



Republic of Macedonia
Government of the Republic of Macedonia

NATIONAL STRATEGY FOR EUROPEAN INTEGRATION OF THE REPUBLIC OF MACEDONIA

Government of the Republic of Macedonia - Sector for European Integration



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NATIONAL STRATEGY FOR EUROPEAN INTEGRATION OF THE REPUBLIC OF MACEDONIA

Skopje, September 2004

Book title	National strategy for European Integration of the Republic of Macedonia
Author	Government of the Republic of Macedonia
Publisher	Government of the Republic of Macedonia, General Secretariat, Sector for European Integration
Design & print	b2c.net.mk
Circulation	1.000

The preparation and printing of this publication was supported by the DFID Support for Public Administration Reform in the Republic of Macedonia

CIP - Каталогизација во публикација
Народна и универзитетска библиотека "Св. Климент Охридски", Скопје

341.171.071.51(4-672EU:497.7)

NATIONAL strategy for European integration of the Republic of Macedonia. - Skopje : Government of the Republic of Macedonia, General secretariat, Sector for European Integration, 2005. - 228 стр. ; 24 см

Изв. ств. насл.: Национална стратегија за интеграција на Република Македонија во Европската унија

ISBN 9989-2238-4-X

а) Македонија - Зачленување - Европска Унија - Национална стратегија

COBISS.MK-ID 61345034

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PREFACE

To have a vision and to know how to achieve it are the two key elements for the Republic of Macedonia on the road to the European Union. These two essential components are the common threads in this document, intended to be the Republic of Macedonia's guide towards membership of the European Union.

This Strategy is a joint product of a broad group of people from the administration and the academic community; this guarantees its quality. A wide political consensus has been achieved for the Strategy; this guarantees its sustainability.

There was one immediate goal – to create a document that is broad enough to allow for the development of consistent sectoral policies, and is additionally concrete enough to be relevant.

The very process of writing the Strategy also meant much more – creation, learning, widening the circle of individuals who will make the Macedonian road to the EU less difficult, and the aim more achievable.

Vision and knowledge on how to develop the future from the present are what gives the real value to a strategic document. However, only with perseverance and lasting commitment, can words on paper be put into practice. Hence, policy documents are only justified if they lead to implementation.

Looking into the future, we have the right to be cautious. But, looking back to the very recent past, we have the right to be irredeemable optimists. Because, something that seemed unachievable just a few months ago, is achievable today. Important goals have already been attained since the approval of the Strategy – now, at the time of its publication, the Republic of Macedonia is close to gaining the status of a candidate for membership of the Union.

When a strategy has achieved its goal it has no further purpose. The purpose of this Strategy will be exhausted through its implementation and the fulfilment of its goal – the Republic of Macedonia as a member of the European Union.

In the meantime, while implementing the Strategy, some of our energy will be devoted to designing another one – a strategy to make the Republic of Macedonia a successful and respected member of the European community of nations. Macedonia deserves no less.

Radmila Šekerinska

Deputy Prime Minister
Government of the Republic of Macedonia

SUMMARY

1 The National Strategy for European Integration of the Republic of Macedonia sets out the fundamental aims, policies and priorities in the process of acquiring membership of the European Union (EU).

The Republic of Macedonia submitted its application for membership of the European Union on the 22 March 2004, thus confirming its strategic commitment towards EU accession declared since its independence and permanently and strongly supported by the political parties and the citizens.

The aspirations towards EU membership are supported by the facts that the Republic of Macedonia:

- is a European country whose history, culture and civilization belong to Europe;
- will by its accession to the EU contribute to expanding the Continent's area of peace and stability;
- having established a system of democratic values, respects the system of values upon which the European Union was founded; and
- there is a political consensus regarding accession to the EU which is supported by the vast majority of Macedonian citizens.

The objective of the Republic of Macedonia is, in the short run, to gain candidate status for membership of the EU and open negotiations.

It is in the strategic interest of the Republic of Macedonia to become a member of the European Union. As a relatively small, landlocked developing country, the Republic of Macedonia is committed to openness, cooperation and the establishment of links with neighbouring countries, as well as with the countries in the closer and wider region. Both in political and economic terms, it is of essential interest for the Republic of Macedonia to reinforce the links and partnership based on mutual interests. Furthermore, the stability and prosperity of the Republic of Macedonia on a crossroad in South East Europe are of great significance for the European Union.

As a multiethnic community, the Republic of Macedonia places its prospects in the strengthening of an open and democratic civil society that cannot remain locked within its own narrow boundaries. Consequently, the ideas of "unity in diversity", of social inclusion and of stronger interrelation in the European Union are the inherent and shared goals of the Macedonian society.

The key benefits of the EU membership would include:

- Overall economic and social development stimulated by a stable political and economic environment;
- Increased national security through the mechanisms of the common foreign and security policy;
- The possibility to participate in making the key decisions on the future of Europe and the world;
- Accessibility to the common European market, one of the largest and most powerful markets in the world;

- Predictability of business activities and lowering of risk;
- The monetary union could possibly lead to a new development impetus;
- Boosting trade and observing the rules of competition as a motivating factor;
- Introducing new technologies, new products, European technical standards; and
- New employment opportunities for Macedonian citizens and reaching the level of living standards in the democratic and developed EU member countries.

2. The Republic of Macedonia realised its right to self-determination with the referendum held on 8 September 1991, thus peacefully gaining its independence, unlike the other members of the former Yugoslav Federation, in the disintegration process of the former Yugoslavia. Over the entire period after independence, the Republic of Macedonia has been continuously maintaining and developing constructive relations with all the countries of the former Yugoslavia and with all of its neighbours, succeeding in peaceful resolution of emerging disputes, resolutely committed to the principle of dialogue, and staying apart from the destructive conflict. The Republic of Macedonia had, also, a constructive position in the course of the crisis resolution in the former Yugoslavia, particularly during the Kosovo crisis in 1999 when it admitted over 350,000 refugees. The Macedonian approach represents a unique contribution and a model in the region. The Republic of Macedonia is a consistent and reliable partner of the EU and the international community in the efforts to enable the South-East Europe region to meet the challenges of democratic transformation and to firmly set the course towards the EU.

The EU accession process in the Republic of Macedonia immediately following independence, in contrast to most of the new democracies in Central, East and South-East Europe, was deferred because of the delayed recognition of the Republic of Macedonia as an independent state in 1993. This was a result of the imposed name dispute, despite the declared position of the Badenteire Commission, established by the EU, that Macedonia met all the conditions to be recognised as an independent state. Diplomatic relations with the EU were established in 1995, and the conclusion of the Cooperation Agreement followed. PHARE membership in 1996 provided a significant impetus to the processes of getting closer to the European Union. The introduction of the regional approach for the Western Balkan countries in 1997 and the Stabilisation and Association Process in 1999 set the EU framework for further development of relations with the Republic of Macedonia. The Republic of Macedonia was the *first state in the region to conclude a Stabilisation and Association Agreement with the EU in 2001*. It entered into force on 1 April 2004, and, again, it was the first Agreement of this kind to enter into force. The Agreement sets out the cooperation framework between the EU and the Republic of Macedonia and enables progressive harmonisation of the relevant policies, legislation and institutions in the Republic of Macedonia with the values and standards of the European Union. Also, by a special regulation in 2000, the EU gave Macedonian products a preferential status in the Common European Market, thus enabling the Macedonian economy to progressively adjust to the EU market requirements and standards.

The European Council in Feira expressed its clear position that the future of the countries in the region is in the European Union. The Thessaloniki Agenda "The Western Balkans: moving towards European Integration" of 2003 confirmed the European perspective on the Western Balkan countries and enriched the stabilisation and association process with new instruments: the European Partnerships, and access to Community programmes, TAIEX and Twinning. With its proactive approach and programmed identification of priorities, the Republic of Macedonia will benefit from these instruments in the EU integration process. This approach will be used to prepare for the membership negotiations.

The reforms that the Republic of Macedonia is undertaking while preparing for EU membership are focused on fully meeting the membership criteria defined under the Copenhagen European Council in 1993.

* * *

The Republic of Macedonia established a system of parliamentary democracy by its Constitution of 1991, but deep political reforms based on the principle of division of powers have been implemented continuously in parallel with the transformation of the market economy system.

The future development of the political system in the Republic of Macedonia will focus on strengthening and increasing the efficiency of the mechanisms for ensuring balance between the different branches of power. Also, the impact of the independent state bodies will be strengthened, along with developing synergy with the civil sector.

The Republic of Macedonia, as a member of the Council of Europe since 1995, ratified the key international instruments supporting human rights which represent an inherent part of its internal legal order. Along with the development of international standards in this area through the ratification of the relevant conventions, the focus will be on the development of the mechanisms for respect and protection of human rights and freedoms, and the monitoring of their implementation.

Considering the ethnic composition of its population and the complex regional context after the disintegration of former Yugoslavia, the paramount challenge for the Macedonian democracy to date was the development of a minority rights concept. The Framework Agreement resolved the ethnic conflict of 2001 and guaranteed the territorial integrity of the Republic of Macedonia. The Agreement guarantees the introduction of participative mechanisms when making decisions related to the communities' identity; equitable representation of the members of the non-majority communities in the public administration; a high level of decentralisation; promotion of the official use of the non-majority languages and alphabet, as well as the communities' symbols; and, higher education in the language of the non-majority communities that represent at least 20% of the population. The Framework Agreement was the source for the introduction of significant changes in the constitutional order of the Republic of Macedonia in 2001 which focused on a higher level of inclusiveness of the citizens who are members of the non-majority communities, particularly of the Albanians, as a non-majority community of over 20% of the population in the Republic of Macedonia.

The Framework Agreement is a prime political priority for the Republic of Macedonia and it is being implemented in accordance with the Framework Agreement Implementation Plan adopted in 2003.

* * *

The Republic of Macedonia will consistently continue to implement and develop the regional cooperation policy by creating an environment for more intensive economic integration, strengthening of the political cooperation and cooperation in all other sectors particularly in the implementation of joint projects within the EU integration process of the countries in the region.

* * *

Engaging in a continuous political dialogue through the bodies of the Stabilisation and Association Agreement, regional cooperation and other activities within its foreign and security policy, the Republic of Macedonia will ensure continuous alignment with the EU common foreign and security policy.

3. The transitional process in the Republic of Macedonia in the period since its independence was complex – the loss of the traditional markets in the former Yugoslavia, the break down of the production and commercial relationships, the embargo towards FR Yugoslavia, the embargo from Greece, the refugee crisis in 1999, the internal interethnic crisis in 2001 – all these were the factors that significantly aggravated the already difficult transition challenges. The real GDP in the period 1992 – 1995 showed a cumulative decline of 20% and the industrial production decreased by 42%. Despite the moderate growth of GDP since 1996 (except in 2001), the Republic of Macedonia has not yet reached the development level of 1990, the period before independence, even after 13 years of transition.

However, despite the unfavourable external influences, the Republic of Macedonia has managed to maintain and to persistently implement its priorities focused on ensuring macroeconomic stability and implementing the challenging reforms.

3.1. The basic framework of the **economic and social part of the Strategy** is achieving consistency of economic policies and closely linking the reform processes to the goal of EU accession. The outline of the Strategy for European Integration of the Republic of Macedonia includes the following components:

- 1 maintaining macroeconomic stability;
- 2 creating an environment for accelerated economic growth and increased employment;
- 3 providing adequate and targeted social protection aimed at alleviating social impacts of transition; and
- 4 diminishing the implementation gap.

3.1.1. The transition in the Republic of Macedonia is characterised by achieved *macroeconomic stability*. By 1995, the economic stabilisation programme was successfully completed and resulted in reduced inflation which has been continuously maintained at a low level ever since. In the medium term, the key macroeconomic forecasts range in the following outlines: 4 - 5 % annual growth of GDP; 2.5 % inflation; budget deficit below 1%; and current account payment balance deficit of 0.8%. The priority objectives of the macroeconomic policy continue to include the maintenance of macroeconomic stability, stabilisation of the budget deficit at a sustainable level (within the Maastricht Criteria) and the creation of a favourable environment for lowering interest rates.

3.1.2 Throughout the transition period, *monetary policy* was constrained by tying the foreign exchange rate of the Denar to the German Mark, and later to the Euro, and by maintaining price stability. The Macedonian National Bank has been established as an independent central bank. The monetary policy will continue to maintain macroeconomic stability, but it will become more sensitive to the need for supporting the competitiveness of the Macedonian economy. There will be a phased approach in the liberalisation of capital flows in accordance with the Stabilisation and Association Agreement. The *fiscal policy* will be focused on supporting macroeconomic stability, but it will be steered more firmly towards stimulating economic growth.

3.2 Macroeconomic stability on its own is not sufficient for sustainable economic growth. Therefore, the *policies supporting accelerated economic growth and the*

structural reforms aimed at strengthening competitiveness and increased employment are a priority. The implementation of structural and institutional reforms, and the improvement of the business environment leading to an expansion of the private sector as a major driver of future development are crucial.

3.2.1 The policy of *external economic opening and liberalisation* was launched right at the beginning of the transition period and it resulted in continuous reductions in the customs rates and adoption of the harmonised customs system. The Republic of Macedonia became a member of the WTO in 2003. Import quotas have been removed and import licences for specific products are issued on the principle of “first come – first served”. The Republic of Macedonia, being one of the promoters of the free trade zone in South-East Europe, concluded free trade agreements with all the countries in South East Europe, EFTA, Ukraine and Turkey, and the procedure for joining CEFTA is in process. Half of Macedonian trade operations are with the EU and one-third with the countries from the former Yugoslavia. The trade balance, however, shows continuous deficit and the structure of the Macedonian exports indicates that the Macedonian economy is insufficiently competitive with relatively low prices of products and a high share of inexpensive domestic labour. The *foreign trade policy* of the Republic of Macedonia seeks an increased share of foreign trade goods and services in the GDP; improvement in the balance of payments; and stimulation of direct foreign investments (DFI) inflow. In this context, the regulatory framework will be further refined to stimulate foreign trade and DFI and to achieve concordance with EU standards and WTO requirements. Regional economic cooperation will be continuously strengthened. *It is essential to strengthen the existing, and to develop new, competitive advantages based on modern technologies, the promotion of high quality education, and the development of management skills.*

3.2.2. The major part of direct foreign investments in the Republic of Macedonia, despite guaranteed privileges, mostly relates to privatisation transactions and there is lack of green-field investments. The *policy for stimulation of investments*, formulated in the special Programme for Encouragement of Investments, will focus on improvement of the business environment. The Agency for Encouragement of Investments is responsible for implementation of the Programme. Along with the activities relating to investment promotion, measures for improvement of exports have been designed.

3.2.3. Price liberalisation will be conducted in hand with *protection of competition*. The development of transparent regulatory and institutional mechanisms for protection of competition will continue on the basis of the already developed primary and secondary legislation (anti-monopolistic legislation, state aid legislation).

3.2.4. The development of the *private business sector* in the Republic of Macedonia is characterised by the privatisation process and the development of small- and medium-sized enterprises. The privatisation process is almost completed, and the post-privatisation restructuring is focused on the improvement of corporate management practices. Further development of the business sector will focus on a) the creation of a stable and predictable institutional environment; b) harmonisation with the EU legislation; and c) a proactive industrial policy. Full development of the regulatory framework supporting the market economy, as an agent for development of the private sector, also implies improvements in: accounting standards and their implementation; developing the tax base; the enterprise registration procedure; and the development of regulations securing receivables. The policy supporting the business sector is developed consistently with the microeconomic policy of the EU (EU Industrial Competition Policy, the Lisbon Strategy for Economic, Social and Environmental Renewal).

3.2.5. The *improvement of human capital* is one of the pillars of the reforms focused on increasing employment rates, productivity and competitiveness of the Macedonian economy. The policy has three key elements: the first one is reform in education, based on the principles of the Bologna process; the second one refers to continuous education, training and development in all fields; and the third one to strengthening management skills in the business sector and in the public administration.

3.2.6. Macedonia has adopted the Small and Medium Enterprises Charter of the EU. The Agency for Support of Entrepreneurship is responsible for implementation of the Development Programme for *Small and Medium Enterprises Development and Encouragement of Entrepreneurship*. On the other hand, the Entrepreneurship and Competition Council will be responsible for the promotion of partnerships among the public, private and civil sectors.

3.2.7. The *production factors promotion* programmes are focused on the improvement of human capital, assets and administrative structures. In this context, the *Information Society Development Project* is considered a priority and is consistent with the EU Plans – eEurope, eEurope+, and SEE eEurope. Moreover, the policy in the fields of scientific research and technology in Macedonia focuses on harmonisation with the models of competitive advantage of the Macedonian industry, and the development of commercially relevant technologies by the establishment of links between the scientific research sector and the business sector and increased budgetary support for selected priority areas (sustainable development, management of water resources, energy, new materials, environment, information and communication technology, health, biotechnology, production of high quality foodstuffs, and geological sciences and engineering). This is the framework for participation in the COST Community Programme. The adoption of the ISO 9001:2000 quality systems is another priority connected to the promotion of the production factors.

3.2.8. Reforms in the field of *intellectual rights protection* – industrial property and copyright protection, are at an advanced stage with a high level of harmonisation of the legislation and well developed institutions; the future focus will be on consistent implementation.

3.2.9. The key challenge for the *agricultural sector* is the development of competitiveness so that Macedonian agriculture can compete in the integrated regional markets of the European Union and South East Europe. The reforms in the agricultural sector are focused on strengthening the efficiency of agricultural production, processing and marketing; building effective public and private institutions to support the development of agriculture; strengthening the regulatory framework for veterinary protection, phytosanitary systems and food safety; optimal and sustainable use of limited resources (land, forests and water); and, sustainable rural development. The reform of the direct financial assistance system will be implemented within the scarce budget resources, and in accordance with the principles of the EU Common Agriculture Policy. The support will focus on “green measures”. Employing the EU structural instruments to support the Macedonian agricultural sector would ensure sustainability of the reforms and adjustment to the requirements of the common market.

3.2.10. Within the *public finance* reforms, public revenues reforms will be focused on ensuring regular and timely financing of budget expenditures; harmonisation with EU legislation; improvement of tax administration; fiscal decentralisation adjustments; investment promotion; and balanced and just distribution of tax burdens. The priorities in the area of public expenditures are: changing the overall budget expenditure structure; improving the planning process and efficiency; and, transparency and

accountability in the management of public resources. In addition, the treasury and public procurement systems have been improved through the harmonisation of legislation with EU legislation.

3.2.11. Fiscal decentralisation will enable the strengthening of the capacities in local self-government to manage local development and the implementation of the additional competencies of the municipalities.

3.2.12. The reforms in the *financial sector* are focused on the strengthening of competition in this sector and improvement in the legislation and supervision regarding financial institutions. The harmonisation of the banking system with the Basel standards is an ongoing process, as well as the harmonisation with EU legislation leading to further liberalisation of banking operations. The Strategy for Development of Treasury Bonds identifies measures for the development of the primary and secondary treasury bonds markets. The priority in the insurance sector is further harmonisation of the legislation with EU legislation, and, in particular, market liberalisation, the attraction of foreign investments, strengthening competition and the supervisory function.

3.2.13. The measures for improvement of the institutional arrangements in the area of *public utilities* are focused on the introduction of a commercial orientation and the management of the public enterprises; strengthening of the regulatory systems and bodies; and, strengthening of market competition.

3.2.14. The development of the *infrastructure* rests on the sectoral strategies reflecting the specifics of the relevant area. However, future planning needs to develop an integrated strategic approach related to the infrastructure corridors. The transport infrastructure will be developed according to the set priorities – Corridor 10 and Corridor 8. In order to improve the efficiency in the railway transport, Macedonian Railways will be restructured. In the telecommunications sector there will be full harmonisation of the legislation in accordance with the Stabilisation and Association Agreement. The measures in the electrical power sector focus on gradual integration of the region in the European energy market in accordance with the Athens Memorandum. The restructuring of the Electric Power Company is being implemented by the separation of transmission and distribution from energy production; the Company will be gradually privatised. The general policies for further development of the energy sector will focus on the improvement of energy efficiency and an increased share of renewable types of energy in energy consumption. The gap between the needs and the available resources is a key problem in infrastructure development and will be gradually overcome by the prioritisation of investments and by combining sources of financing.

3.2.15. The ongoing decentralisation process will give a new impetus to *local economic development*, based on increased capacities of the municipalities to create sustainable economic development through their own revenues. The Nomenclature for the Territorial Units for Macedonia will be harmonised with the Nomenclature for the Territorial Units for Statistics (NUTS); underdeveloped regions and regions with serious environmental problems will be identified. The introduction of an integrated approach to regional and local development policy will be supported by the development of a local network of institutions and agencies, as well as by the promotion of partnerships between the public and private sectors at a local level.

3.2.16. The policy in the area of *environmental protection* is based on an integrated approach and gradual harmonisation with EU legislation. The National Environmental Action Plan was adopted in 1996 and the preparation of the Second National Plan is in progress in accordance with the Sixth Environmental Action Programme of the EU. One

of the greatest challenges for the environmental policy is the establishment of an optimal balance between economic and environmental efficiency, which will involve increased use of economic instruments for the protection of the environment. The preparation of the Local Environmental Action Plans, which is a legal obligation, is in progress. Also, a National Strategy for Sustainable Development is being prepared.

3.3. The restructuring of the enterprises, the liquidation of significant number of industrial enterprises and the public sector reforms have contributed to increased *unemployment*. Unemployment in the Republic of Macedonia is of a structural nature and measures for its reduction are an important part of the overall economic policy.

3.3.1. The policy on *human resources and labour market development* primarily focuses on measures for encouraging job creation. On the other hand, permanent investment in human capital will be stimulated through the provision of a relevant public and private education network. The removal of the remaining institutional inflexibility in the labour market and social protection, should contribute to improved mobility of labour in parallel with measures for suppressing employment in the “grey economy”. These measures have been elaborated in detail in the National Action Plan for Employment 2004 – 2005.

3.3.2. The *reforms in the pension system* are ongoing. The pension system will include three pillars: 1) a mandatory state pension fund; 2) a mandatory private pension fund; and 3) a voluntary private pension fund.

3.3.3. The reforms in the area of *social protection* are focused on de-institutionalisation and decentralisation, applying several models of partnership between the public and the private sectors.

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4. *The process of approximation of the Macedonian national legislation to that of the EU* has been taking place since the Republic of Macedonia gained its independence. The period until 1996 was characterised by harmonisation of the overall legal system with the new categories contained in the 1991 Constitution and by the introduction of market economy institutions. The law approximation process has been intensified since the Cooperation Agreement with the European Community was signed in 1996, as it contained a clause on law approximation. According to the Stabilisation and Association Agreement, harmonising the internal market legislation has been identified as a priority in the first phase of association. The harmonisation of internal market legislation (competition, state aid, public procurement, protection of intellectual property, personal data protection and quality infrastructure) is in an advanced stage; at the same time, the institutional capacities that are necessary for implementation are being established and strengthened.

4.1. The overall law approximation institutional infrastructure has been developing gradually since 1996 and has been incorporated in the institutional infrastructure supporting the European integration process. The Subcommittee for Law Approximation is supported by 29 inter-ministerial working groups based on the *acquis communautaire* screening chapters.

4.2. The harmonisation of legislation takes place in a programmed manner, through a Law Approximation Programme, which is adopted annually and which is complementary

with the Programme of the Government of the Republic of Macedonia. In addition, a database has been developed to support the approximation process. Procedural norms are in place to ensure monitoring of the conformity of legislation and a mandatory conformity statement has also been introduced as a requirement.

4.3. Further priorities in the law approximation process are as follows:

- strengthening the integrated approach and ensuring consistency of the law approximation process by adjusting the national policies to those of the EU;
- improving the economic, social and fiscal impact assessment;
- consultation with all stakeholders during the law drafting process;
- maintaining the consistency of the legal system of the Republic of Macedonia;
- adjusting the approximated norms to the specific conditions and circumstances in the Republic of Macedonia;
- improving the law drafting techniques in order to ensure that the laws are simple, comprehensible and accessible;
- greater involvement of the Parliament of the Republic of Macedonia; and
- strengthening the supervision of the implementation of laws.

4.4. The introduction of the European Partnership, which defines the priorities in the stabilisation and association process more closely, has also defined clearer short-term and long-term objectives for the law approximation process. On the basis of the European Partnership, the Stabilisation and Association Agreement and the progress made in the law approximation process, and using the experience and knowledge acquired so far, the Republic of Macedonia *will start preparing a Programme for the Adoption of the Acquis Communautaire* in 2005.

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5. Macedonia's approach to integration in the area of **justice and home affairs** has been set by the following key determinants:

- Ensuring a system of stable institutions that operate in the area of justice and home affairs and guarantee support to the other sectors of integration;
- Aligning the standards and rules that are required in order to establish close co-operation between the relevant Macedonian institutions and the EU institutions and those of the member states;
- Formulating and implementing adequate policies in the area of movement of persons;
- Introducing appropriate and efficient measures in the fight against organised crime and corruption; and
- Strengthening regional cooperation.

5.1. The efficient functioning of the **judiciary** has been identified as one of the priorities in the overall reform process, being a prerequisite for EU membership. Although the judiciary has gone through a significant transformation, it is necessary to intensify the reforms in order to sustain the overall integration process, and these will be detailed in the *Judiciary Reform Strategy that is to be adopted by the end of 2004*.

The following reform areas have been identified as priorities:

- *Strengthening the autonomy and impartiality of the judiciary;*
- *Improving efficiency;*

- *The development of human resources;*
- *Funding of the judicial system; and*
- *Computerisation of the Judiciary.*

5.2. The new Law on the *Public Prosecutor's Office*, which has been aligned with the Recommendation (2000)19 of the Council of Europe Committee of Ministers, strengthens the autonomy of this body and its independence from the executive power. The following activities are priorities: strengthening cooperation between the Public Prosecutor's Office and the Police; strengthening capacities in the fight against organised crime and corruption; strengthening the role of the Public Prosecutor in ensuring respect for human rights during the procedures; introducing continuous training for public prosecutors within the National School for Education of Judges and Public Prosecutors; improving the Public Prosecutors' Code (in 2004); providing IT support and links with the other relevant institutions; and, strengthening regional cooperation and cooperation with the EU member states.

5.3. In order to *develop cooperation in the judiciary in the areas of civil law and criminal law*, compatibility with the relevant EU norms will need to be continuously improved. Strengthening the capacities of the responsible institutions, developing databases of Macedonian civil and criminal laws and developing the cooperation with the relevant EU judicial networks are prerequisites for cooperation in the judiciary.

5.4. The key priorities set out in the adopted Police Reform Strategy are:

- reorganisation and de-concentration;
- professional standards, respect for human rights;
- strengthening the capacities to fight organised crime and the capacities for criminal-intelligence analysis;
- human resources development: responsibility, motivation, continuous education system – the Police Academy;
- upgrading the IT system, establishing and managing databases in line with the EU standards;
- proactive involvement with the local community; and
- transparency.

5.5. The police reform policies have been identified and formulated in a number of *strategic documents* that have been adopted within the police reform process and their implementation is currently underway: the Police Reform Strategy (2003); Measures for Specific Action against Organised Crime (2003); Integrated Border Management Strategy (2003); Migration and Asylum Action Plan (2003); and, National Programme against Trafficking in Human Beings and Illegal Migration (2002) as well as other documents.

5.6. Short-term priorities include the adoption of the *Data Protection Law* (2004) and the establishment of a Data Protection Directorate in line with the ratified Council of Europe Convention on Protection of Individuals from Automatic Data Processing of 1981.

5.7. A short-term objective of the Republic of Macedonia is to reach a *cooperation agreement with EUROPOL*, while a long-term objective is to continuously develop its cooperation into higher operational and strategic forms.

5.8. The ongoing *Customs Reform*, which is aimed at aligning the relevant legislation and practices with EU standards, increasing transparency, building capacities and

efficient cooperation with the relevant bodies on a national level and establishing a compatible information system, constitutes the basis for developing the cooperation in the area of customs, particularly in order to prevent illegal cross-border activities.

5.9. In principle, the existing legal framework contains the European standards that arise from international agreements and recommendations and it constitutes a solid basis for establishing an efficient system for crime prevention and repression. The implementation of the Constitutional Amendment 17 will be ensured through the adoption of the Law on Communication Interception and the Law on Witness Protection.

