Date 07-06-2007

Project fiche 3.1 Energy Regulatory Commission and Insurance Supervisory Agency (to be established)

1. Basic information

1.1 CRIS Number: 2007/19297

1.2 Title: Support to regulatory and supervisory bodies

1.3 ELARG Statistical code: Axe 03 – 09

1.4 Location: Skopje, with nationwide project activities.

Implementing arrangements:

1.5 Contracting Authority (EC)

European Commission, EC Delegation, on behalf of the beneficiary

1.6 Implementing agency

European Commission, EC Delegation, on behalf of the beneficiary

1.7 Beneficiary (including details of project manager):

The Beneficiaries are the Energy Regulatory Commission and the Insurance Supervisory Agency (to be established by September 2007)

Slave Ivanovski, President of the Energy Regulatory Commission
Slave.ivanovski@erc.org.mk

Mr. Trajko Slaveski, Minister of Finance
trajko.slaveski@finance.gov.mk

Contact points:

Marko Bislimovski, Advisor in the Energy Regulatory Commission
Marko.bislimovski@erc.org.mk

Kosta Spasevski, Head of Unit, Ministry of Finance
Kosta.spasevski@finance.gov.mk

1.8 Overall costs (VAT excluded):

EUR 2 million.

1.9 EU contribution:

EUR 2 million.

1.10 Final date for contracting

Two years from the date of the conclusion of the Financing Agreement

---

1 The total costs of the project should be net of VAT and/or other taxes. Should this not be the case, the amount of VAT and the reasons why it should be considered eligible should be clearly indicated.
1.11 Final date for execution of contracts

Two years from the final date for contracting.

1.12 Final date for disbursements

One year from the final date for execution of contracts.

2. Overall Objective and Project Purpose

2.1 Overall Objective

The overall objective of the project is provision of advisory support to the regulatory and supervisory bodies in order to ensure a consolidated approach to key elements of the overall accession process and to establish internal operational management structures that are competent to take forward the tasks emerging from EU integration.

2.2 Project purpose

The project purpose is to contribute to a professional management of the relevant bodies that will enable appropriate implementation of the national legislation, taking due account of EU regulations and best practices, and appropriate provision of high quality services to the business community, consumers and citizens in a transparent manner, and in which the public will have trust.

More specifically the project is to:

- Enhance the capacity of the energy regulator and continue legal approximation in this area;
- Strengthen the national insurance supervision capacity in accordance with the provisions of EU directives and with the best international insurance practices in order to ensure a real protection for the policy holders and to develop a sound and competitive insurance market.

2.3 Link with AP/NPAA / EP/ SAA

The programme will contribute towards the implementation of the SAA Article 99 on formulation and planning of energy policy and Article 83 on strengthening and restructuring of the insurance sector and the improvement of supervision and regulation of insurance services.

For both areas, the insurance sector and the energy sector, the EP outlines a series of priorities to be addressed in the near future. As regards the insurance sector the EP stresses the importance of strengthening prudential and supervisory standards, reinforcing the legislation and the supervisory framework and establishing an independent and properly staffed supervisory authority for the insurance sector. Regarding the energy sector the EP calls for alignment of the legislation on the internal electricity and gas markets as well as energy efficiency and renewable energy sources with EU standards in order to gradually open the energy market to competition. The EP furthermore points at the importance of strengthening the independence of the Energy Regulatory Commission, enhancing the administrative capacity in all energy sectors and to start implementing the Energy Community Treaty.
The National Plan for Adoption of Acquis with regard to regulatory reforms in the fields of insurance and energy intends to further pursue legal development and harmonisation with the Acquis, strengthen administrative capacity building as well as the establishment of an Agency for Insurance Supervision, in order to strengthen the supervision of the insurance sector.

2.4 Link with MIPD

The Multi-Annual Indicative Planning Document (MIPD) indicates that well-regulated and properly controlled and supervised financial markets (e.g. insurance and banking sectors, stock market, etc.) are essential to sustainable growth and a prerequisite for attracting domestic investment and FDI. It states that particular attention should be paid to improving quality of financial services and that support will be given to reorganising and strengthening the public administration and institutions in the transport and energy sector and to implementing the requirements of the Energy Community Treaty.

2.5 Link with National Development Plan

The NDP underlines that Institutional development and capacity building for systemic improvement of the quality of regulation shall be done by: (a) building an institutional and legal framework needed for development and an overall approach to the regulatory reforms; (b) building a regulatory management system in line ministries and central government; (c) capacity building for improving the quality of the existing and the new regulation, through their impact analysis, (d) establishment of a comprehensive and centralised register of regulation.

2.6 Link with national/sectoral investment plans (where applicable)

The project directly links to the following key strategies and action plans in the sector (see for a more extensive list annex 3):

- Energy Community Treaty Agreement, 2006;
- Strategy on Development of the Energy Sector, 2000;
- Study on least-cost development until 2020,
- Energy Policy Paper, 2004;
- Amendment of the Law on Insurance Supervision

3. Description of project

3.1 Background and justification:

Energy Sector

The energy balance of the country includes electricity, natural gas, liquid fuels, solid fuels and geothermal energy. The average total consumption of energy on an annual level is around 120,000 TJ. Within the primary energy consumption, crude oil participates with 30%, coal with 51.6%, natural gas with 3%, and the remaining around 15% are hydro energy, fire-wood and geothermal energy. The total consumption of energy is provided by around 60% of domestic production and 40% from import. There are no nuclear installations for energy production or research and no nuclear fuel cycle facilities. Nor has the country any intention
of developing any nuclear capacity. The geothermal energy provides only 0.3% of the total consumption of energy. A program on efficient energy use until 2020 was adopted in 1999, followed in 2004 by a Strategy for establishing the necessary institutions, strengthening administrative capacity and performing technical activities (energy audits, energy codes, equipment standards).

The basic energy infrastructure includes the following: electricity power system, coal mines, gas pipeline system, an oil refinery, oil pipeline, thermal and geothermal systems. The total installed capacity for electricity production is 1,485 MW, with annual production of around 6 billion kWh. Currently, five district heating systems are operational with total capacity of 600 MW, powered by heavy oil, natural gas and lignite, while around 50,000 households are connected to these heating systems.

The country actively participates in regional initiatives, such as the Stability Pact, the South-East European Cooperation Process (SEECP), the Central European Initiative and the Adriatic Ionian Initiative, and is committed to the establishment of the Regional Cooperation Council. It is party to the Energy Community Treaty that entered into force in July 2006 and also ratified the agreement on CEFTA 2006 membership.

