professionalization and de-politicisation of the police, as well as for enhancing the effectiveness and transparency of special investigative measures, more pro-active investigation of **organised crime** including financial investigations and the establishment of a national intelligence model. The country launched a comprehensive reform of the criminal justice system, adopting a new Law on Criminal Procedure. The implementation of this reform, entailing significant organisational and legislative changes, remains a major challenge for all the actors within the criminal justice system. The human and material capacity of the border police to maintain national security against trans-national crime, irregular migration,

trafficking in drugs, firearms, goods and people as well as terrorist-related threats, should be further strengthened in accordance with the Schengen *acquis*.

The radicalisation leading to violent extremism and terrorism is a phenomenon with increasing importance, which requires a twofold approach addressing both the immediate security implications of radicalisation as well as the root causes, bringing together all relevant actors across society. In this respect, the country needs to intensify the reform of the security sector, to improve the investigation capacities, i.e. the capacities to trace financial flows, to map out the local activities of the radicalised religious leaders, to intensify the outreach and preventative activities, in particular among vulnerable groups, to develop dialogue at community level, raising the awareness of the dangers of violent extremism and preventing possible radicalisation among youth. Support should target the office of the National Coordinator for Counter-Terrorism and Countering Violent Extremism.

The refugee / migration crisis, which started in 2015, challenged key state systems. Up to 10,000 migrants and refugees per day were initially waved through the southern border with Greece towards its northern border with Serbia. In June 2015, two transit centers were established, "Vinojug" on the border with Greece and "Tabanovce" on the border with Serbia. In August 2015, the 'state of crisis' was declared and the army was deployed at the southern border. It has been extended until 30 June 2018 and continues to be managed by the Crisis Management Centre. The country has played an active role and cooperated with neighbouring countries and Member States while working to overcome challenges in managing mixed migration flows transiting through its territory. The EU used all possible tools to help the country with the refugee crisis and provided significant humanitarian, financial and technical support to facilitate the management of mixed migration flows, upgrade reception capacities, support voluntary return and improve hygiene and health care facilities. The EU currently supports the costs borne by the country in relation to the guest border officers sent by some Member States and Serbia to support the effective management of the southern border via an IPA contract currently running up to October 2018. The country is in the process of negotiating with the European Union the status agreement on actions to be carried out by the European Border and Coast Guard Agency in the country.

In the field of **cyber security and crime**, there is a need for further resources, specialist tools and capacity building for authorities to manage the increasing volume and complexity of the task. Due to the cross-sectorial nature of cyber, cybersecurity should be promoted as a transversal issue in bilateral actions through integration of cyber resilience elements in projects dealing with critical infrastructures (e.g. ICT, transport, energy) and digital/e-Government initiatives. Furthermore, the issues of **online disinformation, fake news and the low level of digital trust** need to be addressed in order to deal effectively with manipulation of public debate, elections and policy-making processes, both internally and on an external level.

Over the past decade, around EUR 60 million of EU assistance has been provided for important structural reforms, notably of the judiciary and the police. The country's achievements in this respect include the establishment of an Academy for Judges and Prosecutors, the development of a system of administrative justice, the reform of the criminal justice system and implementation of the Police Reform Strategy. Sector-specific assistance and equipment has been provided to support the efforts for combating corruption, organised crime, witness protection and border control capacity. In the field of fundamental rights, assistance has focused on the implementation of juvenile justice reform, prison reform including construction and refurbishment of prisons, support to the Office of the Ombudsman,

respect for human rights in the treatment of prisoners and detainees, implementation of the Roma Strategy and protection of personal data. Further assistance has been programmed in the areas of freedom of expression and anti-discrimination. The prevention and fight against cybercrime needs to be enhanced.

In addition to EU assistance, support is provided by Germany, Italy, the Netherlands, the UK, Norway, the United States, the Organisation for Security and Co-operation in Europe (OSCE), the International Organisation for Migration (IOM), the United Nations Children's Fund (UNICEF), the United Nations High Commissioner for Refugees (UNCHR) and the United Nations Development Programme (UNDP).

IPA II assistance will be based on the Government's key sector strategies, including the Justice Reform Strategy, Strategy for the Development of the Penitentiary system, Strategy for Development of the Probation Service, Strategy for Fight against Corruption, the Roma Inclusion Strategy, strategies for Gender Equality and the Rights of Persons with Disabilities, the National Strategy for Development of the Established System of Integrated Border Management. The Strategy for Police Reform adopted in 2016 provides a more comprehensive strategic vision as regards Home Affairs. The new judicial reform strategy and action plan will shape the efforts of the country to ensure a judiciary system compliant with the EU requirements and performance standards. The coordination in the sector, although significantly improved in the last few years, deserves continuous attention.

2.2. Objectives, results, actions and indicators

The **objectives** of IPA II assistance in this sector are:

- To support the country in completing the judicial and police reforms
- To improve the effectiveness of the fight against corruption, organised crime, cyber security threats, online disinformation and fake news, terrorism and violent extremism
- To ensure full respect for the fundamental rights, including as regards the situation in prisons and other places of detention, including transit and asylum centers, women's rights, freedom of expression, as well as independence of civil society and human rights organisations
- To improve the effective management of its external borders and ensure the implementation of visa, migration and asylum policies, in line with the EU *acquis*.

The **results** to be achieved include:

- Enhanced strategic planning, administrative and judicial capacity and inter-agency cooperation in all areas of justice, home affairs and fundamental rights
- Legislation further aligned with the EU *acquis* in the relevant areas
- Amending legal frameworks to remove discrimination, including those based on gender
- Improved independence, efficiency, professionalism and effectiveness of the justice system
- More consistent application of the law, and a more timely and correct enforcement of judicial rulings
- E-justice introduced and quality and quantity of the public information on the functioning of the justice in the country improved
- Notable decrease in corruption, particularly at the high level, demonstrated by a solid track record of prevention and repression, and a solid track record in the fight against organised crime

- Strengthened national capacities for countering violent extremism and decreased risk of radicalisation
- Compliance with the case law of the European Court of Human Rights and conformity with European standards and international best practices on human rights and fundamental freedoms
- Decreased number of violations of and awareness raised on human rights and women's rights
- Detention conditions, rehabilitation and re-socialisation improved.
- Improved independence, efficiency, professionalism and effectiveness of the independent institutions charged with protection of fundamental rights and freedoms
- Improved legal, regulatory and policy environment to foster freedom of expression and media and strengthened media integrity and journalists' independence
- Strengthened implementation capacities in the area of home affairs (border management, visa, migration, asylum) founded on legislation which is fully aligned with the EU *acquis*
- A more effective, professional and independent police and enhanced capacities and inter-agency cooperation in the fight against organised crime

On the **judiciary**, support will be provided for the implementation of the new judicial reform strategy, including the required legislative and organisational changes and strengthening of the capacities of the Judicial Council and the Council of Public Prosecutors. The independence of the judiciary will be strengthened through stepping-up merit-based recruitment and appointments as well as promotion of judges and prosecutors and supporting improvements to systems of evaluation, discipline and dismissal. Further assistance will support the pre-service and in-service training of judges, prosecutors and court staff. The development of reliable data to monitor the overall duration of proceedings, the enhancement of the civil and commercial justice systems, including through procedural reforms, improving the efficiency of administrative justice and the misdemeanour system and completing the criminal justice reform will also be in the focus along with better access to justice for citizens (including promotion of existing systems of alternative dispute resolution (ADR) and free legal aid). EU funds will be targeted to enhance the physical and technical conditions in relevant institutions, further promote the use of e-justice by courts and related institutions and increase of the quality and quantity of public information on the functioning of the judiciary system. Support will also be granted to actors promoting the rule of law, including associations of legal professionals and academic institutions, as well as civil society and research organisations working in this field. Intersectional discrimination in the judicial system which impedes women's equal access to justice will need to be addressed. On the fight against **corruption**, assistance will be provided to improving the track-record of investigations, prosecutions and convictions, as well as the effectiveness of penalties imposed; further developing the integrity concept and supporting the improvements and implementation of mechanisms for whistle-blower protection. Special focus will be put on supporting the State Commission for the Prevention of Corruption and other specialised bodies. Assistance will help to strengthen the transparency and accountability mechanisms within the public and private sector, as well as political parties; strengthen the checks and balances within the judiciary and law enforcement agencies; improve cooperation between the various bodies involved in the fight against and prevention of corruption and involve the non-governmental sector and citizens in the implementation of anti-corruption policy, improving policy-making, monitoring and evaluation capacities of relevant state and non-state institutions.

On **fundamental rights**, assistance will help in the implementation of the European Convention on Human Rights (ECHR) and the case law of the European Court of Human Rights (ECtHR), including protection against discrimination, guaranteeing freedom of expression and safeguarding procedural rights of detained and accused persons. Assistance will further support the implementation of effective policies, protecting disadvantaged groups including persons with disabilities, women, children, Roma; LGBTI persons and other minorities, as well as strengthening of community-based services for vulnerable groups, especially with regard to social inclusion, health and economic wellbeing. As regards Roma, EU support will be focused on fighting discrimination and marginalisation by improving the access of Roma to basic rights i.e. documentation, education, employment, housing, health care and public services. Support will also be provided to prevent ill-treatment of detainees and prisoners, combat impunity of perpetrators and strengthen institutional prevention mechanisms, support the creation and implementation of formal and vocational education systems for juveniles deprived of their liberty, improve the conditions in, and the strategic planning and the management of, prisons and strengthen the capacities of the Office of the Ombudsman, including in his capacity as National Preventive Mechanism. Attention will be given to the protection of youth and children from illegal conduct on line and cyber-crime. Assistance will also aim at strengthening personal data protection with a view to align national legislation with the latest EU *acquis*, increasing participation and involvement of non-state actors in promoting respect for fundamental rights and strengthening inter-institutional cooperation and coordination in these areas. With respect to freedom of expression and the media, assistance will support building up technical capacity and provide training and expertise to the relevant media bodies and institutions in order to develop investigative journalism, improve professional journalistic standards and develop a system of self-regulation. Support in this respect will be based on, among other things, the "Guidelines for EU support to media freedom and media integrity in enlargement countries, 2014-2020". Support will also be extended to the strengthening of inter-community relations.