5.10. In strengthening the measures for combating organised crime, special emphasis is placed on strengthening the *institutional support*, particularly the specialised task forces, on strengthening the cooperation between all the institutions involved (the Public Prosecutor's Office, the Police, the Money Laundering Prevention Directorate, the Financial Police, the Customs Administration, the Judiciary), as well as on establishing a unified information sharing system.

5.11. Activities have been undertaken to create an adequate legal framework for fighting *terrorism* by implementing the relevant international instruments through adoption of a special law covering the fight against terrorism and by means of amendments to the existing criminal legislation, as well as other measures. The European Convention on Combating Terrorism (Council of Europe, 1977) has been ratified and the ratification of the UN Convention on the Fight against Terrorism is under way.

5.12. Simultaneously, bilateral and multilateral *regional cooperation* in the fight against organised crime and terrorism will also be strengthened by means of cooperation agreements, as well as by developing networks for efficient information sharing and operational cooperation between the relevant services of the countries from the region.

5.13. The *fight against corruption*, as one of the priorities of the Government, is widely supported in the society, and is being implemented by setting an adequate legal and institutional framework. The Law on Corruption Prevention was adopted in 2002, and amendments to this Law arising from the practical experience obtained so far were introduced in 2004. The State Commission on Corruption Prevention has adopted a State Programme for Corruption Prevention and Repression. The further efforts in Macedonian society to eradicate corruption should develop in several directions:

- developing the control mechanisms between the authorities;
- finalising the legal framework and ensuring adequate institutional support for combating corruption;
- limiting the discretion rights in the administration;
- encouraging the work of the independent bodies; and
- strengthening the partnership with the civil sector.

5.14. The Republic of Macedonia is presently making intensive efforts to strengthen the *visa, asylum and immigration policies, and other policies concerning free movement of persons*, through strategic planning (adopting strategies and action plans) and establishing appropriate legislation, aligned with that of the EU. All the strategic documents adopted so far point to a pressing need to strengthen administrative capacities, provide training and urgently overcome the serious gap in terms of ICT. It is equally important to establish and maintain continuous inter-ministerial cooperation. Simultaneously with the harmonisation of legislation and the application of EU standards, cooperation with the EU in this area will be developed, along with gradual integration into the relevant information sharing systems. Future policy development and implementation will involve

continuous monitoring of the developments in the policies and the legislation of the EU and policies in the Republic of Macedonia will be harmonised accordingly, taking into account the particularities and the interests of the Republic of Macedonia.

5.15. A particularly important interest of the Republic of Macedonia is to see the *EU visa regime for its citizens liberalised*. The measures that the Republic of Macedonia needs to undertake in order to make progress on this issue go beyond the special measures in the area of visa policy and relate to the overall policies in the sphere of justice and home affairs, the harmonisation of national legislation with that of the EU and its practical application. The project on new Macedonian passports aligned with the EU standards will be implemented in parallel with these measures.

5.16. The National Action Plan on *Migration and Asylum* of December 2002 and the new Law on Asylum and Temporary Protection, in line with EU standards, include the key objectives, mechanisms and instruments for the Republic of Macedonia to apply a consistent policy on the movement of persons, whereby the focus will be on implementation. At the same time, the Republic of Macedonia will intensify the process of concluding readmission agreements.

5.17. The consistent implementation of the *Integrated Border Management Strategy*, adopted in 2003, will include handing over of the responsibilities for border management of the Army of the Republic of Macedonia by 31 December 2005, and formulating transparent and clear procedures along with specification of the competencies and responsibilities of the Ministry of Internal Affairs. The transfer of responsibilities to the established Border Police is developing as planned and the Border Police has already taken control over the Southern and Eastern borders.

5.18. The laws covering this area need to be further *harmonised* with the standards of the EU concerning the control and supervision of the borders, the movement and stay of foreign nationals. At the same time, *national coordination and cooperation between the line ministries and other relevant institutions* needs to be ensured. *Establishing adequate databases* is a high priority, *as well as establishing systems of information sharing between the relevant institutions*.

5.19. At the same time, the Republic of Macedonia will continue to intensify its involvement in *regional cooperation* in this area.

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6. Building a **public administration** that is capable of coping with the burden of EU integration, and later with the obligations arising from membership, is a high priority that links horizontally all the sectoral reforms in the European integration process and is essential to their success. The objectives of the public administration reform in the context of EU integration are: adapting and enabling the public administration in the Republic of Macedonia to engage in a process of transposition and implementation of the EU legislation; enabling the public administration to create and implement the overall reforms of the economic, political and legal system; and, building the institutions required to ensure the free movement of goods, capital, services and people in the EU.

6.1. The commitments contained in the *Public Administration Reform Strategy of 1999* are valid and fully compatible with the objectives of the European integration

process, and with the additional priorities deriving from the implementation of the Constitutional provisions arising from the Framework Agreement, namely decentralisation and the equitable representation of members of the communities. The legal and institutional framework regarding civil servants has been finalised but the broader public administration framework has yet to be defined, particularly through the adoption of the Law on Institutions.

6.1.1. Generally, resources will need to be *reallocated to the priority areas of the reform*. In addition to the divestment of non-core functions and the downsizing of the public sector, another priority is to *strengthen the regulatory and control functions* of the state in the provision of public services.

6.1.2. The horizontal public administration reform also aims to *strengthen the analysis and policy making functions and monitoring implementation*. Along with these requirements, the specific requirements regarding institutional development within the process of approximation to EU will also need to be addressed. The mechanism established to *identify the strategic priorities* of the Government, underpinned by a medium-term fiscal strategy, forms the basis for further improvement of the policy making process.

6.1.3. Another priority of the public administration reform is to *improve management in the public administration and the human resources management system*. In addition to the consistent implementation of the merit system, which is guaranteed by law, the civil servants' appraisal system and the phased decompression of salaries are being implemented as priorities.

6.1.4. One of the objectives of the reform is to strengthen *the protection of the citizens' rights in their interaction with state bodies*. To this end, new laws on administrative procedures, administrative inspection (both already in procedure) and on administrative disputes will be adopted. Partnership between the Government and the civil sector is the necessary next step, and the same applies to improving transparency in the work of the state bodies. A stronger role for the Ombudsman in the protection of citizens' rights and freedoms in relation to state bodies should result in greater influence for this institution in the protection of human rights and freedoms.

6.1.5. The forthcoming *decentralisation* process requires fundamental reforms in the management of local affairs. At a local level, this means strengthening local capacities in the planning and management of local resources, whereas on a central level it means strengthening the role of the state in strategic planning and national resource management, as well as strengthening the monitoring function regarding the application of laws. The decentralisation process and its timescales include: defining the territorial organisation of the Republic of Macedonia (2004); implementing the Law on Local Self-government Financing (2005); and, transfer of competencies to local self-government (by 2006). Hence, the strengthening of institutional arrangements and the need to provide qualified and well trained staff are short-term priorities, particularly because these staff will need to undertake new responsibilities in the area of budget planning and execution and in the area of local development and resource planning in the sectors that are to be transferred to local government. At the same time, the focus of the work of local government will need to shift, not only to the needs of the citizens, but also to the needs of businesses.

6.1.6. The adoption of an E-Government Strategy is a short-term priority. Its implementation will be adequately resourced in the budget, and stronger administrative support will be provided.

6.2. Meeting specific EU requirements concerning the structure of the institutions in order to implement the requirements of the European legislation, particularly in the specific circumstances in the Republic of Macedonia, implies a long-term, systematic and rational approach to institution and capacity building. In the medium term, it is necessary to incorporate EU training in the system of continuous training of civil servants.

This approach will be based on the following principles:

- *Cohesion*: incorporating the institutional development requirements that arise from the European integration process into the overall processes of public administration reform and restructuring; and
- *Rationality*: establishing new institutions where it is essential and developing the existing ones that are responsible for the relevant area, while simultaneously strengthening the human resources and ensuring necessary funds.

6.2.1. *The EU Integration Training Strategy for Civil Servants*, which was adopted in 2000, sets out the main policies and capacity development methods, highlighting the civil servants' responsibility to attend training and its mandatory nature – a principle defined in the Law on Civil Servants.

6.2.2. "Training of Trainers" will be one of the fundamental principles in the further development of EU integration capacities, along with the practice of *partnerships in the training process*. The existing European Studies Scholarship Programme for young graduate students abroad will continue and develop. These graduates are required by contract to return to work in the state administration once they obtain their degrees. At the same time, efforts will be made to provide more internships in the European Commission, as well as more well-programmed study visits abroad. All these measures are aimed at creating a highly professional nucleus of experts that will be the driving force behind the European integration process within the civil service and elsewhere, as well as the basis of the future negotiation teams.

7. Communications concerning the integration process will be managed in line with the **Information and Communications Strategy** and the Action Plan. Their objective is to ensure that the public is authoritatively informed on the benefits and risks of the integration process.

8. The further development of the **institutional support for the European integration process**, which was established in the Republic of Macedonia in 1997, will move towards strengthening the capacities for coordination and direction at the centre of government and strengthening the capacities of the ministries in line with their responsibilities for EU policies and legislation. Within these frameworks, capacities to manage the EU negotiations process towards accession will also be developed.

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Reducing the implementation gaps, both generally and in each individual sphere, in all the segments of the reforms that lead to Macedonia's integration into the EU is a fundamental precondition for progress.

1

INTRODUCTION

1.1. STRATEGY GOALS

The National Strategy for European Integration of the Republic of Macedonia is a Document that defines the basic conceptual framework and the priorities of the accession process of the Republic of Macedonia to the EU.

The Strategy provides:

- guidelines for the strategic plans and measures of the Parliament of the Republic of Macedonia, the Government, line ministries and other institutions involved in the integration process;
- assistance in the development and implementation of programmes for integration in new sectors, as well as in research regarding issues related to the integration process;
- an overview of compliance of the public administration with the EU requirements, as well as coordination of sector priorities and EU integration;
- assurance that the fiscal policy and state budget planning follow the requirements of the integration process of the Republic of Macedonia to the EU; and
- an emphasis on the key elements for communication and information to the public about the European integration process.

The Strategy seeks to determine the specific approach of the Republic of Macedonia towards EU integration, according to the terms and conditions through which the accession process will be implemented.

The Strategy is a document covering three time frames and is intended for two relatively distinct groups of the public.

The three time frames contained in the Strategy are as follows:

- First, it provides a summary of the present situation in the Republic of Macedonia, with regard to the implementation of some elements of EU legislation and the adoption of the generally accepted practice applicable in the EU;
- Second, it states the obligations arising from the Stabilisation and Association Agreement (SAA) by describing the manner in which the Republic of Macedonia plans to fulfil these obligations and the manner in which they will contribute concretely towards achieving the goal of full integration of the Republic of Macedonia in the political and economic life of Europe; and
- Third, it describes the perspective of accession of the Republic of Macedonia to the European Union. This will mean not only compliance and implementation of policies in a rather wider environment than the one defined in the SAA, but also transformation of some of the existing SAA elements in a much deeper form of integration. Seen from this perspective, the SAA is not a goal within itself, but only one step on the road towards fully-fledged membership.

The act of accession of the Republic of Macedonia to the EU will be considered as successful implementation of the Strategy.

The Strategy addresses both the domestic and foreign audiences.

The first category generally includes the core of the state itself – the Parliament of the Republic of Macedonia, the Government, line ministries and other state administration bodies and administrative organisations, and the Judiciary - as well as local self-government, civil society, economic entities and media. Their main concern is focused on the following questions: what has to be done to meet the requirements for accession to the European Union; when such steps are to be made; what are the challenges and advantages related to each and every one; who is to be responsible for their implementation, how progress will be monitored, etc.

On the other hand, the foreign audience consists of those who should know what the present situation is in the Republic of Macedonia, whether there are factors that can significantly prevent the required changes from happening, the reasoning behind sequencing priorities and what support is needed for the integration process.

Even though the technical content of each chapter is different, to the greatest extent possible, information has been presented in compliance with a consistent thematic framework: goals contained in the relevant chapter; current status; EU legislation or practice; measures to be undertaken by the Republic of Macedonia in the appropriate area; and, the manner of implementation (methods, competent bodies, time frame).

THE REPUBLIC OF MACEDONIA AND THE EUROPEAN UNION

2.1. THE EUROPEAN UNION AND ENLARGEMENT

“Robert Schuman considers united Europe not just as a life ideal, but, as he said, an unbreakable conviction, something worthwhile to which to dedicate one’s life. The “man on the frontier”, as he used to call himself, committed himself to Europe without frontiers - without hatred and wars.” (Boris Trajkovski, 2003).

Throughout history, the idea of a closer integration of European states has found its political form in different ways. After the Second World War, completely new and evidently much better conditions were created for achieving the goal of a transformed, free, prosperous Europe, without frontiers and wars.

The first milestone in the process of unification was laid down in 1951, with the establishment of the Coal and Steel Community, but the real beginning of European integration happened with the establishment of the European Economic Community in 1957. There were many treaties that followed, and, over a period of time, they played an important role in strengthening the integration process. Almost six decades of integration had an enormously positive influence on the development of the Continent and its population. Absolute national sovereignty belongs to history. The method developed by the European Union implies continuous balance between national and common European interests, fully respecting different national traditions, and this has proved to be successful.

Enlargement is one of the most important challenges, but it is also an opportunity with enormous potential for the European Union at the beginning of the 21st century: a unique historical opportunity for further integration of the continent in a peaceful manner, expanding the zone of stability and prosperity towards new member-states.

Starting with the six founding states in 1951 (Belgium, France, Germany, Italy, the Netherlands and Luxembourg), initially enlarging with Denmark, Ireland and the United Kingdom (1973), Greece (1981), Portugal and Spain (1986), Austria, Finland and Sweden (1995), the Union reaches the year 2004, when the largest enlargement in history has taken place with ten new Member-States (Cyprus, Malta, Slovenia, Hungary, Czech Republic, Slovakia, Poland, Latvia, Lithuania and Estonia). Bulgaria, Romania (most probably in 2007) and Turkey are on the brink of fully-fledged membership. The Balkan countries also show clear aspirations for membership (the Republics of Macedonia and Croatia - SAAs signed and membership applications submitted - and additionally Albania, Serbia and Montenegro, and Bosnia and Herzegovina).

The benefit of including such a great number of countries in the European Union is multifaceted in a political, economic and cultural sense:

- Expansion of the area of peace, stability and prosperity that will enhance security for all citizens of Europe;
- Expansion of the single market under conditions of rapid economic growth is a new stimulus for the economy and an opportunity for new jobs both among the old and new member-states;

- Undoubtedly, the quality of life for all the citizens of united Europe will be improved, having in mind that the European Union is paying special attention to the protection of the environment, combating crime, drugs and illegal migration;
- Enlarged Europe is richer for new cultural values and diversity, new ideas and better understanding of other people; and
- An enlarged and stronger Europe will enhance the position of the European Union as a global factor on the world scene.

In order to achieve these benefits, the conditions for successful enlargement must be fully respected, which means that future members must fulfil the Copenhagen and Madrid criteria while, on the other hand, the Union must prepare itself adequately for the accession of new member-states by having a functioning and efficient institutional apparatus, capable of striking a balance in a wide area, protecting the interests of united Europe, but without neglecting the national interests of the Member-States.

The enlargement process must be accelerated and unimpeded with the highest possible consensus, since failure to enlarge, or delayed enlargement might have unwanted consequences:

- Delayed expansion of the single market and lower economic growth will evidently have a negative impact on the economies of the aspirant countries and member-states;
- Apart from the economic depression in aspirant countries, they will be also faced with a lack of foreign investments;
- Which might create political instability in Europe, affecting the democratisation process;
- Europe, without further enlargement, would have serious problems in combating organised crime, illegal migration and terrorism; and
- Failure would result in serious consequences amongst aspirant countries, by putting an end to their dreams for EU membership, and an increased level of Euro scepticism in the EU Member-States.

The desire for a successful process and the aspiration for a safe and prosperous future urged Europe forward, starting from its 1951 and 1957 founding Treaties, to the Single European Act in 1986, which established an area of free movement of people, goods, services and capital. The Maastricht Treaty enabled the shift towards other common values, a single currency, common foreign policy and cooperation in the field of justice and home affairs. Amsterdam (1997) and Nice (2001) are considered as important, but less successful Treaties, overburdened by unresolved political and institutional issues. How to successfully manage a Union of 25, and potentially even more, members?

In December 2001, with the adoption in Lissabon of the Declaration on the Future of the European Union, the EU introduced a new approach and process of harmonisation through the Convention (chaired by Valéry Giscard d'Estaing), which aimed to find compromise solutions, on the basis of which a new European constitutional order is being established - the European Constitution. Work started on 28 February, 2002, and the draft Constitution was presented at the Thessalonica Summit on 20 June 2003. The new Constitution of the European Union is a Constitution of the citizens and countries of Europe, based on the already established values of the EU - freedom, democracy, equality, rule of law and respect for human rights. These values are common to all Member-States which are societies of pluralism, justice, tolerance, solidarity and non-discrimination, where freedom of movement is guaranteed and sustainable development

is an imperative supported by the policies of economic, social and territorial cohesion and solidarity.

These are universal values towards which the Republic of Macedonia also aspires, fully aware that it can achieve them either on its own, with enormous efforts, uncertainty and huge costs, or within the European integration process into a united Europe with some support, financial assistance and useful experience.

2.2. THE INTEGRATION OF THE REPUBLIC OF MACEDONIA INTO THE EUROPEAN UNION

The integration of the Republic of Macedonia into the European Union is a clear and totally shared strategic interest and a consistent priority goal in the policy of the Republic of Macedonia at all levels of government. Over the past 13 years of independence, even in the most difficult periods for the Republic of Macedonia, this strategic interest and goal has never been in question. Not during the difficult process of international recognition of the Republic of Macedonia, conditioned by the use of a reference for the name of the country, not even when the weak and exhausted economy was faced with multilateral and unilateral blockade of the borders, nor when the country was faced with the refugee crisis resulting from the war in Bosnia and Herzegovina, nor when it faced the enormous burden from the refugee exodus of the Albanians from Kosovo, nor when it was facing the situation of resolving internal inter-ethnic relations.

With the submission of the application for membership by the Republic of Macedonia on 22 March 2004, and the coming into force of the Stabilisation and Association Agreement on 1 April 2004, the Republic of Macedonia has strongly reconfirmed the already clearly expressed political commitment.

Any analysis of the rationale for integration of the Republic of Macedonia in the European Union from an historical, geographic, political, economic or cultural aspect will ultimately result in a single identical conclusion: that the Republic of Macedonia is part of Europe and certainly will become a part of the European Union. The basic goals driving the integration of the Republic of Macedonia could be defined as development of the democratic political system and promotion of a market economy, acceleration of economic and social development, strengthening and deepening of the regional cooperation with EU Member-States and candidate countries, integration into the European system of a common foreign and security policy, consolidation of the Macedonian position at the international level and promotion of the Macedonian international identity as a peaceful country, fully oriented towards the integration processes.

The main benefits from EU membership will be as follows:

- General economic and social development, stimulated by a stable political and economic environment;
- Enhanced national security through a common mechanism of foreign and security policy;
- The possibility of participating in the adoption of key decisions related to the future of Europe and the world;
- Access to an open single European market, one of the largest and evidently the most powerful market in the world;
- Predictable business activities and risk reduction;
- The possibility to use the monetary union for a new impetus for development;
- Trade expansion, following competition rules as a motivating factor;

- The introduction of new technologies, new products and European technical standards; and
- New opportunities for the employment of Macedonian citizens, and a completely new, better way of living at the level of EU democratic and economically developed Member-States' standard of living.

If the Republic of Macedonia fails to become a fully-fledged member of the European Union in the foreseeable future, the basic negative consequences could be illustrated by the fact that Macedonia would remain outside the common foreign and security policy of the European Union and its mechanisms, and would have to deal with its international status and its security mostly with its own forces, which is very difficult and very expensive for a small country with a weak economy. Today the Republic of Macedonia is not left out of EU activities regarding the foreign and security policy; however, the position in relation to these issues would be quite different if the Republic of Macedonia were a member and part of the overall EU policy. Furthermore, should it fail to become an EU member, the Republic of Macedonia would not be able to participate in the decision-making process on key issues related to its future and its economic development.

The EU integration process of the Republic of Macedonia will be costly, with regard to its approximation to the Union policies, legislation and institutions.

The most important elements in the calculation of the cost of approximation to EU policies are the implications that every single measure will have in the appropriate sector, i.e. on the entities in that sector. Hence, the most important thing is for every single proposed measure to be accompanied by an estimate of the economic and social implications for all interested entities, as well as an estimate of the financial implications. This is especially important in respect of the preparation of the positions on every individual chapter of the *acquis communautaire*, through the negotiations for EU accession of the Republic of Macedonia.

In order to intensify the process, the relevant budget projections should include the following costs:

- Approximation of the national legislation with that of the EU, with developed mechanisms for monitoring the implementation of the new legislation. These costs will have to be borne by the state institutions, but also by business entities which will have to adjust themselves to the new environment, open to competition;
- Public administration reform with a view to strengthening the public administration and making it able to function in accordance with the newly acquired competences. The basic cost is related to the improvement of the quality, competence and capacity of the administration, in order to enforce the new European legislation and to participate on an equal footing in the negotiation process and, later on, in the decision-making process within the European structures; and
- Establishment of the necessary institutional infrastructure for EU integration. The scope of the obligations and the substance of the issues requires an efficient and economic, but fully capable, institutional mechanism.

2.2.1. Development of the Relationship between the Republic of Macedonia and the European Union

Following its independence (September 8, 1991), the Republic of Macedonia introduced its new multiparty parliamentary system, firmly determined to build a civil society with developed democracy, rule of law, full respect for human rights and freedoms, protection of minority rights and a market economy.

Despite all the challenges that the young democracy was faced with - its weak economy, burdened with international and bilateral embargoes - it remained firmly committed to its basic strategic goals, which remain unchanged even today, and those are fully-fledged membership in the European Union and integration in the collective security systems.

Chronologically, the development of the relationship between the Republic of Macedonia and the European Union is as follows:

- October 1992: Appointment of a Macedonian representative to Brussels;
- December 1995: Establishment of diplomatic relations between the Republic of Macedonia and the European Union. This was not possible to achieve until the signing of the Interim Agreement with the Republic of Greece, as an EU Member-State;
- February 1996: The permanent Mission in Brussels was elevated to embassy level;
- March 1996: The Republic of Macedonia became a full member of the PHARE Programme, thus opening access, in addition to urgent and humanitarian assistance, to assistance supporting structural reforms and enhancing the reforms;
- March 1996: Opening of the negotiations for a Cooperation Agreement, Financial Protocol and Transport Agreement;
- November 1996: the initial meeting of the Delegation of the Macedonian Parliament with the Delegation of the European Parliament for Cooperation with South-East Europe;
- November 1997: The Transport Agreement entered into force;
- January 1998: The Cooperation Agreement entered into force and the Cooperation Council was established;
- February 1998: The Parliament of the Republic of Macedonia adopted a Declaration for the development of relations with the European Union, which confirmed the political consensus for membership of the European Union as a strategic goal of the Republic of Macedonia;
- March 1998: Initial Meeting of the Cooperation Council and appointment of the first permanent representative of the European Commission in the Republic of Macedonia;
- June 1999: Adoption of the Report on the possibility of starting negotiations for the new Stabilisation and Association Agreement (SAA), with positive assessments for the fulfilment of political criteria;
- June 1999: The Stabilisation and Association Process was launched in five countries of the region: Macedonia, Croatia, Bosnia and Herzegovina, Serbia and Montenegro, and Albania;
- January 2000: The European Commission received the required mandate from the EU Council of Ministers to start negotiations for the conclusion of an SAA;
- March 2000: Strengthening of the relationship between the Republic of Macedonia and the EU by opening an EU Delegation in Skopje and the appointment of the first Head of Delegation at ambassadorial level;

- April 2000: Start of the first round of negotiations on the SAA (5 April 2000). The SAA negotiations were conducted in a relatively short period of time, April-November 2000, through three rounds of main negotiations and five meetings at an expert level, i.e. technical negotiations;
- November 2000: SAA initialing in Zagreb (24 November, 2000);
- December 2000: The Council Regulation on the introduction of special trade measures entered into force, and Macedonia was included in the CARDS Programme for 2002-2006;
- April 2001: SAA and Interim Agreement signed (9 April 2001) in Luxembourg;
- April 2001: SAA ratified by the Parliament of the Republic of Macedonia;
- May 2001: SAA ratified by the European Parliament;
- June 2001: Interim Agreement entered into force;
- January 2002: Additional Protocol on Wine and Alcoholic beverages, and Trade Agreement on textile products;
- June 2003: Thessalonica Summit EU-Western Balkans, strengthening of the Stabilisation and Association Process enhanced;
- January 2004: SAA ratification process was completed in all the Member-States of the European Union;
- February 2004: The Parliament of the Republic of Macedonia adopted a Declaration for the submission of an application for membership of the European Union;
- March 2004: An application for EU membership was submitted;
- April 2004: Stabilisation and Association Agreement entered into force, first among the countries from the Stabilisation and Association Process;
- May 2004: Establishment of the cooperation between the Committee on European Issues of the Parliament of the Republic of Macedonia with the Conference of Committees on European Issues of the national parliaments of the EU member states (COSAC); and
- May 2004: The Council of the European Union considered the Macedonian Application and asked the European Commission to prepare an opinion.

The Cooperation Agreement was the first complex legal document that the Republic of Macedonia signed with the European Communities and it entered into force on 1 January, 1998. This Agreement regulated the political relations, while on the issue of trade relations, it promoted the bilateral trade exchange with preferential access for Macedonian products to the Common European Market.

Special trade measures were introduced with a special Regulation by the Council on 18 September 2000, for the countries that belong to the Stabilisation and Association Process (including the Republic of Macedonia). According to these measures, all products produced in the Republic of Macedonia can be exported to EU Member-States, without any quantitative restrictions or measures of equivalent effect, and exempt from customs duties or levies having an equivalent effect.

With the entry into force of the Interim Agreement on 1 June 2001, which exclusively regulates the trade cooperation between the Republic of Macedonia and the EU, the Chapter on Free Movement of Goods entered into force, as well as the provisions regu-

lating the issues of competition, state aid, merging of enterprises, as basic elements of the EU Internal market.

The Stabilisation and Association Agreement was signed on 9 April 2001 and it entered into force on 1 April 2004. This complex and legally binding act places the Republic of Macedonia in political terms amongst the potential EU members. In economic terms, the Agreement opens the door to one of the largest and financially most powerful markets in the world. This encourages the accelerated restructuring of the Macedonian economy and its adjustment to the new conditions. The Agreement energises the opportunities for speeding up the social and economic development of the Republic of Macedonia, and for intensifying political and economic links with EU Member States, as well as for promoting the Macedonian identity as a peaceful country oriented towards the European integration process.

The specific goals of the Stabilisation and Association Agreement are as follows:

- To bring the Republic of Macedonia closer to full integration with the EU;
- To support the consolidation of democracy, the rule of law, economic development and reforms, appropriate administrative structure and regional cooperation;
- To formalise the framework for political dialogue on a bilateral and regional level;
- To promote economic relations, trade, investments, business policies, transport and development and cooperation in the customs area, with a perspective for closer integration in the world trade system, including the possibility of establishing a free trade zone or zones, once progress in the economic reforms has been achieved;
- To provide the grounds for cooperation in the area of justice and home affairs; and
- To provide the grounds for economic, social, civil, educational, scientific, technological, energy, cultural cooperation and cooperation in the area of the environment, supported by programmes to assist the approximation of the legislation with that of the European Union.

2.2.2. The Republic of Macedonia's Application for Membership of the European Union

According to Article 49 of the EU Treaty, any European state that respects the principles of freedom, democracy, human rights and basic freedoms and the rule of law may apply for membership of the European Union. The Republic of Macedonia adopted the historical Decision to submit an application for membership of the European Union, supported unanimously by the Parliament of the Republic of Macedonia with a special Declaration that was adopted for that particular purpose. The application was signed on 25 February 2004 by the President of the State, Mr. Boris Trajkovski and the Prime Minister, Mr. Branko Crvenkovski. The tragic death of President Trajkovski on the day planned for the submission of the application (26 February 2004) temporarily delayed the act of submission of the letter to Ireland, which then held the Presidency of the European Union. The Application was submitted to the Irish Presidency on 22 March in Dublin.