In order to ensure conditions for secure, sustained and quality energy supply, greater reliability, transparency and security in operation of existing and in building new facilities for production, transmission and distribution of energy, as well as energy market development, in compliance with the Energy Law, an Independent Energy Regulatory Commission was established. The competences of the Energy Regulatory Commission include providing conditions for secure, continuous and quality energy supply at minimum costs; prescribing tariff systems for individual types of energy; deciding on prices of individual types of energy; issuing, modifying and withdrawing licenses for individual activities in the energy field; evaluating execution of the licenses; initiating and suggesting, through competent institutions, new laws and regulations from the energy field - and accordingly, providing opinions on laws, regulations and other acts from the energy field; and participating in resolution of disputes and proposing measures concerning disputes.

During 2006, the country has made notable progress in parts of the energy sector, in particular as regards internal energy market related legislation. The new law on Energy (May 2006) contains provisions related to the energy efficiency and renewable resources. However, the country is still far from meeting the requirements of the acquis on several key aspects of the energy chapter and it will have to make significant efforts to align its legislation and to effectively implement and enforce it in the medium term.

**Insurance Sector**

The insurance sector remains insignificant by most standards, one of the smallest in Europe, both absolutely and in relation to the population. Despite all the measures undertaken towards development of the financial sector in the country, the low credit support to the economic operators by the banks, insurance companies and other financial institutions and the insufficient development of the capital market in the country remain to be the main reasons for the low level of investments and the somewhat low growth rates of the national economy. The limited life insurance market is a major deficiency for the country’s financial market as it constrains the development of banks’ credit policies. In addition the industry is facing premium collection difficulties.
In the context of the financial sector reform, a well-regulated insurance market, open for new investments, which will operate under adequate, expert and steady supervision is of crucial importance. At present, the supervisory framework for the insurance sector remains underdeveloped. The new insurance supervision law can be seen as a first step towards better supervision standards, but does by no means reflect fully EU standards. The Insurance Supervision within the Ministry of Finance is understaffed and not trained in modern practices. There is a need for reconstruction of the supervisory context and align it with EU best practices. In this vein, the country has committed toward establishment of an independent supervisory body i.e. Insurance Supervision Agency.

A Law on Insurance Supervision (LIS), regulating the insurance activity, was adopted in April 2002. The introduction of the LIS stimulates the liberation the local insurance market, and the attraction of foreign capital which in turn is expected to lead to increased competition. Following the introduction of the LIS the number of insurance companies rose from four to seven in 2003. The LIS also will allow for more effective analysis of the performance of companies and the industry as a whole.

However, capacities to fully implement the law still need to be strengthened and – although in line with the relevant EU directives – the regulations are complex and remain difficult to apply throughout the sector. Further capacity building as well as reformulating unnecessarily complex regulations is required.

3.2 Assessment of project impact, catalytic effect, sustainability and cross border impact (where applicable)

Through strengthening the capacities of the Energy Regulatory Commission and Insurance Supervisory Agency, improving legislation and further harmonisation with the Acquis, the project is expected to contribute to the development of a favourable business environment, having a positive influence on private sector development.

The envisaged new rulebooks for the Energy Regulatory Commission are to provide for the actual implementation of the national Energy Law enabling the energy operators to work within a clear, regulated and consistent legal environment. The new regulations will improve safety and security of the energy supply to the small consumers and business operators, while supporting cross border energy transfers / sales.

The new software will enable the Energy Regulatory Commission to provide actual measurement of the transfer and distribution of the energy and thus provide for more fair and equitable application of the Law.

The conditions for the operation of the combined heating processes will be specified and this should have a positive effect on new investments in the energy sector and reduce the dependence on volatile external markets.

Following the WTO country commitments, the insurance sector in the country will be open to the international competition as of 1 January 2008. Thus, it is of paramount importance to establish a fully operational specialized body for supervision of the economic operators in this sector. In this vein, the project contributes to capacity building of the staff of the supervisory body and further approximation of the national legislation.

As a catalytic effect, the strengthening of the supervisory capacity in the insurance sector is expected to increase the credibility of insurance and other financial institutions, stimulate
higher confidence of the public and by that increase the volume of insurance coverage. This would have an impact on the financial sector as a whole through the improved production process of the companies and the additional resources injected in the economy, which would foster new investments and employment.

3.3 Results and measurable indicators:

The project consists of two components:

a) Support to the Energy Regulatory Commission
b) Support to the Agency for Insurance Supervision

Results and measurable indicators for component 1: Energy Regulator

Specific results to be achieved include:

- Strengthened capacities of Energy Regulatory Commission
- Further approximation of the national primary and secondary legislation with the EU acquis;
- Reduction of the risk of corruptive activities;
- Defined technical features of the necessary software application(s) and completion of its consequent customization (functionalities, software development oversight, training of staff)
- Develop Rulebooks on:
  - Quality of Supply,
  - Monitoring and Security Supply in the Electricity and Gas Sector,
  - Regulating Prices, and other secondary acts necessary for enhanced operation of the ERC.

The measurable indicators are:

- Rulebooks are adopted by 2009
- A Software development plan is adopted by 2009
- A Risk management plan vis-à-vis corruption is adopted by 2009
- Relevant laws are identified and harmonization proposals are adopted by 2009
- The number of staff members which have been trained (to be further detailed in the terms of references)

Results and measurable indicators for component 2: Insurance Supervision Agency

Specific results to be achieved include:

- A strengthened operational capacity of the ISA, by training of staff to apply and implement the best international practice in prudential supervision and EU directives in insurance;
- Drafted secondary legislative acts deriving from the Law amending the ILS;
- Recommendations for further approximation of the national primary and secondary legislation with the EU acquis have been prepared;
Date 07-06-2007

- To develop a first annual report;
- To define technical features of the necessary hardware and software application(s) and completion of consequent customization of the software (Functionalities, Software development oversight, Training of staff);
- Established relationships with relevant international organizations, with similar supervision bodies in EU countries, etc.
- Enhanced capacity of the local market players to implement the risk management rules, adequate corporate governance, internal control mechanism and required accounting policies.

The measurable indicators are:
- Relevant regulations (rulebooks, manuals, etc) for prudent operation of the Agency are adopted by 2009
- An internal hardware and software development plan has been defined by 2009
- Relevant laws are identified and further harmonization proposals are adopted by 2009
- The number of staff members of the Insurance Supervision Agency trained to execute assignments in line with the assigned responsibilities (to be further detailed in the terms of references)
- The first annual report of the Insurance Supervision Agency has been prepared by 2010
- The number of market players trained to practically apply the new requirements of the law and bylaws in the field of insurance operation (to be further detailed in the terms of references)

3.4 Activities:

The project consists of two components:
   c) Support to the Energy Regulatory Commission
   d) Support to the Agency for Insurance Supervision

Activities related to component 1: Support to the Energy Regulatory Commission

The activities foreseen include:
- Support in the review, drafting and redrafting of the regulatory and supervisory legislation in the area of energy (especially support to transposing of the relevant EU legislation);
- Redefine internal rules and procedures to eliminate the risk for corruptive activities;
- Support the beneficiary body in developing and implementing a professional Human Resource Development strategy;
- Support to the drafting of the Rule Books (see above)
- Support to the further development of the IT infrastructure in the Energy Regulatory Commission
- Capacity building activities through training, on-the-job coaching as well as transfer of know-how and best practices from EU member states in the energy regulation.