In the area of migration, EU assistance will support efficient functioning of national migration management systems. Support will be provided in specific areas that mainstream migration in the implementation of the bilateral and regional cooperation frameworks. Focus will be put on improving the transposition of the asylum-related *acquis*, management and implementation of all aspects of asylum policy, including improved capacity of the Asylum Unit of the Ministry of Interior, the Administrative Court and reception and accommodation facilities; strengthening the material and human capacity to detect and prevent irregular migration, as well as assistance to asylum seekers and victims of trafficking and victims of smuggling; improving the surveillance and detection capacity of the border police regarding all forms of cross-border crime; setting up a basis for the future Schengen Information System and strengthening the inter-institutional, cross-border and international cooperation in these areas.

On **home affairs**, assistance will be given to improving the efficiency and professionalism of the police and other law enforcement agencies; strengthening internal and external oversight of the Ministry of Interior; strengthening the material and human capacity for prevention and repression of crime including organised crime, various forms of trafficking, terrorism, economic and cyber-crime; improving the institutional capacities for effective seizure and confiscation of assets; enhancing the efficiency and transparency of special investigative measures; increasing the use of financial investigations; supporting the reform of intelligence services. In relation with the increasing threat of terrorism, attention will be paid on improvements in the legal framework, building the capacities of the institutions to assess the risks and propose mitigation measures, improving the in-country coordination and raising

efficiency through joint operations of the various services, strengthening the investigation and improving the track record, establishing reliable communication and information exchange networks. Special focus will be put on improving the dialogue with local communities and civil society through awareness raising activities and pilot projects for preventing radicalisation in vulnerable groups. Support will also be provided to strengthen the development of a Cybersecurity programme to enhance capacity, focussing on training of Cybersecurity officers; and to develop an effective framework to deal with the issues of online disinformation, fake news and the low level of digital trust.

Indicators:

- Composite indicator Access to Justice (WJP) and Judicial independence (WEF)
- Composite indicator Global Corruption (TI) and Control of Corruption (WB)
- Composite indicator Freedom of Press (FH) and Press Freedom (RWB)

2.3. Types of financing

Reforms will be supported through twinning, service, supply, works and grant contracts, implemented under direct and/or indirect management. TAIEX can be employed for ad hoc and short-term technical assistance. The use of budget support can be considered once the necessary conditions have been met. IPA multi-country programmes can complement reforms in all areas. Synergy is established with EIDHR. Assistance can also be provided through co-financing the country's participation in relevant Union Programmes and Agencies in all sectors of this Strategy Paper.

2.4. Risks

Political instability and lack of strong political commitment for the time and resource-intensive reforms in the sector will be addressed through enhanced political dialogue and IPA financial assistance. In this sector, more than any other sector, the reform process needs a consolidated effort and a mobilisation of all stakeholders (including the non-state ones) to balance the negative impact of the political instability and find the way forward. In the absence of accession negotiations, the few tools with a risk mitigation power include the high-level policy dialogue and the enhanced use of conditionalities in planning and implementing EU funds.

3. Environment, climate action and energy

3.1. Needs and capacities in the sector

Reforms in this sector and progress in alignment with the *acquis* are of key importance for the country's accession process. The aim is to provide for a cleaner and safer environment and improved quality of life for the citizens. Further on, the Paris Agreement (that the country has ratified in November 2017) requires a more enhanced role of the states in curbing global warming and reducing the climate change impacts. In the energy sector, in line with the Energy Union strategy and the Energy Community Treaty, reforms would ensure energy security, solidarity and interconnection, in line with climate objectives, while boosting competitiveness and innovation for the clean energy transition of the economy.

The country is largely exposed to climate change impacts. The frequency and intensity of floods in the country has dramatically increased in the recent years and caused many casualties, damages to water and transport infrastructure, to private properties, business and agricultural activities. While considerable support has been allocated by the EU to deal with the consequences of floods, preventive measures to increase climate-resilience should be

prioritised. In this respect the capacity of the country to analyse, prevent and reduce the risks of disaster needs to be significantly strengthened. The transposition and implementation of the EU *acquis* in this area needs to be considered as a priority.

Women and men have different vulnerabilities to climate change impacts on food security, agricultural productivity, livelihood, water availability, sanitation, health and energy, among others. Existing gender inequalities, such as limited access to natural resources and productive assets including land and finance and to household and community decision-making constrain their ability to adapt to and cope with climate change.

The transposition of the climate action legislation needs also to be enhanced, including awareness on the new EU package for waste management.

The alignment with the EU environmental and climate *acquis* requires both legislative measures and substantial financial resources and investment in environmental infrastructure and technology, in particular in the waste and water sectors. The estimated cost of compliance with relevant legislation is EUR 2.3 billion⁷ (over EUR 1,000 per capita and around 37% of annual GDP), yet the annual budget of the Ministry of Environment and Physical Planning for 2013 is only EUR 15 million (0.34% of the state budget). A single sector project pipeline was established in 2016 identifying priority projects in the environmental area for over EUR 510 million. The pipeline focuses primarily on water and waste management. The implementation of these projects would require enhanced donor coordination and smart use of state resources.

Utility prices need to reflect the full costs of services, including e.g. waste management and/or wastewater treatment. The polluter-pays principle should generate revenues that will be used to fund environmental protection measures. The country's capacity to develop sustainable investment projects in environment and climate sector is also low.

The country need also to consider the introduction of market-based instruments, promote eco-industries and encourage the development of the green economy as a cost effective way to address environmental challenges. Stepping-up green procurement and including environmental impact criteria in the public tenders also needs to be enhanced along with the promotion of eco-responsibility. State and private investment in sustainable agriculture and tourism represents another opportunity for the country having both environmental and development impact.

It is important that investment policies and decision-making process in the sector are improved by involving communities and civil society organisations and increasing the quality, quantity and accessibility of environmental data and statistics. Environmental policy-making in a participatory manner, where state interacts with business, civil society and citizens, needs to become a priority. This interaction requires a high level of transparency and accountability in managing the public resources and taking strategic decisions as regards environment. Environmental democracy therefore needs to be strengthened.

Major environmental issues such as nature protection, sustainable use of all natural resources and air pollution also need to be addressed as cleaner environment is closely linked to citizens' health and quality of life. Air pollution has been outlined as a serious issue in the bigger towns and measures need to be taken as a matter of urgency. The protection and

⁷ Cf. National Strategy for Environmental Approximation, 2007-2015

preservation of species and habitats needs to be ensured and the necessary measures should be taken to ensure future Natura 2000 network implementation in the country.

Under IPA I, around EUR 100 million have been programmed for this sector. Italy, Switzerland, UNDP, Kreditanstalt für Wiederaufbau (KfW), WB and other international organisations and bilateral donors are also providing assistance to this sector. Donor coordination remains important, even though donor assistance is likely to decrease in volume and scope.

There are several planning documents for the sector, notably the National Strategy for Environmental Approximation and the Second National Environmental Plan, which is a basis for the Strategy for Environmental Investment and various sector strategies for water, waste, air, and environmental monitoring. The 2nd National Communication on Climate Change presents the objectives for climate change mitigation and adaptation actions, providing a detailed analysis of policy options. The quality of the Strategy for Environment and Climate still needs to be improved.

The Ministry of Environment and Physical Planning is in charge of formulating, implementing and monitoring the environmental and climate change policies. Municipalities implement a part of the legislation. In addition to the Environment Ministry, a number of other Ministries and bodies are directly responsible for environmental matters and climate change issues, including the Ministries of Health, Transport and Communications, Economy, and Agriculture, as well as the Protection and Rescue Directorate. Sector coordination between the relevant institutions needs to be enhanced on central and local level and be equipped with an adequate monitoring framework. The capacity to produce good environmental statistics, both historical and projected data, needs to be developed.

Regarding civil protection, the former Yugoslav Republic of Macedonia joined the Union Civil Protection Mechanism in June 2015. It still needs to establish Secure Trans European Services for Telematics between Administrations (sTESTA) connections, which is a precondition to access the Common Emergency Communication and Information System (CECIS) of the Union Civil Protection Mechanism.

3.2. Objectives, results, actions and indicators

The overall **objective** of IPA II assistance in this sector is to prepare the country for EU accession and to support reforms in areas of environment and climate action, which should lead to a cleaner environment and improved quality of life. This will contribute to ensuring sustainable growth and the shift to a low-carbon, climate-resilient and resource-efficient economy.