There are many well-founded reasons for submitting the application. Presently, the history of the European Union is being rewritten and the outlines of the future Union are being drafted. The Republic of Macedonia should not allow itself to stay away from this process and has to make maximum efforts to join the other progressive European countries. The Republic of Macedonia will be evaluated according to its achievements,

and also according to its decisiveness, firmness and belief in the process of integration in the present and future European structure. There is a need to move from the vision of European integration to its practical implementation.

Some of the **key moments** and events that led to the Decision to submit the application are as follows:

- The process of building a **New Europe** is taking place, with new legal and institutional architecture and a new Constitution, despite all difficulties;
- The European Union was enlarged with 10 new Member-States this year;
- **Slovenia**, the first country from former Yugoslavia, became a member;
- **The first Stabilisation and Association Agreement entered into force**, notably the SAA signed with the Republic of Macedonia;
- In 2003, a second country from former Yugoslavia submitted an application for membership, i.e. **Croatia**, a country that, similar to Macedonia, has signed an SAA;
- Two more countries from the Region, **Bulgaria and Romania**, are expected to become EU members in 2007 or 2008;
- The Thessalonica Summit took place in 2003, during the Greek Presidency, which strengthened the Stabilisation and Association Process;
- The instrument of the **European Partnership** has been established, comparable to the pre-accession partnerships of the CEE countries;
- The **TALEX and Twinning** instruments are accessible;
- Through a **political dialogue** Macedonia is becoming part of the common foreign and security policy;
- **Community Programmes and Community Agencies** will become accessible in 2005;
- The **new budget cycle for 2007-2013, the new EU financial perspective**, will undoubtedly provide significant funds to finance the European integration process in the region;
- By then, other countries in the region (**Serbia and Montenegro, Albania and Bosnia and Herzegovina**) will have signed SAAs, and some of them will have come into force.

Despite all difficulties and economic restrictions, the Republic of Macedonia's substantial achievements give full legitimacy to the Decision for application:

- Continuous implementation of the Framework Agreement, as a basis for building democratic society of equal communities, fully respecting human rights, the rights of the minorities and the rule of law. Some aspects from the Framework Agreement are of such a nature that they will take some time to be implemented by engaging significant financial resources;
- Normalisation of the political and security situation, assisted by the successfully completed EU Mission "Concordia", and maintaining security for the citizens on the entire territory of the Republic of Macedonia through strengthened ethnically mixed police forces, assisted by the EU joint security force "Proxima";
- Extremely active regional cooperation at all levels and in a wide range of segments, ranging from political and security (political dialogue, joint initiatives, combating organised crime, arms and drugs trafficking, illegal migration), through economic cooperation (free trade agreements, customs cooperation, infrastructure link-up, water protection, environmental protection), to cultural cooperation. The Republic

of Macedonia has been frequently mentioned as a “leader” in regional cooperation in the Balkans;

- Member of the World Trade Organisation, regulated relations with the international financial institutions, stable monetary policy, low inflation (1%) and low budget deficit (1.4% of GDP). The reduction of the high unemployment rate remains the major challenge for this and coming years;
- Full implementation and observance of the Interim Agreement with the European Union that regulates trade relations and capacities prepared to implement the Stabilisation and Association Agreement. The SAA is the first such agreement in the Stabilisation and Association Process that has been fully ratified. It entered into force on 1 April 2004;
- Pro-active attitude towards the European Commission’s Recommendations deriving from the Report on the Stabilisation and Association Process, their implementation through an Action Plan and efficient monitoring mechanism;
- Visible progress in the harmonisation of the national legislation with that of the European Union, in particular in the priority areas of the Internal Market and harmonisation of policies in the area of Justice and Home Affairs; and
- Fully functioning institutional mechanism for the coordination of the European integration process.

The submission of the application for membership is not motivated by the achievement of short-term effects, but is a demonstration of a clear understanding of the obligations to be met. The submission of the application is definitely the beginning of the most difficult phase before full integration of the Republic of Macedonia as a member of the European Union, which, above all, implies meeting all obligations that arise from the criteria for membership.

2.3 THE REPUBLIC OF MACEDONIA AND THE CRITERIA FOR EU MEMBERSHIP

2.3.1. Criteria for EU Membership

At the Copenhagen Summit in 1993, EU Member-States agreed on the criteria to be fulfilled by any country wishing to join them:

- stability of institutions guaranteeing democracy, the rule of law, human rights and respect for minorities (political criteria);
- the existence of a functioning market economy, as well as the capacity to cope with competitive pressure and market forces within the EU (economic criteria); and
- the ability to undertake the responsibilities of the membership, including the adherence to the goals of the political, economic and monetary union (the criterion of acceptance of the *acquis communautaire*).

Later on, these criteria were amended or refined at the summits held in Madrid (1995), Luxemburg (1997) and Helsinki (1999), and very often, the need for developed administrative and judicial capacity for implementation of the adopted *acquis* is quoted as the additional (Madrid) criterion.

2.3.1.1. Political Criteria

Experience from the enlargements so far has confirmed that political criteria are related not only to the formal aspects of different political and democratic institutions (Parliament, executive branch of government and the judiciary), but also to their functioning and implementation of different rights and freedoms in practice. The conditions regarding human rights are related to the manner in which the provisions of the most important conventions on human rights, in particular the European Convention on the Protection of Human Rights and Fundamental Freedoms, are implemented in practice, including those related to the media and freedom of the press. Criteria dealing with the issue of respect and protection of minorities depend in particular on the implementation of the principles laid down in the Framework Convention for the Protection of Minorities of the Council of Europe.

In Macedonia's case, in order to achieve the necessary internal stability that was seriously affected as a result of the 2001 internal crisis, the political criteria imply in particular the implementation of the Framework Agreement of 13 August 2001. In February 2003, the Government adopted an Action Plan for implementation of the Framework Agreement, which defines the measures and time frame for the implementation. The objectives of the Action Plan are to provide a focus for all efforts, to ensure the implementation of the Agreement in the short and medium-term, and to coordinate the initiatives of the donor community.

Obviously, securing internal stability is a prerequisite *sine qua non* for successful preparation for EU accession of any country. In order to achieve and maintain stability and democratic development of the Republic of Macedonia, the main elements of the political agenda on a short, medium and long-term basis are as follows: (a) improvement of inter-ethnic relations; and (b) development of efficient democratic institutions and the rule of law.

In order to improve inter-ethnic relations, it will be necessary to intensify the implementation of mutual confidence-building measures in compliance with the Framework Agreement, including, in the short term, ensuring the necessary conditions for the return of refugees and internally displaced persons in the regions directly affected by the crisis. However, taking into consideration that inter-ethnic coexistence is of major importance for the stability and democratic development of the country on its road towards the EU, it will be necessary to act comprehensively and in the long term, especially with the younger population, in order to prevent further polarisation of the society along ethnic lines.

In order to achieve stable and democratic development, it is also necessary to maintain a standard of fair elections. The election legislation will have to be harmonised with the ongoing reforms, more specifically, with the reforms of the local self-government, and amendments will have to be made aimed at exercising better control on expenditures during election campaigns. Furthermore, internal democratisation of the political parties should be promoted, but, in the short run, more precise regulations regarding the financing of political parties should be adopted, including appropriate control mechanisms.

The existence of modern, capable and efficient public administration is of key importance for preparing the country for its future accession to the Union, as well as for meeting all the obligations deriving from membership. Macedonia will continue intensively with its current programme of public administration reforms.

The existing laws in the area of public administration will be changed in order to introduce provisions and instruments that will provide protection against nepotism, conflict of interests, politicisation or ethnic prejudices in the public administration, and similar discriminatory phenomena that have a negative impact on the appointment and performance management of civil servants in accordance with professional standards.

The development of local self-government and decentralisation is of key importance, but it is also a complex process, since it implies implementation of radical changes in the governance system. The adoption of other relevant laws will be conducted in accordance with the Government's Action Plan for Implementation of the Framework Agreement. The real challenge will be to ensure the relevant capacity in the municipalities, so that they will be able to cope with the new competences, including their financial and institutional capacities. Capacity strengthening will have to be a long and continuous process that will be developed in parallel with the adoption of new legislation. Appropriate procedures will have to be introduced for a clear division of competences between the government and local self-government, including mechanisms for legal oversight of decisions made at municipal level. A short-term priority will be to strengthen the Ministry of Local Self-Government by providing appropriate coordination and mechanisms for proper decision-making.

The Republic of Macedonia is firmly committed to strengthening the rule of law. Effective law enforcement is of essential importance for efficient functioning of the system, improvement of citizen's security and human rights protection, but also for successful implementation of reforms, necessary for the Macedonian economy to get ready for integration with the Internal Market of the Union, in accordance with the economic criteria for EU membership.

The reforms in the judiciary will be most important, and they will be implemented in line with the guidelines presented in a separate chapter of this Strategy and a Strategy for Reforms in the Judiciary to be adopted by the end of 2004. The judiciary in the Republic of Macedonia is a fundamental part of the legal system, and it performs a particularly important role in the implementation of the democratic processes of civil society and full observance of the principle of the rule of law. The foundation of the judiciary has been laid down in the Constitution, according to which the courts are independent state bodies that make their decisions on the basis of the Constitution, laws and international agreements.

Measures will be undertaken to combat organised crime, fraud, corruption, illegal trade in arms and drugs and human trafficking, as well as other activities related to organised crime, including those required to strengthen border controls, as presented in a separate chapter of this Strategy. It is important to note that the recently intensified implementation of the Anti-Corruption Law, including the work of the Anti-Corruption Commission, will continue as part of a strategy for combating corruption and organised crime, which will be developed in the short term.

According to the assessments made by a number of international organisations (including the NGOs working in the same field), the human rights situation in the Republic of Macedonia during recent years has been good, apart from violations observed during the 2001 crisis. The Republic of Macedonia is a signatory party of many international instruments for human rights protection, including the European Convention on Human Rights. Human rights and freedoms are principally guaranteed by the Constitution, which also provides for direct implementation and primacy of ratified instruments on human rights in the Macedonian legislation. In addition to the general commitment for strengthening the rule of law, there are other areas related to human rights where improvements are being made, notably freedom of expression and the status of the media, issues that require additional reforms. The permanent improvements in the protection of human rights will remain a priority of the country in the years to come.

The Republic of Macedonia is a signatory of the European Framework Convention on National Minorities, and many other instruments related to minorities, including refugees. The rights that minorities enjoy in Macedonia, in many areas, exceed those guaranteed in such instruments. Apart from the process for implementation of the Framework Agreement mentioned above, special attention will be paid to the improvement of the socio-economic conditions in the Roma communities.

The role of civil society in the democratic and general development of the country is very important. It can support democratic processes (including the promotion of multiculturalism and human rights), and complement the activities of the state bodies in those areas lacking capacity and knowledge. Civil society in the Republic of Macedonia is developing. Measures are required to promote civil society, including fiscal and other types of incentives, in order to encourage the work of non-profit organisations. The public-private partnership will also be encouraged in different areas, both at central and municipal levels.

2.3.1.2. *Economic Criteria*

The economic criteria consist of two elements: a functioning market economy and capacity to cope with the competitive pressure and market forces within the Union.

A functioning market economy implies price and trade liberalisation, as well as an efficient legal system, in particular with respect to ownership rights. Macroeconomic stability and consensus related to the basic elements of the economic policy are essential for strengthening the performance of the market economy. Also, a developed financial sector is of crucial importance, without any major obstacles inhibiting access to, or presence in, the market, since all this contributes to an efficient economy. It is quite obvious that a market economy and stable macroeconomic framework have a significant influence on the capacity to cope with the competitive pressure and market forces within the Union. At the same time, human and material capital is required, including an appropriate infrastructure.

Notwithstanding political events, and in order to prepare for accession to the Union in the economic and social field, the Republic of Macedonia must first of all meet the basic prerequisites for providing sustainable *economic stability and growth*. Stability and development of the Macedonian economy will not take place or be consolidated if they are not accompanied by: (a) stable market economy institutions, including (b) an independent and efficient system for law enforcement; (c) monetary stability providing stable prices, and (d) lower and stable interest rates. Fulfilment of these prerequisites will provide successful implementation of *structural reforms* that will result in faster economic development. These are the major priorities that will provide the direction for development of economic policies and reforms in the years to come.

The stable institutions that will manage the market economy should be financially independent and immune to political processes in the country. Apart from strengthening their capacity, financial and operational independence should be provided for all the existing institutions (for example, the Monopoly Administration and the Regulatory Commission on Energy), and for the institutions to be established in the future. An important step was made with the adoption of the Law on the National Bank of the Republic of Macedonia, clearly regulating its competences and providing the basis for its independent operation. On the other hand, strengthening the law enforcement system, and especially the judicial system and court procedures are of prime importance in providing a safe business environment for market stakeholders, thus reducing the risk in the country.

As in previous years, the main goal of the monetary policy will be to control inflation, i.e. to maintain price stability in the economy in agreement with the IMF. Price stability proved to be the most useful measure for long-term sustainable economic development. In fact, it was proven in the Republic of Macedonia in the years prior to the 2001 crisis, with the effect that price stability had on the promotion of investments and business activities, which resulted in higher economic development.

The monetary policy, however, will not have such an effect on economic development if persistently high interest rates do not fall, at least in the medium-term. Reduced and

stable interest rates, coupled with a stable and guaranteed exchange rate of the Denar, are necessary for normal long-term business planning on the part of market stakeholders.

The reforms aimed at completing the financial infrastructure will continue in the near future, by implementing recently adopted new legislation in the banking area, the new payment system, the legislation regarding insurance supervision, investment services and pension system reforms.

Macroeconomic and price stability, as stated above, are necessary prerequisites for speeding up economic development, which can be made only by further and intensified structural reforms, as an important component of the transition process. Price liberalisation has been completed to a large extent. The formal privatisation of the commercial sector is almost completed, as is the case in the agricultural sector. The remaining large enterprises – loss-making companies that are listed for restructuring in the Action Plan, developed together with the IMF – will have to be sold or liquidated in the near future, despite the fact that such procedures are very sensitive. However, the formal privatisation is not accompanied by an appropriate modernisation, management and technological progress of privatised enterprises, and they are usually affected by the lack of competition and low or negative profitability.

Taking into consideration all the issues stated above, it is necessary to act on a short and medium-term basis. Reform measures will be focused on strengthening the competitiveness of privatised enterprises and creating conditions for their sustainable profitability and development. At the same time, privatisation of the remaining enterprises, in part or wholly owned by the state, and, above all, large loss-making enterprises, should be completed as soon as possible in accordance with socially and financially acceptable conditions. The restructuring reforms will also include measures aimed at supporting the new private sector, especially small and medium-size enterprises, as well as the provision of adequate conditions for the new participants in the market, in particular through foreign investments. Again, the success of restructuring will depend on the existence of the necessary macroeconomic stability, including appropriate fiscal and social policies to support such reform policies.

On a short and long-term basis, the Republic of Macedonia will continue with its plan to privatise and restructure some of the utilities in the public enterprise sector (for example, the electric power company ("Elektrostopanstvo of Macedonia"), etc.), accompanied by comprehensive legislation and regulatory reforms in the relevant utility sectors. The short and medium-term measures in the banking sector, which is predominantly privatised, but concentrated mainly in the two major banks (Stopanska Banka and Komercijalna Banka), will be focused on resolving current structural problems, including those related to loans that fail to give results, weak efficiency of bank operators and high interest rates.

Privatisation and restructuring proved to be a rather difficult process, in particular for those workers faced with the direct threat of losing their jobs, with limited opportunities of finding other formal employment. The same applies to those workers who will keep their jobs, but will have relatively low and unstable wages as a result of the uncertain profitability of their enterprises. Additionally, there are chronic problems related to the extremely high unemployment rate. It might be expected that the projected economic development will result in improving employment, but the reforms will fail if not supported by an appropriate social policy, including special social programmes and programmes for re-training during the privatisation and restructuring of enterprises. On the other hand, the reforms of the social insurance system that have already started will have to be implemented on a medium and long-term basis. A comprehensive strategy has already been developed for the reduction of poverty, giving guidelines for combating poverty and related problems on a long, medium and short term. The National Plan for Employment has also been published and developed in line with European guidelines and standards.

2.3.1.3. Ability to Adopt the Acquis

Having in mind the latest events - the far-reaching enlargement of the European Union - it is now clear that a candidate country making an effort to meet the third Copenhagen criterion, should undertake much more than merely transposing the EU legislation within its legal order. First, it should fully understand the advantages and disadvantages of the existing system of regulations and formulation of policies in all the areas in which the Community has undertaken activities or has intentions so to do. Then, it must identify the differences between the administrative and legal system in Macedonia and the Community legislation, and prioritise the activities for resolving the most urgent and important issues. During this stage, the new Member-States were supported by a rather extensive screening process organised by the European Commission, which made it possible to assess the compatibility of the legislation, chapter by chapter. This process helped them to fully understand the detailed functioning of individual Community policies, what their interaction is, and how they were implemented within different administrative and legal traditions of the existing Member-States. The third central stage in the adoption of the legislation includes the transposition of EU legislation in the national legal system – once different options for implementation have been explored, the most efficient method will be selected and draft provisions will be developed, in a form most acceptable for the national legal practice. But, this is not the end of this process.

Each element of the legislation requires precise analysis of the institutional and procedural requirements imposed on the public bodies, irrespective of whether these be ministries, other state bodies or bodies at the local level, as well as an assessment of whether they have the required capacity to undertake such tasks. In almost all cases, training and publicity will be required, but in many cases, a formal programme should be developed for institutional strengthening, and possibly the establishment of completely new bodies. These activities will depend not only on the assistance and cooperation that will be offered by the EU - different chapters for cooperation described in the SAA, as well as in the CARDS Programme - but on bilateral assistance and support by other international organisations.

The Republic of Macedonia is fully aware that EU membership will impose special requirements on the public administration, especially regarding coordination, efficiency, transparency and flexibility. Until now, the overall activities were undertaken without any direct guidelines by the European Commission in a similar manner to that experienced by the countries from Central and Eastern Europe, which significantly impeded the already complex and expensive process. Advantage has been taken of available experiences and instruments.

Notwithstanding these problems, European integration is now fully incorporated in the radical programme for public administration reform in the Republic of Macedonia, for which there is full commitment both by the Government and the donor community. The following points may be underlined as being the most relevant for the successful implementation of the third Copenhagen criteria. Better coordination among the ministries and/or governmental agencies with joint competences must be provided. Such coordination should be intensified and be as efficient as possible concerning matters related to EU integration. The entire methodology of conducting needs and impact assessment prior to developing new legislation must be understood much better, and relevant training should be provided in all bodies where Government policies are being created. These different issues are elaborated in detail in the relevant chapters of this Strategy.

2.4. FRAMEWORK AGREEMENT (OHRID AGREEMENT)

2.4.1. Objectives

The Framework Agreement, signed on 13 August 2001 in Ohrid, represents a harmonised framework required to ensure the future of democracy in the Republic of Macedonia and the development of closer and more integrated relations between the Republic of Macedonia and the Euro-Atlantic Community. The Framework Agreement promotes peaceful and harmonious development of civil society, respecting different ethnic identities and the interests of all Macedonian citizens. The agreement achieved reconciliation and integration of certain conflicting elements in the society and full integration of all citizens in the country. It is also focused on a higher degree of inclusion of the citizens that belong to communities that are not in a majority, especially the Albanians, as a community that accounts for more than 20% of the population in the Republic of Macedonia, and measures for a higher degree of participation in all areas of public life. The implementation of the Framework Agreement is a step towards the realisation of the vision of a Macedonian society that provides for unification of differences, tolerance, social inclusion, equality, loyalty and participation of citizens, irrespective of their ethnicity, religion, gender or language.

The consensus reached with respect to the **Framework Agreement** provides the grounds for accelerated changes that guarantee peace and security on a long-term basis as well as integration of the Republic of Macedonia in the European Union and NATO.

The **basic principles** of the Framework Agreement are:

- To preserve the unitary character of the state and the multi-ethnic character of the Macedonian society;
- To promote peaceful and harmonious development of civil society;
- To respect the ethnic identity and interest of all the citizens of the Republic of Macedonia; and
- To ensure that the Constitution of the Republic of Macedonia fully meets the needs of all its citizens, and reflects in continuity the development and maturity of a modern democratic state.

The Framework Agreement is reflected in **numerous changes** to the Constitution of the Republic of Macedonia, its laws and secondary legislation, and in the operation of the authorities and public institutions, notably in the following areas:

- Development of **decentralised government**: on the one hand, this involves significantly increasing the competencies of local government, along with fiscal decentralisation, and, on the other hand, this involves revising the territorial organisation of the country;
- Full compliance with the principle of **non-discrimination and equitable representation**;
 - o non-discrimination concerning employment in the public administration and public enterprises, as well as access to public funding for business activities;
 - o legal and other measures to ensure appropriate and equitable representation of the communities in public administration both at central and local levels, simultaneously observing the rules of competence and integrity - implementing this principle in the police services; and
 - o a third of the judges in the Constitutional Court, the Ombudsman and three members of the Judicial Council are to be elected by a majority including the

majority of the votes of the Representatives who belong to the communities not in the majority in the population of Macedonia;

- **Introducing parliamentary procedures** requiring certain decisions to be adopted by a majority that also includes the majority of the representatives who belong to the communities not in the majority in the population of Macedonia. This refers to the adoption of the Constitution and the Law on Local Self-Government, as well as to the laws directly affecting the culture, the use of languages, education, personal identification documents and the use of symbols, as well as to the laws on local financing, local elections, the City of Skopje and the territorial organisation;
- Concerning **education and the use of languages**:
 - o Classes in the mother tongue of the pupils and the students in elementary and high schools; and
 - o Ensuring state funding for university education in the languages spoken by at least 20% of the population of Macedonia and university entry quotas for the members of the communities for as long as the university education entry figures reflect the composition of the population;
- **Use of languages**:
 - o In addition to the Macedonian language, which is the official language throughout the Republic of Macedonia and in international relations, the language spoken by 20% of the population becomes official and can be used:
 - at the sessions of the Parliament of the Republic of Macedonia and its bodies;
 - for publication of laws; and
 - by the persons living in a local community where at least 20% of the population are representatives of a community which is not a majority, to communicate with the relevant office of the central government in their mother tongue;
 - o on a local level – the language of the community constituting more than 20% of the population is an official language, in addition to the Macedonian language, with an option for the local self-government bodies to decide on the use of the languages of the communities represented by less than 20%;
 - o the defendants in criminal and civil proceedings can use their mother tongue at state expense;
 - o in addition to the Macedonian language, personal identification documents shall also be issued in the languages of the citizens who speak an official language other than Macedonian, in line with the law;
- Concerning the expressions of **identity**:
 - o Enabling the local authorities to display at the front side of public buildings, immediately beside the symbol of the Republic of Macedonia, symbols that mark the identity of the community that is in a majority in the municipality, respecting international rules and usage; and
- Strengthening the authority of the Ombudsman, particularly related to the respect for the principles of non-discrimination and equitable representation, as well as the establishment of regional offices;
- Establishing a Committee of Communities

- In relation to the implementation and confidence building measures, the Framework Agreement specifies:
 - o Ensuring international support, including a donor conference;
 - o Conducting a population census;
 - o The return of internally displaced persons, rehabilitation and reconstruction:
 - returning internally displaced persons to the regions affected by the conflict; and
 - adopting a Rehabilitation and Reconstruction Action Plan for those areas;
 - o Strengthening local self-government
 - o Police training; and
 - o Supporting media projects, including media in Albanian, and multi-ethnic media, as well as projects aimed at improving inter-ethnic relations.

2.4.2. Implementation of the Framework Agreement

The Government of the Republic of Macedonia is entirely committed to implementing the Framework Agreement as a top priority on its political agenda in order to create sustainable grounds for continuous democratic development and the prosperity of the Republic of Macedonia, thus ensuring its integration into the European Union. The implementation of the Framework Agreement also implies a partnership with the civil sector, as well as focusing political energy and the efforts of citizens on achieving their common objective to see the country developed – a goal shared by all citizens, independent of their ethnicity.

The following documents have been adopted as part of the efforts to further intensify the implementation of the Framework Agreement and with a view to maintaining a consistent and coherent policy in the areas it covers:

- An Action Plan for the Implementation of the Framework Agreement, with a complete list of all the new regulations that need to be adopted within the timescales set and with clearly identified responsible bodies;
- An Operational Plan for decentralisation with a list of all the legal changes needed in order for the decentralisation to take place in an unobstructed and coordinated manner and without disrupting the delivery of services to the immediate users, i.e. the citizens; and
- A General Programme for Equitable Representation of the Communities in Public Administration.

The implementation of the Framework Agreement so far has resulted in:

- Amendments to the Constitution of the Republic of Macedonia reflecting the provisions of the Framework Agreement;
- A successful population census, which was fully endorsed and evaluated highly by the international community and the local political and academic communities;
- Stabilisation in the areas affected by the conflict: most of the internally displaced persons and the refugees have returned; the whole territory that was affected by the conflict has been cleared of mines, all major infrastructure facilities have been reconstructed or rehabilitated, including the damaged houses of the displaced families, within the country or abroad;
- A Law on Local Self-Government has been adopted and a legal framework for the territorial organisation and local government funding has been proposed, as well as a set of laws concerning the realisation of decentralisation;

- A legal basis for the implementation of the principle of non-discrimination and equitable representation of the communities has been provided and specific measures for improving their representation in the public administration have been introduced;
- The representation of the communities in the state administration has been improved, particularly in the police and military structures;
- Special parliamentary procedures have been introduced and are being applied;
- The laws and other acts ensuring the use of the languages of the communities in line with the Framework Agreement have been adopted, in particular the laws concerning the use of languages in: elementary and high school education; university education; in the Parliament of the Republic of Macedonia; in the communication of the members of the communities with the central government; in local government; criminal and civil court proceedings; and, in the issuance of personal identification documents;
- Judges in the Constitutional Court, members of the Ombudsman's Office and the State Judicial Council have been elected in line with the Framework Agreement;
- The role of the Ombudsman has been strengthened;
- A Committee for Relations with the Communities has been established;
- A number of measures have been introduced to restore the citizens' confidence in the institutions of the system; and
- A special TV channel for the members of the communities has been introduced on the Macedonian National Television.

Considering that the Framework Agreement has been incorporated into the legal system of the Republic of Macedonia, its implementation is now an issue of implementing the Constitution and the Laws of the Republic of Macedonia, as well as an issue of finding the most appropriate instruments and mechanisms for achieving the objectives of the Agreement. In addition, the realisation of the Framework Agreement is taking place with a significant input from the Budget of the Republic of Macedonia. This is not a one-off expense but one that supports the sustainability of the principles incorporated in the Constitution and the relevant laws, and in the long run it will incur additional expenses that will be required for the state to function normally.

The international community, notably the European Union and its member states, in partnership with NATO, have been consistently supporting the implementation of the Framework Agreement. The international community very strongly and directly supported the implementation of the Framework Agreement by providing a significant initial financial package at the Brussels Donor Conference of 12 March 2002. More than €130 million was pledged for infrastructure reconstruction and rehabilitation after the conflict and for realising the commitments arising from the Framework Agreement. The implementation of activities supported by the funds is currently under way.

An institutional structure has been established to support and coordinate the process and to coordinate the local efforts and the efforts of the international community.

Administrative support has been strengthened by the establishment of a special Sector for the Implementation of the Framework Agreement within the General Secretariat of the Government.

The **further implementation of the Framework Agreement** will focus on the following:

- Adopting the required laws and efficient implementation of the decentralisation process, in line with the phases envisaged in the law;

- Adopting a Medium-Term Strategy for Equitable Representation of the Communities in the public administration;
- Adopting a legal framework on the use of the symbols of the communities and on the use of the languages of the communities;
- Complete return of the internally displaced persons and refugees;
- Implementing the Programme for the Revitalisation of the Former Crisis Regions;
- Consistent implementation of all the measures envisaged in the adopted laws in all the segments of the Framework Agreement implementation; and
- Continued implementation of measures for strengthening the confidence between the citizens, in partnership with the civil sector.

The further measures for the implementation of the Framework Agreement will also be incorporated into the European Partnership Action Plan, which also involves monitoring their implementation in line with strictly defined mechanisms.

2.5. REGIONAL COOPERATION

Generally speaking, the emergence and development of regional integration processes in South-Eastern Europe are compatible with the established model of regional initiatives. Those are the basic principles for building multilateral cooperation as a basis for political and economic stability, economic development and the enhancement of good neighbourly relations.