Project Management and Administration

A project steering committee will be established to oversee the total process of the activities.

Advisory services will be provided to the Energy Regulatory Commission. Next to a team leader being responsible for the overall activity implementation, additional expertise will be engaged to build capacities in – inter alia - energy engineering, economy and law as well as to address the cross-cutting issues.

The team leader will be responsible for the overall management, representation (co-ordination with the EU and other international bodies) as well as reporting. The co-ordination of activity development in the different components of the activity is significantly important. The team leader is responsible for an appropriate management of resources. During the inception phase of the project, a detailed deployment plan will be developed under the coordination of a Steering Committee in which each co-operating national institutions will be represented to ensure appropriate inclusion.

The contracting arrangements are expected to be as follows:

A) 1 Service contract will be concluded following an international restricted tender procedure.
   - The duration of the contract will be for a period of 18 to 24 months, depending on the budget.
   - The successful tenderer will start implementation one month after contract signatory, the expected date for implementation is: November 2008.
   - The contract value will be approx. EUR 0.9 mn.

B) 1 Twinning Arrangement will be developed with an appropriate EU MS institution.
   - The duration of the twinning will be for a period of 18 to 24 months, depending on the budget.
   - The successful EU MS institution will start implementation one month after contract signatory; the expected date for implementation is March 2009.
   - The contract value will be approx. EUR 0.6 mn.

Activities related to component 2: Support to the Insurance Supervision Agency (to be established)

According to the Government's plan the Insurance Supervision Agency shall be established by the end of 2007. Thus, the project is expected to become operational during the second half of 2008. The envisaged activities foreseen are:

- Support in establishment (organizational set up, internal operational procedures, etc.) of the Insurance Supervision Agency, including (re)defining of internal rules and procedures to reduce the risk for corruptive activities;
- Assistance in establishment and maintenance of direct relationships with other relevant international insurance bodies (supervisory and others), as well as the EU institutions;
Strengthen the operational capacity of the ISA, including through:
- Development of an internal human resources strategy;
- Development of methods and means for the evaluation of insurance companies’ risk profile;
- Transfer of know-how and best practices from EU member states in the fields of insurance sector supervision;
- Support in handling complex cases;
- Support to the further development of the IT infrastructure;
- Direct training of staff through on-the-job coaching, seminars, training sessions etc.

Assistance in continuation of the EU accession process, especially by:
- Assessment of level of harmonisation of the applicable national insurance legislation;
- Development of « tableaux de concordance »;
- Development of recommendations for modification and improvement of the national insurance legislation, in line with both national and EU standards;

Pilot assistance to the local market players to implement the applicable risk management rules, adequate corporate governance, and internal control mechanism as well as required accounting policies.

Participation in international conferences, seminars, training courses and other relevant events related to insurance supervision may be considered.

Project Management and Administration

A project steering committee will be established to oversee the total process of the activities.

Advisory services will be provided to the Insurance Supervision Agency. Next to a team leader being responsible for the overall activity implementation, additional expertise will be made engaged to support – inter alia – in the fields of insurance operations and law as well as to address the cross-cutting issues.

The team leader will be responsible for the overall management, representation (co-ordination with the EU and other international bodies) as well as reporting. The co-ordination of activity development in the different components of the activity is significantly important. The team leader is responsible for an appropriate management of resources. During the inception phase of the project, a detailed deployment plan will be developed under the coordination of a Steering Committee in which each co-operating national institutions will be represented to ensure appropriate inclusion.

However, depending on the developments prior to the delivery of the advisory services, it may be decided to engage in 1 to 3 Framework Contracts to support the specific elements mentioned above. In that case, no team leader will be appointed for the overall management of the project.

The contracting arrangements are expected to be as follows:

A) 1-2 Service contract will be concluded
- The duration of the contracts will be for a period of 6-18 months, depending on the budget
- The successful tendered will start implementation one month after contract signatory, the expected date for implementation is November 2008.
The contract value will be approx. EUR 0.3 mn.

B) Twinning Light Agreement will be developed with an appropriate EU MS institution.
- The duration of the twinning will be for a period of approx. 6 months
- The successful EU MS institution will start deployment one month after contract signatory; the expected date for implementation is March 2009.
- The contract value will be approx. EUR 0.2 mn.

3.5 Conditionality and sequencing:

The project includes the following conditionalities:

1) Endorsement by all key stakeholders of the Terms of Reference, specifications for the individual contracts to be engaged;
2) Appointment of counterpart personnel by the beneficiary before the launch of the tender process;
3) Allocation of working space and facilities by the beneficiary for technical assistance before the launch of the tender process;
4) Participation by the beneficiary in the tender process as per EU regulations;
5) Organisation, selection and appointment of members of working groups, steering and coordination committees, seminars by the beneficiary as per work plan of the project;
6) Necessary legislation in force;
7) Appointment and availability of the relevant staff of the beneficiaries to participate in project implementing activities (especially training activities) as per the work plan;

In the event that conditionalities are not met, suspension or cancellation of projects will be considered.

3.6 Linked activities

As regards support to the energy sector in the country, an EU CARDS project assisted the country to design a market-based legal framework and develop the capacity of a national regulatory body for the efficient provision of energy. It also enhanced the capacity of the national regulator to regulate the domestic energy market without monopolistic suppliers. The project experts drafted the new internal organisation and operational procedures of the Energy Regulatory Commission (ERC), prepared all secondary legislation for regulation of the energy markets in compliance with EU best practice and regulations, equipped ERC’s premises with office equipment, and organised and funded a study tour for the Commissioners of the ERC. Under a separate project IT equipment and software was provided to the Energy Regulatory Commission.

The World Bank is operating an Energy Community of South East Europe Programme (ECSEE) aiming at developing a regional energy market and to help integrating it into the energy market of the European Union. Specifically, the project finances investments in power transmission required to support integrated operation, together with institutional development that would support market participation. Another World Bank project on Electric Power Development, supported by a grant from the Government of Japan and administrated by the
IBOR, had successfully accomplished to increase the effectiveness in the production of electric and thermal energy in the country.

USAID provided assistance for the restructuring of the electricity company ESM to convert the state owned enterprise into a privately held, publicly regulated utility. Specifically, USAID assisted in rewriting the energy law with an amendment to establish the Energy Regulatory Council.

As regards support to the insurance sector in the country, financed through EU-PHARE various projects supported the strengthening of the insurance supervision function, assisting development and capacity building of the relevant Divisions in the Ministry of Finance (Insurance Supervision Division and Insurance System Division) and development of a competitive insurance market in country. The projects increased skills of staff and strengthened the operations of the Insurance Divisions in the Ministry of Finance and the National Bureau of Insurance staff. The projects equally increased skills and competencies of employees of the private insurance sector of the country and provided recommendations for the development of the Green Card System and for the NBI market database. Legal harmonisation was undertaken of the Insurance Supervision Law and relevant insurance regulation, alignment with EU insurance standards and directives as well as introduction of state-of-the-art international commercial practice in the field of insurance, including IAIS core principles.