The **results** to be achieved include:

- Environment, climate change policies and legislation are further aligned with EU standards and best practice and effectively implemented, including to support the 2015 Paris Agreement on Climate Change, also through increasing the EU expenditure dedicated to climate action
- Energy, environment and climate change legislation implemented and administrative capacity strengthened
- Water and waste management improved, including the infrastructure, in line with EU requirements

- Air quality plans for all or most agglomerations developed and under implementation, including emergency response plans based on effective traffic solutions
- Natura 2000 sites identified and selected, based on sound scientific data
- Low emissions development and climate mitigation and adaptation measures introduced
- Resilience to climate change impacts and capacity for disaster risk reduction enhanced.
- Improved environment policy-making based on raised transparency and accountability and enhanced participation of stakeholders in policy-making

As regards harmonisation of environment and climate **legislation**, support will be provided to align, implement and enforce horizontal environmental and climate action legislation. Support will also be provided for raising public awareness and promoting public participation in environmental policy-making as well as for improving the environmental statistics and institutional transparency. The EU will also encourage smarter regulation to ensure involvement and incentives for businesses and citizens to apply the environmental regulations, to invest in eco-industries and greener businesses and to strengthen inspections and control on environment. The capacities of the national institutions to design and implement reforms will be supported.

In the area of **water quality**, support will be provided for the preparation of river basin management plans; for improving the quality of surface, ground waters and drinking water; and for the establishment of systems for drinking water quality control and for flood management. Investments in wastewater collection and treatment for large agglomerations (10,000 inhabitants and more) and in sensitive areas in compliance with the Urban Waste-Water Treatment Directive will be also supported.

In the area of **air quality**, support will focus on the preparation of air quality plans, capacity-building to implement and enforce air quality legislation, on improved monitoring and reporting on air quality, on enhancing the system for emergency response during exceeding levels of pollution and implementing effective traffic solutions.

Waste management remains a major challenge. Assistance will be provided to support the implementation and enforcement of waste management legislation, in particular the Waste Framework Directive and to support investments in integrated waste management systems at regional level, compliant with the Waste framework Directive 2008/98/EC. As part of the transition to circular economy, awareness on the new EU package for waste management needs to be improved. The level of recycling and re-use of waste is very low and the country will need to increasingly focus on other forms of waste management, following the waste hierarchy, and using landfilling as a last resort.

In the area of **nature protection and sustainable management of natural resources**, support will be provided for the establishment of the Natura 2000 network based on sound scientific data as well as for development and implementation of plans for protection of critically endangered species. The capacities of the national parks and the environmental institutions to ensure the protection of the Natura 2000 zones and other parks and implement the legislation will be enhanced. As regards reduction of industrial pollution and industrial disaster risk, support will focus on the implementation of the Industrial Emissions Directive and the Seveso Directive. In the field of **energy**, support will be granted to the implementation of the strategies on energy efficiency and renewable energy.

As regards **climate action**, assistance will be provided for the transposition and implementation of legislation, especially for the monitoring, reporting and verification of

greenhouse gases (GHG) emissions, fluorinated gases, ozone-depleting substances, vehicle efficiency and fuel quality standards, and for carbon capture and storage. Support will also be given to renewable energy and low-emission technologies, to disaster risk reduction activities to facilitate the country's further integration into the Union Civil Protection Mechanism, to implementing measures for sustainable use of natural resources, to climate and disaster resilience of investments, to industry compliance with environmental standards, and to the greening of the industry, including monitoring of environmental and health risk factors.

Further mainstreaming of climate related actions within the priorities highlighted for IPA II assistance shall be enhanced and ensured by all relevant stakeholders. This will be done keeping in mind the aim to gradually increase the share of DG NEAR climate spending with a view to reaching the 20% target by 2020 for IPA II. Increasing share of these resources shall be invested in mitigation, adaptation and facilitating innovation as well as in capacity building and flood and hazard-prevention measures.

Regarding civil protection, support will be granted to the former Yugoslav Republic of Macedonia to implement the EU legislation on civil protection and to further integrate the country into the Union Civil Protection Mechanism.

Indicators:

- Progress made towards meeting accession criteria (European Commission)
- Increased investments in environmental sector, particularly climate-related expenditures are in line with the Paris climate agreement
- Improved environmental indicators (air/water/industrial pollution)
- Level of CO₂ emissions
- Number of climate change strategies (a) developed and/or (b) implemented with EU support

3.3. Types of financing

Reforms will be supported through twinning, service, supply, works, and grant contracts, implemented under direct and/or indirect management. TAIEX can be used for ad hoc and short-term technical assistance. The use of budget support can be considered, once the conditions have been met. WBIF and the 'Joint Assistance to Support Projects in European Regions' (JASPERS) can be used to support investment related activities. The 'Environment and Climate Regional Accession Network' and its follow-up program can contribute to strengthening capacity-building in the sector. Multi-country and national assistance can be used in all areas, including for disaster risk management and disaster management.

3.4. Risks

Stakeholders are not yet sufficiently involved in the decision-making process which risks to limit the scope of environmental measures and reforms, to decrease the credibility and public support for the governmental environmental policies. Further steps should be taken to strengthen the participatory approach and involve communities, business and civil society in environmental policy making and policy implementation. The smarter regulation approach based on introduction of economic instruments and incentives for greener businesses are an effective tool to enhance the reforms of the environmental sector.

Insufficient financial resources to implement and co-finance activities need to be dealt with by raising the capacity for mid-term budget planning, and by attracting other donors for the environment and climate action sector.

Domestic political support for the development of the sector should increase. Lack of political commitment and of administrative capacities to implement and enforce environmental and climate action legislation at central and local level are also a risk for the impact and the sustainability of projects and investments. The environmental sector needs to receive more political support and attention and be better addressed in the EU's dialogue with the country.

4. Transport

4.1. Needs and capacities in the sector

The country's geographical location has contributed to the development of international traffic along two Pan-European Corridors: X (North-South) and VIII (East-West). The transport sector encompasses rail, road, inland waterways, civil aviation and intermodal transport modes. Road traffic – by amount and number of goods and passengers – with 14.159 km of public roads, is dominant over rail traffic, with 925 km of railways tracks. The country has two international airports (Skopje and Ohrid), both operating under 20-year concessions. Inland waterway traffic (passengers only) is functional only on Ohrid Lake and contributes to tourism development.

The establishment of an integrated transport system will boost economic growth and increase the competitiveness of companies through improving the mobility of people, goods and services, which creates added value and productivity gains, and expands economies of scale and scope. Efficient transport connections promote also social inclusion by connecting distant and disadvantaged communities and by offering a cheaper and more accessible transport network for the citizens. The transport sector in the country contributes by 3.5% to the GDP, which is lower than the EU average level (around 5%⁸). Hence, the optimisation of the transport system and network in the country has an important potential in terms of wealth creation.

The improvement of the railway infrastructure should furthermore contribute to a reduction in CO2 emissions. Other types of efficient and sustainable transport which minimize emissions and consumption of resources and energy need also to be promoted through respective economic instruments. This approach can balance the negative impact of transport on the environment, particularly in the context of the Paris agreement of December 2015.

While the legal framework is largely in place, further alignment is needed especially in the area of road safety and road maintenance and railway legislation. Support for regulatory bodies and committees must improve further to allow for their fully independent functioning. Areas that need improvement are the development of an integrated multimodal transport system, as well as liberalisation of the transport market and competition in transport services. Support needs to be provided for implementing the connectivity reform measures on rail reform and the opening of the rail transport market for at least domestic and regional undertakings.

The Ministry of Transport and Communications is in charge of elaborating and implementing the national transport policy, national strategies and action plans. The Railway Safety Directorate and the Captaincy-Ohrid, within the Ministry, as well as the State Transport

⁸ https://europa.eu/european-union/topics/transport_en

Inspectorate, are responsible for supervising the implementation of relevant laws and rules. The administrative and operational capacity of the State Transport Inspectorate in particular, should be further strengthened. Railway infrastructure and services are managed by two state-owned public enterprises⁹ and the national road network is managed by the Public Enterprise for State Roads. Further business segmentation in the national railway operator is under implementation.

The National Transport Strategy, 2007-2017, foresees the implementation of necessary reforms in the sector in accordance with the National Programme for the Adoption of the *acquis*. The strategy defines the main investment priorities in the sector, focusing on construction, reconstruction, rehabilitation and modernisation of the road and railway infrastructure along the indicative extension of the TEN-T Comprehensive/Core Network to the Western Balkans. The new challenges in the transport sector are being assessed in the framework of ongoing assessment of the current transport strategy and the identification of the new strategic priorities until 2030.

On average, the Government is spending 7% of GDP on transport. Under IPA I, around EUR 109 million have been programmed for this sector. This included support for developing Corridor X-road with substantial support from the national budget, EIB and EBRD. EBRD and WB are also supporting the local and regional road network rehabilitation programme. In addition, EBRD provides support for the railway sector and air navigation services.

IPA II assistance can build on the established project pipeline which identifies priority projects for the rail and road infrastructure. National capacities for strategic planning, institutional coordination, and a monitoring framework will need to be enhanced.

The consideration of gender in the transport sector is essential to ensure that transport is equitable, affordable and that it provides access to resources and opportunities required for development. Women and men have different mobility needs and patterns, which transport policies need to acknowledge. Inadequate transport systems can restrict women's access to education, economic opportunities and healthcare.

4.2. Objectives, results, actions and indicators

The overall **objectives** of IPA II assistance in this sector are to support the development of a modern, efficient, safe and environment-friendly transport network, to support the alignment of the transport legislation with the EU *acquis* and its implementation, and to contribute to the country's sustainable socio-economic development.

The **results** to be achieved include:

- Transport policies and legislation further aligned with EU legislation and best practice, including to support the 2015 Paris Agreement on Climate Change, also through increasing the EU expenditure dedicated to climate action
- Strengthened administrative capacity for making and implementation of transport policy
- Increased mobility of persons and freight and improved contribution of transport to the GDP

⁹ Where the infrastructure manager is a public enterprise and railway operator is a joint stock company.