For several years now, the Republic of Macedonia has been continuously strengthening its cooperation with the countries in the region, as agreed under the Title III of the SAA. In accordance with the lasting commitment to regional cooperation as part of its foreign policy, the Republic of Macedonia actively participates in all regional activities, as well as in the Stability Pact, which has been positively assessed by the EU.

Considering the commitment to contribute to the building of good-neighbourly relations, security, stability and cooperation in South-East Europe, the Republic of Macedonia actively participates in the existing regional cooperation initiatives, intensifying at the same time its role within the enhanced activities throughout the region of South-Eastern Europe aimed at its European and Euro-Atlantic integration. The Republic of Macedonia is a fully-fledged member of the South-East Europe Cooperation Process (SEECP), the Central European Initiative (CEI), the Stability Pact (SP) and the Initiative for Cooperation in South-East Europe (SECI), while the process for Macedonia's fully-fledged membership of the Organisation for Black Sea Economic Cooperation (OBSEC) is underway. Macedonia has observer status in the Adriatic-Ionian Initiative and in the Szeged Process.

The Republic of Macedonia attaches great importance to the **South-East Europe Cooperation Process**, as an initiative of great significance for the region. Also, it is a local initiative originating from the countries in South-East Europe themselves, and is a comprehensive framework for regional cooperation. Further development of the SEECP is primarily determined by the complete implementation of the Action Plan for Regional Economic Cooperation, adopted at the Skopje Summit in 2001.

In 2002, the Republic of Macedonia chaired the **Central European Initiative** when it successfully implemented the priorities of the Macedonian Presidency: further international affirmation of the CEI; more dynamic dialogue between CEI and the EU; strengthening the economic dimension of the Initiative; enhanced cooperation with the other regional structures; and promotion of a pragmatic approach by developing and implementing certain priority projects of interest for the region overall.

The **Stability Pact**, of which the Republic of Macedonia has been a member since its establishment, as a political initiative, is active in strengthening the efforts of the South-East European countries aimed at achieving stated goals and priorities in several areas such as peace and democracy, respect for human rights, social progress, economic prosperity and maintaining security as a prerequisite for the implementation of reform processes and attaining stability throughout the region.

The Republic of Macedonia participates in the work of the **Initiative for Cooperation in South-East Europe – SECI**, which, by applying a practical approach, has confirmed the efficient fulfilment of set goals, in close cooperation with participating countries and supporting countries.

The procedure for fully-fledged membership of the Republic of Macedonia in the Organisation of the **Black Sea Economic Cooperation** is underway. In addition, for purposes of establishing good cooperation in the region, the Republic of Macedonia has been continuously active in this initiative.

As an observer, the Republic of Macedonia actively participates in the Szeged process initiated in 1999 by Hungary, as part of its commitment to active participation in the Stability Pact. Today, this process is focused on strengthening democracy and the role of local self-government in the countries of the South-East European region, promoting cross border cooperation among local authorities and the process of establishing Euro-regions.

The Republic of Macedonia has observer status in the **Adriatic-Ionian Initiative**, which is considered as an important initiative for the future within the regional initiative network for countries in the Western Balkans, taking into consideration its membership list which includes Italy, Greece and Slovenia - EU members, and Albania, Bosnia and Herzegovina, Croatia and Serbia and Montenegro - aspirants for EU membership.

The Republic of Macedonia has concluded free trade agreements with all countries in South-East Europe, which is one of the primary EU guidelines regarding regional co-operation, supported by the Stability Pact, i.e. establishment of free trade zones among the countries in the region as a prerequisite for faster economic development and entry of foreign investors from highly developed countries.

The Republic of Macedonia has also applied for membership in CEFTA, which is expected to be achieved soon.

The development of synchronised interconnection of the electric power systems of the SECI member countries is of sub-regional, regional and inter-regional importance. The project was launched in January 1998.

As part of the sub-group called “Tele-information System Among National Dispatching Centres in South-East Europe”, a Memorandum of Understanding was signed by which the establishment of a modern tele-information connectivity of the national dispatching centres of SECI countries was agreed, as well as the establishment of a common energy market.

An important step forward has been made with the signing of the Memorandum of Understanding for the regional energy market in South-East Europe and its integration with the EU internal energy market.

Corridors No. 8 and 10 are projects in which the Republic of Macedonia has invested significantly. The countries through which the Corridor passes actively cooperate in this project, supported by the European Union. Recently, activities have been intensified.

Upon the initiative of the Republic of Macedonia, a Convention on Cooperation is being developed with the Republic of Croatia in accordance with the provisions of the Stabilisation and Association Agreement, similar to the one to be signed with other countries in the region after they have signed an SAA with the EU. The EU has placed a special emphasis on this as an important element in the additional development of its relations with these countries in order to facilitate accession to the EU through the negotiations process.

The Republic of Macedonia has also signed Memoranda of Understanding with the Republic of Slovenia, the Republic of Croatia and the Republic of Albania for cooperation related to the Euro-integration process and with the Republic of Bulgaria for cooperation in the area of Euro-Atlantic integration. The signing of such memoranda has been also initiated with other countries in the region.

Regarding high level regional cooperation, prior to the EU Summit with the Stabilisation and Association Process countries in Thessalonica (June 2003), the Presidents of these countries jointly discussed the importance that the EU attaches to their commitment and readiness to undertake all necessary activities to deal with the situation in the region, and for its economic development and prosperity aimed at accelerating the process of accession of these countries into the EU. This was positively assessed by the EU.

In line with these commitments, and acting jointly with the countries in the region and the international community, the Republic of Macedonia is committed to undertaking further activities aimed at eliminating the roots of the crisis and the ever increasing **organised crime in the region**, directly threatening the stability of the entire region and beyond. In this field, the Republic of Macedonia cooperates with all countries in the region, and other international interests, through coordinated and decisive activities to combat this evil.

The Republic of Macedonia is actively participating in the activities of the SECI Regional Centre - where it has its nominated representatives - for combating cross border crime.

The Republic of Macedonia has already signed agreements and is intensively implementing specific projects within several established Euro-regions in South-East Europe.

Cross border cooperation is of vital importance for development of the region, to which the countries in the region are committed. However, there is a lack of funds for its comprehensive realisation. The previous experiences of the Republic of Macedonia in cross border cooperation with Greece, using EU funds, are very positive. The Republic of Macedonia will endeavor to continue this cooperation in the future, especially using the newly established EU instrument called "New Neighbourhood".

The Parliament of the Republic of Macedonia is continuously working on strengthening regional cooperation in accordance with the Parliamentary Declaration on the Role of the Parliamentary Dimension in the Stabilisation and Association Process of 11 June 2003. The Parliament is especially focused on supporting the European Commission in the establishment of a Balkan Conference of National Parliamentary Committees on European Issues and the prospects of gaining a special status within the Conference of Parliamentary Bodies for European Issues (COSAC).

Cooperation in other areas, such as culture, implementation of projects with a humane dimension (care for disabled persons and persons in need) can serve as basis for establishing institutions in these fields that could function in a manner that will not pose a threat to the states because of their close connection within the Region. The cooperation among institutes, museums and similar organisations of the countries in the region and the establishment of joint councils in these fields could lead to positive results.

The positive experiences could gradually be applied in building institutions in other fields.

2.6. COMMON FOREIGN AND SECURITY POLICY

The common foreign and security policy in the European Union that was introduced for the first time in 1993 in Maastricht, and more precisely defined with the Amsterdam Treaty that entered into force in 1999, established five fundamental goals:

- To preserve common values, fundamental interests, independence and integrity of the Union in accordance with United Nation's principles;

- To strengthen the security of the Union by all possible means;
- To preserve peace and strengthen international security in accordance with UN principles, as well as with the principles of the Helsinki Treaty and the goals of the Paris Treaty, including those on external borders;
- To promote international cooperation; and
- To develop and consolidate democracy and the rule of law, as well as respect for human rights and fundamental freedoms.

Macedonia fully accepts the basic principles of the common foreign and security policy, and within its activities throughout the pre-accession period, and afterwards as well, it will define and implement common policies and activities in accordance with those of the Union, and will do everything in order to ensure a high degree of cooperation in all areas of international relations.

In doing so, it will insist on the protection of common values, basic interests, independence and the integrity of the state, as well as control of its overall territory, through strengthening and support of democratic processes, respecting national and international law, human rights, thus enabling the preservation of peace, conflict prevention and the improvement of international security, in accordance with the well-known principles contained in the UN Charter.

During its accession and gradual and permanent integration into the Union, the Republic of Macedonia will harmonise all its foreign policy and security activities with the objectives and decisions of the European Union, and, following accession (after it becomes a member), with the procedures as provided in the European Constitution and the generally accepted practice in the field of the CFSP.

In cooperation with the other members and EU candidate countries, the Republic of Macedonia will commit itself to the expansion and development of mutual political solidarity, it will refrain from any activity contrary to the interests of the Union, or that may disrupt its efficiency as a cohesive force in international relations.

The Republic of Macedonia will implement the CFSP through:

I. Definition of the general course of action

The general course will be defined after the adoption of the European Constitution and in line with the guidelines for action of the European Council, as well as the decisions adopted by the Ministerial Council, including those issues with defence implications. In specific cases, when the development of the international situation demands it, the instructions provided at the special meetings and the strategic recommendations of the European Council will be followed.

Until fully-fledged membership of the Union is achieved, Macedonia will conduct regular consultations and reach agreements with the EU on planned and implemented activities in the country, the region and beyond, thus providing for complete transparency and continuous development in mutual trust and cooperation between the Republic of Macedonia and the EU.

II. Complying with EU decisions and their acceptance, regarding the following:

- Activities of the Union;
- Positions of the Union; and
- Implementation of activities and positions.

The responsible institutions in the Republic of Macedonia for the development and implementation of foreign and security policy will constantly monitor the CFSP activities of the Union.

III. Strengthening of systematic and institutional cooperation with Member-States and EU Institutions

Apart from monitoring, supporting and implementing the activities and positions of the EU's CFSP, institutions in the Republic of Macedonia responsible for the development and implementation of foreign and security policy, will organise meetings, consultations and harmonisation with the positions of the policy makers and individuals responsible for the CFSP of the Union. This particularly relates to arranging regular meetings and political dialogue with the European Parliament and the European Commission.

Through its institutions, and by way of active presentation of its own ideas, thoughts, plans and means, the Republic of Macedonia will try to influence the preparation and adoption of decisions of strategic importance with a potential impact on a particular issue of common interest, and will give proposals for its resolution. If certain difficulties appear during that process, Macedonia will work towards finding an appropriate and satisfactory compromise that will not be contrary to the goals, principles and effectiveness of the Union.

All questions that have military or defence implications for the country and/or are of vital and national interest, will be explained and defended by the Republic of Macedonia through appropriate arguments, in order for the Macedonian position to be understood. The regular exchange of information and making of joint assessments will influence the possible harmonisation of opinions and deepening of cooperation with the Union.

Macedonia will coordinate its activities with those of the Union, within the framework of other international organisations and conferences. Until fully-fledged membership of the Union is achieved, the activities, positions and opinions of the Union will be actively supported with no restrictions, whereas the basis will be provided by the national interests of the Republic of Macedonia, as well as by the UN Charter's provisions.

The participation of the Republic of Macedonia in political dialogue with the EU regarding topics related to the CFSP will begin with the establishment of a bilateral and multilateral institutional structure, and the restructuring of existing structures in the responsible institutions, above all, in the Ministry of Foreign Affairs. The purpose of this is to achieve an administrative arrangement compatible with the CFSP structure of the EU Member-States, which will give the Republic of Macedonia an opportunity to fully participate at all relevant meetings at the political directors' level, with European correspondents and in working groups, thus improving the capability of the Ministry to implement the provisions related to the CFSP.

The establishment and functioning of the Communication Network in the Republic of Macedonia will also have an important role as it will enable secure and rapid communication in the area of the CFSP between the Secretariat of the Council of the EU and candidate countries, by establishing terminals at the Ministry of Foreign Affairs in Skopje and the Mission of the Republic of Macedonia to the EC in Brussels.

The activities will be focused on:

- o continuous dialogue within the Stabilisation and Association Council;
- o political dialogue at ministerial level;
- o continuous parliamentary cooperation through the Parliamentary Committee on Stabilisation and Association and other activities at parliamentary level, including the work of the Committee on European Issues, the Committee on Foreign Affairs and the Committee on Defense and Security in the Parliament of the Republic of Macedonia;
- o meetings between senior Macedonian and European officials from different countries and EU institutions; and

- o political dialogue at expert level.

During these meetings, Macedonia will present its positions with respect to the following:

- o Strengthening of its international position, as a country fully committed to the highest standards of peace, prosperity, partnership and cooperation;
- o Taking an active role in the overall UN system;
- o Taking an active role in the WTO;
- o Cooperation with the International Tribunal on war crimes, crimes against humanity and genocide, committed on the territory of former Yugoslavia starting from 1991 (ICTY);
- o Effective participation in European intergovernmental organisations in which the Republic of Macedonia is a member (Council of Europe, OSCE), as well as cooperation with members of EFTA and OECD;
- o Gaining Membership of NATO;
- o Intensification and further promotion of friendly relations with all countries, employing all bilateral and multilateral mechanisms at its disposal; and
- o Maintaining and improving stable and good-neighbourly relations with all countries in the wider region (intensifying regional cooperation in multilateral and bilateral context).

Besides the regular forms of political dialogue mentioned above, in exceptional cases, and upon the initiative of any party, the exchange of opinions and consultations on specific CFSP matters may be conducted in the following manner:

- o Meetings and consultations of high representatives of the Republic of Macedonia with the Presidency of the Council of the EU and the Commission, as an opportunity for the exchange of detailed opinions on key issues related to international relations of common interest or on local and/or regional problems and events, which have an impact on the future of the Republic of Macedonia, the future of the region and the future of a united Europe;
- o Consultations with the countries involved in the stabilisation and association process at all possible levels – parliamentary, ministerial and expert level, with special emphasis on: the process of strengthening, and cooperating with, the existing democratic institutions; the rule of law and human and minority rights; the process of liberalisation of the visa regime and simplification of the procedures for issuing visas; the process of administrative reforms; the process of harmonisation of the appropriate legal systems with that of the European Union; the process of cooperation in combating terrorism, all types of organised crime, corruption, drugs, smuggling, human trafficking, etc.; the process of intensive cross-border transport and cooperation; the need for signing agreements for dual citizenship; the manner and means of maintaining political dialogue; establishment of a free trade zone in accordance with WTO provisions; mutual concessions with respect to the four freedoms; and, all other problems that have a regional dimension and require a regional approach;
- o Consultations at all possible diplomatic levels, as well as on expert level, with candidate countries on all possible types of cooperation regulated by relevant norms of the appropriate association documents, with special emphasis on those that have an effect on the wider region and require extensive analysis, organisation and resolution at a regional level;

- o Briefings and consultations on important and current foreign policy issues at the Ministry of Foreign Affairs for the benefit of EU Member-State Embassies, the countries involved in the SAP and candidate countries;
- o Briefings and consultations on different issues related to international relations, using diplomatic networks in third countries, via multilateral or regional institutions and other international fora;
- o Meetings at an expert level with officials from European institutions and agencies, charged with the development and monitoring of the CFSP; and
- o Employing diplomatic channels, including appropriate contacts in third countries and the headquarters of the relevant international institutions (for example: UN, OSCE, CE, etc.).

2.6.1. Common Security and Defence Policy

The Common Security and Defence Policy (CSDP) will represent an integral part of the CFSP, as a long-standing ambition of the Union. It originates from 1954, with the adoption of the plan for a European Defence Community. However, the necessary legal structure for the development of such a policy was only created in 1993 in Maastricht, and continued in Amsterdam (and entered into force in 1999). The goal is to formulate a common European defence policy, supported by appropriate military doctrines and instruments.

The Republic of Macedonia considers itself as part of this common defence policy and it will try to ensure the necessary operational capacity of the civil and military means required for implementation and participation in missions outside its own territory, whose specific goals, according to the principles of the UN Charter, will be:

- o the preservation of peace;
- o the prevention of possible conflicts; and
- o strengthening international security.

In this context, the tasks would include:

- o joint disarmament operations;
- o humanitarian and rescue operations;
- o military advice and assistance;
- o conflict prevention and operations for the preservation of peace; and
- o participation in joint forces in crisis, including peacekeeping missions and post-conflict stabilisation.

All these tasks can contribute towards efficient action against terrorism, including the support of other countries in order to fight terrorism within their territory.

The CSDP will include the gradual development and harmonisation of the defence policy of the Republic of Macedonia, in line with the common defence policy of the Union that is to be established in the future. Naturally, this will not limit the specificities of Macedonian security and defence policy, nor, in any possible manner, will it limit the obligations that will arise from the membership of the Republic of Macedonia in NATO.

Having in mind the need for active participation in, and contributing towards, the implementation of the CSDP and defined goals, the Republic of Macedonia will place its civil and military potential at the disposal of the EU. Additionally, it will engage in active cooperation with existing, as well as with other military and research agencies and bodies of the Union that are to be established in the future, in order to:

- o identify its operational needs;

- o promote measures that will satisfy foreseen requirements;
- o contribute towards the identification, and where necessary, the implementation, of measures necessary for strengthening the industrial and technological base of the defence sector;
- o participate in defining its own military policies; and
- o improve its own military and defence capabilities.

INTRODUCTION

The achievement of the goal of membership of the EU presupposes the implementation of long-term processes of economic reforms that represent a combination of intensified economic transformation of the state, and the adoption and implementation of the formal requirements of membership. This will lead to the creation of the conditions that are of utmost importance for the finalisation of Macedonia's transition to a functioning market economy.

In its progress along the transitional path, the Republic of Macedonia has almost completed the first stage, that is, the achievement of macroeconomic stability, liberalisation and privatisation. In the next stage, that has already begun, the state must implement the key structural and institutional reforms that will achieve the strengthening of economic stability, sustainable economic growth, an increase in employment rates and sustainable economic development. This will be a complex process to be implemented over a longer period of time. Therefore, at this point, it would be unrealistic to expect, or even feasible to prepare, a comprehensive economic strategy for EU integration that would completely encompass the whole process. The objective of this Chapter of the NSEI is, therefore, to demonstrate how the whole process will be underpinned by the development of a specific action plan for economic development in Macedonia by the end of 2007. This medium-term strategy is consistent with the long-term strategic goal of the state to prepare for accession to the EU. On the other hand, this medium-term perspective is consistent with the reporting periods and assessment processes of different European strategies, agendas, agreements, programmes, policies and processes.

The Economic and Social Chapter of the National Strategy for European Integration has been developed in the context of the overall economic and social adjustments of the Republic of Macedonia for EU accession. This is a process of numerous complex social and economic reforms that have to be implemented over a longer period of time. The focus is placed on the conditions that a candidate country has to fulfil for accession, in order to be efficient in its functioning within the Internal Market. According to the second of the three Copenhagen criteria, the state has to create a functioning market economy that has to be capable of withstanding international competitive pressures, regardless of whether it will be accepted in the EU or not. The experience of many candidate countries that have become EU members in 2004 shows that EU accession has proved to be a useful incentive for the fulfilment of those overall economic goals and objectives.

In that sense, the major economic and social objectives of the NSEI, which have to be fulfilled by the end of 2007, are as follows:

- (1) To promote economic growth aimed at reducing the gap with respect to the level of economic and social development achieved by EU Member States;
- (2) To increase the international competitiveness of the Macedonian economy;
- (3) To achieve sustainable economic growth from ecological, social and ethical points of view; and
- (4) To establish the foundations for the effective integration of the Republic of Macedonia into the EU.

The structure of the economic and social Chapter of the National Strategy, comprises an introduction and two parts. The introduction presents the general economic framework for the accession of the Republic of Macedonia to the EU and deals with the main elements of the SAA, especially those related to the key issues of “the four freedoms”, which, to a large extent, formulate the relationship between the Republic of Macedonia and the EU. The introduction also represents a summary of the main conclusions of the whole Chapter, and contains the basic elements of the economic strategy during the 2004-2007 period including some basic macro-economic objectives and projections. The first part of the Chapter presents the key characteristics of the macro-economic reforms that have to be implemented in the Republic of Macedonia in the medium term. The second part describes the macro-economic and structural reforms, which should lay down the foundations for sustainable development.

The Economic and Social Chapter of the Strategy does not deal with the requirements related to the functioning of the Internal Market, in particular the adoption of the *acquis communautaire*, that have to be fulfilled by every candidate country. These are presented in Chapter 4 of the Strategy.

3.1. GENERAL ECONOMIC FRAMEWORK FOR THE ACCESSION OF THE REPUBLIC OF MACEDONIA TO THE EU

In order to join the EU, the Republic of Macedonia will have to meet, in common with all other applicants, a set of accession requirements. In this regard, the European Council in Copenhagen in June 1993 stated that: “the associated countries in Central and Eastern Europe that so desire shall become members of the Union. Accession will take place as soon as a country is able to assume the obligations of membership by satisfying the economic and political conditions. Membership requires:

- That the candidate country has achieved stability of institutions guaranteeing democracy, the rule of law, human rights and respect for and protection of minorities;
- The existence of a functioning market economy, as well as the capacity to cope with competitive pressure and market forces within the EU,
- The ability to take on obligations of membership, including adherence to the aims of political, economic and monetary union.”

The European Council in Madrid in December 1995 referred to the need, in the context of the pre-accession strategy, “to create the conditions for the gradual, harmonious integration of the application countries, particularly through:

- The development of the market economy,
- The adjustment of their administrative structure,
- The creation of a stable economic and monetary environment.”

Furthermore, in 1995 the European Commission issued a White Paper which sets out the legislation which the candidate countries would need to transpose in their national legislation, and implement, in order to apply the so-called *acquis communautaire*. The White Paper also identifies elements that are considered to be essential to the implementation of the Common Market (known as Stage I measures) and which therefore need to be considered a priority.

The 1997 Agenda 2000 defined the economic criteria indicators more closely:

- Existence of a functioning market economy, implying:
 - An equilibrium between the supply and the demand established through free reciprocal activity of market forces; liberalised prices and trade;

- No barriers to entering or exiting the market;
 - The legal system has been established, laws and agreements are being applied;
 - Macroeconomic stability has been achieved, including stability of prices and sustainable public finances and external accounts; and
 - The financial sector is developed well enough to channel savings to more productive development.
- Capacity to withstand the pressure of competition and market forces within the European Union (the fundamental question here is whether the businesses/companies have the necessary capacity to adjust and whether the country provides a favourable environment and support for their adjustment), implying:
 - The existence of a functioning market economy and a sufficient degree of macroeconomic stability for the economic operators to be able to make business decisions in a stable and predictable environment;
 - Sufficient human and physical capital at adequate costs, including infrastructure (energy, telecommunications, transport), research and development and prospects for further development in these areas;
 - The extent to which the state, through its policies and legislation, influences competition by means of trade policy, state aid, and support for small and medium-sized enterprises etc;
 - The degree and the intensity of the country's trade integration with the European Union, by volume and nature of trade exchange; and
 - The number, i.e. the share of small and medium-sized enterprises in the market, partially because they adapt faster and because large companies resist change.

The principles, which underpin the requirements set out for accession to the EU, in particular regarding participation in the Common Market, are the "four freedom" principles.

From an institutional aspect, the relationship between the Republic of Macedonia and the EU has been defined by the Stabilisation and Association Agreement (SAA), signed and ratified by the EU Member States. According to the provisions of the SAA, the Republic of Macedonia is committed to gradually adopt a major portion of EU legislation. The SAA also provides the framework for the gradual introduction of the "four freedoms" – they represent the foundation-stones of the Internal Market – in the relationship between the Republic of Macedonia and the EU.

Free movement of goods. To a large extent, the Republic of Macedonia has already liberalised its foreign trade system, and will continue with its liberalisation along the lines of the SAA and the Interim Agreement (IA). In March 2003, the Republic of Macedonia became a member of the World Trade Organisation, which will contribute to its further integration in the world trade system. However, even after the full establishment of the Free Trade Zone by 2011 at the latest, in accordance with the SAA, the Republic of Macedonia will have to do a lot in order to satisfy the technical requirements and conditions of the EU Internal Market. This has been also identified in the SAA, and, according to the Agreement, the Republic of Macedonia will have to harmonise its national legislation with EU legislation.

SAA (and IA) provisions define the necessary basis for liberalisation of the foreign trade regime of the Republic of Macedonia with the EU on an asymmetrical basis. This

involves the immediate free export of national produce from the Republic of Macedonia to the Union (with the exception of wine and beef) on one hand, and a progressive reduction of Macedonian customs duties on products originating from the EU on the other. There are exceptions for some sensitive products (textiles, certain agricultural products and steel), for which special regimes are envisaged in the Annexes and Protocols to the Agreement.

Free movement of services. In the EU Internal Market, the free movement of services, as well as the related rights to establish businesses, are based on a principle driven, absolute prohibition of any restriction concerning their exercise, reinforced by relevant legislation that introduces such freedom in a particular sector. However, this is not the case according to the terms of the SAA. The basic conditions there are that, from the date of entry into force, neither Party may adopt any measures which render the conditions for the supply of services across frontiers “significantly more restrictive” than those already existing, and that the right to establish a branch of any kind should be guaranteed, either on the principle of a most favoured nation (MFN), or on the basis of national treatment, i.e. applying the better option in each individual case. Five years after the implementation of the SAA, the rights of establishment may be extended to self-employed persons. For the first four years of the Agreement, the Republic of Macedonia is permitted to derogate from the establishment provisions, but only in extraordinary cases relating to difficulties of restructuring, serious social problems or drastic market disturbances, and always subject to certain time limits and to discussion in the Stabilisation and Association Council. From the beginning of the second transitional phase, i.e. no longer than four years after entry into force, the Republic of Macedonia is due to proceed, with certain exceptions and subject to progress made in the approximation of laws, to a progressive opening of the market to the supply of services by EU companies and nationals. All steps necessary for the mutual recognition of professional qualifications will be considered from the entry into force of the Agreement.

Free movement of labour. The SAA treats the “free movement of workers” in several aspects: (a) with regard to employment rights - non-discriminatory treatment is granted to EU and Republic of Macedonia nationals (and their spouses and children) who are already legally employed in the Republic of Macedonia or in an EU member-state, respectively; and (b) as regards social rights of such workers (and members of their families), rules shall be additionally laid down by the SA Council for the coordination of social security systems in order to ensure the portions of their pension, and other social rights, earned while being at work in the EU or the Republic of Macedonia. In addition, under the establishment provisions, the SAA enables EU or Macedonian companies with established subsidiaries or branches in the other territory, or seeking for the first time to establish a subsidiary or branch there, to employ their own nationals in certain senior professional and managerial capacities, and accordingly allows them permanent residence and work permits for the duration of their employment. However, unlike the absolute right within the EU’s own internal market, Macedonian workers’ access to employment in an EU member state is made subject to the labour market situation in that state, and to existing and future bilateral agreements with the Republic of Macedonia, though with the possibility of the SA Council introducing other improvements, including access to professional training.

Non-discriminatory treatment of EU workers (and their families) in the Republic of Macedonia, regarding their rights after employment, has already been provided in the current labour legislation, and the Republic of Macedonia will cooperate in the SA Council to establish rules for better coordination of social security systems in order to allow such workers to enjoy their social rights as defined by the SAA. Over the short to medium term, the Republic of Macedonia will have to improve and complete its legislative and

institutional reform in the area of labour and social security in line with the EU legislation and practice, including the provision of conditions of non-discriminatory access for EU citizens to the Macedonian labour market.

Free movement of capital. The free movement of capital is a precondition for the free movement of financial services and of persons. Again, this is an absolute right in the Internal Market, which is legally enforceable, whereas the SAA provides for the free movement of capital to be introduced gradually. First, the free movement of capital is provided from the date of entry into force of the Agreement, for capital transactions related to: (a) direct investment made by EU entities in a Macedonian company or in respect of the establishment of a subsidiary and/or a branch, including upon liquidation or repatriation of such investment and transfer of profits; and/or (b) to credits associated with commercial transactions or to the provision of services in which an EU or a Macedonian resident is participating, and to financial loans and credits with maturity longer than a year. On the other hand, the free movement of capital related to portfolio investment and to loans and credits with maturity shorter than a year, should be introduced after the completion of the first stage of the transitional period (in principle four years from the entry into force of the SAA), when the means of full application of the Community rules on such free movement shall be examined.