A project supported by Germany aims at supporting the country to comply with the acquis regarding the insurance supervision legislation and to support the establishment of the Insurance Supervision Agency. These activities however, will be complementary to the activities envisaged in this project fiche.

3.7 Lessons learned

CARDS implementation, as documented in progress reviews, monitoring and evaluations reports, highlighted a number of common difficulties in project implementation, including insufficient availability of national (counterpart) staff, insufficient budget, late approval of relevant legislation etc. These lessons learned have been translated into conditionalities (see par. 3.5).

Another important lesson learned during the CARDS period is that appropriate mainstreaming of cross-cutting issues would significantly be stimulated through the allocation of a designated budget. Therefore, up to 10% of the total budget will be reserved to targeted support to the mainstreaming of cross-cutting issues (see also further below).

4. Indicative Budget (amounts in EUR mn)

<table>
<thead>
<tr>
<th>Activities</th>
<th>TOTAL COST (Million Euro)</th>
<th>SOURCES OF FUNDING</th>
<th>NATIONAL PUBLIC CONTRIBUTION</th>
<th>PRIVATE</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>EU CONTRIBUTION</td>
<td>%</td>
<td>IB</td>
<td>INV</td>
</tr>
<tr>
<td>Activity 1: Support for ERC</td>
<td>1.5</td>
<td>100</td>
<td>1.5</td>
<td></td>
</tr>
<tr>
<td>Contract 1.1: TA for ERC</td>
<td>0.9</td>
<td>100</td>
<td>0.9</td>
<td></td>
</tr>
</tbody>
</table>
### 5. Indicative Implementation Schedule (periods broken down per quarter)

<table>
<thead>
<tr>
<th>Contracts</th>
<th>Start of Tendering</th>
<th>Signature of contract</th>
<th>Project Completion</th>
</tr>
</thead>
<tbody>
<tr>
<td>Contract 1.1: TA for ERC</td>
<td>1-3-2008</td>
<td>1-10-2008</td>
<td>1-10-2010</td>
</tr>
<tr>
<td>Contract 1.2: Twinning for Energy Regulatory Commission</td>
<td>1-3-2008</td>
<td>1-3-2009</td>
<td>1-3-2010</td>
</tr>
<tr>
<td>Contract 2.1: TA for ISA</td>
<td>1-3-2008</td>
<td>1-6-2008</td>
<td>1-1-2009</td>
</tr>
<tr>
<td>Contract 2.2: TA for ISA</td>
<td>1-9-2008</td>
<td>1-1-2009</td>
<td>1-6-2009</td>
</tr>
<tr>
<td>Contract 2.3: Twinning Light for ISA</td>
<td>1-3-2008</td>
<td>1-3-2009</td>
<td>1-9-2009</td>
</tr>
</tbody>
</table>

### 6. Cross cutting issues (where applicable)

The cross-cutting issues will be addressed throughout the project. Up to 10% of the budget of the individual service contracts for capacity building – through short term expertise - may be allocated to assist the different beneficiaries to comply with European standards and best practices, implement relevant existing Government strategies and develop internal measures to ensure each cross-cutting issue is appropriately mainstreamed.

The mainstreaming of the cross cutting issues is regarded on two different levels:

1) Ensuring that the internal policies, structure or operating procedures of the beneficiary agency will conform to and promote the relevant principles outlined per section below.

2) Ensuring that the products, outputs produced by the beneficiaries (e.g. laws, regulations, policies, and strategies) will conform to and promote the relevant principles outlined per section below.

Throughout the project cycle, in particular when developing project ToR, state actors specifically addressing (one of) the cross cutting issues shall be consulted.
• **Equal opportunities and non-discrimination;**

The training activities will include a specific component to train ministerial staff in the implementation of the Government Gender Strategy, while reference will be made to the EC Programme of Action for the mainstreaming of gender equality in community development cooperation (2001-06). The training will be to assist the beneficiary to implement an ‘internal gender assessment’ to identify areas where it could improve its internal performance vis-à-vis gender as well as train beneficiary staff in the different aspects of mainstreaming gender in programme and project development as well as monitoring the implementation.

• **Support to minority and vulnerable groups;**

Where the main reference is the Ohrid Framework Agreement, in an EU context, reference is made to the “Race directive” of 2000 (200/43/EC of 29 June), which has an important impact on employment (incl. vocational training, working conditions, social protection etc.) and is also a crucial aspect of the acquis.

The institutions will be assisted to implement an ‘internal minority and vulnerable group assessment’ to identify areas where it could improve its internal performance vis-à-vis minorities or other vulnerable groups.

The training activities will include a specific component to train beneficiary staff in the different aspects of mainstreaming minority and vulnerable groups in programme and project development as well as monitoring the implementation.

• **Environmental protection;**

The European Community has a longstanding commitment to address environmental concerns in its assistance programmes (as part as a wider commitment to sustainable development). Key references include art. 6 of the Treaty and also the Cardiff process which foresees the systematic consideration of environmental aspects into EC development cooperation AND in other policies (hence very important for the acquis).

The support to the institutions will include a specific component to assist the beneficiary to implement an ‘internal environment assessment’ to identify areas where it could improve its internal performance vis-à-vis environmental aspects.

The training activities will include a specific component to train beneficiary staff in the different aspects of mainstreaming environment in programme and project development as well as monitoring the implementation.

• **Good governance, with particular attention to fight against corruption.**

The training activities to the institutions will include a specific component to address a) the basic principles of a professional Human Resource Development strategy, b) sound budget planning and execution c) developing and implementing an communication strategy to allow for an appropriate level of transparency, and d) developing and implementing an internal risk assessment concerning corruption and design an appropriate strategy to fight corruption.
ANNEXES

1- Log frame in Standard Format

2- Amounts contracted and Disbursed per Quarter over the full duration of Programme

3 - Reference to laws, regulations and strategic documents:
   a) Reference list of relevant laws and regulations
   b) Reference to AP / NPAA / EP / SAA
   c) Reference to MIPD
   c) Reference to National Development Plan
   e) Reference to national / sectoral investment plans

4- Details per EU funded contract (*) where applicable:
ANNEX I: Logical framework matrix in standard format