- Improved rail and road infrastructure systems along the indicative extension of the TEN-T Comprehensive/Core Network to the Western Balkans
- Increased cooperation with neighbouring countries on transport issues
- Reduced CO₂ emissions from transport, reduced air and noise pollution from transport systems
- Improved safety in all transport modes.

IPA II support will contribute to the implementation of the connectivity reform measures. Alignment with the **EU *acquis*** and development of necessary institutional structures for implementation and enforcement will be supported. Focus will be put on setting up the necessary infrastructure for accelerating the development of intermodal transportation. EU funds will also strengthen the administrative capacities for enhancing the reform in the transport sector. Project documentation for completion of the indicative extension of the TEN-T Comprehensive/Core Network to the Western Balkans will be developed. Support will be provided for the consolidation of transport policy in the country and involvement of non-state actors in this process. The development of green urban transport and reducing the levels of carbon dioxide stemming from the transport sector will be a priority.

In the area of **road infrastructure**, assistance will be provided for the construction and/or reconstruction, rehabilitation and modernisation of road infrastructure, with a special emphasis on improvement of road safety, while ensuring all possible synergies through a roll-out of intelligent transport systems in the road sector (cost reduction). Support will also be provided for co-operation between all countries involved in the development of the main road transport corridors, especially concerning cross-border freight transport. Support will also be extended to the development of adequate operations and maintenance plans for the existing and newly-built road network for all road categories

As regards **railway infrastructure**, support will be provided for the construction and/or reconstruction, rehabilitation and modernisation of rail infrastructure, with a special emphasis on the improvement of rail safety and railway electrification, closing missing links to neighbouring countries, and on making rail a competitive and attractive mode of passenger transportation.

On **aviation**, the country has achieved a relatively good level of alignment with the *acquis* and has made considerable progress in implementing the first transitional phase of the European Common Aviation Area Agreement. Assistance will be provided to continue the process of alignment to the aviation *acquis* including the Single European Sky legislation.

Indicators:

- Logistics performance indicator, score (WB)
- Transport statistics (road safety/ freight and passengers volume/contribution to GDP).

4.3. Types of financing

Reforms will be supported through twinning, service, supply, works, and grant contracts, implemented under direct and/or indirect management. TAIEX can be employed for *ad hoc* and short-term technical assistance. WBIF and JASPERS can be used to support investment related activities. Regional cooperation and coordination can further be supported through relevant regional institutions and fora, such as SEETO (to be replaced by the future Permanent Secretariat of the Transport Community), and through multi-country IPA assistance such as WBIF.

4.4. Risks

Lack of political commitment to deliver on necessary sectoral reforms and shortcomings in strategic planning, already resulted in reduced EU financial assistance for this sector. A key risk remains the primary focus on investments in infrastructure, particularly road infrastructure, at the cost of slowing down the sector reform and introducing integrated, efficient and greener transport. Further EU investments will be made conditional on strong political commitment to sector reforms. Clear prioritisation in the planning of transport systems based on sound cost-benefit analysis, environmental and climate impact consideration will be encouraged, in line with the developed pipeline of mature transport projects. Particular focus will be put on enhancing citizens' participation in sector policy-making.

Lack of financial resources to implement the large scale projects can be mitigated through coordinating investments with IFIs through WBIF, and with neighbouring countries through relevant fora, with the aim of leveraging funds, pooling resources and agreeing on priorities.

5. Competitiveness and innovation, agriculture and rural development

5.1. Needs and capacities in the sector

Improving the socio-economic development through fostering economic growth and creating employment is a priority objective of the European Commission and the Government. Assistance in this sector will help to improve the conditions for competitiveness, digitalisation, innovation and job creation. The focus is on the creation of a competitive and export-oriented economy based on knowledge and innovation.

The country's own strategic efforts should be seen in the context of the EU's enhanced economic governance approach as of 2014. The Economic Reform Programme for the former Yugoslav Republic of Macedonia contains measures for improving economic policy-making with a view to fostering competitiveness, innovation and employment.

The development of a Smart Specialisation Strategy is the prerequisite that underpins national research and innovation strategies and policies. It helps to prioritise national research efforts and to allocate the resources needed. In terms of research and innovation capacity building it also helps to identify regional centres of excellence. Furthermore, all Western Balkan countries will produce country "action plans" for the implementation of the SEE 2020 strategy, which will be updated and monitored on an annual basis. EU support is needed for improving the economic policy-making and translating the competitiveness, innovation, digital and employment related objectives into efficient and effective measures by promoting balanced development of urban and rural territory.

With regard to the **legal and institutional environment**, some success has been achieved in attracting foreign direct investment and noticeable improvements have been made in the regulatory environment for starting and operating businesses. Some progress has been made on the free movement of goods, labour, services and capital. The country ranks high in the World Bank's 2016 *Doing Business* Index (12th out of 189 economies and best in the Balkans). Yet, key challenges remain, notably as regards registration of properties, access to energy and infrastructure, contract enforcement and protection of property rights, etc. Weak rule of law and inefficient implementation of legal provisions, particularly with regard to the bankruptcy procedure, are the main hurdles to the improvement of the business environment. The effectiveness of the judicial system and public administration is crucial for enhancing

legal certainty for economic operators, attracting foreign direct investment and business development. The investments in the public administration and judiciary reforms have therefore to beef up the competitiveness-related efforts and investments. Transparency needs to be improved in the areas of state aid, concessions and public procurement to ensure level-playing field for businesses.

There is a need to ensure further harmonisation with the EU *acquis* and to implement the legislation in the fields of quality infrastructure, market surveillance and consumer protection, customs control, protection of intellectual property rights. The Government must also ensure the enforcement of the competition rules, the compliance with state aid legislation, and the adequate supervision of financial markets. The freedom of movement of services must also be guaranteed. The administrative capacity of the authorities, agencies and regulatory bodies, charged with specific responsibilities, in these areas need to be strengthened as well.

Efforts should also be directed at rendering the labour market more flexible, at boosting skills and productivity, at promoting the health and wellbeing of the workforce, at linking the public sector and universities with the business sector, and at building up research excellence.

Boosting the **competitiveness of the private sector** requires innovative and efficient measures. A competitiveness strategy was adopted in 2016 identifying seven priorities and 48 measures representing an amount of EUR 131 million. Small and medium-sized enterprises (SME) represent 99% of all companies, account for 75% of employment and are key to competitiveness. However, the policy framework for SME support services remains incomplete. Currently, there is limited donor or public support through the Agency for Entrepreneurship which provides co-financing for business services. Support specifically targeting start-ups, spin-off companies and innovation, technology transfer, commercialisation of innovation, accelerators and business incubators is insufficient. Additional micro-lending, guarantee schemes, and other types of financial and non-financial support for SME development and innovation are needed. Sources of external finance for SMEs, including bank lending, have significantly decreased due to the global crisis. Additional sources for financing, especially for micro-companies, only amounted to about 2.5% of GDP in 2010 and should be further developed. Support for contributing to favourable conditions for external equity financing¹⁰ should be envisaged. SME guarantee funds could be created or reinforced to further encourage private sector investments.

SMEs also need to develop the necessary capacities to cope with market pressures from the EU and the region, including by stimulating innovation through the take-up of information and communication technologies. Support for company expansion should be reinforced. Subsidised advisory services supported both financially and professionally, should become the main form of Government support for SMEs. The voucher system of subsidised counselling services should be reinforced financially with extended areas of intervention (innovative voucher, creative industry voucher, green voucher, energy efficiency voucher).

The country is categorised as a “modest innovator” in the European Commission's European Innovation Scoreboard. The share of R&D expenditure in GDP is rather low at 0.22% (2010). However, innovation is seen as one of the key drivers of competitiveness and requires additional support. The Government has taken the first steps by adopting the National

10 Cf. SME Policy INDEX, December 2012.

Innovation Strategy in 2013, followed by a Law on Innovation and an innovation fund. The Government is supporting research and development activities to achieve innovation, and in order to be competitive in the export markets. The innovative capacities of SMEs are being supported through the Fund for Innovations and Technological Development. However, more efforts are needed in order to achieve a greater impact on SMEs' innovation capacities and activities. Public-private consultation fora and partnerships should be developed and strengthened. The implementation of the regional R&D for Innovation Strategy is an opportunity for prioritising investments in this area.

The country also needs to improve the business environment by **investing in the digital sector**, both fixed and mobile/wireless broadband access, particularly in more rural regions, to reduce the digital divide within the country and the digital gap with the EU. An enhancement of access and understanding of existing infrastructure should happen by mapping the current infrastructure. The handling procedure for access to existing infrastructure should be simplified and in line with the European acquis (e.g. EU Broadband Cost Reduction Directive). Furthermore, one or multiple Broadband Competence Offices (BCO) have to be established to advise local and regional authorities on ways to invest effectively in broadband, and help citizens and businesses get better access to broadband services.

The country also needs to improve competition within the electronic communications and ICT sectors as well as support the ability of traditional industries to compete and innovate through ICT improvements, training and digital skills development. Investments in the mapping of the local start-up ecosystem and a stimulation of the entrepreneurial culture could help to combat the high levels of youth unemployment. National digitising industry strategies have to be developed in order to optimally prepare businesses and to lever upon the digital transformation. In line with the Skills Agenda for Europe, the Government should also aim to implement a national digital skills strategy, including programmes for un/underemployed, women and the elderly and establish national coalitions for digital jobs.

Concerted efforts are needed to strengthen **local and regional competitiveness**. The country's competitiveness is affected by regional disparities and rural depopulation. The Government has undertaken some actions to ensure stability, reduce poverty and increase competitiveness through support for key sectors such as tourism, and created opportunities for new investments by supporting the establishment of industrial zones and tourism development zones. Further efforts are needed to reduce disparities and contribute to a better investment climate through developing better quality local services and infrastructure in more deprived sectors and regions.