3.2. BASIC ELEMENTS OF THE ECONOMIC AND SOCIAL CHAPTER

In the economic and social sphere, the requirements for successful accession imply going through the following sequence of reforms: (1) the establishment and maintenance of macro-economic stability, (2) the intensification of economic transition, i.e. completion of the property rights and achievement of the structural reforms needed for the operations of a market economy, and (3) the adoption of the rules and regulations to achieve the required degree of compatibility with the economies of the other participants in the common market, the EU Member States.

This sequencing is very important. Economic stabilisation is the basic prerequisite, since no market economy will function if the major macro-economic constraints are not met and if budget deficits and current account deficits persist. And, of course, once achieved, macro-economic stabilisation must be maintained. It provides the framework for successful implementation of the structural measures, in particular price and trade liberalisation, leading to the transformation towards a market economy. It must be completed by these structural measures, which themselves cannot be undertaken outside the context of stabilisation. If stabilisation is pursued alone, demand will be curbed to remain in line with available supply, but the reallocation of resources to stimulate supply will not take place and the economy will progressively be asphyxiated. If structural reforms were implemented outside a context of stabilisation, their impact would be opposite to the desired effects since, in that case, they would mostly feed inflation and current account deficits. The third set of measures, i.e. adoption of the *acquis communautaire* (discussed in Chapter 4) is an imperative for accession and, in many cases, the measures are themselves important structural reforms supporting transition. It is obvious, however, that they must complete stabilisation and structural reform measures but they cannot replace nor precede them.

This medium-term economic strategy is aimed towards the preparation of a consistent set of measures, focused on maintaining macro-economic stability in the Republic of Macedonia, also creating the necessary conditions for sustainable economic growth and an increase in employment. The Economic and Social Part of the NSEI is based

on four main and interdependent components, complemented by a number of structural reforms for support. The four components – which represent the skeleton of the strategy – are as follows:

- (1) Maintaining macro-economic stability;
- (2) Creating conditions for faster economic growth and an increase in employment;
- (3) Providing appropriate but targeted social protection in order to reduce possible social consequences from transition; and
- (4) Improving the implementation of the formally established regulatory and institutional framework, i.e. reducing the implementation gap.

The basic macro-economic scenario for development of the Republic of Macedonia during the next medium term (2004-2007), is shown in Table 1.

Table 1: Basic macro-economic indicators for 2004-2007

	2004	2005	2006	2007
Gross domestic product (growth rate %)	4.0	4.5	4.5	5.0
Inflation (GDP deflator, %)	2.4	2.4	2.5	2.5
Export (growth rate %)	9.6	7.0	6.1	5.4
Import (growth rate %)	6.3	5.6	4.6	4.8
Trade deficit (% of GDP)	-17.3	-16.6	-15.8	-15.1
Current balance deficit (% of GDP)	-7.5	-7.0	-6.5	6.2
Government Budget balance (% of GDP)	-0.9	-0.9	-0.8	-0.7
Fiscal revenues (% of GDP)	32.9	32.4	31.9	31.1
Fiscal expenditures (% of GDP)	35.3	35.3	34.5	33.7
Repayment of external debt in relation to exports of goods and services	14.9	12.3	12.2	13.6
External debt as % of GDP	34.6	34.6	35.0	35.2

Source: IMF: Macedonia Staff Report for the 2003 Article IV Consultation and Request for Stand-By Arrangement.

Table 2 presents both the macro and micro-economic components of the reforms. The dark fields correspond to the timing of undertaking specific activities.

Table 2: Main components of the basic reforms

	2004	2005	2006	2007
Macro-economic framework				
Monetary policy for stabilisation				
Keeping budget deficit of central government at a low level				
Reduction of current account deficit				
Trade and capital flows liberalisation in accordance with the provisions of WTO and SAA				
Micro economic policy and structural reforms				
Intensive international economic cooperation				
- Strengthening of regional economic cooperation				
Price liberalisation and competition policy				
Full operationalisation of the regulatory framework for support of market economy				
Human capital development				
- Reduction of unemployment				
- Improvement of quality in education				
- Professional education				
- Improvement of management skills				
Business sector reforms				
- Resolution of the problem of the remaining loss-making companies				
- Improving corporate governance				
- Development of horizontal mechanisms for stimulation of competitiveness (clustering approach)				
- Elimination of administrative barriers for establishment of new companies				
- Creating favourable conditions for development of SMEs				
- Exports promotion				
- Stimulation of FDI's				
- Promotion of production factors				
- Introduction of transparent subsidies				
Public finance reforms				
- Approximation of tax, customs regulations and procedures with the EU standards				
- Improving financial sustainability, transparency and accountability				
- Promotion of the treasury system				
- Public administration reform				
- Promotion of the public procurement system				
- Fiscal decentralisation				
Reform of the financial sector				
- Strengthening of competition in the sector				
- Further improvement of the stability of the sector				
- Improvement of control regulations and supervision of financial institutions				
Reform of communal utilities				
- Commercialisation of public communal utilities				
- Price policy that ensures coverage of total costs				
- Strengthening of independent regulatory systems and systems for performance monitoring				
- Improving competitiveness and continuation of price liberalisation				
- Increase of investments in infrastructure				
Elimination of negative social consequences from the transition				
- Establishing new rules and procedures for granting assistance for unemployment, poverty and other social benefits (a more targeted approach)				
- Implementation of reforms in the healthcare sector				
- Continuation of the reforms in the pension system				

3.3. MACRO – ECONOMIC FRAMEWORK

Macro – economic stability remains a priority goal of the macro – economic policy for the period until 2007.

The maintenance of macro–economic stability, stabilisation of the budget deficit at a sustainable level (in accordance with the Maastricht criteria) and the creation of a favourable environment for reducing interest rates still remain the priority goals of the macro- economic policy. The focus will be placed on the coordination of the monetary, fiscal and income policies, aimed at the achievement of fiscal and external sustainability, while maintaining a low level of inflation.

The monetary policy will continue to maintain macro–economic stability, through the fulfilment of the final goal – price stability. Concerning the foreign currency exchange rate policy, in the context of integration into the European Union, the Republic of Macedonia will be oriented towards undertaking the responsibilities related to accession to the European Monetary Union

The liberalisation of capital flows will also continue in accordance with timescales set out in the SAA. The EU rules for capital movement in the Republic of Macedonia will be gradually introduced, while complete liberalisation of capital movement should be expected with the accession of the Republic of Macedonia to the EU at the latest. The process of liberalisation of capital transactions in the Republic Macedonia was completed with the adoption of the new Law on Foreign Exchange Operations (October 2002) thus fully liberalising direct investments, so that foreign investors became equal to domestic ones, i.e. they are treated as nationals. In parallel, all commercial and financial loans (short-term, medium-term and long-term) were fully liberalised. Portfolio investments have been partly liberalised, and full liberalisation is expected to follow at the beginning of the second stage of the SAA.

The maintenance of macro–economic stability will be a strategic goal of the fiscal policy, but it will also be focused on enhancing economic growth as a key requirement for increasing employment and improving the standard of living. The adjustment of the budget balance to the external position and to the sustainable scope of foreign debt at a relatively acceptable level of tax burden will remain an intermediate goal.

As shown in Table 1, it is anticipated that these macro-economic policies will lead towards sustainable development at an annual level of 4% to 5%, stable inflation at an annual level of approximately 2.5%, and a low budget deficit for the Central Government at a level not exceeding 1% of GDP and an even lower current account deficit of 0.8% of GDP.

The assumed trends in the main macro-economic indicators will also contribute to a gradual reduction in the interest rates of the banks, which continue to be a burden for the business sector.

3.4. MICRO-ECONOMIC POLICY MEASURES AND STRUCTURAL REFORMS

Macro-economic stability is a necessary, but not sufficient, condition for sustainable economic-growth. In order to achieve this goal the policy measures aimed towards reaching and maintaining macro-economic stability have to be accompanied by micro-economic policy measures and structural reforms aimed towards: (1) creating an environment for faster economic growth and an increase in employment; and (2) establishing an effective social security system, targeted at alleviating the social consequences of transition. When designing policy and reform measures, special attention is placed on closing the implementation gap, i.e. improved implementation of the formally adopted regulatory

and institutional framework. Closing the implementation gap, as a significant issue, has been emphasised throughout this Strategy.

3.4.1. Creating an environment for accelerated economic development and increased employment

Real economic development can be achieved only in the context of a strong stabilisation policy. However, stabilisation per se is not sufficient for sustainable development. The stabilisation achieved so far cannot be maintained if it is not supported by policies for accelerating economic growth and structural reforms aimed at strengthening competition and increasing employment. Therefore, for the successful transition and successful integration of the Republic of Macedonia into the EU, it is of great importance to launch and accelerate structural and institutional reforms and improve the business environment, which should enable expansion of the private sector as a key promoter of future development. This should be achieved through different types of political measures:

a) *Intensive and dynamic international economic cooperation will be the core of the future export-oriented economic development concept of Macedonia.* The most important foreign trade partners of the Republic of Macedonia are, and will remain, the economies of Europe, notably, the economies of the EU Member-States. Macedonia will continue the harmonisation of trade regulations with EU standards in accordance with the SAA, as well as the further liberalisation of its foreign trade under the auspices of the WTO. Macedonia has applied for membership of CEFTA- the Central Europe Free Trade Association – whose members are Bulgaria, Romania and Croatia. Macedonia will also intensify trade cooperation with other partners (EFTA). In order to successfully compete in the international arena, the Republic of Macedonia will strive towards adjusting its development concept and its economic and legal systems to those of the developed (European/EU) countries and improving the competitiveness of its enterprise sector.

Based on the above considerations, the main short-term, medium-term and long-term objectives of the foreign trade policy of the Republic of Macedonia are the following: (1) to increase the share of exports and therefore the share of foreign trade in the GDP; (2) as a consequence, an improvement in the balance of payments as one of the main factors of macro-economic stability; (3) to stimulate the inflow of foreign direct investment (FDI) on a broader basis; (4) to further develop the regulatory framework in a way which will stimulate foreign trade and FDI and which will bring this framework closer to EU standards and WTO requirements; (5) to enhance regional economic cooperation; and (6) to strengthen existing, and create new, competitive advantages based on technological modernisation of the economy, and to upgrade educational quality, and managerial and organisational skills. In brief, the policy is to intensify the internationalisation of the Macedonian economy in line with the principles of international competitiveness. In the context of internationalisation and globalisation, scientific research, technological development, innovations, education, social consensus etc., are becoming increasingly important factors in competitiveness. An environment will be created to stimulate Macedonian enterprises to strengthen various forms of international business cooperation.

The foreign trade and investment policy will be implemented through the following three general policies: (1) restructuring and upgrading the business sector in order to improve its international competitiveness; (2) promoting exports and FDI; and (3) changes in the international economic relations regime in order to eliminate the existing barriers to trade and other international economic cooperation, leading to compliance with the SAA, WTO and other international agreements.

Strengthening regional economic cooperation with neighbouring countries is a special priority. In compliance with its commitment to peace and stability, and good neighbourly relations, Macedonia will continue to actively promote regional cooperation. To achieve further liberalisation and development of its trade cooperation within the region, the free trade agreements that have been concluded will be further harmonised. The Memoranda of Understanding related to the liberalisation of regional trade, signed in Brussels (2001) and in Rome (November 2003) within the activities of the Stability Pact Regional Table II, are regarded as a support to the commitments of the SAA. Also, the existing initiatives and projects for regional economic cooperation will continue, and new ones will be intensified. The goal is to make a joint contribution to economic development and the reduction of regional differences.

b) *Price liberalisation will be conducted in parallel with the protection of competition.* The basic goal of price policies (price liberalisation) and the protection of competition imply creating conditions for the just and efficient allocation of resources through price signals. Both policies will be implemented in parallel, in a synchronised manner. The Government committed itself to establishing transparent regulatory and institutional mechanisms, which will provide open and fair competition. This also includes the public services sector. Regarding the future price policy in the Republic of Macedonia, there are two general trends: (1) the number of goods and services whose prices are controlled will be continuously reduced, coupled with the prior introduction of competition in these activities; and (2) plans for the future liberalisation of controlled prices will be announced in advance, giving detailed timescales for their correction. For efficient implementation of the policy for the protection of market competition, it is necessary to have in place an effective legal system and adequate institutional infrastructure. The harmonisation of the national legislation with EU legislation in this field is currently under way. At the same time, training will be conducted in the judicial system to implement the new anti-monopoly legislation. Knowledge about the state policy for the protection of competition will be promoted and enhanced within the business community and the general public.

c) *Full operability of the regulatory framework to support a market economy.* The private sector in the Republic of Macedonia has been faced with numerous obstacles due to deficiencies in the legislative and regulatory framework in which it operates. These deficiencies are especially harmful in cases where they create uncertainty about the exact financial status of the businesses; stakeholders in the financial market are not in a position to assess their risks and therefore fail to grant credits, especially to small and medium-size enterprises, which represent the major part of the developing private sector. There is a need for improvements in: (1) accountancy standards and their enforcement; (2) the process of setting the tax basis; (3) the registration of enterprise procedures; (4) the development of legislation for securing receivables; and (5) many other areas for which the adoption of *acquis communautaire* will be a goal and support to this medium-term strategy.

d) *Promotion of human capital.* The development of human capital in Macedonia has two major goals. The improvement of the quality of human capital is one, and an increase in employment is the other. The development of human capital is one of the foundations of the development of the Republic of Macedonia, while an improvement in the educational level, and investments in education, will be among the major priorities of the Government. Also, the lack of managerial skills is one of the major problems preventing faster restructuring of the business sector. Therefore, the improvement of managerial skills at all levels will be of primary importance. An increase in employment is definitely the most important aspect of the development of human capital in the Republic

of Macedonia. A balance between the level of protection for employees and flexibility of the labour market should be achieved.

Priority goals for Macedonia related to the human resource development policy and the development of the labour market are as follows: (1) stimulating the creation of new jobs; (2) stimulating continuous investment in human capital by providing a relevant network of public and private education; (3) eliminating the remaining institutional inflexibility of the labour market and social protection; (4) increasing labour force mobility; and (5) reducing employment in the "grey economy" (non-formal sector).

The implementation of activities to improve the quality of education and training that will increase the opportunities for young people to find employment soon after completing their education will be given the highest priority. Modern education processes will be focused on improving human resources that are of essential importance for restructuring the enterprises and accelerating economic development. Macedonia has some experience related to the introduction of standards in the education system. Debates and preparations for introducing nine years of primary education are underway, and the process will continue until its final implementation. Additionally, support will be given for investments in higher education that will offer qualifications matching demand.

In order to include Macedonia in the development of the common European Space of Higher Education, a legal framework will be established to implement the Bologna process and create the conditions to treat higher education as a public good. The number of students enrolled at the universities will continue to increase, and the standards of their studies will be improved. In accordance with the Bologna process and the Communiqué of the European Ministers for Higher Education, adopted at the Berlin Conference in September 2003, the reforms and harmonisation will be in the following areas: (1) the harmonisation of the structure of higher education qualifications (graduate, post-graduate and doctoral); (2) the promotion of quality in higher education; (3) the elimination of barriers to allow the free movement of students, faculty and administrative staff in the EU member-states and the SEE region; (4) the further development and implementation of the European system of credit transfer; (5) the mutual recognition of qualifications; (6) strengthening the role of students in the higher education process; (7) enhancing the European dimension and attractiveness of European Studies in higher education (Higher Education Space); (8) the development of different forms of life-long learning; and (9) connecting the European Higher Education Space with the European Research Space in a unique "Europe of Knowledge".

The vocational education policy will aim at strengthening the links between education and training and labour market demand. In this respect, dialogue and cooperation will be enhanced in the partnership between the public and private sectors in Macedonia. This will provide relevant institutional forms and the conditions for practical training, as well as the application of new knowledge and technologies by trained staff, adequate to the economic reforms and the labour market demand. It is important to promote education (formal or informal) so that it becomes an ongoing process throughout the entire lives of citizens.

The activities needed to harmonise the Macedonian labour legislation with that of the EU will be given a higher priority, aimed at implementing the Stabilisation and Association Agreement. The dialogue between trade union representatives, the Chamber of Commerce and the Government, as well as the EU directives, should serve as a platform for reviewing and improving the existing Macedonian legislation on labour relations. An analysis will be made in order to improve the operation of the employment bureaus, the allocation of unemployment benefits, the registration of the unemployed, the systematic registration and provision of information about vacancies, etc. In this respect, one of the priorities will be the reduction of regulatory barriers for formal employment. Also, there is room to improve the statistical data on the labour force, employment and unemployment.

A survey of the labour force will be introduced on a quarterly basis in 2004 in order to reflect the seasonal fluctuation in different periods of the year.

The system for mutual recognition of professional qualifications within the EU will follow the process of harmonisation and transposition of the appropriate EU directives in the Macedonian legislation.

e) *The reforms in the business sector (enterprises) will continue.* The restructuring of the business sector is the core of the transition process and the establishment of a functioning market economy. Almost fifteen years of privatisation and restructuring is a sufficiently long period to complete the first transition stage, that is the stage for establishing private ownership and the basic institutions of the market economy. Now it is time for the adjustment of policies related to the business sector in the Republic of Macedonia towards an active approach to support future development and to promote potential businesses. The future policy will be focused on structural changes and improvements in enterprise competitiveness. This policy will be closely linked with the technological development policy, the stimulation of entrepreneurship, and the establishment of new enterprises. The Government will continue to be principally responsible for the improvement of the investment environment, and a better climate will be promoted to stimulate enterprises to achieve structural adjustments to changing competition conditions and to improve their presence in the market.

Basically, the reform process in this area includes the following:

- *Resolving the problem of the remaining enterprises in state (or social) ownership that operate with losses.* During recent years the Republic of Macedonia liquidated or sold some of the big state owned enterprises, and thus managed to eliminate the enormous allocations of resources to the loss making enterprises, which was one of the main reasons for the fiscal and quasi-fiscal deficit. The final resolution of this problem will be achieved in 2004. Consequently, resources will be available to be used effectively for other purposes.
- *Post-privatisation restructuring of enterprises.* The privatisation process for commercial enterprises in the Republic of Macedonia is completed. On the other hand, there are many privatised enterprises that are still in the process of post-privatisation restructuring, where the main problems are inadequate corporate governance and insufficient management capacity. The measures for overcoming these problems include faster development of the capital market, implementation of ownership rights and improved control by the shareholders. It is expected that, with the new Law on Trade Companies, a more favourable framework will be established for better regulation of issues related to corporate management. In this respect, special attention will also be paid to enhancing the accountancy and auditing professions, and efforts will be made to establish an independent professional institution that will promote the quality of accountancy and audit-related services, thus providing quality information on the operation of businesses.
- *An increase in competitiveness is a pillar of the Macedonian strategy for European integration.* Two major priorities of the policy of the Government of the Republic of Macedonia in this area are to enable the private business sector to take over the leadership position for achieving economic development, and to start developing the Macedonian economy to become a knowledge based economy. The enterprises (the entire business sector) will be stimulated and supported in their structural adjustment towards the changing conditions of competition by introduc-

ing new products and production programmes, or by improving existing ones. These activities will define the basic framework of the micro-economic policy for promoting the development of the competitiveness of the business sector of the Macedonian economy. The policy for developing competitiveness will be implemented in a similar way to the EU micro-economic policy (presented in the documents "Policy of Industrial Competitiveness in the EU", "Lisbon European Council – Agenda for Economic and Economic Reconstruction of Europe", etc.). The National Council for Entrepreneurship and Competitiveness of Macedonia, as a body that establishes a link between the private and public sectors and civil society, will continue to enhance its activities to promote entrepreneurship and competitiveness in Macedonia. Clustering will be promoted through intra and inter-company technological integration and targeting foreign direct investments.

- *The encouragement of investments is critical for medium-term development.* Reform policies aimed at reducing interest rates for commercial loans and credits, as well as the measures for stimulating and increasing domestic savings, are the primary means of stimulating investments. The promotion of the Republic of Macedonia as a favourable place for foreign direct investments is an integral part of this policy. The basic activities of this policy are defined in the Programme for Stimulating Investments in the Republic of Macedonia. The main message of this Programme is that the policy should not be focused on increasing investment benefits, but on improving the functioning of the system as a whole. This is in accordance with the basic principle that the development of a business environment that will generate investments and, will also lead to increased business profitability, is beneficial both for the business sector and the state. This is also the approach of the reforms related to generating a higher inflow of FDI in the Republic of Macedonia on a medium and long-term basis. The Programme underlines five reform priorities: (1) improvement of the regulatory framework and procedures for enterprise registration; (2) legislation in the area of labour (work permits and visas); (3) access to land; (4) building permits; and (5) customs administration. The activities will also be focused on: reducing the level of corruption, bribery and the non-formal economy; increasing the capacity and transparency of the state administration; improving communication between the government and the private sector; improving the judicial system; improving the banking and financial system; improving corporate governance; reducing labour market rigidity; improving tax administration; improving the operation of inspectorates; and, improving market competition and legislation. In the Programme a special place is devoted for the continuation of efforts to promote investments in the regional context of South-East Europe, through mechanisms such as bilateral free trade agreements, and Regional Round Tables for investment agreements and investment promotion. In 2004, an independent Agency for Foreign Investments of the Republic of Macedonia was established, which is organised as a one-stop-shop institution responsible for coordinating the activities designed to increase investments and to focus on attracting FDI into the Republic of Macedonia. A special function in attracting foreign direct investments and creating new jobs in the Republic of Macedonia is anticipated from the Project for Free Economic Zones. The establishment of enterprises and the operations within the free economic zones, according to law, will enable more investments and benefits.

- *The development of small and medium-size enterprises will be promoted.* The promotion of small and medium-size enterprises will be intensified, since it is evident that they adjust more easily and quickly to changes in the environment, as compared to big companies which, by their nature, resist changes. Small and medium-size companies are the main actors in, and further promoters of, the entrepreneurship climate in the economy. Respecting the provisions of the European Charter of Small-Size Enterprises, the “Lisbon Strategy Recommendations” and experiences from “best practice” examples in the EU Member-States, the main elements of this policy in Macedonia are: (1) the development of the institutional infrastructure for promoting entrepreneurship and competitiveness; (2) the establishment of a favourable economic environment in accordance with the level of economic development achieved; (3) the promotion of entrepreneurship through non-financial forms of support; and (4) financial reforms to support entrepreneurship. The implementation of this policy is entrusted to the newly established Agency for Promoting Entrepreneurship.
- *Export Promotion.* This implies continuous and systematic implementation of the following activities: (a) collecting technical information on the relevant aspects regarding exports in certain foreign markets and making it available to all domestic enterprises that are generating or planning sales in those foreign markets; (b) market research and the analysis of target international markets and communicating such information to interested enterprises; (c) promotion activities for enterprises and their export products (joint presentations at fairs, special presentations, “road-shows”, development of promotion material, etc.); (d) promoting the entire national economy and raising awareness and understanding of foreign consumers of our products, that is, developing a “positive image”; and (e) training in marketing of managers, especially those working in export activities, through seminars, etc. Export activities and investment promotion will continue to be supported by other institutions, such as economic and commercial chambers, business associations, private consulting companies, non-governmental and not-for-profit organisations, etc., and, in this respect, an important role will be played by the specialised Bank for Export Promotion that has competences in the area of financial, guarantee and credit support to exports from Macedonia.
- *The agricultural sector is faced with serious challenges on its way to Europe:* Those producers and agro-processors that are competitive will immediately benefit from improved access to the market for their products. However, less efficient producers and agro-processors, as well as the farmers who own lower quality land, will have to struggle with competition, both in domestic and foreign markets. Therefore, enhancing their competitive ability to enter international markets is the main goal of the reforms that support the development of the agricultural sector. On one hand, this implies the promotion of private agricultural producers and processors, as elements in the reform of the business sector (enterprises). On the other hand, it requires a reform of the public institutions responsible for agriculture, by defining measures for stimulating producers, processors and the entire agro-business sector to improve its competitiveness. Basically, reforms of the public sector in agriculture include three elements: (1) strengthening the managerial structures in the Ministry of Agriculture, Forestry and Water Economy; (2) the approximation of the legal framework and institutional structures required for compliance with

veterinary, phytosanitary and food safety standards with the EU standards; and (3) the development of capacity to support rural development. The support to the private agricultural sector will focus on strengthening the marketing chains, and improving the access of food-producers and processors to modern technology.

Taking into consideration these challenges, the *goals* for the development of the agricultural sector and for the formulation of agricultural policy are: strengthening the capacity of Macedonian agriculture to compete with the integrated regional markets of the EU and South-East Europe; increasing the efficiency of agricultural production, processing and marketing; developing relevant effective public and private institutions to support the development of agriculture; increasing revenues from agriculture; providing access for consumers to safe and healthy food; optimum utilisation of limited resources of land, forests and water in an environmentally sustainable manner; and, developing sustainable rural communities through permanent rural development.

The priorities of the agricultural policy aimed at achieving convergence to the EU and WTO are: (1) harmonisation of commercial, institutional and price policies in line with the commitments deriving from the Stabilisation and Association Agreement and WTO membership; (2) limiting budget support to agriculture; and (3) reorganisation of structures in the Ministry of Agriculture, Forestry and Water Resources Management and the related public agencies aimed at strengthening their capacity. The harmonisation of laws, policy and procedures for veterinary protection, phytosanitary systems and food safety, in line with WTO and EU conditions, implies the amendment and adoption of new laws and procedures for harmonisation with international conventions applicable in the area of veterinary protection, phytosanitary systems and food safety, etc. Efforts will be made for optimum utilisation of limited budget resources in the area of agriculture. In order to strengthen and restructure public institutions that are stakeholders in the of agriculture sector, it is necessary to establish a management structure that will have sufficient capacity. With a view to this, a complete and formal change in the competences among the ministries will be undertaken, where the MAFWE will take over the responsibilities for food and rural development, as is the case with the EU countries. In the process of its internal reorganisation, the Ministry will also strengthen and promote services aimed at coordinating the reform of legislation, policy and institutions required to satisfy the conditions of EU membership.

- *The promotion of production factors.* The programmes for the promotion of production factors are aimed at the promotion of the quality of human capital and the physical and administrative infrastructure.

IT development. A general goal will be to prepare the society as a whole for the digital era, as well as for attracting investments in this area. The IT sector in the Republic of Macedonia is one of four industrial clusters that will receive special support within the Macedonian Project for promoting competitiveness. The IT Commission will develop a national strategy for Macedonia for the development of IT and the harmonisation of policies and legislation in the area of the IT society, in line with the EU. An “e-Government” project has been initiated, aimed at implementing IT in the operation of the Government. One of the prerequisites for eEurope+ is to make it possible for all citizens to use quality communication services at accessible prices, and, for that purpose, necessary legal provisions will be made that will secure: liberalisation of the telecommunication sector and the adoption of regulations which will provide universal conditions at accessible prices, such as the use of fixed telephony that will provide access to the internet; reducing prices for inter-connectivity etc.; reducing prices in telecommunications and use of the Internet; utilising benefits of the IT society, and where they are not temporarily legally blocked

because of exclusivity, they will be transferred; and legal acts will be applied for data protection, privacy, protection of juveniles, e-signature, intellectual property, royalties, etc. One of the priorities is to develop a national strategy of the Republic of Macedonia for the development of IT and communication technology which is in line with the EU action plan, eEurope, eEurope+ and WSIS 2003.

Macedonia is lagging behind European states regarding scientific and technological progress and consequently raising the technological level in the business sector in Macedonia to the level to be in a position to implement the latest achievements in technology is a key issue. A climate for implementing the strategy of positioning the Macedonian economy as a technological “follower of leaders” (instead of “follower of followers”) will be promoted. The policies in the area of research and development in the Republic of Macedonia are focused on: achieving consistency between the research and development policy and the models of competitive advantages of different industries in Macedonia; transfer of the latest research and technological knowledge to Macedonia; development of commercially relevant technologies for Macedonia (technologies with the potential to increase the international competitiveness of Macedonia); links between research centres, universities and the business sector in Macedonia; an increase in resources for research work within the budget, as well as stimulating, funding and sponsoring research projects by the business sector. In the area of research and technological development, the Republic of Macedonia will: stimulate and promote international cooperation and know-how and technology transfer; introduce monitoring and a system to evaluate the quality of technological and scientific research, and research findings by using internationally accepted standards and criteria; increase investments in research activities; increase the use of international funds and technical assistance; define inter-disciplinary programmes for targeted research; support the establishment of research units in the business sector aimed at the effective transfer of modern technologies; create conditions for improving the quality of knowledge and innovations; and, develop a technology information system. The following priority areas for research are identified: sustainable development; water resource management; energy; new materials; environment; IT and communication technology; health; biotechnology; high quality food production, and, geological sciences and engineering. Special attention will be paid to overcoming problems related to the modernisation of the existing, and development of new, scientific and technological infrastructure by: the further development of academic research networks; the acquisition of research equipment and foreign professional literature; the development of a sophisticated IT system; and, the establishment of entities for technology transfer aimed at linking results from research and development activities with the requirements of industry.