<table>
<thead>
<tr>
<th>LOGFRAME PLANNING MATRIX FOR Support to the Energy Regulatory Commission and the Insurance Regulatory Agency Project Fiche</th>
<th>Programme name and number: Support to the Energy Regulatory Commission and the Insurance Regulatory Agency Project Fiche</th>
</tr>
</thead>
<tbody>
<tr>
<td>Contracting period expires two years from the date of the conclusion of the Financing Agreement</td>
<td>Execution period expires two years from the final date for contracting</td>
</tr>
<tr>
<td>Disbursement period expires one year from the final date for execution of contracts.</td>
<td></td>
</tr>
<tr>
<td>Total budget: EUR 2 million</td>
<td>IPA budget: EUR 2 million</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Overall objective</th>
<th>Objectively verifiable indicators</th>
<th>Sources of Verification</th>
</tr>
</thead>
<tbody>
<tr>
<td>The overall objective of the project is provision of advisory support to the regulatory/supervisory bodies in order to ensure a consolidated assistance to key elements of the overall accession process and to establish internal operational management structures that are competent to take forward the tasks emerging from EU integration.</td>
<td>Timely contracting of advisory services</td>
<td>Contracting files</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Project purpose</th>
<th>Objectively verifiable indicators</th>
<th>Sources of Verification</th>
<th>Assumptions</th>
</tr>
</thead>
<tbody>
<tr>
<td>The project purpose is to contribute to a professional management of the relevant bodies that will enable appropriate implementation of the national legislation, taking due account of EU regulations and best practices, and appropriate provision of high quality services to the business community, consumers and citizens in a transparent manner, and in which the public will have trust.</td>
<td>Compliance with EU acquis. Number of complaints against the ERC and ISA.</td>
<td>Regular progress reports</td>
<td>Government remains committed to EU accession and implementation of the acquis, following up on comments provided in the regular progress reports.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Results</th>
<th>Objectively verifiable indicators</th>
<th>Sources of Verification</th>
<th>Assumptions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Component 1: Energy Regulator Specific results to be achieved include: Strengthened capacities of Energy Regulatory Commission Further approximation of the national primary and secondary legislation with the EU acquis; Reduction of the risk of corruptive activities; Assist in Software development (Functionality, Software development oversight, Training of staff) Develop Rulebooks on Quality of Supply, Monitoring and Security Supply in the Electricity and Gas Sector, Regulating Prices</td>
<td>The measurable indicators are: Rulebooks are adopted by 2009 A Software development plan is adopted by 2009 A Risk management plan vis-à-vis corruption is adopted by 2009 Relevant laws are identified and harmonization proposals are adopted by 2009 The number of staff members which have been trained (to be further detailed in the terms of references</td>
<td>- project reports - project outputs (e.g. draft rule books) - Energy Regulatory Commission decisions e.g. concerning rule books - Software operations</td>
<td>Commission continues to have sufficient staff and budget. Independence of the commission remains warranted.</td>
</tr>
</tbody>
</table>
### Component 2: Agency for Insurance Supervision

- Strengthened operational capacity of the ISA, by training staff to understand, apply and implement the best international practice in prudential supervision and EU directives in insurance;
- Drafted secondary legislative acts deriving from the Law amending the ISL;
- Recommendations for further approximation of the national primary and secondary legislation with the EU acquis are prepared;
- Developed First Annual report;
- Defined technical features of the necessary hardware and software application(s) and completion of consequent customization of the software (Functionalities, Software development oversight, Training of staff);
- Established relationships with relevant international organizations, with similar supervision bodies in EU countries, etc.
- Enhanced capacity of the local market players to implement the risk management rules, adequate corporate governance, internal control mechanism and required accounting policies.

The measurable indicators are:

- Relevant regulations (rulebooks, manuals, etc) for prudent operation of the Agency are adopted by 2009
- An internal hardware and software development plan has been defined by 2009
- Relevant laws are identified and further harmonization proposals are adopted by 2009
- The number of staff members of the Insurance Supervision Agency trained to execute assignments in line with the assigned responsibilities (to be further detailed in the terms of references)
- The first annual report of the Insurance Supervision Agency has been prepared by 2010
- The number of market players trained to practically apply the new requirements of the law and bylaws in the filed of insurance operation (to be further detailed in the terms of references)

### Activities

#### Component 1: Energy Regulator

- Support in the review, drafting and redrafting of the regulatory and supervisory legislation in the area of energy (especially support to transposing of the relevant EU legislation);
- Support to the drafting of the Rule Books (see above)
- Support to the further development of the IT infrastructure in the Commission
- Redefine internal rules and procedures to eliminate the risk for corruptive activities;
- Capacity building activities through training, on-the-job coaching as well as transfer of know-how and best practices from EU member states in the energy regulation.

#### Means

- Technical Assistance

#### Costs

- 1.5 Million Euro

#### Assumptions

- TA is of sufficient quality
- IT procurement is done by the E.R. Commission.
- Staff is motivated and enabled to apply training contents.

#### Component 2: Agency for Insurance Supervision

- Support in establishment (organizational set up, internal operational procedures, etc.) of the Insurance Supervision Agency, including (re)defining of internal rules and procedures to reduce the risk for corruptive activities;

#### Means

- Technical Assistance

#### Costs

- 500.000 Euro

#### Assumptions

- Agency is established
- Assistance in establishment and maintenance of direct relationships with other relevant international insurance bodies (supervisory and others), as well as the EU institutions;
- Strengthen the operational capacity of the ISA, including through:
  o Development of an internal human resources strategy;
  o Development of methods and means for the evaluation of insurance companies risks profile;
  o Transfer of know-how and best practices from EU member states in the fields of insurance sector supervision;
  o Support in handling complex cases;
  o Support to the further development of the IT infrastructure;
  o Direct training of staff through on-the-job coaching, seminars, training sessions etc.
- Assistance in continuation of the EU accession process, especially by:
  o Assessment of level of harmonisation of the applicable national insurance legislation;
  o Development of « tableaux de concordance »;
  o Development of recommendations for modification and improvement of the national insurance legislation, in line with both national and EU standards;
- Pilot assistance to the local market players to implement the applicable risk management rules, adequate corporate governance, internal control mechanism and required accounting policies.