Competitiveness and innovation are very much linked to the concept of local integrated development, which has been at the core of rural development policies of the EU for the past three decades. **Agriculture** has traditionally been one of the most significant branches of the country's economy, with its share in the GDP of about 10%. 44% of the country's area is agricultural land (1.12 million hectare), of which 46% is cultivated and the rest is permanent pastures. 44% of the total population lives in rural areas and 18% of the workforce is engaged in agriculture. Young women in rural areas aged 20-24 years (59%) and 25-29 years (43%) face with the highest unemployment rate. 64% of rural women are officially inactive mainly because of child care and household obligations.

Agricultural products represent 4.95%¹¹ of the country's exports, and 2.4% of total imports. The share of agro-food and fishery products exported to the EU in total exports to EU is about 8%¹² (EUR 265 million), while the share of imports from the EU in total agro-food and fishery products in 2015 was 8.67% (EUR 357 million). Although around 20% of the country's arable land is under irrigation facilities, only 5% is irrigated.

These figures make agriculture and rural development, along with hunting, forestry and fisheries, the third largest sector of the economy after industry and services. However, the agricultural sector faces serious challenges. Subsistence and semi-subsistence farming, dominated by small and highly fragmented family farms, low technology production systems and lack of irrigation hinder primary production. The lack of collection, distribution and management systems for fresh products, and the lack of infrastructure for processing, labelling, packaging and marketing are affecting the quality and safety of food products. As a consequence, only a few agri-food enterprises are authorised to export to the EU. The capacity to benefit from the free trade agreements is therefore low.

The under-development of agricultural support services, such as market information, access to rural crediting and advisory services also pose challenges in this sector. While the country's financial support to the sector has considerably increased over the last years, the domination of the direct payments approach contributes only marginally to the necessary structural reforms in the sector. However, the past years showed an increase in the rural development policy share from 10% in 2011 to 32.7% in 2015. Yet, it is necessary to further strengthen the capacities for design and implementation of effective rural development policies, and management of budgetary resources. Inadequacies in accurate up-to-date statistical data, including on landholding and pasture conditions and use, further need to be addressed to support policy and decision-making.

Women living in the rural areas are among the most disadvantage groups at risk of discrimination in all spheres of public and private life. Entrepreneurship of women in rural areas is constrained by limited ownership of land. Women own around 16% of land.

The agricultural sector also faces challenges to the ecosystem and would suffer from the impact of climate change. The geographic and climatic conditions allow for a large range of products to be cultivated, but the country is highly exposed to climate change impacts. Droughts and floods have become frequent in the last years. Large irrigation infrastructures cover approximately 40% of the arable land but due to poor maintenance in the last years are not operating properly. Along its complete rehabilitation, investments are also needed for small irrigation infrastructure.

Under IPA, around EUR 23 million was programmed for competitiveness and innovation and around EUR 110 million has been allocated to support the implementation of the National Strategy for Agriculture and Rural Development (2007-2013)..

IPA II assistance to this sector will increase sharply and be programmed in line with the key national sector strategies, including the Industrial Policy Strategy 2009-2020, the National Strategy for Innovation (2012-2020), the National Strategy for Sustainable Development (2008-2030), the National Programme for Improvement of Competitiveness, the National

¹¹ SITC Rev 4 Statistical classification of ,exports, State Statistical office

¹² Trade flows by SITC product grouping 2011-2015, Eurostat

Strategy for Tourism Development (2011-2015), the Strategy for Rural Tourism Development 2012-2017 and the National Programme for Scientific Research and Development (2013-2017), as well as the Regional R&D Strategy for Innovation. A new SME development strategy will be developed in 2014, to present the key activities related to SME support and development, as well as a strategy for development of tourism. Involvement of non-state actors and the citizens needs to be ensured through systematic social dialogue and public-private partnerships. The overall institutional sector framework will require further strengthening to implement the sector approach. It is necessary to consolidate and make coherent use of the various strategies in this sector.

As regards agriculture and rural development, the implementing legislation has been adopted on quality of food, organic farming, local action groups and on agricultural cooperatives. Food safety standards and animal health and welfare requirements have been set up. A functional integrated system for administration and controlling of the agricultural and rural development support policies (IACS) has been established along with a land parcel identification system, sustainable agricultural information system and Farm Accountancy Data Network. Investments have also been supported under three IPARD measures, focusing on agricultural holdings and physical assets for processing and marketing of agricultural products in sub-sectors, which are the main contributors to Gross Agricultural Output, namely fruits, vegetables, livestock, livestock products and wine. Rural development challenges such as the lack of employment opportunity and services in rural areas have been targeted under IPARD through investments support for establishing micro and small enterprises in rural areas and rural tourism. Yet, the absorption of the allocated funds for rural development, both from the national budget and IPARD, was affected by lack of staff and insufficient capacity in the responsible authorities. IPA II will further extend the efforts to improve the agricultural policy in the country. The new 2014-2020 National Strategy for Agriculture and Rural Development (NARDS) will frame the reforms to overcome the structural deficiencies and improve the competitiveness in the sector. The dialogue between the civil society sector and the relevant national authorities needs to be strengthened.

Overall, the sector is at an early stage of readiness for the sector approach.

5.2. Objectives, results, actions and indicators

The overall **objective** of IPA II assistance in this sector is to achieve competitive economy based on knowledge and innovation and real convergence with the EU, to ensure sustainable development of the agri-food sectors and of the rural areas in line with the EU *acquis* and policies and ensure food-safety.

The **results** to be achieved include:

- Improved legal and institutional framework for business creation and operations
- Strengthened evidence-based participatory decision-making, enhancing women participation
- Enhanced harmonisation with the EU *acquis* and strong implementation record in the area of internal market, particularly free movement of goods (incl. quality infrastructure, market surveillance and consumer protection, and customs controls), free movement of services and competition and state aid
- Better access to finance, especially for women, and business services and improved business-related infrastructure, including at local level
- Improved business performance and competitiveness at local, national and international markets

- Enhanced research and innovation capacities and improved cooperation among universities, industry and Government and effective models of public-private partnerships in the area of research and innovation
- Agriculture and rural development policy and legislation aligned with EU CAP and related EU *acquis*
- Strengthened administrative capacities, incl. improvement of IT systems, at all levels of the administration and public bodies to implement agricultural reforms and policies and to ensure efficient absorption of IPA and IPARD funding
- Improved competitiveness of the agricultural sector and contribution to GDP and job creation
- Improved safety of human beings and animal health
- Improved rural infrastructure
- Improved quality of life in rural communities
- Improved resilience to adverse impacts of climate change

Support will be provided for strengthening the country's **economic governance**. Challenges related to macroeconomic stability and a functioning market economy will be dealt with through the Economic Reform Programme, which leads to country-specific policy guidance. Implementation of this guidance will be subject to an annual cycle of stock-taking, which will identify the steps to be taken towards meeting the economic accession criteria.

The **environment for business operations** will be strengthened through support for the improvement of the legal, regulatory and institutional environment. While the harmonisation with the EU *acquis* in the area of free movement of goods, services, capital and work force, state aid and competition will continue, a focus will also be put on simplification of legislation, reduction in and streamlining of administrative procedures, improvements in administrative registers, collection and use of data for economic planning purposes, monitoring and evaluation of the impact of the economic policies. The protection of industrial property rights, of private properties and improved cadastre functioning will be another priority. Increasing consumers' awareness and understanding of their rights and redress mechanisms will also be supported. The competition policy itself needs to be seriously strengthened in the interest of the fair business treatment, reduced risks for corruption and increased opportunities for entrepreneurs and small and medium sized-enterprises. The transposition of the *acquis* on services will also be supported as an instrument to encourage competition and competitiveness in the market of services.

EU funds will be invested in improving the quality of the public services to businesses and citizens. As a part of the e-Governance approach, the one stop shop approach for services will be extended gradually. This will also have impact on the transparency in issuing permits and licences and will support the equal treatment of businesses and reduce corruption. Involving civil society and economic operators in economic policy-making remains among the priorities in order to ensure balance economic development and mobilise community support for the governmental economic policy.

The **competitiveness of the private sector** will be developed through improving the business support services such as business networking and clustering, consultancy, training, technical assistance for companies to improve their management, performance, products and services, etc. A particular focus will be put on improving access to finance of businesses and particularly the SMEs, where joint measures with the country and IFIs are envisaged. As a

part of the efforts to mainstream gender equality, support for women entrepreneurship will be encouraged.

Strengthening the research and development potential of the country and the companies will also remain in the focus of the EU aid. With priority on supporting international knowledge and technologies exchange, linking R&D institutions with the business sector, supporting the capacities of technology transfer and R&D institutions.

Support will be provided for digital projects that are aimed at preparing society and the business environment for digital transformation. This support should for example create a better overview of the start-up ecosystem and enable more informed decision-making, stimulate the entrepreneurial culture of the young generation, enable the development of national digitising industry strategies.

Support is also foreseen for the implementation of the new broadband access development strategy, especially in terms of investments in broadband connectivity. It should enable the setting-up of independent Broadband Competence Offices, the implementation of EU Broadband Cost Reduction *acquis*, mapping of current infrastructure, and ultimately lead to the preparation of large-scale investments to bring broadband infrastructure in line with the EU's 2025 targets.