In the context of promoting production, reforms to protect the rights of intellectual and industrial property will be extremely important. This group of activities also includes programmes for education of the management and staff regarding the development of corporate strategies and organisational structures, business restructuring (modernisation), the introduction of, and harmonisation with, international technological standards in the Republic of Macedonia, and the promotion of corporate governance. During the next stage of the integration process of the Republic of Macedonia with the EU, in order to successfully cope with the pressure from EU market competition by restructuring of enterprises and with the view to increase the added value per employee, great attention will be paid to the education of top and middle level managers.

- *The restructuring (modernisation) of the business sector* in Macedonia will be implemented through several programmes: (a) stimulating the introduction of new products and new production design by the enterprises; (b) supporting projects for researching foreign markets; (c) stimulating the introduction of modern production methods and methods for quality control, modern logistics and distribution; (d) co-

financing the training of internal production quality and service supervisors; and (e) introducing international quality standards in enterprises. The technological modernisation of enterprises in Macedonia will be aimed at monitoring and implementing the latest generation of technology, which foreign producers of original equipment (OEMs) are ready to transfer (sell). The appropriate programmes for this purpose are: stimulating technological restructuring and modernisation by co-financing some projects and by creating technological databases in Macedonia; stimulating projects to acquire quality certificates for the production processes in Macedonian enterprises; stimulating the creation of private (revolving) funds that would offer "soft" credits for technological restructuring and modernisation; stimulating the establishment of development centres and technological parks in Macedonia; stimulating the usage of IT and IT infrastructure in the enterprises in Macedonia; and, full integration of the existing information networks in Macedonia into a single information system. Harmonisation and the introduction of international technological standards in the Republic of Macedonia is the third part of the activities in this area. In this respect, the ISO 9001:2000 quality systems, established on a voluntary basis, are of key importance for enterprises regarding the improved organisation of performance and allocation of responsibilities in undertaking working assignments, aimed at continuous improvement of business performance. They are also a prerequisite for entry to the EU markets. Policy support through stimulation and financial support, among other things, will be directed towards the implementation of the following projects: HACCP-systems introducing more efficient control of critical points in production, mainly for the food-processing industry, as legislation that must be introduced by the end of 2004; ISO 14000-systems for the protection and promotion of the environment and compliance with EU regulations; and, the work of newly established institutes for accreditation and standardisation will be stimulated, which will help the introduction and registration of the systems identified above.

Advanced infrastructure will be promoted in areas such as: distribution; health care; recreation and sports; etc. These issues will underpin the policies of the local regions of Macedonia. In this area, increasing importance will be given to the private business sector through different forms of concessions, BOT arrangements, different forms of partnership between the public and private sectors, the privatisation of some public services, etc.

- *The establishment of a transparent framework for granting state aid, compatible to that of the EU, is a key factor for facilitating solid development of the activities of the private sector. The activities in this area will be as follows: (1) the rapid transformation of hidden subsidies creating quasi-fiscal deficits (for example, the accumulation of unpaid bills) into direct and transparent subsidies that will be visible in the budget; and (2) the gradual abolition of subsidies which are not compatible with EU legislation.*

f) *Public finance reforms*

- *The approximation of tax and customs regulations and procedures with EU standards.* The reforms in the area of public revenues will be aimed at creating conditions for the provision of regular and timely financing of budget expenditures, permanent harmonisation with EU and WTO standards and regulations, promoting

tax administration, adjustment to the needs of fiscal decentralisation, stimulating investments and equal and just distribution of the tax burden.

- *The improvement of financial sustainability, accountability and transparency will underpin budget and tax reforms.* The reforms in the area of public expenditure will be directed towards creating conditions for reducing and changing the structure of total budget expenditure, promoting the planning process and increasing efficiency, transparency and accountability in the use of public resources.
- *Further improvement of the treasury system.*
- *Public administration reforms.*
- *Improvements in the public procurement system.*
- *Fiscal decentralisation.* Special attention is being paid to the implementation of the obligations deriving from the Framework Agreement, which to a great extent laid down the agenda of the reform process in the tax area. The Government is committed to achieving more effective local economic development through administrative and fiscal decentralisation by which local units will be provided with the necessary funds to perform their functions and undertake new competences.

g) *The reforms in the financial sector will continue*, aimed at further strengthening the stability of the financial system, enhancing competition in the sector and improving legislation and oversight of the financial institutions. The measures will be implemented in accordance with the Project for Financial System Assessment developed by the IMF and the World Bank.

Further reforms in the banking system will be undertaken by further strengthening the stability and safety of the banking system and approximating to the international Basel standards and EU directives.

Major reforms in the capital market are considered to be those resulting from the Strategy for Development of State Securities. The main goal of this Strategy is the development of primary and secondary state security markets that will provide more efficient financing of budget requirements on a short-term basis (unimpeded access to funds to meet current public expenditure requirements), and long term (provision of long-term financial resources to support the development of the economy). At the beginning, the efforts will be concentrated on developing a market for short-term state securities aimed at more efficient management of budget liquidity, whose timescale will be gradually expanded, depending on the success of the state in gaining trust among potential investors and the development of institutional investors. The achievement of this goal will facilitate market funding of budget deficits in the domestic currency, and, at the same time, a reduction of macro-economic risk linked with foreign financing. In order to optimise coordination between the monetary and fiscal policies, both at operational and strategic levels, consideration is being given to the establishment of a Committee for the Coordination of Public Debt Management, Monetary and Foreign Exchange Policy. Additionally, this Committee would discuss and decide upon the activities to be undertaken to achieve further development of the primary and secondary state securities markets.

Within the insurance sector, activities in the future will be focused on further harmonisation of national legislation with EU directives, market liberalisation and the attraction of foreign investments, strengthening competition and, in particular, strengthening the supervisory function of the Ministry of Finance. The introduction of detailed legislation on the criteria for granting licenses to insurance companies, the introduction of prudent principles for risk management, the requirement for financial reporting by the insurance companies to the Ministry of Finance and the use of enhanced supervisory measures for the insurance companies are the basic elements of the enhanced supervision that will be developed in the future.

Reforms in the pension system are also underway, which, from 2004, will consist of three pillars: the first pillar – a compulsory state pension fund which partly covers age, disability, family and minimum pension; the second pillar – a compulsory private pension fund which covers the remaining part of the age pension; and the third pillar – a voluntary private pension fund which offers the possibility of a higher pension, or of pension insurance for those not covered by the compulsory pension insurance scheme. The objective of these reforms is to secure a financially sustainable system. The introduction of a multi-pillar pension system creates the possibility to invest funds collected on the basis of contributions for pension insurance in the new fund on one hand, and to cover deficits in the existing fund on the other hand. In order to allow this model to operate successfully, the Strategy for Development of the State Securities market was launched, to create financial instruments adequate for the needs of these institutions, and by these means to animate the functioning of the capital market as a whole.

h) *Promoting infrastructure and institutional arrangements for public utilities.* The necessary infrastructure and relevant institutional arrangements are another core element of the strategy. The measures are concentrated in the following areas: (1) the establishment of a commercial orientation in public enterprise management by commercialisation and a pricing policy based on the coverage of total costs; (2) legal changes and the establishment of independent regulatory bodies and systems for monitoring and assessing the effect on the end consumers of the services provided by the public sector; (3) the enhancement of market competition and further price liberalisation; and (4) an increase in investments in transport, telecommunications and energy from domestic and foreign sources.

The major goal of the reforms in the public utilities in Macedonia is to introduce competition in all the sectors, if possible. This general rule is the best guarantee of fulfilling public interest at national level. The implementation of this basic principle will provide products and services of a higher quality or at lower prices.

Improvement of competition in the public sector will be achieved through reforms and measures in the following areas: establishing a commercial orientation in the management of the public utilities sector through short-term measures (corporatisation, management agreements, pricing policy); and, medium-term measures (privatisation, improvement of legislation, price liberalisation, introduction of competition).

The transformation of the public sector at the local level (water supply networks, sewerage, hygiene and green areas maintenance) involves the establishment of a legal framework in order for the transformation process to be transparent to the local public, as well as to the domestic and foreign companies interested in investing in this sector. Having in mind the wider trend of decentralisation, new methods in the public sector in the Republic of Macedonia will be promoted, which will enable the managers of the bodies in the public sector to effectively manage their organisations and to introduce new techniques and methods. Such an approach is usually implemented through a strategy for de-concentration that gives greater autonomy to those responsible at local level. The existence of a sound strategy will be of key importance for the future of public management in the Republic of Macedonia. The new public management will be structured according to several major topics: territorialisation, participative democracy, private-public partnerships.

Infrastructure sectors differ by their nature; some are capable of functioning under competitive conditions, but others have the characteristics of a natural monopoly. Therefore, the main strategies for different sectors are:

- *The key objectives in the area of transport infrastructure are: achieving safety, efficiency and security; the rational utilisation of energy; regional and local develop-*

ment; and, protection of the environment. In this respect, activities will be directed towards: (1) restructuring and modernising the transport and related infrastructure; (2) making the movement of passengers and goods easier by eliminating administrative, technical and other barriers; (3) achieving operational standards comparable to those of the EU; (4) developing a transportation system compatible to that of the EU; and (5) improving the protection of the environment and reducing harmful impacts, including pollution. Road transport will need to improve its international competitiveness in order to cope effectively with foreign competition, to improve its safety and to reduce harmful impacts on the environment. Regarding railway transport, the most important issue is to strengthen the international competitive position of the railway. Air traffic should provide the integration of the Republic of Macedonia into the single air traffic market through effective regulation of air transport. In the future, some public investments are planned in the transportation sector, especially to improve the road infrastructure and border-crossing points. In the medium-term, and as a general rule, the prices of transportation services are to be determined at a level that will reflect total costs. This general rule has different implications for the prices in different transport sub-sectors. In order to internalise the external effects of road transportation, including the costs of air pollution and traffic jams, transportation prices in this segment of the transport system will have to be significantly increased.

- *The reforms in the telecommunications sector will be conducted to provide full harmonisation of the legislation on telecommunications in Macedonia with that of the EU and to create conditions for introducing a higher level of competition in this activity.* The progressive liberalisation of the telecommunications sector is planned to be implemented in several stages. The first stage (2005 and 2006) is a period for adopting the necessary legal and regulatory instruments. During the second stage (after 2006), liberalisation will be introduced with full harmonisation and compliance with the EU regulations, directives and standards. The new Law on Telecommunications, which will be harmonised with EU regulations and directives, will: (1) make liberalisation and competition possible in all the segments of the telecommunications sector, including fixed telephony and infrastructure, (2) abolish all the monopolies, (3) create conditions for access for foreign investments, and, (4) permit the emergence of new telecommunications operators, giving users a choice of a wide range of telecommunications services at competitive prices. New technologies and services will be introduced in the telecommunications infrastructure, based on GPRS for mobile telephony, as well as ADSL and IP for fixed telephony and other third generation technologies and services. Also, the provision of access to a minimum package of telephone services, as well as provision of universal services throughout the entire country, will remain on the priority list. Laying the foundations of the future IT society will be the focus, through the convergence of telecommunications, IT and radio broadcasting.
- *The reforms in energy will reflect the principles of the market economy and the European Agreement on Energy and will be focused on the gradual integration of the region into the European energy market.* Significant investment projects are foreseen in the production, transfer and distribution sectors for electrical energy. The basic institutional activity in the area of energy will be conducted with the aim of fulfilling the commitments of the Athens Memorandum for Energy Market Liber-

alisation. Competition, which the energy sector will encounter in the future through the introduction of independent producers of electric energy, will be regulated by decisions on investment concessions and licensing agreements, where a non-discriminatory approach will be provided to the distribution network for third parties (if technical and other requirements are met). In 2004, the activities related to restructuring the electrical power management system will continue and will focus on separating transmission, with special management arrangements, followed by the separation of distribution from electrical energy production. The privatisation of these separate segments will also be launched. The Republic of Macedonia will be included in the EU policy in order to open its national energy sectors for at least 30%, to increase the energy supply proportionate to the anticipated economic development, and to stimulate the construction of infrastructure capacities aimed at providing better utilisation of natural gas as an energy source. Although water provides 16% of the domestic energy supply, it cannot be considered as a source in the future. The existing dams have multi-purpose goals (environmental, river regulation, provision of drinking water, irrigation and fishery). Since the construction of hydro power plants requires long-term investments, any future investment activity will be based on concessions or BOT projects. Coal is an energy source that should be protected as a resource. Approximately one third of the domestic needs should be put aside in the medium-term. Natural gas is an optimum solution for the problems regarding insufficient domestic resources and its use should be stimulated. *The improvement of energy efficiency, as well as greater inclusion of renewable types of energy in energy consumption, are important for the energy of the state, for safety and cost-efficiency in supplying the consumers with energy, as well as for creating conditions for sustainable energy development in the state within the framework of sustainable energy development in the region and beyond.*

i) Stimulation and promotion of local economic development. The key focus of the strategy in this area is ensuring sustainable development of municipalities (local self-government units). Regarding the municipal boundaries and development of local self-government, the consensual goals are: (1) re-defining the municipal boundaries in Macedonia and decreasing the number of municipalities; (2) correcting the existing weaknesses in the operation of the municipalities; and (3) increasing their capacity for creating sustainable local economic development through their own revenues. Efforts will be made to establish municipalities capable of performing their functions, capable of developing and implementing plans for local economic development, and capable of acting as partners in the use of European structural funds for cross-border regional cooperation.

In order to intensify economic activities and improve living standards at the local level, the policy measures will include stimulation and support to initiatives with development potential. This will be done through the establishment of economic, communal, educational, health and other types of public infrastructure. The main focus will be on: (1) the development of a more complex local economic development policy; (2) harmonisation of the nomenclature for the statistical units of the Republic of Macedonia (NTES) with the nomenclature for the territorial units for the EU statistics (NUTS), in order to produce statistical data at the regional level for monitoring regional development as a prerequisite for EU integration; (3) the identification of underdeveloped regions, and the regions with considerable environmental problems; (4) the introduction of an integrated approach to the implementation of the policy goals of regional and local economic development, by stimulating the endogenous development of local regions; (5) the establishment and

development of local networks of institutions and agencies that will participate in the achievement of the policy goals; and (6) the promotion of partnerships by including local actors from the private and public sectors in achieving the goals of the local economic development policy.

In view of the general goal of establishing municipalities capable of exercising their functions, capable of developing and implementing plans for local economic development and capable of acting as partners in the use of European structural funds, use should be made of the infrastructure built through the implementation of the programme for cross-border and regional cooperation. The same applies to the road infrastructure and border-crossing points as well as other capital construction facilities.

Regarding spatial development, the area of special importance in the future will be the balanced utilisation of land and permanent renewal of plans. Activities will be directed towards creating conditions for the implementation of the integrated economic development of the entire state, which, in the long run, will give optimum results.

j) Protection of the environment. The main goals of Macedonia in the area of the protection of the environment are: (1) achieving environmentally sustainable economic development, enhancing competition and an integrated approach to environmental problems; (2) the gradual harmonisation of the national legislation in this area with EU legislation, and active participation in international efforts to resolve global pollution and degradation of the human environment; (3) protecting biological diversity and habitats; (4) active inclusion in the international system for protection of the environment; and (5) sustainable management of natural resources and their protection.

Regarding the first goal, the main measures and tasks of the environment policy are: (1) the gradual achievement of the optimum level of energy prices and services in public utilities according to the real purchasing power of citizens aimed at achieving their utilisation in the most cost-effective manner; (2) a gradual increase in investments in the environment and nature protection; (3) an increase in the share of public expenditure for environmental protection in the GDP; and (4) the development of programmes for introducing competition and the inclusion of the private sector in the public utilities.

Regarding the goal of harmonising domestic legislation with EU environmental legislation, the policy will be implemented through these measures: (1) legislation harmonisation; (2) achieving EU standards for the quality of the environment; and (3) enhancing the environmental media.

3.4.2. Provision of relevant and targeted protection for eliminating negative social consequences from the transition

The reforms to stabilise the economy and prepare for accelerating economic development must be accompanied by measures which, in a relevant manner, can cope efficiently with the issue of negative social consequences resulting from the transition. Therefore, the implementation of transition reform measures must be supported by consistent social policies and measures of financial support.

A major goal of the reform of the system for social protection is reducing the range of benefits for protection by designing affordable and effective schemes in the area of poverty reduction and unemployment. Basic *principles* for the reform of this system are the reduction of its egalitarian profile and making the social sector capable of performing its role in the context of a market economy. *Policies* for achieving these principles are: (1) reducing social expenditures to a level consistent with the financial situation of the state; (2) the development of new rules and procedures for granting social protection, by using targeted and more strict criteria for eligibility, by which a higher level of financial

compensation and social protection will be provided for a smaller number of beneficiaries. The right to social benefits in cash and other social benefits should not rely upon the formal provision of documents, but upon a full examination on a case-by-case basis.

Basic *goals* for the reform of health care in the Republic of Macedonia are: (1) the provision of general accessibility to primary, secondary and tertiary health services of high quality, as well as to essential medicines; (2) the establishment of more relevant roles for the public and private sectors; (3) the achievement of fiscal sustainability of public expenditure in the health sector; (4) the increase of efficiency in the utilisation of funds; and (5) the protection of people with special needs, mental and addictive diseases. The basic *measures of the policy* for the achievement of the goals are: licensing and accreditation of doctors and health institutions; the abolition of some health institutions; the creation of opportunities for the establishment of other types of health organisations (institutions); the regulation of additional activities undertaken by doctors; the privatisation of primary dental health protection; privatisation in the area of pharmacology; and, the privatisation of accommodation facilities in natural treatment centres.

The funding of hospitals will be based on measuring their performance. The introduction of transparent and efficient operational procedures, including procedures for the procurement of medicines, represents a special goal of the reform. Further reforms will be also developed by: improving the management of the Health Insurance Fund; developing a strategy for the modernisation of hospitals and developing a system for signing contracts; the development of plans for implementing the policy for primary health care and pharmaceutical policy; and, developing a strategy and plan for implementing IT services to support reforms in these areas, where the principle of long-term stability and sustainability will be central. A special issue related to the reforms in the health sector is the improvement of the quality of services, which will be implemented through: (1) additional equipment in the health centres; and (2) the continuous education of doctors. Also, by making conditions equal in public and private primary health care, by introducing the capitation system, the privatisation of a segment of primary public health care will commence. Health promotion in the Republic of Macedonia will also be done by improving the legislation in the following areas: proper nourishment; HIV/AIDS protection; mental health; contagious and non-contagious disease protection; addictive diseases; protection of workers' health; health ecology; and, blood and blood product safety. In doing this, the World Health Organisation and Council of Europe standards, as well as EU legislation, will be applied.

In addition to the key segments of the reforms and policies listed above, which cannot be separated, the medium-term strategy also includes a number of complementary measures for their support. These are strengthening the transition and the EU accession process, by supporting an efficient market economy, and, during the first phase of the reforms, by adopting a number of regulations and practices related to policies compatible with the *acquis communautaire*.

Pension and disability insurance. The basic direction of the reform in this area is the continuation of the provisions laid down in the new legislation of 2000, which came into effect in April 2002. Those changes envisage the following: (1) raising the age limit for retirement from 60/62 to 63/64 for women/men respectively; (2) the introduction of a second pillar, which will be financed by capital funds based on individual accounts in private pension funds, starting from January 2005; and (3) dividing the current contribution rate of 21.2% into 14.2% which will go in the first pillar (or State Pension Fund) and 7% which will go into the second pillar. The transfer to the second pillar will be voluntary except for the new beneficiaries entering employment (the transfer to the second pillar is obligatory only for this group of people). The opportunity to transfer will be open for one year, and it is expected that mostly younger people will take advantage of this opportunity, since workers will be allowed to keep a working credit worth five years in the

PAYG system, if they transfer from the system with one pillar to the system with multiple pillars. The transition to the new system will be gradual and will incorporate all the positive results of the rationalisation, and at the same time it will provide a sound and sustainable pension system in the long run.

A National Action Plan for Employment 2004-2005 in the Republic of Macedonia has been prepared in accordance with the employment instructions contained in the European Union Employment Strategy that was adopted by the European Council in July 2003. The Action Plan is adjusted to the conditions and specific characteristics of the labour market in the country, respecting the overall social, economic and other factors that influence employment. It defines the national strategy for employment and concrete measures that will be undertaken in order to increase employment and labour market flexibility, and to deal with the issues of unemployment and social exclusion.

There is scope to strengthen and extend active labour market policies. Programmes will combine counselling, raising awareness of self-employment opportunities, assistance to people who want to become self-employed, business training and upgrading of skills and qualifications. Those programmes will be designed according to the labour market demand projected to its medium-term development. An issue of distinct importance for job creation and increasing employment is the upgrading and development of SMEs.

The regulatory and institutional framework and the problem of the implementation gap. One of the most important elements of the transition and the EU accession process is the so-called implementation gap, namely the gap that exists between the adoption of the legal framework and its implementation, including the establishment of new institutions and the development of their operational capacity. In this respect, the Republic of Macedonia is not an exception. This implementation gap will be reduced through: (1) the promotion of education and the acquisition of qualifications; (2) the development of institutional capacities; (3) the transfer of experiences and best practices from abroad; (4) re-definition of the territorial administrative division of the state from the aspect of economic viability, including fiscal decentralisation; (5) improving the capability of the state infrastructure to offer services in an efficient manner, especially in the area of tax collection; and, (6) implementing measures for combating corruption, etc.

3.5. MACRO-ECONOMIC POLICY

3.5.1. Overview of economic developments to date

During the initial years of transition (after 1990), the Macedonian economy was faced with enormously high inflation – 1.199% annually at the time of independence. Also, the beginning of the transition was characterised by a drastic fall of gross domestic product (GDP) – the cumulative decline of the real GDP during 1992-1995 was 20%, caused primarily by the significant decline in industrial production (by 42%). Basically, the reasons for the decline in GDP during this period were the recessionary factors inherited from the previous years and numerous external shocks which had a negative impact on the economic reforms including the loss of markets in the republics of the former Yugoslavia, economic sanctions imposed on FR Yugoslavia by the UN and the economic blockade by Greece.

The successful implementation of the stabilisation programme resulted in a substantial reduction in inflation in a relatively short period of time, successfully maintained at a stable one digit level from 1995 until now. Monetary policy and its coordination with the fiscal policy and wage policy significantly contributed to reaching and maintaining price stability, and this coordination proved to be notably successful during the Kosovo crisis and war crisis in the Republic of Macedonia. As a result of establishing and maintaining

price stability, from 1996 until now (except for 2001 due to the negative effect of the war crisis), the GDP of the Republic of Macedonia marks a continuous, although variable, rate of increase.

Table 3: Basic macroeconomic indicators

	1999	2000	2001	2002 ¹	2003
Real sector					
Gross domestic product					
- real growth rate	4,3	4,5	-4,5	0,9	3,1
- in million US dollars	3730	3899	3723	3755	4604
Inflation (living costs, average)	-0,7	5,8	5,5	1,8	1,2
Average monthly net-salary					
- nominal growth rate	2,9	5,5	3,5	6,9	4,1
- real growth rate	3,6	-0,3	-1,9	5,0	2,9
Unemployment rate (Labour force survey)	32,4	32,2	30,5	31,9	
Fiscal sector (% of GDP)					
Revenues of central budget	24,2	26,7	27,0	28,9	22,1
Expenditures of central budget	23,8	24,4	29,5	29,3	23,1
Budget deficit/surplus	0,3	2,3	-2,5	-0,5	-1,0
Gross domestic product (GDP)					
Revenues (% of GDP)	24,2	26,7	27,0	28,9	
Expenditures (% of GDP)	23,8	24,4	9,5	29,3	
Surplus / Deficit (% of GDP)	0,3	2,3	-2,5	-0,5	
External sector					
Export (FOB) (growth rate)	-7,9	11,0	-12,5	-3,7	22,2
Import (FOB) (growth rate)	-6,7	19,3	-16,4	14,0	15,3
Trade balance, % of GDP	-13,5	-19,2	-15,3	-21,3	-18,4
Current account, % of GDP	-0,9	-2,0	-7,1	-9,6	-6,0
Foreign exchange reserves (monthly import coverage)	2,4	4,3	4,1	3,5	4,0
External debt (% of GDP)	40,6	41,5	43,9	42,8	39,2
Direct foreign investments (million US dollars)	32	175	441	78	94
Monetary sector					
Money mass M4 (annual growth)	29,6	19,3	65,0	11,4	18,1
Crediting of private sector (nominal growth rate)	9,4	17,2	7,3	9,9	9,5
Real rate	10,2	11,1	1,4	7,3	

Source: State Statistical Office, Ministry of Finance and NBRM.

The stable exchange rate of the Denar against the Deutsche Mark (and the Euro since 2002) was a positive consequence of the policy of macro-economic stability, and it has been permanently maintained at a stable level since 1994 (except for the correction of the foreign exchange rate of 16% in 1997, as a result of the significant aggravation of the balance of payments). Foreign exchange reserves, whose initial level in 1991 was

¹ Previous data

3-4 million US dollars, have been increasing continuously, and during recent years they have provided four months import coverage.

Also, the economic trends in the Republic of Macedonia at the beginning of 2003 showed a continuation of the positive growth that started during the second half of 2002. At the same time, this is an indicator of a gradual reduction in the consequences of the economic and political crisis of 2001, and the normalisation of the economic situation, thus meeting prerequisites for more dynamic medium and long-term economic growth. It is estimated that the economic recovery in 2003 is based on the growth of industrial and agricultural production, while the increase of retail sales, civil engineering, and traffic and communications are expected to be additional factors. In line with the projection, it is expected that the gross domestic product will increase of by 3%.

It is important to note that the macro-economic indicators show that the Republic of Macedonia has already fulfilled some of the EU criteria laid down at the Maastricht meeting: criteria for foreign exchange rate and public debt (expressed as a percentage of GDP) have been completely fulfilled; and the rate of inflation criterion was fulfilled in 2002. At the same time, the budget deficit criterion is close to being fulfilled, although the threshold for the budget deficit has been exceeded over the past several years due to the exceptional situation in the country. Generally, interest rates are still very high relative to the European level, although since 2003 there has been a decreasing trend.

Maintaining macro-economic stability, a sustainable level of GDP growth, stabilisation of the budget deficit at a sustainable level (within the Maastricht criterion) and the establishment of a favourable environment for reducing interest rates remain priority goals of the macro-economic policy.

3.5.2. Monetary policy

Current status

The basic goal of the monetary policy implemented by the National Bank of the Republic of Macedonia (NBRM) is maintenance of price stability (this ultimate goal is explicitly stipulated in the new Law on NBRM, 2002). In order to achieve this goal, NBRM established an intermediate monetary policy goal. From independence until 1995, the intermediate goal of the monetary policy was the targeting of money mass M1. The implementation of this monetary strategy was motivated by the need to regulate the money demand, as an efficient means of reducing the extremely high inflation. This strategy significantly contributed to the reduction of the inflation.

On the other hand, the basic prerequisite for successful implementation of the strategy for maintaining price stability is the existence of stable money demand. As an economy in transition, the Republic of Macedonia was faced with the need to undertake major structural reforms, which, together with the numerous transition shocks, led to instability in the money demand. Due to these reasons, by the end of 1995, NBRM started implementing a monetary strategy of targeting the exchange rate of the Denar against the Deutsche Mark (and since 2002 against the Euro). Thus, the exchange rate of the Denar became an intermediate goal of the monetary policy.