Pre conditions

1) Endorsement by all key stakeholders of the Terms of Reference, specifications for the individual contracts to be engaged;
2) Appointment of counterpart personnel by the beneficiary before the launch of the tender process;
3) Timely allocation of working space and facilities by the beneficiary for technical assistants before the completion of the tender process;
4) Arrangement by the beneficiary of all legal procedures to allow construction (e.g. construction permits), refurbishment activities before the launch of the tender process;
5) Participation by the beneficiary in the tender process as per EU regulations;
6) Organisation and appointment of members of working groups, steering and coordination committees, seminars by the beneficiary as per workplan of the project;
7) Appointing the relevant staff by the beneficiaries to participate in training activities as per workplan;
8) Provision of the necessary authorisations for co-operating and sharing of information with the deployed advisory resources.
ANNEX II: Indicative planning of the amounts (in € Million) Contracted and disbursed by quarter for the project

<table>
<thead>
<tr>
<th>Contracted</th>
<th>Q1 2008</th>
<th>Q2 2008</th>
<th>Q3 2008</th>
<th>Q4 2008</th>
<th>Q1 2009</th>
<th>Q2 2009</th>
<th>Q3 2009</th>
<th>Q4 2009</th>
<th>Q1 2010</th>
<th>Q2 2010</th>
<th>Q3 2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Contract 1.1: TA for ERC</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>0.9</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Contract 1.2: Twinning for Energy</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>0.6</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Regulatory Commission</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Contract 2.1: TA for ISA</td>
<td></td>
<td></td>
<td>0.15</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Contract 2.2: TA for ISA</td>
<td></td>
<td></td>
<td>0.15</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Contract 2.3: Twinning Light for ISA</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>0.2</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cumulated</td>
<td>0.15</td>
<td>1.05</td>
<td>2.0</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

| Disbursed                                      |         |         |         |         |         |         |         |         |         |         |         |
| Contract 1.1: TA for ERC                       |         |         |         |         | 0.2     | 0.1     | 0.1     | 0.1     | 0.1     | 0.1     | 0.1     |
| Contract 1.2: Twinning for Energy              |         |         |         |         | 0.4     | 0.1     | 0.1     |         |         |         |         |
| Regulatory Commission                          |         |         |         |         |         |         |         |         |         |         |         |
| Contract 2.1: TA for ISA                       |         |         | 0.10    | 0.05    |         |         |         |         |         |         |         |
| Contract 2.2: TA for ISA                       |         |         | 0.10    | 0.05    |         |         |         |         |         |         |         |
| Contract 2.3: Twinning Light for ISA           |         |         | 0.15    | 0.05    |         |         |         |         |         |         |         |
| Cumulated                                      | 0.10    | 0.15    | 0.35    | 1.10    | 1.25    | 1.5     | 1.7     | 1.8     | 1.9     | 2.0     |         |
3.a) Reference list of relevant laws and regulations

Key laws and regulations on regulatory bodies and inspectorates:

- Law on Protection of Competition, 2005;
- Energy Law, 2006;
- Law on State Administrative Bodies Organization and Performance, 2002;
- Law on Transformation of the Joint Stock Company Electric Power Company for Production, Transmission and Distribution of Electricity in State Ownership, 2004;
- Methodology on Pricing of Individual Types of Energy (electricity, thermal energy, geothermal energy and oil derivatives, 2001);
- Conditions on delivery of appropriate energy type to the energy systems: electricity, natural gas, thermal energy
- Tariff systems for sale of individual types of energy: electricity, thermal energy and geothermal energy
- Decision on the criteria and conditions for limiting the use of individual types of energy (electricity and oil derivatives),
- Law on Supervision of Insurance, 2002;
- Law on Insurance, 2001;
- Law on Compulsory Insurance, 2005;
- Law on Mandatory Fully Funded Pension Insurance, 2005;
- Bankruptcy Law, 2004;
- Law on Obligations, 2003;
- Rulebook on the Procedure of Conducting Examinations for Insurance Brokers, 2002;
- Company Law, 2004;
- Regulation of the Insurance Company Chart of Accounts, 2002;
- Rulebook on the Format and Contents of Insurance Company Balance Schemes, 1999;
- The Methodology on Strategic Planning and Preparation of the Annual Work Programme of the Government, 2003;
- The Methodology on Policy Analysis and Co-ordination, 2006;
- Law on Government, 2003;
- Law on Organisation and Operation of the State Administrative Bodies, 2002;
- Law on Administrative Inspection, 2004;

3.b) Reference to AP /NPAA / EP / SAA

Reference to SAA: The program will contribute towards the implementation of the SAA Article 99 on formulation and planning of energy policy, and Article 83 on strengthening and restructuring of the insurance sector and the improvement of supervision and regulation of insurance services.
Date 07-06-2007

Reference to European Partnership: The program will address the following EP priorities: **Insurance**: “Strengthen prudential and supervisory standards in the banking and insurance sectors”; “Strengthen legal certainty for economic operators”; “Reinforce the legislation and the supervisory framework, including enforcement, for the financial sector, in particular regarding the insurance sector and securities markets”; “Establish an independent and properly staffed supervisory authority for the insurance sector”. **Energy**: “Begin to align the legislation on the internal electricity and gas markets, energy efficiency and renewable energy sources with the acquis in order to gradually open the energy market to competition”; “Strengthen the independence of the Energy Regulatory Commission”; “Start implementing the Energy Community Treaty”; “Enhance administrative capacity in all energy sectors”. **General**: “Further strengthen the administrative capacity of the regulatory authorities”; “Improve the country’s attractiveness for domestic and foreign direct investors”; “Further develop the capacity of the administration to implement the Stabilisation and Association Agreement”.

Reference to the EC Opinion and to the Analytical Report for the Opinion: The program will address the following needs as assessed by the Opinion: **Insurance**: “The insurance sector, including private pension insurance, remains small and underdeveloped. Gross written premiums totalled approx. € 82 million or about 2% of GDP in 2003; both figures have in fact gradually decreased since the late 1990s. The sector has suffered from weak governance. The number of insurance companies has increased from four in 2001 to nine at the end of 2004. Only one of them offers life insurance. Non-life insurance represents 98% of gross written premiums and is dominated by third party liability motor insurance with about 44% of total gross premium income (figures for 2003). The market is highly concentrated. The former state-owned insurance company dominates the market and is now majority foreign-owned. Although the country has recently moved towards a three-pillar pension system, second-pillar private pension funds, which will manage mandatory contributions, have not yet become operational. The main legislation in the field of insurance is the Law on the Supervision of Insurance adopted in 2002 and part 5 of the Law on Insurance; the latter regulates compulsory motor insurance. Secondary legislation has also been adopted. In general, the regulatory framework seems fairly advanced given the level of development of the domestic market. However, some important principles are missing and significant amendments will be required to bring the legislation into compliance with the acquis. For example, with regard to capital requirements, the required guarantee funds are significantly below the requirements of the acquis for all classes of insurance. Similarly, the minimum amounts of compensation for all personal injuries and material damage are far below the amounts specified in the motor insurance acquis. While third party liability motor insurance is mandatory, there is reportedly a significant proportion of uninsured cars. Appropriate measures should be taken to decrease the proportion of uninsured cars to a more manageable level. Insurance is regulated and supervised by specialised departments at the Ministry of Finance. The Insurance Supervision Division has three employees and is responsible for on- and offsite supervision, while the Insurance System Division has two employees and is responsible for licensing and regulation. The former currently employs a single actuary. The insurance legislation in place seems to provide for basic supervisory powers and imposes reporting obligations on insurance undertakings. However, the Insurance Supervision Division does not possess a sufficient level of independence and enforcement of the existing legislation is insufficient. Therefore, an independent supervisory authority needs to be established, with appropriate powers and resources, including a sufficient number of trained staff” “both the legislation and the corresponding supervisory framework, including enforcement, need to be significantly reinforced, in particular regarding the insurance sector and securities markets, which remain small and underdeveloped”; “The former Yugoslav Republic of Macedonia is currently far from meeting the requirements of the acquis on several key aspects of the energy chapter and it will have to make significant efforts to align its legislation and to effectively implement and enforce it in the medium term. Particular efforts are needed in the area of legislation on internal electricity and gas markets, energy efficiency and renewable energy sources. The country’s administrative capacity should be significantly strengthened in all energy sectors. Particular attention should be given to the Energy Regulatory Commission”.