EU funds will be also allocated to enhance **local and regional competitiveness**. The elaboration and implementation of integrated development programmes, based on the comparative advantages of municipalities, will be supported. An integrated approach will be applied linking capacity-building and investment-related activities and involving various stakeholders of the local communities. This approach is expected to deliver significant results in boosting local economic activities and balancing the regional disparities.

In the area of **agriculture and rural** development, EU support will continue to be channelled through the national management and control systems which correspond to the standards and the principles of modern and efficient public administration, and resemble the same structures with functions of a similar nature in EU Member States, as well as applying EU tested management and control methods. For better implementation, the sector however still needs a proper IT system combining all existing tools and facilitating E-applications.

IPA II will continue to invest in building the national capacities to transpose and implement the EU *acquis* and the CAP. Focus will be put on public health (food safety and quality, veterinary and phytosanitary issues), biosecurity and animal welfare. Capacity building of public administration will concentrate on sectors where the *acquis*-related implementing standards are particularly demanding (e.g. dairy and meat sectors, fruit, vegetable, wine, etc.), and where inter-sector cooperation is needed, especially in the areas of public and animal health.

Support will be extended to preparing for management and implementation of IPARD measures. Further assistance will be provided to address key transversal constraints to the economic development of the sector, such as in land consolidation, small-scale irrigation, access to credits. Improving the marketing of agricultural products, and implementation of minimum quality standards will continue to be a priority. Emphasis will be put on encouraging farmer groups, improving the quality of farm advisory services, developing VET and Lifelong Learning, intensifying policy dialogue and interaction with social and economic partners. Support will also be provided for activities related to adapting agriculture to climate change and for LEADER type activities, incl. preparatory actions for implementation of local rural development strategies. A particular focus shall be given to promoting policy dialogue

and networking with and among inter-branch organisations and associations representing various social and economic aspects of agriculture and rural development

Agriculture and rural development policies will be supported through investing in physical assets and small-scale agriculture holdings to help farmers cope with competitive pressure and market forces. Further on, IPA will invest in food processing and farms in the most EU *acquis*-relevant sub-sectors and for products for which the country has a comparative advantage. The investments in rural infrastructure (roads, water and waste management) and rural businesses will support the sustainability of the rural communities and development of business activities. The improvements of the small-scale irrigation infrastructure and agri-environmental practices will help restore, preserve and enhance ecosystems and is expected to support the climate change actions. Pilot projects will be supported through IPARD measures "Agri-environment and organic farming" and "Forestry protection". Finally, support will be given to establish Farm Advisory Services for helping farmers, forest holders and SMEs.

Indicators:

- Distance to frontier, Doing Business – score (WB) and Global Competitiveness Score (WEF)
- Macroeconomic indicators – GDP, exports etc.
- Total investment generated via IPA in agri-food sector and rural development (DG AGRI)
- Growth level in the production value (at economic/agri sector level; increased output values of various industries)
- Economic indicators for rural areas development - GDP per capita (PPP) in rural areas, employment rate, or increased farm income

5.3. Types of financing

Reforms can be supported through Twinning, service, supply, works, and grant contracts, implemented under direct and/or indirect management. In the area of agriculture and rural development support will be provided through the implementation of a seven-year rural development programme (IPARD Programme), containing a set of specific measures. In addition, TAIEX can be used for ad hoc and short-term technical assistance. The use of sector budget support can be considered, once the conditions have been met. Access to finance for SMEs and innovation, including equity funding, could be facilitated through specific lending facilities or through national windows in existing mechanisms, such as the European Fund for Southeast Europe (EFSE) and the Western Balkans Enterprise Development and Innovation Facility (EDIF). WBIF can be used to leverage loans for infrastructure related investments. Multi-country IPA assistance can complement national programmes. CEFTA will continue to play an important role in the area of trade. Competitiveness can also be supported and coordinated through relevant regional fora, such as the South East Europe Investment Committee (SEEIC). Complementarity will be achieved with all the relevant EU financial instruments available in this sector.

5.4. Risks

Governmental commitment to proper functioning of the markets is crucial, particularly in specific areas of internal market and competition policy. The agricultural reforms also entail deep structural changes requiring clear long-term vision, societal consensus and significant financial resources. Hence, the political dialogue can be expected to play a mitigation role. The involvement of the local communities is another tool to move the reform process forward.

Favouring FDIs can have a low positive impact on the local industry., Hence the EU assistance should focus on developing SMEs to raise their attractiveness for ties with the FDI undertaking and the quality of the local workforce.

Insufficient capacity of local and regional stakeholders to prepare and implement projects can be addressed through capacity-building of the relevant institutions.

Rural depopulation can be mitigated through bringing assistance to rural communities swiftly and effectively thus preventing a mass rural-urban migration. It is vital that rural areas are subject to a comprehensive development approach attracting investments in communication, transport, energy, water and waste treatment, allowing for improved quality of life at the standards of 21st century.

Restrictive lending policies to farmers can be mitigated through general measures improving the access to finance under the competitiveness and innovation sector.

Insufficient capacities of the beneficiary institutions to ensure an effective and efficient implementation of IPA and IPARD assistance at local and central level can be addressed through technical assistance, capacity building and political dialogue.

6. Education, employment and social policies

6.1. Description of the needs and capacities in the sector

The **labour market** is characterised by persistently low rates of economic activity – 64.3% compared to the EU28 of 72.5%. Unemployment has remained for years among the highest in the region and well above the EU average of 9.7%¹³, although a positive trend is present indicating steady, yet insufficient, decrease in the number of unemployed people from 29% in 2013 to 22.6% % in 2017. The low job creation rate and the static labour market result in high long-term unemployment (81.6% of the unemployed persons in 2015). Youth and women are particularly affected. Youth unemployment remains predominantly a long-term phenomenon with young people facing a difficult transition from education to the labour market. The participation of women, namely young women, women in rural areas and unqualified women, in the labour market remains particularly low (51.7% of the 15-64 years old in 2017). The skills mismatch and the gender gap in educational attainment, along with household responsibilities, lack of flexible work arrangements and limited access to relevant networks, remain the most important reasons for high women labour market inactivity. Gender stereotypes existing in the society perpetuates a structural gender gap in economic, political and social areas.

Combined systemic and visionary efforts from all actors are needed to foster employment and support social and economic inclusion, including of minorities and vulnerable groups. The structural weaknesses of the labour market need to be addressed through crafting of adequate policies and active labour market measures, improving the quality of education at all levels and the education-labour market match, prolonging active employment, modernising the social security system and introducing more modern family policies. In addition, the social dialogue needs to be strengthened along with the administrative capacity and implementation of the labour laws. These priorities are reflected in the new Employment Strategy 2016-2020

¹³ Cf. Eurostat

which focuses on increasing the efficiency and effectiveness of the employment policy with particular support to vulnerable categories of people, improving job creation capacities of the private sector and an education system that produces knowledge matching the needs of the employers.

Since quality **education** is at the heart of economic growth and development, the most pressing challenges are to improve the quality of the education, its accreditation and evaluation, the relevance of the study programmes and to address the needs of the labour market for qualified and prepared labour force. According to the 2015 OECD Programme for International Student Assessment (PISA) assessment the country ranks fourth from the bottom of the list of over 72 countries tested. The country committed to participate in the 2018 PISA exercise which is seen as a positive stepping stone to improve the overall results. The Government adopted a new Comprehensive Education Strategy 2018-2025 with a costed action plan in February 2018. The setting sets a vision of comprehensive and inclusive education, with a focus on the learner, the quality and effectiveness of the education process and an education and training system which is labour market relevant. Delivering the right skills for employment and increasing the efficiency and inclusiveness of the education and training system remain a priority. In 2016, significant progress was achieved in referencing the national Qualification Framework to the European Qualification Framework, the self-certification to the QF-EHEA and the creation of online register of existing qualifications. A focus needs to be put on promotion of the educational standards, reinforcing the use of learning outcomes in standard-setting, curricula developing and educational outcome assessment. The significant mismatch between demand and supply on the labour market needs to be addressed. Access to enterprise training is quite good, with a well-developed training network, operated by the employment authorities, but it is not clear to what extent this meets the specific needs of small businesses since the Government lacks systematic information on the skills needs. Assessment of training needs of employed staff should become a regular practice and be carried out systematically. The link between training and employment should be further strengthened through promoting life-long learning, work-based learning, adult and continuing education. Further efforts are required for strengthening the vocational education and training (VET) and Adult Education system in close cooperation with the private sector and social partners.

In this regard, investments in digital skills are necessary for the development of the digital economy and society. The country is increasingly suffering from a growing professional ICT skills shortage and a digital literacy deficit. This excludes many citizens from the digital society and holds back productivity growth. In line with the Skills Agenda for Europe, the country should aim to implement a national digital skills strategy, including programmes for un/underemployed, women and the elderly and establish national coalitions for digital jobs, incorporated into the EU's digital skills & jobs coalition.

It is crucial that basic school education is improved and that the country continues to reform its higher education in line with the Bologna process. Higher quality education will benefit the country's competitiveness and economic growth. The five key indicators of the Education and Training 2020 strategy should continue to be tracked so as to trace progress and draw comparisons with EU Member States. The quality of statistical data on education needs to improve. The country should participate actively and constantly in the Open Method of Coordination, and in the various networks and working groups. The Erasmus+ programmes provides opportunities to improve the national educational system at all levels and should be further seized. Additional attention needs to be paid to initiatives that promote gender equality

and help combat discriminatory practices in the sector with particular attention to minorities and children with disabilities. Measures to advance inclusive and quality education for all levels of education need to be implemented more effectively.