The decision to peg the exchange rate of the Denar against the Deutsche Mark (Euro) as an intermediate goal was motivated by the importance of the exchange rate for a small and open economy, its transparency and the availability of data on a daily basis, and the empirically confirmed direct link between the exchange rate of the Denar vis-à-vis the Deutsche Mark (Euro) and the rate of inflation. Such exchange rate characteristics in the Republic of Macedonia are of great importance for successful transmission to, and understanding of, the monetary signals by the wider public. The implementation of such a strategy gave positive results manifested by the continuous maintenance of inflation

at a stable and low level in the Republic of Macedonia. During the implementation of this strategy, the money supply was subordinated to the goals of maintaining exchange rate stability, and consequently price stability.

The NBRM is achieving the intermediate goal of the monetary policy using relevant instruments which have gradually moved from direct towards indirect flexible instruments of monetary policy, fully abandoning the selective component.

With the Law on the National Bank of the Republic of Macedonia from 2002 and 2003, the legislation in this area, to a great extent, has been harmonised with EU requirements. It enhances NBRM's position as the Central Bank as well as its independence in the conduct of its legally stipulated functions. The main monetary policy goal stated in the Law is the maintenance of price stability, as the indispensable prerequisite for sustainable economic development. The new legal provisions clearly determine the institutional, financial and administrative independence of the NBRM.

The Law does not allow the National Bank to extend loans and credits to the Government or to government institutions. This provision does not refer to the financing of liabilities of the Republic of Macedonia vis-à-vis the International Monetary Fund or to credits and loans of up to one day's maturity, with no possibility of renewal or extension.

The legal basis for ensuring the right of free movement of capital in the Republic of Macedonia is set out in the Law on Foreign Exchange Operations, which has been harmonised with EU directives and standards and the Stabilisation and Association Agreement, and became effective in October 2002.

Priority goals, instruments and policies

The strategy of targeting the exchange rate of the Denar against the Deutsche Mark (Euro) that the NBRM has pursued over recent years, has proven to be very successful. With exchange rate targeting, the money supply is an important variable directly subordinated to maintenance of exchange rate stability, and indirectly to the maintenance of price stability. The positive effects of such a monetary strategy remain as the cornerstones of the design of future policy in the monetary sphere.

On the other hand, some analysis and statements by economic experts in this field, show that during the immediate period when a more dynamic approximation of the Macedonian economy to EU standards will be seen, it might be useful, to a certain extent, to have a less restrictive monetary policy and to pay much more attention to maintaining the competitiveness of the Macedonian economy, measured through the real effective exchange-rate of the Denar. In this respect, regarding the monetary policy strategy of the Republic of Macedonia, it has to be emphasised that pragmatic issues will also have an impact on further formulation of the strategy. Looking strategically, the basic goals of maintaining macro-economic stability and developing the competitiveness of the economy remain the most important objectives. Therefore, policy measures will aim to achieve this by selecting the most favourable alternative in a specific period.

Undoubtedly, by trying to integrate itself in the European Union, the Republic of Macedonia will have to accept the obligations and conditions for accession to the European Monetary Union. In the long run, this means acceptance of the Euro as a common currency.

Regarding future changes related to free movement of capital in the Republic of Macedonia, the Law on Foreign Exchange Operations provides for liberalisation of foreign trade and of the overall foreign exchange regime, as well as in the operations of the foreign exchange market. The Law on Foreign Exchange Operations contains the following important elements:

- (1) Liberalisation of capital transactions will be performed in stages, and this is closely related to the implementation of the Stabilisation and Association Agreement.

Thus, capital transactions are to be totally liberalised, at the latest, by the time of EU accession;

- (2) Non-residents can subscribe and trade in securities in the Republic of Macedonia only through authorised banks. The issuance and introduction of foreign securities on the domestic capital market is possible only upon previous approval by the Securities Commission of the Republic of Macedonia, whereas the limitation on securities with maturity exceeding three years still exists. Only authorised banks will be able to purchase securities abroad until the end of the first stage of the transitional period. The same rules apply for operations with investment fund documents.
- (3) Creating the possibility for enterprises to take loans from foreign banks and companies, which will enable greater competition in the financing market and faster realisation of credit lines, and which will also represent an elimination of the complex administrative procedures for getting loans; and
- (4) With the reform of the foreign exchange market, foreign exchange is conducted exclusively through mediation by the banks, thus enabling a concentration of foreign currency supply and demand and competitive establishment of the Denar exchange rate. The new Law allows for the possibility of concluding transactions based on financial derivatives (previous agreements, foreign exchange clauses and options agreements). All national legal entities are allowed to keep foreign currency which originates from operations with non-residents without limit in their accounts in the local banks, with the opportunity to use them for payments abroad or to exchange them domestically.

All these changes will reduce the risk of exchange rate fluctuations impacting on economic entities and banks, which will in turn contribute to a more profound, more developed and more liquid foreign exchange market. The NBRM remains the main regulator of the exchange market, although some changes in its exchange market operations are envisaged - in the future it will intervene in the open market in accordance with intervention rates which will not be disclosed.

The further liberalisation of capital flows will proceed in accordance with the timetable established by the SAA. This means that, by the end of the first stage, the Republic of Macedonia will have considered, defined and implemented appropriate ways of enabling Community rules on the movement of capital to be applied in full in the Republic of Macedonia, and that the total liberalisation of the movement of capital can be expected by the time of accession to the EU at the latest.

The process of liberalisation of capital transactions in the Republic Macedonia was completed with the adoption of the new Law on Exchange Operations (October 2002) thus fully liberalising direct investments and making foreign investors equal with domestic ones, i.e. they are treated as nationals. In parallel, full liberalisation of all commercial and financial loans took place (short-term, medium-term and long-term). Portfolio investments have been partly liberalised, and full liberalisation will be achieved at the beginning of the second stage of the implementation of the SAA.

3.5.3. Fiscal policy

Current status

The fiscal policy of the Republic of Macedonia since independence has been designed to support the overall policies of establishing and maintaining macro-economic stability and creating conditions for long-term sustainable economic development. Generally, the

support was manifested through restricting the budget balance at a level determined by: (1) the need to stabilise the unfavourable external position; (2) the scope for secured foreign financing in the form of grants or concessional debt, and (3) the level of tax burden. Practically, it was implemented through tightening budget expenditure and targeting a balanced budget.

During the period to 2000, the implementation of a fiscal policy conceived in this way resulted in balanced budgets, and, in some years, even in positive budget balances. It had a direct and crucial contribution towards achieving and maintaining macro-economic stability expressed primarily by a low inflation rate and stable foreign exchange rate of the domestic currency, an ample volume of foreign exchange reserves, and relatively sustainable levels of foreign debt.

However, in 2001 and 2002, the fiscal position of the state was significantly disrupted, with, historically, the worst fiscal results. As a result of the aggravated political and security situation, the budget expenditures reached 42% of GDP, and, as a result of the introduction of the financial transactions tax (the so-called military tax), the tax burden reached 34% of GDP. Regardless of the significant increase in tax revenues, the general budget deficit in 2001 and 2002 also reached levels higher than previously experienced, accounting for 7.2% of GDP in 2001, and 5.8% of GDP in 2002. By the end of 2002, the situation regarding public finances was as follows:

- (1) Cumulative outstanding liabilities of the central government due to domestic entities had exceeded the limits permitted with the budget for 2002, and accounted for approximately 0.2% of GDP. This indicated that there were significant weaknesses in the financial system that led to lack of budgetary discipline, irresponsibility, untargeted spending of public resources, and an uncontrolled increase in the domestic public debt;
- (2) Weak fiscal discipline that permitted a general lack of financial control throughout the system; and
- (3) An aggravated situation in all public enterprises: insolvency; over-employment; debts; incompetence; and unimplemented reforms.

Considering the situation in the public finances and the high budget deficit in the previous two years, one of the key objectives of the economic and financial policies for 2003 and 2004, supported by the IMF stand-by arrangement, was the fiscal adjustment focused on: eliminating imbalances from 2001 and 2002, re-establishing a sustainable fiscal position and stabilising public debt at a level of approximately 40% of the GDP, reducing interest rates and creating a favourable environment for credits for the private sector. The implementation of these objectives is supported by number of measures:

- (1) In order to close the financial gap resulting from the elimination of the financial transactions tax, and to strengthen revenues, a review was undertaken of the value added tax. The general VAT rate was reduced from 19% to 18%, while all goods and services that were taxed with the preferential rate of 5%, except products for human consumption, water, and published material, were taxed at the general tax rate of 18%. This measure did not increase the total tax burden since the annual effect from the correction of VAT rates of approximately 0.75% of GDP was absorbed after the abolition of the financial transactions tax, having an annual effect of approximately 2.5% of GDP;
- (2) The authority and competences of the Public Revenue Office (PRO) in collecting total public revenues were strengthened by changes in the Law on Establishing and Collecting Public Revenues and the establishment of a special department to permanently control the 100 major taxpayers;

- (3) In order to speed up the process of introducing cash registers, the Law on Registration of Cash Payments was amended. The competences of Tax Inspectors were expanded, and a media campaign was undertaken to inform the public about the achievements resulting from the introduction of cash registers;
- (4) With the change of the Law on Payment Operations, the obligation of the banks to control the payment of social contributions was extended, in order to achieve a reduction in the evasion that resulted from the closure of the Payment Operations Office and the ending of its control function;
- (5) Amendments to the laws were made to allow an expansion in the use of state bonds to regulate old foreign exchange savings and for denationalisation, so that it was possible to decrease rapidly the domestic public debt and promote the sale of social capital and receivables;
- (6) The financial consolidation in the public sector continued and the number of employees in ESM and public health institutions was reduced. The price of electrical energy was increased by 7%, competitive tenders for the procurement of medicines were introduced, and expensive medicines that have lower priced substitutes were eliminated from the list of subsidised medicines;
- (7) Demobilisation led to lower security expenditures;
- (8) The increase in the number of employees in the public administration was frozen, with exceptions for the recruitment of professional soldiers, because of harmonisation with NATO standards, and for police officers, because of commitments resulting from the Ohrid Framework Agreement. The level of salaries in the public administration was frozen, while the implementation of wage decompression started in April 2004;
- (9) Subsidies in agriculture were limited to 0.26% of GDP, and intensive sales of stocks that have no strategic value to the stock reserves were introduced; and
- (10) An intensive process for closing down a number of state agencies and for eliminating non-core functions was launched.

Consistent implementation of these economic and financial policies led to a significant fiscal adjustment in 2003, and the deficit in the central budget was reduced to less than 1% of GDP, as compared with 5.4% of GDP in 2002. Together with other economic and financial policy measures, the significant reduction in the budget deficit resulted in an overall decline in interest rates, the maintenance of a low rate of inflation and a stable foreign exchange rate for the Denar, an increase in foreign exchange reserves and a realistic basis for achieving the anticipated economic growth of 3% in 2003.

Priority Objectives, Instruments and Policies

The fiscal policy will continue to focus on maintaining macro-economic stability and stimulating economic growth as basic conditions for increasing employment and promoting the standard of living. The adjustment of the budget balance in line with the external position and the maintenance of a sustainable level of foreign debt with a broadly acceptable tax burden will continue to be intermediate goals.

The successful achievement of the fiscal policy goals in the forthcoming period will be supported by a number of measures, including:

- (1) Control of the overall wage-bill by downsizing the public administration and divesting non-core activities and institutions. The process of downsizing the administration by 4% is already underway;

- (2) Regulating imbalances in salaries in the public sector and introducing a just and incentive-based wage system by adopting a Law on Wages and implementing the wages element of the Law on Civil Servants;
- (3) Reforming the social insurance system in order to provide just, optimal, and sustainable social protection with predictable impacts on the budget. In this respect, there are activities supported by credit arrangements with the World Bank to introduce a new pension pillar, reorganise and privatise health care, introduce an active unemployment insurance policy, and reform the social welfare system;
- (4) The consolidation of public finances and the reduction of expenditures by abolishing and/or changing the status of some of the state bodies and institutions. In this respect, changes have already been made in the relevant laws establishing the time and manner of the abolition of the Agency for Operation with Blocked Accounts of the Republic of Macedonia, the Agency for Funds Management of the Republic of Macedonia, the Agency for Privatisation of Enterprises with Socially-owned Capital of the Republic of Macedonia, the Agency for Development and Investments of the Republic of Macedonia, the Agricultural Fund, the Wine Fund, the Water Fund, the Environment Fund, and the Forensic Bureau. Analyses and procedures are underway to divest non-core functions and change the status of some parts of the Army of the Republic of Macedonia, the Ministry of Economy, the Ministry of Agriculture, and in the social protection, education, sports and culture institutions. Currently, a new legal framework is being developed that will re-define the status of the Commodity Reserves Bureau, the Bureau for Economically Underdeveloped Areas, the Agency for Civil Aviation and the Agency for Telecommunications;
- (5) The elimination of financial, social and functional risk from the otherwise inevitable collapse of public enterprises, through their transformation, reorganisation, depolitisation and possible privatisation. In this respect, activities are underway, supported by credit arrangements with the World Bank, to consolidate the most risky ones, the Macedonian Railways and the Water Utility. Activities are underway for the gradual termination of the Public Enterprise (PE) for Housing and Business Space Management, and the PE for Sports Facilities Management, for merging the PE Makedonija Roads with the Fund for Highway and Regional Roads, and for the reorganisation of Macedonian National Radio and Television. The possibilities of granting a concession for the Public Enterprise for Airport Services, and for selling the Electric Power Company are under consideration;
- (6) Urgent resolution and completion of the privatisation of the loss-making enterprises, that will provide additional funds for financing new development policies. The activities regarding the resolution of the situation with the loss-making enterprises are almost completed within the FESAL arrangement with the World Bank, and, with the adoption of the legal framework and the special action plan, the transparent sale of the remaining state capital was intensified;
- (7) Promotion of the public revenue system (structure and tax rates and social contributions, expansion of the tax base, improvement of tax administration and harmonisation with EU legislation and WTO standards) aimed at preventing tax evasion and corruption, stabilising public revenue sources, providing lower, more balanced, just and more simple taxation and stimulation of investments;
- (8) Implementation of additional measures for enhancing public expenditure management by further development of the treasury system, promoting the system for debt control, consolidating financial resources, increasing flexibility of public

expenditures, developing internal auditing, and strengthening the capacity and competences of the State Audit Office, promoting the processes of budget planning and liquidity management and planning, corruption suppression and increasing accountability, transparency and the targeted use of public resources;

- (9) Implementation of fiscal decentralisation in a manner that will provide targeted and timely financing sufficient for the needs of the existing and new functions of the municipalities, without creating a budget deficit or increasing the tax burden. The fiscal decentralisation will be staged and adjusted to the decentralisation timetable for the transfer of competences and will be implemented in accordance with the recommendations of, and in close cooperation with, the IMF. The development and adoption of the legal framework is underway, which will regulate the manner and sources of financing the municipalities - the Laws on Municipal Financing, Administrative Taxes, Property Tax and Utility Fees. Organisational and personnel preparations are underway, aimed at developing administrative capacity in the central and local government related to establishing and collecting local revenues; and
- (10) In order to create conditions that will provide a long-term sustainable level of indebtedness, in addition to the measures for reducing the budget deficit and promoting the administrative capacity for public debt management, the legal and institutional framework related to the incurring of debts will be completed. A system for the assessment of the justification and conditions of debts from the aspect of fiscal sustainability and their purpose will be developed, within frameworks established in multi-year plans. In addition, a project for issuing and developing state securities is underway, aimed at providing long-term stable market conditions for financing from domestic sources. This will also contribute to the development of the securities market in the Republic of Macedonia and to a reduction in the macro-economic risk linked with foreign funding. The implementation of this project started at the beginning of 2004 by issuing short-term securities that will increase the efficiency of liquidity management.

3.5.4. Income policy

Current status

The approach to income policy is within the context of the overall economic situation in the Republic of Macedonia. In this sense, the income policy is consistent with the fiscal and monetary policies, all of them being aimed at macroeconomic stability and inflation control.

To this end, the salaries of civil servants in Macedonia have been frozen, and the same measure is applied in companies where the state owns 51% of the shares or more. During 2004, it is expected that the salaries in the public sector will be revised in light of the country's general economic situation, i.e. they will be increased by a certain percentage, after which they will remain frozen.

One group of salaries in the public sector is regulated by the Law on Civil Servants, but that part of the Law is not being implemented because of insufficient funds in the budget. Therefore, there are differences between the salaries of civil servants who work in different bodies, and the amounts are determined on the basis of job complexity coefficients. The salaries of public employees who are not civil servants are not covered by this Law, so they are regulated in accordance with the collective agreement. Salaries in the public sector also face the additional problem of their irregular (i.e. tardy) payment.

Salaries in the private sector in the Republic of Macedonia have not been frozen and they are determined freely, through employment contracts between employees and employers.

A separate Agreement established an Economic-Social Council in 1996 in Macedonia, acting as a tripartite advisory body involving representatives from the Government, the Association of the Trade Unions and the Association of Employers (the Chamber of Commerce of Macedonia). The Council discusses different issues and priorities and makes recommendations to the Government concerning economic policy and measures aimed at economic and social stability, policy on prices and salaries, pensions and social security, on collective agreement deliberations and actual collective agreements, the standard of living, labour conditions and industrial safety, social and child welfare etc. A special Social Contract between the Government and the Association of Trade Unions was signed, and was co-signed by the Chamber of Commerce of Macedonia. In addition, the process of official ratification of the ILO's (International Labour Organisation) Social Dialogue Convention is underway. Social partnership in Macedonia is also implemented through the participation of the social partners in specific economic and social projects.

Priority objectives, instruments and policies

The basic objective of the income policy, both in the medium and long-term, remains the achievement of macro-economic stability, in correlation with the monetary and fiscal policy.

Concerning the policy on public sector salaries, the medium term objectives are as follows:

- Abandoning the practice of determining salaries according to the existing job complexity coefficients;
- Revising the method for adjusting (indexing) public sector salaries to the macro-economic trends; and
- Continuing with the policy of limiting public sector salaries at levels lower than private sector salaries;

Concerning salaries in the privatised enterprises sector, the medium term objectives are as follows:

- Setting tight budget restrictions for all enterprises, i.e. reject any socialisation and payment of unpaid salaries and benefits for employees in privatised enterprises from the Budget of the Republic of Macedonia; and
- Setting minimum wages in the part of the General Collective Agreement dealing with the methods for determining salaries.

The Republic of Macedonia will work towards harmonising its regulations with the provisions of the Economic-Social Charter of the EU, in relation to the provisions on the minimum wages.

3.5.5. Foreign trade and foreign investment policy

Current status

Foreign trade

The fact that the Republic of Macedonia is a small country makes foreign trade relations an important part of its development matrix. In this respect, EU integration, seen

as a process of establishing the Macedonian economy as an entity capable of achieving economic development under competitive conditions in the Common European market, emphasises even more the importance of international trade and the inflow of foreign capital.

From the very beginning of the transition, the Republic of Macedonia has consistently implemented a policy of external economic opening and liberalisation. Macedonia has signed 11 free trade agreements, of which 9 are bilateral (6 SEE Stability Pact states, Ukraine and Turkey), and 2 are multilateral (with the EFTA states and the SAA with the EU)². Macedonia has signed a Memorandum of Understanding on Trade Liberalisation and Facilitation with other SEE states. In April 2003, the Republic of Macedonia became the 145th member of the World Trade Organisation (WTO). The procedure for membership of CEFTA is under way.

The liberalisation of the foreign trade regime of Macedonia was, to a great extent, implemented according to WTO principles even before Macedonia achieved membership. It resulted in a continuous reduction in customs rates and the acceptance of a harmonised customs system. With membership of the WTO, the most important obligations that have been undertaken are: abandoning the "LB8" quantitative restrictions regime by the end of 2003; abandoning the "promotion fee" of 0.1% on all exports, paid to support export activities, by the end of 2005; and, the existing customs rates, whose average is 14.1%, will be brought in line with the average of 8% by the end of the transitional period (which cannot be longer than 2012). Quantitative import limitations have also been eliminated, and an import license from a competent body is only required for a number of particular products, issued on the "first come – first served" principle.

EAN Macedonia, as part of the Economic Chamber in the Republic of Macedonia, has operated successfully for the last ten years. This is an association for the codification of goods, established on a voluntary basis. The chamber is a member of EAN International, a world organisation for the codification of goods with headquarters in Brussels, which has more than 100 countries and more than 1 million companies as its members. EAN Macedonia is authorised to issue codes for Macedonia and to ensure the implementation of the standards and development of the encoding system, by providing services to its members. At present, there are 786 members of EAN MAK, 52% of which belong to the industrial sector, 30% are trading companies and 5% are agricultural producers, whilst the remaining companies are in other business sectors.

The Stabilisation and Association Agreement represents a big step towards getting closer to the EU trade regime. Under the terms of the SAA, most Macedonian goods are already benefiting from access to the EU market, free of duties and quotas. In return, the Republic of Macedonia has already begun to remove its existing trade barriers on EU produce, under a variable timetable of between five and ten years, for different groups of goods. With the enlargement of the EU in 2004, the trade regime between Republic of Macedonia and the EU was adjusted through an Enlargement Protocol of the SAA.

In 2001, intensive activities were initiated to improve the efficiency of the customs system and all customs offices in the country were linked. The Laws on Standardisation, Metrology and Accreditation have been adopted, as well as the technical requirements for product compatibility and conformity assessment. Other activities will be conducted for the adaptation of the national legislation: establishing compatible institutions to apply the New Approach directives and harmonised standards for free movement and safety of industrial products; provision of information in the field of standards and technical regulations; electro-magnetic compatibility; general and technical safety, etc.

Generally speaking, in recent years, irrespective of all changes and improvements, the Republic of Macedonia, has not been sufficiently successful in the implementation

² The Free Trade Agreement with Slovenia became ineffective with Slovenia's membership of the EU.

of the concept of export-oriented economic development. The trade balance of the Republic of Macedonia shows a continuous deficit during all the transition years (except in 1992), reaching a level over 50% of the export value in some years. The export/GDP coefficients in 2000 and 2001 amounted to 33.9 and 33.6 percent respectively, while the import/GDP coefficients in the same years amounted to 53.7 and 49.1 percent respectively. The export+import/GDP coefficients in the same two years amounted 87.6 and 82.7 percent respectively.

Considering export structure by regions, in 2002, 51.1% of the total exports were to EU member-states, 8.5% to other developed OECD countries 2.5% to EFTA members, 5.3% to the East European states, 31.0% to the states of the former Yugoslavia, and 1.6% to other states. Considering import structure, in 2002 Macedonia imported 44.9% of total imports from EU member-states, 8.2% from the other developed countries, 1.6% from EFTA members, 20.3% from the East European states, 19.3% from the states of the former Yugoslavia, and 5.7% from other states. In the production export structure, 9 products are dominant (steel, sheet metal, textiles, zinc, ferro nickel, tobacco and cigarettes, wine, retail medicines) whose contribution to the total exports for 2001 amounted to almost 46%. Observed from one digit levels of SMTQ, out of the total exports from Macedonia in 2001, 5.6% are products classified as food, 10.5% are beverages and tobacco, 3.2% raw materials, except fuel, 3.7% mineral fuels, lubricants and related products, 0.2% animal and vegetable oils and lard, 5.2% chemical products, 32.2% products classified according to the material (where 16.9% are iron and steel, 6.3% ferrous metals, 3.2% yarn and fabrics, 3.1% non metal mineral products, and 1.8% other metal products), 6.6% machinery and transportation devices, 32.5% different finished products (where 27.7% are clothing and 3.2% are footwear), and 0.2% are other transactions.

Deeper analysis of Macedonian export products shows that, for most of them, their production contains a considerable component of cheap domestic labour. The analysis also shows that the most important factor of the existing export competitiveness of the Macedonian economy is the relative cheap price of export products. This means that the competitive advantage of the Republic of Macedonia in the Single Market in the long run is unsustainable and therefore needs to be changed.

A distinct obstacle to the development of the foreign trade relations of the Republic of Macedonia and to encouraging foreign investments is the inability to use the system of diagonal cumulation of products' origin. Therefore, the Republic of Macedonia will insist on a decision by the EU that will make the **pan-diagonal cumulation of EU products system** accessible to the Republic of Macedonia. All requirements for diagonal cumulation of products of Macedonian origin have been fulfilled: free trade agreements and implementation of the Protocol 4 provisions of the SAA. The Republic of Macedonia also signed the SAA Protocol to adjust the trade relevant to the enlargement.

Foreign investments

An analysis of the FDI inflow over the last twelve years demonstrates that performance has been weak (Table 4). According to the Statistical Bureau and the National Bank of the Republic of Macedonia, the cumulative value of FDI in the Republic of Macedonia starting from 1991 to the end of 2003 amounts to USD1,044 million. In terms of the origin of investors, the most significant source of investments to date is Hungary. Other major investments originate mainly from Greece, Cyprus, Switzerland, Great Britain, the Netherlands and Germany. During the phase of major privatisation in Macedonia, the majority of FDI were in the manufacturing and civil construction sectors, but more recent in-flows have been into the service sector, through the agreements with Stopanska Banka, ADOR A.D. Skopje (insurance company) and Macedonian Telecommunications.

Table 4: FDI Inflow in the Republic of Macedonia in USD mil. (1991-2003)

Year	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
Total	11.9	2.2	0.8	19.1	8.4	7.2	30.72	127.98	32.84	178.52	445.13	81.68	97.55
% of GDP	0.0	0.0	0.0	0.7	0.2	0.3	0.8	3.6	0.9	5.0	13.0	2.2	2.1

Sources: State Statistical Bureau (1991-1996); National Bank (1997-2003) – the data relates to the total investments in the Republic of Macedonia, in accordance with bank data on foreign transactions and data originating from customs declarations received from the Customs Administration.

The levels of FDI in Macedonia lag behind other countries in South-East and Central Europe. The vast majority of FDI has been privatisation-related, with little “green-field” investment. However, privatisation-led FDI can no longer be a dominant option for attracting FDI’s in the Republic of Macedonia, although future sales of some large utilities can be expected, such as the Electric Power Company, Macedonian Railways, Macedonian Post Office, and probably some public institutions (for example in the healthcare sector).

The Republic of Macedonia has signed Agreements on the Mutual Protection and Promotion of Foreign Investment with a number of countries, including most SEE and EU countries, as well as Agreements for the Avoidance of Double Taxation. FDI’s in Macedonia enjoy “national treatment”. The tax burden in Macedonia is favourable, with Corporate Income Tax at 15%, Personal Income Tax at 15% and 18%, total Social Contributions are 32% of salaries, and VAT rates are 18% and 5%. There are also numerous investment and tax incentives for FDI: profit tax exemption for companies with more than 20% foreign capital during the first three years after the first profit making year; reductions of up to 30% of the taxable base for profit tax for all investments above the amount of 100,000 Euro; reduction of the taxable base in the amount of the investments in real estate or movable property and other capital up to the amount of 100,000 Euro, with an extension right; and, customs duties exemption for equipment that is going to be imported as an foreign investment. Besides these, there are also other incentives for all investors, domestic or international. Certain tax incentives are also envisaged when: investing in underdeveloped regions; investing in fixed assets; presence at the official stock market; investing in free trade zones; investing in environment protection; and, investing in newly established companies etc.

In August 2003, the Government of the Republic of Macedonia prepared a Programme for the Promotion of Investments in the Republic of Macedonia, whereby, in accordance with basic international principles for good business environment, the national priorities have been elaborated, including the following:

- Development of a detailed action plan for the reduction of barriers for investments;
- Strengthening of actions to combat corruption, bribery and bias;
- Reform of the tax system and the accompanying possibilities for investment; and
- Establishment of an Agency for Foreign Direct Investments in the Republic of Macedonia.

In the process of creating transparent legislation and a stable investment environment, the Government of the Republic of Macedonia, in cooperation with the appropriate body of the World Bank (FIAS), has prepared an extensive analysis of the administrative barriers faced by investors. The analysis, confirmed the already known position of foreign investors, that for them, the elimination of administrative barriers is much more important than extensive fiscal and other financial incentives. For that purpose,

a Steering Committee has been established, in order to help eliminate the barriers to investment, through the implementation of the FIAS recommendations, which have been incorporated in an action plan that represents a programme for reform of the economic business environment, identifying the responsible bodies and timeframe for its implementation.