Reference to the Progress Report: The latest progress report makes the following evaluation: Insurance: “The insurance sector remains little-developed and is mostly focused on non-life insurance. Supervision of the insurance sector continues to be weak, and an independent body has not been set up. Nonetheless, the country has made an effort as regards the insurance sector and is well on track”. Energy: “Appropriate implementing legislation needs to be developed. Administrative capacity should be significantly strengthened in the energy sector, and particular attention paid to the independence of the Energy Regulatory Commission”.

Reference to National Plan for Adoption of Acquis: The Plan has following priorities with regard to regulatory reforms in the fields of insurance and energy: Energy: “The development of a new Law on Energy is underway, and according to the Work Programme of the Ministry of Economy it is scheduled for adoption in April 2006. The adoption of the new Law on Energy has been proposed for the following reasons: regulation of issues in the entire energy area in a single consistent law, approximation and harmonization of the legislation of the country with the acquis communautaire, and approximation with the operational criteria and conditions of the EU. The new Law on Energy will regulate the following areas: energy policy; the Energy Regulatory Commission; construction of new energy facilities; electricity market, natural gas market, oil and oil derivatives market, thermal and geothermal energy market; licensing; energy efficiency and RES; protection of energy facilities, devices and plants and energy space; supervision and penalty provisions. The approval of the construction of new energy production facilities for electricity production requires an authorisation procedure, while in cases of threatened security of supply and for the purpose of promoting the RES and new technologies, a tendering procedure is envisaged”; “Activities will continue for drafting secondary legislation for the purpose of implementing the Law of Energy, attracting private investments for the construction of new energy facilities, the implementation of specific projects for energy efficiency enhancement, increase of the share of RES in the energy consumption, as well as, international activities and other ongoing activities in the area of energy”; “In the course of 2006, the Ministry of Economy plans to adopt a new systematization, according to which four new Units will be established within the Sector for Energy, these being: Unit of Investment Projects in Energy, Unit of Electricity System, Unit of Fossil Fuels and Unit of Energy Efficiency and Renewable Energy. Twelve new employments are envisaged after the adoption of the systematization, so that six persons will be employed in 2006, and 3 persons in each 2007 and 2008. The Energy Regulatory Commission plans to strengthen the capacity and carry out staff training in the areas of energy market surveillance, disputes settlement, monitoring of the compliance with the obligations contained in issued licenses. The Agency for Energy will commence its operations in 2006. The Agency for Energy will provide support to the Government and to the energy sector in the country in the provision of efficient and sustainable energy development of the country. It will establish the expert basis for the creation of the energy policy (strategy) of the country and the development of medium and long term development plans, priorities assessment and their promotion before investors. The central Government budget has allocated part of the funds for the Agency, which can cover the expenses for the employment of two persons in 2006”. Insurance: “In the course of 2006, aiming at further harmonization with the EU Directives and adoption of the European insurance principles and standards, especially in the part of strengthening the independence of the supervisory body, the Ministry of Finance will prepare a Draft Law Amending the Law on Supervision of Insurance. Foundation for preparation of the amendments to the Law will be the detailed Analysis of the degree of harmonization of the insurance legal framework with the relevant EU Directives and principles and standards of the International Association of Insurance Supervisors, prepared within the framework of the project for Technical assistance to the Ministry of Finance in the area of insurance regulations, financed by the CARDS program (Framework contract AMS/451 Lot No. 10. DGIUGLARIS060-CARDS-EAR-MK). The amendments in the Law on Supervision of Insurance will enable establishment of a legal framework for founding and functioning of an independent supervisory body in the area of insurance, which is an activity planned to be realized in the first half of 2007. In the course of 2007, about 15 bylaws will be adopted, which arise from the Law on Supervision of Insurance and in more detail regulate certain aspects of the operations of insurance companies, such as the manner of allocating technical reserves, investing of the funds covered by
the technical reserves, the manner of calculating the capital and the required level of solvency margin, calculation of liquidity ratios, detailed content of the annual report of the insurance companies, detailed content of the audit report, new chart of accounts and forms of financial statements of insurance companies etc. Adoption of the above-mentioned bylaws will provide for development of the regulation and its further harmonization, especially with the Directive 31991L0674 that is related to the consolidated accounts of the insurance undertakings, as well as the three generations of Directives for non-life insurance and life assurance in the segment of detailed regulation of the needed level of solvency margin and the capital of insurance companies, monitoring of liquidity and other measures for risk management”; “In a medium run the Ministry of Finance envisions further harmonization of the national insurance regulation with the Directives and other regulations of the European Union, especially with regard to the implementation of the provisions related to co-insurance, electronic trade, financial conglomerates and other regulations that will be in force in the European Union. The legal framework in the area of supervision will be additionally developed also by full transposition of the following EU Directives: Directive 31978L0473 - co-insurance; Directive 31984L0641 - tourist assistance; Directive 31987L0343 - credit insurance; Directive 31987L0344 - legal expenses insurance; Directive 31991L0674 - consolidated accounts; Directive 31998L0078 - supplementary supervision of insurance undertakings in an insurance group; Directive 32001L0017 - reorganization and winding up of insurance companies; Directive 32002L0013 - solvency margin requirements; Directive 32002L0087 - financial conglomerates; Directive 32002L0092 - insurance mediators. Regarding the mandatory transport insurance, in the medium run harmonization with the V EU Directive (V Motor Directive) on automobile liability insurance is envisaged. Regarding the institutional and administrative capacity, in a medium run full operational functioning of an independent supervisory body is envisaged, which will have capacity to conduct adequate, professional and continuous supervision on the operations of the insurance companies and insurance brokerage houses”; “In order to strengthen the supervision of the insurance sector, establishment of an Agency for Insurance Supervision is envisaged”.

3.d) Reference to MIPD

Multi-Annual Indicative Planning Document refers to: “Enhance the regulatory framework for trade and provision of services, focusing on priorities established by the WTO, the SAA and bilateral/regional trade agreements”; “Markets will have become more efficient and competitive as a result of closer compliance with the EC acquis and EU best practice (e.g. market for electronic communications”. Specifically for the insurance sector, it highlights that “Well-regulated and properly controlled and supervised financial markets (e.g. insurance and banking sectors, stock market, etc.) are essential to sustainable growth and a prerequisite for attracting domestic investment and FDI”; “Particular attention should be paid to improving quality of financial services”. On the energy, it underlines that “Support will be given to reorganising and strengthening the public administration and institutions in the transport and energy sector and to implementing the requirements of the Energy Community Treaty”; “The transposition of the Community acquis will have been largely completed in the area of the Internal Market, transport and energy”.