Being a requirement for an active and productive workforce, for societal development, and for sustainable economic growth, **social protection** and health and well-being of the population and the labour force have been mainstreamed into labour market and education policy. Combating discriminatory practices, improving working conditions and health of the workforce, promoting equal social opportunities, socio-economic inclusion and wellbeing remain priority for the EU funding.

Progress has been made in the last years in poverty reduction. The poverty rate (as a share of the total population) declined to 22.1% in 2014. However, 43.2% of the population is either at risk of poverty¹⁴, is severely materially deprived or lives in a household with very low work intensity. More efforts are needed to implement the national strategy for poverty reduction.

The horizontal and vertical **segregation and gender gap** in getting employment, manifested through a larger presence of women in less paid jobs and professions, and the lower participation rate in the decision making process is additionally leading to **poverty feminization**, economic dependence of women which all generates a risk of social exclusion.

Roma remain among the poorest and most vulnerable groups with 41% of them living under the absolute poverty line of US\$4.30¹⁵, unemployment rate of over 53% and no formal education at all for over 22% of Roma aged 25-64. The housing situation is dramatic with a high proportion of illegal settlements and/or inadequate, unhygienic environments. Roma continue to have poor access to health and social services. Despite numerous policies and initiatives in recent years to improve the situation of Roma, such as the introduction of health mediators, pedagogical assistants and Roma coordinators at local level, the range of social services and initiatives to promote their inclusion into society has still to be enlarged. While the gap between Roma and non-Roma in the fields of education, employment, health, housing and public services is addressed through anti-discrimination and strengthening human rights approaches, the EU will also continue to invest in specific target measures focused on raising Roma employability and educational status and fostering their social inclusion.

The situation of the persons with disabilities confronted with discrimination and barriers in an educational, employment and social context remains also critical. Over 13% of the households have suffered from health problems that have limited their home, work and leisure activities for at least 6 months¹⁶. The figure will probably rise given the ageing of the population. Distrust of employers regarding their abilities, inadequate education, barriers to physical access, lack of adapted public transport aggravate the already difficult situation of the people with disabilities and particularly those living in rural areas.

Along with targeted measures focused on employment and social inclusion, there is a clear need for better implementation of the legal provisions in the sector, improving the effectiveness of the state funding, deinstitutionalisation and decentralisation of the social

¹⁴ People at risk of poverty or social exclusion, (AROPE) headline indicator to monitor the EU 2020 strategy poverty target,

¹⁵ UNDP/WB/EC regional Roma survey 2011

¹⁶ Survey on income and living conditions in 2014

services. A change of attitudes, perceptions and working methods needs to be promoted in order to ensure higher efficiency of the social protection system. Prioritising the social aid to people in need rather than everybody, linking better employment and social protection, decreasing the costs of the social services while increasing their effectiveness remain high priorities.

Under IPA, around EUR 60 million have been programmed for this sector. With this assistance, improvements have been made in the policy framework, creating a set of strategies tackling all aspects in the areas of employment and in social policy, education and training.

IPA II assistance will be programmed along the key national sectorial strategies, including the National Employment Strategy (2016-2020), the Comprehensive Education Strategy (2018-2025), the VET strategy 2013-2020, and the National Strategy for Alleviation of Poverty and Social Exclusion (2010-2020). The Employment and Social Reform Programme¹⁷ is designed to prioritise a limited number of policy reforms and measures covering three areas: labour market and employment policies, human capital and skills development policies and social protection and social inclusion.

The implementation capacity within the Ministry of Education and Science and the Ministry of Labour and Social Policy, as well at governmental level in the National Economic Council, needs to be strengthened through a coherent monitoring and evaluation policy, as well as through the involvement of non-state actors and citizens in reform processes through a functional social dialogue and good coordination between public-private spheres.

6.2. Objectives, results, actions and indicators

The overall **objectives** of IPA II assistance in this sector are to ensure more inclusive and effective labour market, higher quality of education and a modern and flexible social protection system.

The **results** to be achieved include:

- Reduced rate of unemployment as a whole and of the young people, women and others disadvantage groups in particular
- Increased labour market participation as a whole and of the young people, women and others disadvantage groups in particular
- Improved basic school, VET and higher education
- Improved match between skills demand and supply
- Improved access to education, employment and social services, especially for women
- Improved sustainability of the social protection system (improved targeting accessibility and adequacy of the financial social protection benefits for people in need)
- Improved quality and accessibility of the social services.

In the **employment** subsector, EU funds will be allocated for the implementation of the employment policy at national and local level including design and implementation of active employment-promotion approaches, flexible systems, influencing the productivity of the workforce labour market measures, particularly for young people and women, stimulating self-employment, social entrepreneurship and promotion of entrepreneurship. Attention will be paid to funding measures aiming at decreasing the informal labour market and supporting

¹⁷ To be finalised in 2017

transformation of informal or undeclared work into regular employment. EU funds will also be allocated to improve working conditions, labour standards and observance of health and safety at work.

Support to youth and **education policies** shall be sustained and mainstreamed through IPA II. This will be in line with the major EU policies in the area, in particular the Education and training 2020, the Bruges Communiqué and the Copenhagen Process for Vocational Education and Training. Investments will be made in improving the quality of education and facilitating access to education for all, promotion of lifelong and entrepreneurial learning, improving the mobility and support services, digital training, etc. VET and adult education systems will be strengthened and modernised through legislative changes, mobility schemes and capacity building activities. Focus will be put on enhancing the cooperation between educational institutions, social partners and the private sector. The importance of informal and adult education should also be taken into account, where the three main challenges remain the noncompliance of its demand and supply due to lack of information about labour market needs, the low awareness across the population and companies and a lack of a system for validation of informal learning.

Support will also be provided for the Digital Education Action Plan that outlines a number of measures through which the EU will help education systems to adapt to the ongoing digital transformation. Other projects that aim at creating a common understanding of digital competences enable people to develop these competences and support their employability or participation will also be supported.

Social policy will be strengthened through supporting reforms for the social protection and health care systems; through supporting better access to quality social and care service, including health care services, in particular for vulnerable groups, such as Roma. Improving the access of young people and women to the labour market and thus to social protection mechanisms is expected to raise their participation in the labour market and optimise the cost of the social protection mechanisms. The access to affordable early childhood education and care services along with strengthening policies to support parents' access to the labour market will additionally stimulate its employability. Particular attention will be paid to the access of the disadvantage groups, such as Roma, women victims of violence and persons with disabilities to employment, education and social services. IPA II will support the involvement of the end beneficiaries into the design and delivery of social services, thus further decreasing the risks of social exclusion. A focus will also be put on building the capacity for monitoring and evaluating the social inclusion and wellbeing of the young people, women and vulnerable groups and elaborating of effective modern social policies.

On a **horizontal level**, emphasis will be put on supporting equal opportunities and non-discrimination, mainstreaming gender equality; strengthening inter-community relations through inter-community dialogue and interaction, and cultural, social and economic co-operation. EU funds will also be allocated for supporting the social dialogue and strengthening the capacities of the social partners. The efforts will be focused on strengthening the administrative capacity for crafting effective employment, education and social policies and monitoring their implementation. Priority will be given to extending the quality and scope of statistical indicators in all areas, monitoring and evaluating their dynamics. Assistance will be also provided for enhancing inter-institutional cooperation at central and local level and interaction between public sector, business, civil society and the social partners. Reforming the legislative framework in support of equal opportunities

approach and non-discrimination, with an emphasis on mainstreaming gender equality will remain a priority.

Indicators:

- Employment / Unemployment rate 15-64 years, total % (Eurostat)
- Social statistics & data – at-risk-of-poverty statistics, costs/beneficiaries of the social protection systems, etc.
- EU targets for 2020 in education and training

6.3. Types of financing

Reforms will be supported through Twinning, service, supply, works, and grant contracts, implemented under direct and/or indirect management. TAIEX can be used for ad hoc and short-term technical assistance. The use of sector budget support can be considered, once the conditions have been met. In order to increase the leverage of EU funds, blending loans and grants should be considered as a financial instrument.

6.4. Risks

Insufficient government commitment, financial capacities and ownership to pursue reforms in the specific areas can be mitigated by emphasising reforms in the political dialogue. Issues such as fighting vulnerability of Roma populations or persons with disabilities, will be also addressed through political dialogue. Another important tool is the involvement of the social partners and stakeholders in the policy-making and implementation thus increasing the bottom-up axis of influence for improving the access of these groups to education, employment and social services.

Serious risks to employment and education are the traditional cultural stereotypes giving limited space to women and young people in social and professional life. Long-term cultural mediation efforts and strong community-based approaches will be required to overcome them particularly in the out-of-capital areas.

Reforms in the social protection systems, namely the health and pension systems, are politically sensitive and can be misused in a context of political instability. Moreover these are expensive endeavours with an enormous impact on the life of every single citizen. The way to properly address these issues passes through strengthening the social dialogue in the country and building the administrative capacities for implementing the reforms.

Lack of leadership, administrative capacities and coordination among beneficiary institutions can be mitigated through mediation and capacity-building assistance.

7. Territorial cooperation and regional cooperation

7.1. Needs and capacities in the sector

In addition to the needs and objectives identified in this Strategy Paper, the country will benefit, together with the other IPA II beneficiaries, from support under the EU horizontal and regional pre-accession financial assistance programmes.

The regional priorities are set in a Multi-country Strategy Paper, designed to complement the objectives set in the national Papers. Regional assistance will be delivered along the following four axes, each one representing one dimension of the added value of the horizontal and regional programming: i) Horizontal support to sector policies and reforms; ii) Regional structures and networks; iii) Regional investment support; iv) Territorial cooperation.