3.e) Reference to National Development Plan

The proposed project has reference in following assessments of the Plan: “Institutional development and capacity building for systemic improvement of the quality of regulation shall be done by: (a) building an institutional and legal framework needed for development and an overall approach to the regulatory reforms; (b) building a regulatory management system in line ministries and central government; (c) capacity building for improving the quality of the existing and the new regulation, through their impact analysis, (d) establishment of a comprehensive and centralised register of regulation”; “Independent yet accountable institutions in practically all infrastructure sectors are needed to oversee competition. The nature of necessary regulation depends largely on the nature of the prevailing and potential competition. In the case of competition in the market, the regulation should be less concerned with the price control, but
more with the issues related to safety, environmental and technical standards. If conditions for granting licenses to operators are reasonably clear and non-
discriminatory, and appropriate safety regime is enforced, than regulation of these services can be left to competition agencies. When there is a competition for
the market, some amount of regulatory is absolutely necessary to monitor compliance with the concession agreements signed between public authorities and
private concessionaires”.

3.f) Reference to national / sectoral investment plans

The project directly links to the two key strategies and action plans in the sector:
- Energy Community Treaty Agreement, 2006;
- Strategy on Development of the Energy Sector, 2000;
- Study on least-cost development until 2020,
- Energy Policy Paper, 2004;
- Strategy on energy efficiency until 2020, 2004;
- National Strategy for European Integration,
ANNEX IV: Details per EU funded contract (*) where applicable:

The project foresees the provision of Technical Assistance through both service contracts and possibly framework contracts (to the ISA).

No deviations from standard regulations are foreseen.

Component 1: Support to the Energy Regulatory Commission

Project Management and Administration

A project steering committee will be established to oversee the total process of the activities.

Advisory services will be provided to the Energy Regulatory Commission. Next to a team leader being responsible for the overall activity implementation, additional expertise will be engaged to build capacities in – inter alia - energy engineering, economy and law as well as to address the cross-cutting issues.

The team leader will be responsible for the overall management, representation (co-ordination with the EU and other international bodies) as well as reporting. The co-ordination of activity development in the different components of the activity is significantly important. The team leader is responsible for an appropriate management of resources. During the inception phase of the project, a detailed deployment plan will be developed under the coordination of a Steering Committee in which each co-operating national institutions will be represented to ensure appropriate inclusion.

The contracting arrangements are expected to be as follows:

a) 1 Service contract will be concluded following an open international tender process.
   - The duration of the contract will be for a period of 18 to 24 months, depending on the budget
   - The successful tenderer will start deployment one month after contract signatory, the expected deployment date is: November 2008
   - The contract value will be approx. 0.9 Million Euro

b) 1 Twinning Arrangement will be developed with an appropriate EU MS institution.
   - The duration of the twinning will be for a period of 18 to 24 months, depending on the budget
   - The successful EU MS institution will start deployment one month after contract signatory, the expected deployment date is: March 2009
   - The contract value will be approx. 0.6 Million Euro

The activities foreseen include:

B) Support in the review, drafting and redrafting of the regulatory and supervisory legislation in the area of energy (especially support to transposing of the relevant EU legislation);
C) Redefine internal rules and procedures to eliminate the risk for corruptive activities;
D) Support the beneficiary body in developing and implementing a professional Human Resource Development strategy;
E) Support to the drafting of the Rule Books (see above)
F) Support to the further development of the IT infrastructure in the Commission
G) Capacity building activities through training, on-the-job coaching as well as transfer of know-how and best practices from EU member states in the energy regulation.

Component 2: Support to the Insurance Supervision Agency (to be established)

Project Management and Administration
A project steering committee will be established to oversee the total process of the activities.

Advisory services will be provided to the Insurance Supervision Agency (ISA). Next to a team leader being responsible for the overall activity implementation, additional expertise will be made engaged to support – inter alia – in the fields of insurance operations and law as well as to address the cross-cutting issues.

The team leader will be responsible for the overall management, representation (co-ordination with the EU and other international bodies) as well as reporting. The co-ordination of activity development in the different components of the activity is significantly important. The team leader is responsible for an appropriate management of resources. During the inception phase of the project, a detailed deployment plan will be developed under the coordination of a Steering Committee in which each co-operating national institutions will be represented to ensure appropriate inclusion.

However, depending on the developments prior to the delivery of the advisory services, it may be decided to engage in 1 to 3 different Framework Contract to support the specific elements mentioned above. In that case, no team leader will be appointed for the overall management of the project.

The contracting arrangements are expected to be as follows:

a) 1-2 Service contract will be concluded (following an international restricted tender procedure)
   - The duration of the contracts will be for a period of 6-18 months, depending on the budget
   - The successful tendered will start implementation one month after contract signatory, the expected date for implementation is November 2008.
   - The contract value will be approx. 0.3 Million Euro

b) 1 Twinning Light Agreement will be developed with an appropriate EU MS institution.
   - The duration of the twinning will be for a period of approx. 6 months
   - The successful EU MS institution will start implementation one month after contract signatory, the expected date for implementation is March 2009.
   - The contract value will be approx. 0.2 Million Euro

The activities foreseen include:

The support to the Agency for Insurance Supervision is at this stage formulated somewhat flexibly as the Agency still needs to be established, which is expected to be legally done by the end of 2007. The present support project is expected to become operational in the autumn of 2008. Depending on the progress being made prior to project deployment, the relative importance of the individual activities identified below will be defined.
• Support in establishment (organizational set up, internal operational procedures, etc.) of the Insurance Supervision Agency, including (re)defining of internal rules and procedures to reduce the risk for corruptive activities;

• Assistance in establishment and maintenance of direct relationships with other relevant international insurance bodies (supervisory and others), as well as the EU institutions;

• Strengthen the operational capacity of the ISA, including through:
  o Development of an internal human resources strategy;
  o Development of methods and means for the evaluation of insurance companies risks profile;
  o Transfer of know-how and best practices from EU member states in the fields of insurance sector supervision;
  o Support in handling complex cases;
  o Support to the further development of the IT infrastructure;
  o Direct training of staff through on-the-job coaching, seminars, training sessions etc.

• Assistance in continuation of the EU accession process, especially by:
  o Assessment of level of harmonisation of the applicable national insurance legislation;
  o Development of « tableaux de concordance »;
  o Development of recommendations for modification and improvement of the national insurance legislation, in line with both national and EU standards;

• Pilot assistance to the local market players to implement the applicable risk management rules, adequate corporate governance, internal control mechanism and required accounting policies.

Participation in international conferences, seminars, training courses and other relevant events related to insurance supervision may be considered.