As regards regional investment support, the WBIF will function as a mechanism for donor coordination and blending of grants and loans. The Western Balkan countries alongside the EU, the IFIs and bilateral donors can identify, prepare and implement priority socio-economic investments through the pooling of expertise and financial resources. WBIF will work on the basis of a prioritisation of infrastructure development using one single mechanism involving the relevant stakeholders.

Territorial cooperation is a the key EU instrument to support cooperation between partners across borders, with the aim of tackling common challenges together and finding shared solutions. As the third objective of cohesion policy, European Territorial Cooperation (ETC) is central to the construction of a common European space, and a cornerstone of European integration. It has clear European added value: helping to ensure that borders are not barriers, bringing Europeans closer together, helping to solve common problems, facilitating the sharing of ideas and assets and encouraging strategic work towards common goals.

There is also a particular need to foster sustainable local development and increasing the prosperity of people and communities in remote and rural border areas which are often lagging behind economically. Moreover, in the Western Balkans there is a need to foster reconciliation and promotion of good neighbourly relations which is particularly relevant in a post-conflict area. It is also crucial in emergency situations, such as natural disasters, disease outbreaks and epidemics, which do not recognise administrative borders. The partnership principle also needs to be enhanced and the involvement of various stakeholders – local authorities, civil society organisations, businesses, communities – to be ensured.

Cross-border cooperation (CBC) aims at overcoming the administrative, legal and physical obstacles by fostering good relations between regions and countries, familiarising future Member States with rules and procedures governing the European Territorial Cooperation under EU Structural Funds, and by promoting sustainable local development.

Each country's specifics are taken into account, as well as the indivisible nature and culture in and around border regions. Achievements to date have required open and strong cooperation by the respective authorities of the relevant countries, which needs to continue.

Under IPA I, around EUR 30 million have been allocated to CBC programmes. Based on the high interest, experience gained and existing joint programme structures, the IPA CBC programmes with Member States (Greece and Bulgaria) have been continued under IPA II, as well as IPA CBC within the Western Balkans (with Albania and Kosovo). A new IPA II CBC programme with Serbia was adopted in 2016. Additionally, the country participates in the new transnational cooperation programme "Balkan-Mediterranean" under the European Regional Development Fund (ERDF) European Territorial Co-operation goal.

7.2. Objectives, results, actions and indicators

The CBC/territorial cooperation programmes 2014-2020 will focus on the socio-economic development of the border areas. The scope, objectives and thematic priorities of each CBC/territorial cooperation programme are laid down in a dedicated 7-year programming document, which was drafted on the basis of extensive consultation of local stakeholders. The multi-annual programming document foresees indicative annual budget allocations, the eligible areas, and a set of indicators to measure the impact of the programme.

Continuation of people-to-people actions, human resource development and information sharing remains as an essential part of individual programmes.

The CBC programmes with Albania, Kosovo and Bulgaria aim at encouraging tourism, culture and natural heritage; enhancing competitiveness, business, trade and investment; protecting environment, promoting climate change adaptation and mitigation, risk prevention and management. The CBC programme with Greece aims at promoting employment, labour mobility and social and cultural inclusion; promoting sustainable transport and improving public infrastructures; protecting the environment and promoting climate change adaptation and mitigation, risk prevention and management. The CBC programme with Serbia aims at promoting employment, labour mobility and social and cultural inclusion across the border; encouraging tourism and cultural and natural heritage.

The Interreg V-B Balkan–Mediterranean transnational cooperation programme fosters the programme area’s entrepreneurship potential by encouraging SMEs’ cooperation and networking, clusters and cluster policies, new business models’ applications and in particular the ones promoting innovation, opening-up of new markets and internationalisation. It will also provide support for natural and cultural heritage and resource efficiency

Indicators:

- Number of involved municipalities (MIS)
- Number of organisations benefiting from EU support
- Number of persons benefiting from EU support

7.3. Types of financing

Assistance is provided primarily through grant contracts via calls for proposals. Investments can also be financed depending on the objectives of each programme. Technical assistance is provided in order to improve the capacities of the institutions involved in the implementation of the programmes.

7.4. Risks

Any deterioration of good neighbourly relations can be countered through addressing this at high political level. Insufficient commitment and limited capacities for managing programmes at institutional level can be mitigated through emphasising, in political dialogue, the importance of such programmes. Insufficient capacities of potential beneficiaries to apply and implement projects can be mitigated through information sessions, seminars and other educational and technical assistance-related activities.

With regard to the Interreg V-B Balkan-Mediterranean transnational cooperation programme, the limited amount of IPA II funds allocated to finance the participation of the former Yugoslav Republic of Macedonia is insufficient to respond to the large demand of national partners willing to cooperate in joint projects with partners from EU countries.

The former Yugoslav Republic of Macedonia	2014	2015	2016	2017	2018	2019	2020	Total 2018-2020	Total 2014-2020*)	Of which climate change relevant
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ANNEX 1: REVISED INDICATIVE ALLOCATIONS (million EUR)¹⁸ per policy areas and sectors

¹⁸ Any possible differences in figures displayed in policy areas and sectors compared to the annual totals are the effect of rounding to one decimal.

										(%)
DEMOCRACY AND RULE OF LAW	39.7	15.8	24.4	24.6	37.9	5.8	39.6	83.3	187.8	
Democracy and governance	19.7	15.8	9.8	24.594	36.5	4.4	20.2	61.1	130.9	
Rule of law and fundamental rights	20.0	0.0	14.6	0.0	1.4	1.4	19.5	22.3	56.9	
COMPETITIVENESS AND GROWTH	42.0	51.4	40.2	57.6	69.8	115.6	44.4	229.8	421.0	
Environment, climate action and energy	15.0	18.4	11.0	16.6	27.6	10.4	24.2	62.2	123.3	100%
Transport	4.0	14.7	18.2	11.2	29.4	35.4	2.3	67.1	115.2	60%
Competitiveness, innovation, agriculture and rural development	23.0	18.3	11.0	6.0	11.4	49.4	16.5	77.3	135.6	10%
Education, employment and social policies	0.0	0.0	0.0	23.7	1.4	20.4	1.5	23.3	47.0	
TOTAL	81.7	67.2	64.6	82.2	107.7	121.4	84.0	313.1	608.7	

*) Part of these funds have been allocated to the IPARD II programme for the former Yugoslav Republic of Macedonia C(2015) 760 of 13.02.2015. In accordance with this programme, the following funds have been earmarked for IPARD II: EUR 5 million (2014), EUR 5 million (2015), EUR 5 million (2016), EUR 6 million (2017), EUR 10 million (2018), EUR 14 million (2019) and EUR 15 million (2020).

ANNEX 2: INDICATORS AND TARGETS

Context indicators

Indicators	Baseline (2010)	Last value (year)
General government gross debt/GDP (%) (Eurostat)	24.1	39.6 (2016)
GDP at market prices (million €) (Eurostat)	7,108.3	9,722.8 (2016)
Unemployment rate (%) (Eurostat)	32.0	23.7 (2016)
GDP per capita at current prices (PPS €) (Eurostat)	8,900	10,900 (2016)
Inward FDI flows to the country per capita (€) (Eurostat)	78	163 (2016)
CO2 emissions (metric tons per capita) (World Bank)	4.2	3.6 (2014)

Outcome and impact indicator

Indicator	Baseline (2010)	Last value (year)	Milestone (2017)	Target (2020)
Composite indicator - average ranking provided by eight external sources: Corruption Barometer, Control of Corruption, Freedom of Press, Press Freedom, Rule of Law, Government Effectiveness, Regulatory Quality, Voice and Accountability	56.03	47.94 (2016)	Not Provided	Not Provided

Common Sector Indicators*

Sectors	Sub-Sectors	Indicators	Baseline (2010)	Last value (year)	Milestone (2017)	Target (2020)
Democracy & governance	Governance and PAR	Composite indicator (Government effectiveness (WB), Burden of Government Regulation (WEF) and Regulatory Quality (WB))	52	41.51 (2016)	62.10	64.21
	Statistics	Statistical compliance - % - Eurostat	21-27	51-57 (2015)	57-67	84-94
Rule of law & fundamental rights	Judicial reform	Composite indicator (Access to Justice (WJP) and Judicial Independence (WEF))	53.8 (2012)	55.07 (2015)	55.00	58.86
	Fight against corruption and organised crime	Composite indicators Global Corruption (TI) and Control of Corruption (WB)	48.36	41.82 (2016)	56.00	58.00
	Fundamental rights	Composite indicator Freedom of Press (FH) and Press Freedom (RWB)	33.20	49.05 (2016)	37.25	31.05
Environment, Climate Action and Energy	Climate action	Number of climate change strategies (a) developed and/or (b) implemented with EU support	No strategy in place.	No strategy in place.	No strategy in place.	Climate Strategy and Law prepared.
	Energy	Quality of electricity supply (score) - WEF	4.60	4.90 (2015)	NA	NA
Transport		Logistics performance indicator (score) - WB	2.56 (2012)	2.51 (2016)	Not Provided	Not Provided
Competitiveness and innovation, agriculture and rural development	Competitiveness & innovation	Distance to frontier, Doing Business (score) – WB	65.53	80.18 (2015)	76.00	78.00
	Agriculture & rural development	Total investment generated via IPA in agri-food sector and rural development – DG AGRI			28427442	54181644

Education, employment and social policies	Employment	Employment rate (15-64 years) (%) - Eurostat	43.52	47.8 (2016)	48.10	50.80
Regional and territorial cooperation	Regional and territorial cooperation	Number of involved municipalities	0	37	58	126

* Note: only common strategic indicators are included in this template