The promotional activities of the Republic of Macedonia for attracting foreign direct investments still involve unsystematic activities and measures fragmented between several organisations. In order to improve the current situation, the Government of the Republic of Macedonia initiated a process of strengthening and downsizing the existing institutions and strengthening the policy for attracting FDI's. This process resulted in the International Council of Investors, which was established at the end of 2002 by 11 eminent foreign investors in the country. Additionally, the single Agency for Investment Promotion will coordinate all promotional activities focused towards attracting foreign direct investments to the country.

Priority objectives, instruments and policies

Intensive and dynamic international economic co-operation should be the nucleus of Macedonia's future export-oriented approach to economic development. The most important trade partners of Macedonia are, and will continue to be, European countries, and primarily the EU member states. Membership of the EU is, among other, of paramount importance for the expansion of the Macedonian market, the involvement in the European capital trends and for the transfer of technology and know-how.

Macedonia will continue with the approximation of trade regulations to EU standards in accordance with the SAA, as well as with further liberalisation of foreign trade under the auspices of the WTO. Macedonia will also deepen trade co-operation with other groups of countries (EFTA, CEFTA). In order to compete in the international arena, Macedonia will aim to:

- Adjust the development approach, economic and legal systems to that of developed (European/EU) countries; and
- Improve the competitiveness of the enterprise sector.

Based on these considerations, the main short, medium and long-term objectives of Macedonia's foreign trade policy are:

- (1) To increase the share of exports and foreign trade in goods and services in GDP and, consequentially, to improve the payment balance as one of the key factors of macroeconomic stability;
- (2) Stimulation of the FDI inflow on a broader basis;
- (3) Further development of the regulatory framework in a way which will stimulate foreign trade and FDI and which will bring this framework closer to EU standards and WTO requirements;
- (4) To enhance regional economic co-operation. To achieve further liberalisation and more dynamic trade cooperation in the region, there will be further harmonisation of the existing Free Trade Agreements to the level of "Europe Agreements". The memoranda of understanding related to the liberalisation of regional trade, signed in Brussels (2001) and in Rome (November 2003), as part of the activities of the Regional Table II of the Stability Pact, represent support to the obligations arising from the SAP. The existing projects and initiatives for regional economic cooperation will be intensified. In the medium term, regional economic cooperation will be developed through the establishment of a free trade zone;

- (5) To strengthen the existing, and to create new, competitive advantages based on technological modernisation of the economy and upgrading of education quality and managerial and organisational skills. The increase in the export of goods should be coupled with an increase in the export of services; and
- (6) To achieve further “internationalisation” of the Macedonian economy in line with the principles of international competitiveness. In the context of internationalisation and globalisation, research and technology development, innovation, education, monetary stability, social consensus and public debt management are becoming increasingly important factors in competitiveness. Macedonian companies will be stimulated to strengthen different forms of international business cooperation.

The foreign-trade and investments policy will be implemented through the following three general areas: (1) restructuring and upgrading of the enterprise sector in order to increase its international competitiveness; (2) promotion of exports and FDI; and (3) changes in the international economic relations regime in order to eliminate the existing barriers to trade and to other international economic co-operation and to comply with the Europe Agreement, WTO and other international agreements. The section that follows deals with the last area, and the first two are considered further in section 3.2 of the Strategy.

The regulatory framework in Macedonia for foreign trade and customs will fully comply with EU standards. Above all, this applies to the obligations of the Europe Agreement and White Paper requests related to conditions for imports of goods from the EU. Besides that, free flow of goods will be achieved by eliminating all measures which restrict trade that are aimed at domestic or imported goods. As a member of the WTO, and as a party to numerous bilateral and multilateral trade agreements and arrangements, Macedonia has already expressed its readiness to take part in overall trade liberalisation. Implementing obligations arising from the SAA are concrete actions that will be taken to achieve those objectives.

Macedonian legislation on the free movement of goods is only partly in line with the *acquis*. Most of the preparatory work is yet to be started whilst activities are in progress to harmonise regulations relating to standardisation.

An example of such an area is the legislation related to foodstuffs regarding the standards of production, declarations, control, hygiene inspection, procedures for control of foodstuff additives, other contents and harmful substances and contact with contaminants. Work will be undertaken with regard to the transposition of “old approach” directives, related to this particular area. Harmonisation of the relevant legislation assumes preparatory work on a new Law on Poisonous Products.

Additionally, in order to meet the requirements of EC directives on pharmaceuticals, drugs and psychotropic substances, further harmonisation requires amending the law on medicines, auxiliary medical materials, medical appliances, and production and trade in drugs and precursors. This will be followed by activities to harmonise the legislation covering medical products, clinical testing and the prevention of illegal production and smuggling of drugs and psychotropic substances.

Reforms in the Customs Administration will continue. It will be reorganised and additional training of customs officials will be provided in order to increase efficiency in collecting revenues. In addition, negotiations will also commence for the provision of static and mobile scanners for trucks and other vehicles transporting goods across borders. Preparation for this project is in progress. The number of mobile teams in the Control and Investigation Sector of the Customs Administration will be increased. These units are empowered, without prior notice, to stop and control goods that have passed through

customs control and are anywhere in the territory of the Republic of Macedonia - on the move, stored in a warehouse or anywhere else. This establishes control not only over the goods and the company importing them, but also over the customs officials who signed the documentation originally granting them clearance.

In parallel, the customs officials at the border crossings will be rotated more frequently. These officials will be equipped with additional modern control devices. A further stage of the World Bank Project on Trade and Transport Facilitation in the region is about to begin and will make a special contribution to extending and modernising border crossings. The Customs Administration will join all international customs organisations, and by the end of 2004, it will have completed the computer connection of all customs offices, wherever technically possible.

A short term priority of the Republic of Macedonia is the integration in the System for Pan-European Cumulation of EU Products.

Regional Initiatives

The Chamber of Commerce of Macedonia, in accordance with its role and responsibilities, promotes the economy internally and internationally, by participating in fairs, organising business forums, meetings, promoting inter-chamber cooperation, as well as by participating in multilateral projects and initiatives, and by publishing promotional material. The Chamber of Commerce is one of the founders of the Balkan Centre for Trade Promotion (BCTP) based in Ankara, and is the national coordinator of the Euro partnerships – including the Balkan-partnership – Thessalonica. The practice of European countries, whereby the national promotional programmes are developed in cooperation with the national chambers, and largely implemented by the chambers, is reflected in the Macedonian strategy for integration into the EU.

Thus, the Chamber of Commerce of Macedonia has acceded to the Development Programme for the Western Balkan Chambers of Commerce and Industry and other business associations in Albania, Bosnia and Herzegovina, Croatia, Macedonia and Serbia and Montenegro, initiated and developed by Euro Chambers, to support the promotion of the private-public partnership. The Programme is financed by the Regional CARDS Programme for 2003.

The Chamber of Commerce of Macedonia, through inter-chamber and other forms of institutional cooperation, and regional projects and initiatives, will continue to focus on the improvement and promotion of regional cooperation through the following projects and activities:

- ABC – the Association of Balkan Chambers, established in 1994, whose members are Albania, Bosnia and Herzegovina, Bulgaria, Greece, Romania, Macedonia, Turkey, Serbia and Montenegro, and Cyprus, is the first regional initiative. ABC focuses its activities on enhancing the influence and cooperation of the private sector with the public sector, eliminating administrative and other barriers to trade and transport, mutual harmonisation, IT connection (ABC Infos), promoting the economies (through the ABC news magazine), stimulating the cooperation of SMEs, participating in regional projects, and cooperation with other regional initiatives – directly with SECI and the Stability Pact. To support the EU integration process, ABC, together with other members, started, on 1st January 2001, to implement the joint multi-annual (to 2006) Partnership Project between the Union of German Trade-Industrial Chambers (DIHK) and ABC, aimed at promoting partnership and cooperation between the Region and the EU and Germany;
- SE-CCI.Net. In 2001, an agreement was signed for multilateral cooperation between the chambers of commerce for the development of an IT system for the

countries of South-East Europe. This IT base will be included as logistical support to the EUROCHAMBERS Development Programme for the Western Balkan Countries of Commerce and Industry;

- BCTP – the Balkan Centre for Trade Promotion was established in 1988 with headquarters in Antalya, Republic of Turkey, and Albania, Bulgaria, Greece, Serbia and Montenegro, Macedonia, Romania and Turkey are its members. BCTP aims at enhancing and promoting trade among member-states in the region. The activities of BCTP are implemented through the established IT network, and through the organisation of joint stands at fairs in the member-states, seminars, and the activities of the Secretariat and publication of a Bulletin. The Information Base and the Bulletin support the promotion of the business potentials and of the supply and demand both among the states members of the Balkan Centre for Trade Promotion and in relation to the international business community, particularly that in the EU member-states;
- CEI – the Central European Initiative includes Albania, Austria, Belarus, Bosnia and Herzegovina, Bulgaria, Croatia, Czech Republic, Macedonia, Moldova, Hungary, Italy, Poland, Slovakia, Slovenia, Romania and Ukraine. The Republic of Macedonia directly participates in the work of the economic forums of the CEI, through participation at the national stands and conferences (round tables and panel-discussions). In 2002, the Government of the Republic of Macedonia and the Chamber of Commerce of Macedonia, in cooperation with the Union of the Italian Chambers and the SEI Secretariat, hosted the 5th Summit of the CEI. The Chamber of Commerce of Macedonia, through the Information System, is a partner in the Project for Central and Eastern Europe Network (CEEN) for the exchange of information and investments among the nine member-states of the initiative;
- The International Council for Cooperation of Trade, Industrial and Commercial Chambers of the countries in the Central and Eastern Europe and the Baltic countries was established by sixteen trade, industrial and commercial chambers. In addition to the chambers of Azerbaijan, Armenia, Belarus, Bulgaria, Ukraine, Poland, Georgia, Kazakhstan, Kyrgyzstan, Macedonia, Moldova, the Russian Federation, Ukraine, Serbia and Montenegro, Uzbekistan and Tajikistan, as founders and members of the Council, the chambers of Lithuania, Latvia, Estonia, Romania, Turkmenistan, Albania, Slovakia, the Czech Republic and Slovenia participate in its work. There were four regular sessions of the Council in its mandate. At the Seventh Session of the Council, the Chamber of Commerce of Macedonia was elected to chair the Council in 2001; and
- SECI is an initiative for cooperation in South-East Europe. It was established in 1996 following the Memorandum – Issues of common understanding between the EU and the USA for the development of vital economic strategy in the region through the promotion of regional cooperation and partnership between the public and private sectors, supporting European integration. The National SECI – Sub-committee for Macedonia, MACPRO, was established in 1998, and aims to achieve the SECI objectives. Within the Project, the Chamber of Commerce of Macedonia has organised training for importers, exporters, forwarders and transporters engaged in international trade operations, especially for the application of INCOTERMS and other international documents and procedures for international trade operation and provision of services. The Chamber is a coordinator of the

web site of the TTFSE Project, which provides logistical support to those involved in commercial activities in the region, aimed at promoting intra-regional trade.

3.6. STRUCTURAL REFORMS FOR ECONOMIC GROWTH AND A FUNCTIONING MARKET ECONOMY

The major objective of the macro-economic policies is to create a stable environment as a precondition for the accomplishment of the transition process and accession to the EU. The major objective of the micro-economic policies and structural reforms, on the other hand, is to complete the transition and to make the economy of Macedonia – the enterprises and the institutions - a viable and competitive actor in the internal market of the EU. Macro-economic reforms alone, although necessary, do not lead automatically to the responses needed for a comprehensive transformation to a functioning market economy, as they do not deal systematically with the structural weaknesses of the economy. To address these weaknesses, a clearly defined set of micro-economic policies and structural reforms is needed. They should help to develop a strong and competitive economy, which will be prepared to absorb shocks and will contribute towards achieving the macro-economic objectives.

Within this general framework, structural reforms have several objectives. They are aimed at: (1) creating an environment for the higher level of investment that is required for sustainable economic growth and increased employment; (2) increasing the international competitiveness of the business sector; and (3) designing policies and measures that make the transition process socially and environmentally sustainable.

3.6.1. Price liberalisation and competition policy

Current status

Price liberalisation

The prices of products and services in the Republic of Macedonia are mostly freely established by market forces. Under such a liberalised regime, 89% of the prices in the retail trade have been freely established since the beginning of 2003. Prices are controlled by setting price ceilings for a small number of products and services where conditions still do not exist for competition in the market (i.e. in the monopoly sectors). The Government of the Republic of Macedonia regulates and amends these controlled price ceilings by adopting special decisions.

The majority of the prices of products and services, which traditionally were treated as “sensitive” under the social policy that protected a minimum standard of living, have been liberalised – products and services such as: milk; sugar; edible oil; rents; flour (type “500”), and bread produced from that type of flour; PTT services; and railroad services, etc. According to the existing regulations, price ceilings have been established for the following products and services: (1) oil, oil products and electrical energy; (2) some public services - water supply to the population and industry, water treatment and the discharge of waste waters (except the collecting stations), maintenance of hygiene in cities and settlements (collection and disposal of waste) and some other communal services; and (3) mandatory motor vehicle insurance. The prices of agricultural products, which were traditionally protected, are freely established, with some temporary exemptions.

It is considered that the implementation of direct control over the prices listed above, as well as ensuring a sufficient supply of goods from domestic production and imports,

represents a supplement to the macro-economic policy of preventing possible inflationary pressures on prices.

Competition

One of the important tasks in the process of creating a sound and viable economy, which will be an integral part of the European market, is the policy for the protection of competition in the domestic market. On the other hand, protection of market competition is also one of the priorities of the Stabilisation and Association Agreement.

Market liberalisation and the introduction of competition in the markets in Macedonia, has been partly achieved by foreign trade liberalisation. The customs protection of imports to Macedonia has been lowered right from the beginning of the transition, while recently there has been further liberalisation and facilitation of entry to the market by abolishing non-customs barriers. This process will develop in the future in line with the SAA provisions.

The protection of market competition within the legislation of the Republic of Macedonia is relatively recent. The Law Against Competition Restriction and the Law Against Unfair Competition were enacted in December 1999. They regulate the monitoring and prevention of competition restriction, the rules for monopolies, control of mergers, granting of exclusive rights, as well as the field of unfair competition, unfair speculation, dumping and the protection of trade marks. The Law Against Competition Restriction established a special institution for the regulation and management of monopolies together with a Commission for Monopolies, as an advisory body. These two Laws are largely, but not fully, aligned with the provisions of Articles 81 and 82 of the Rome Treaty. Consequently, a new Law Against Competition Restriction was adopted, with two main objectives: full alignment with EU legislation and the establishment of regulatory mechanisms that can, more easily, be fully implemented.

In the context of market competition, a special case is the public sector, i.e. the activities representing services of public interest (the production of electrical energy, utilities, telecommunications and PTT services, heating, etc.). The provision of a significant number of these services is still monopolistic.

Priority objectives, instruments and policies

The key objective of the policies on prices (price liberalization) and the protection of competition will be to create an environment for just and efficient allocation of resources by giving the right price signals. Both policies will be implemented in parallel and in a synchronised manner. The Government will establish transparent regulatory and institutional mechanisms that will ensure open and fair competition. This also includes the public services sector.

Price liberalisation

Two elements determine the future prices policy of the Republic of Macedonia: (1) the number of products and services whose prices are controlled will continue to fall, coupled with the prior introduction of sound competition in the provision of those services; and (2) future liberalisation of currently controlled prices will be announced in advance, with detailed time schedules for their adjustment. This will provide transparency, will reduce expected inflationary effects, and will provide timely and relevant signals to enterprises for their future restructuring. This is especially true for energy prices.

Competition policy

Generally, the promotion of market competition in the Republic of Macedonia will be focused on creating favourable and transparent conditions for market competition. Prices

in monopolised sectors will be controlled, although this is just a transient solution. The best solution will be to eliminate monopolies wherever possible.

The Monopoly Administration will adopt and publish regulations that will establish the minimum size of enterprises that must seek prior consent before initiating merger procedures. All other information defining procedures for business mergers will be adopted and published.

An efficient legal system and adequate institutional infrastructure are necessary prerequisites for the efficient implementation of the policy for protecting market competition. As part of the legal framework, the Republic of Macedonia is preparing a new Law on Public Services, whilst the laws regulating protection of competition and state aid have already been adopted. All these laws will be harmonised with EU legislation.

The new legal proposal that is in the process of adoption, stipulates the establishment of a special Competition Protection Committee with the responsibility of protecting competition. The members of the Commission will be nominated by the Parliament of the Republic of Macedonia. The law will be consistent with EU standards related to the sanctioning system.

In parallel, activities will be undertaken to provide training and prepare the judicial system for the implementation of the new anti-monopoly legislation. Awareness amongst the business community and the general public regarding the Government policy on competition protection will be improved.

State Aid

The Interim Agreement stipulates that between 2001 and 2005 state aid should be treated as if the Republic of Macedonia was identical in status to those areas of the EU described in Article 87(3)(a) of the Treaty of Rome. Namely, areas where the standard of living is abnormally low or where there is serious unemployment, and where state aid to promote economic development may therefore be considered acceptable.

To give effect to this, a new Law on State Aid and the related secondary legislation have been adopted. The objectives of the law are to implement the market economy principles, to ensure fair competition, and to fulfil the requirements stemming from internationally ratified agreements related to state aid. An independent State Aid Commission will assess whether requests for state aid are justified.

Public procurement

The first Law on Public Procurement was adopted in June 1998. The procurement directives of the EU were considered during the preparatory procedure, and the World Bank provided comments during the preparation of the law. The experience gained over the last five years in applying the Law on Public Procurement in practice confirms that the law caused entities to conduct their public procurement in a transparent manner, mainly by the public announcement of their procurement needs and the implementation of the defined procedures.

In order to achieve further harmonisation with EU legislation, the need to adopt a new Law on Public Procurement was agreed.

The new Law on Public Procurement was adopted on 26th March 2004, and established a new approach to the regulation of public procurement issues, requiring the adoption of secondary legislation. The Law also stipulated training for all stakeholders in the public procurement process, the introduction of procurement records, and the establishment of an institution (Public Procurement Office) which will be in charge of market research, i.e. it will apply an analytical approach towards public procurement in the Republic of Macedonia.

3.6.2. Business sector reform

Current status

The Republic of Macedonia started the transition process with a relatively diversified industrial structure inherited from the previous period, and in a position in which the economic results of the enterprises were critically dependent on the sale of raw materials and semi-finished products to business partners in the more advanced parts of the former Yugoslavia. Macedonia was, in effect, the resource base of the former Yugoslavia. In addition, the long lasting period of economic development under the previous regime deliberately disadvantaged the agriculture sector, through shifting the value added of the very large agricultural enterprises to the industrial sector.

During the initial stage of transition in Macedonia, the business sector lost the markets in the states that emerged from the former Yugoslavia as a result of the wars in the region and the sanctions imposed by the UN on FRY. Therefore, the basis and the links of previous business chains collapsed. In addition to that, at the beginning of the transition, Macedonia was faced with an embargo from Greece. The result was a severe fall in the real GDP, which had a cumulative decline of 20 percent between 1992 and 1995. This was primarily caused by the severe decline in industrial production of about 42 percent. In those circumstances, the enterprises in Macedonia were faced with a big challenge – privatisation.

Privatisation and post-privatisation restructuring

Privatisation in Macedonia began in the late 1980's under the privatisation laws of the former Yugoslavia. Macedonia implemented those laws over a relatively long period, and this created much of the profile for the overall privatization process. In 1993, Macedonia enacted its own privatisation law which was quite different from the previous one - it stipulated a case-by-case approach and sale at an evaluated price on a commercial basis to the highest bidder, except for the small enterprises, where the employees had the right of first refusal. The new law also acknowledged the degree of privatisation achieved under the previous law, after a review of each separate case (enterprise). The biggest wave of privatisation, according to the number of privatised enterprises, which is not necessarily the same as the capital value, under the Macedonian privatisation law, was achieved during the 1994-1998 period. In 1996, the agricultural enterprises, which were previously excluded, were also subjected to the privatisation process, followed by some public sector enterprises, which were originally excluded because of their monopolistic market position. Parallel to that, starting in 1995, Macedonia also performed several special restructuring and privatisation programmes for the biggest loss-making enterprises, whose basic tenet was restructuring the big enterprises into smaller viable units, prior to their sale to private owners.

Privatisation in Macedonia, after a fairly long and very difficult period of implementation, is now at its end. During 2003, a strategy for the completion of the privatisation process, mostly through the sale of the residual shares by public auctions on the Macedonian Stock Exchange, was implemented. The main privatisation institution (Macedonian Privatisation Agency) is to be transformed in 2004. At the same time the Government has a commitment to finish the process of restructuring the loss-making enterprises in 2004. The privatisation process has been particularly difficult and painful, and proved to be successful only in those cases where the enterprises were substantially restructured. This leads to the conclusion that, in all cases, restructuring should have been undertaken more vigorously.

An analysis of the privatisation results shows that only a few targets have been achieved. Perhaps the biggest impediment for better results was the fact that a great

deal of the privatisation in Macedonia was insider privatisation (although implicitly or explicitly this was not envisaged by the law), resulting in little new capital and low ownership concentration in the privatised enterprises. Some estimates state that there are between 250,000 and 300,000 minority shareholders in Macedonia. In reality, privatisation in Macedonia has resulted in a very large, but often only formal, ownership restructuring (dominated by many minority worker-shareholders), limited organisational restructuring, little financial restructuring and change of workforce qualifications, and almost no production or technological restructuring. That situation is quite different where privatisation was implemented through foreign investment, as well as in the cases where the owner-workers sold their shares to foreign investors after privatisation.

The main problems of the privatised enterprise sector today are:

- (1) Low exports and a lack of export competitiveness; there are very few new export products or services created in Macedonia, while a number of the old export products are no longer produced;
- (2) Lack of high-quality management and a lack of professional management education; the management in Macedonia did not appreciate the vital role that such education can play in making the enterprises more competitive;
- (3) Lack of skilled staff (work force) and better quality of human capital;
- (4) Lack of marketing skills;
- (5) Old equipment, especially by technological standards; many enterprises face the problem of working with equipment which is old by any standard;
- (6) Difficulties with accessing finance on reasonable terms, high security and collateral requirements and low provision of long-term loans by the domestic banks, although this situation is slowly improving;
- (7) The practice of government interference in business and favouritism;
- (8) Difficulties of facing burdensome bureaucratic procedures in daily work; and
- (9) Unfair competition from the informal sector.

Lately, as part of its strategy to fight corruption, the Government is undertaking certain activities to reduce the effects of the last three problems listed above.

The problems set out above can be evaluated in different ways, but in general, as one survey shows, "there is a great deal of work to be done to bring the better performing firms in Macedonia up to international levels of competitiveness. There is a particular need to help firms to access new technologies, develop partnerships with foreign companies, improve their production and administrative processes, develop marketing expertise and increase the professionalism of management" [International Development Ireland Limited: Macedonia Competitiveness Assessment. Final Report, November 2002].

Entrepreneurship and the establishment of new SMEs

Apart from privatisation, the growth of the private enterprise sector in Macedonia has been achieved through the establishment of new private SMEs. Especially during the first years of the transition, the number of these private entities grew very fast, but the trend has continued. Most of the SMEs are in the area of trade, services, transportation, tourism, etc. Some analyses show that the total number of registered SMEs is around 140,000.

Despite the general consensus on the importance of entrepreneurship and the development of SMEs, not enough effort has been made to enhance the activities of the ministries and other state institutions to support the private sector and the development of entrepreneurship. There is an absence of coordination among different ministries, as well as among the different projects supported by different donors. In 1997, the govern-

ment established a National Enterprise Promotion Agency (NEPA) responsible for the implementation of programmes and projects to support SMEs and, for the implementation of the Phare Programme credit lines. However, for many reasons, NEPA did not succeed in performing its duty. Macedonia has a network of centres for business support (regional centres, ESA centres etc), a few business incubators and entrepreneurial zones. A network of Euro Info Centres has received support from international donors and comprise the entities (apart from private consultants) that offer business support to the SMEs. Additionally, within the Economic Chamber of the Republic of Macedonia, there is an SME Development Centre, which provides SMEs with information and professional advice.

Due to the low level of financial intermediation, the basic sources for long-term financing of the SME sector in Macedonia are foreign credit lines, provided by the bilateral and multilateral creditors/donors. The estimates show that, in the future, these sources of funds will continue to play a significant role in the provision of the necessary financial sources for the development of micro, medium and small businesses.

A number of other new initiatives for the development of SMEs are currently underway in Macedonia, aimed at improving the overall climate for enterprise development and boosting investment. At the level of institutional and structural reform, these include reforms of company law and company registration procedures, changes to the legal framework for the enforcement of creditors' rights and strengthening shareholders' rights, the development of an effective accounting and auditing profession, as the basic prerequisite for the improvement of corporate management, the modernisation of banking legislation, the restructuring of the payments system and the improvement of the quality of bank intermediation. Other initiatives have focused on developing the capacity of both public and private sector organisations to develop and implement enterprise policies and programmes at both national and local levels, and the commissioning of studies on the administrative and regulatory barriers to investment.

Priority aims, instruments and policies

There are three basic elements of the Macedonian economic policy related to the enterprise sector development: (1) creating a stable and fully predictable institutional framework, appropriate for a modern market economy; (2) the process of gradual harmonisation and adoption of EU legislation; and (3) a proactive industrial policy for the upgrading and development of prospective businesses.

Almost fifteen years (since 1989) of privatisation and restructuring have been more than long enough to complete the first phase of transition, i.e. the phase of establishing private property and the basic institutions of a market economy. Now the time has come to fully reorient the enterprise sector policy in Macedonia into a proactive approach aimed at supporting the future development and upgrading of prospective businesses. The future policy will focus on structural adjustments and upgrading the competitiveness of the enterprises.

In order for this to be achieved, the two most important priorities of the Government's policy in this area are to make sure that the private business sector assumes the leading role in the process of economic development and to begin building the Macedonian economy into a knowledge-based economy. The Government will be the partner of the enterprises and the overall business sector, and not the leader. However, businesses will be stimulated and supported to adapt and to make structural adjustments related to the changing conditions of competition, in order to introduce new products and production procedures, or improve the existing ones. The industrial policy will be closely connected with the policy for technological development, stimulation of entrepreneurship, establishment of new entries and improvement of the investment climate.

Three comprehensive ventures, which were launched during 2003, constitute the backbone of this approach, and will be fully complementary and coordinated:

- (1) Implementation of the Programme for Stimulating Investment in the Republic of Macedonia, together with the creation of a new investment promotion agency;
- (2) The further implementation of the Programme of measures and activities for the promotion of entrepreneurship and the creation of competitiveness in the small and medium-sized enterprises in the Republic of Macedonia. The newly established Agency for Support of Entrepreneurship is in charge of the implementation of this policy; and
- (3) Policy development to create competitiveness in the Macedonian economy. During 2003, this activity was implemented as part of another special project, under whose auspices a National Entrepreneurship and Competitiveness Council of Macedonia was established. It is a body that establishes the linkages between the private and public sectors and civil society.

These activities define the basic framework of the microeconomic policy for the development of competitiveness in the business sector of the Macedonian economy. This policy will be implemented in accordance with the EU microeconomic policy (presented in the documents "The Policy of Industrial Competitiveness for the EU", "Lisbon European Council – Agenda for Economic and Social Reconstruction of Europe" etc.).

With respect to the development of a framework policy to create competitiveness in the Macedonian economy, the horizontal and vertical policies will be integrated in their implementation. The vertical approach focuses on clustering, while the horizontal approach focuses on stimulation and strengthening of the position of the clusters by establishing a network of programmes. Each separate cluster in the economy will belong to and cover as many elements of the network as necessary for its specific case.

A cluster is a concentration of functionally and directly interrelated businesses (for instance: suppliers and buyers in the same segment, service providers etc.) which are also linked to some other institutions (universities, trade associations, economic chambers, various agencies etc.) in a fairly homogeneous field of industrial activity, and, quite often, together they form the critical mass of a large competitive capability of each of the enterprises in the cluster, by creating synergy, concentration of investments (domestic and foreign), development of new products and services, and improvement of skills and knowledge etc.

The composition of the horizontal dimension of programmes of the micro-economic policy is represented through segmentation into four integrated and interrelated groups of programmes. All segments will be mutually connected in order to create a comprehensive network. The four segments are as follows:

- (1) *Promotion programmes*, which include: (a) export promotion; (b) the promotion of foreign direct investments, and (c) the promotion of SME development;
- (2) *Stimulating programmes*, which include: (a) the promotion of production factors; (b) establishing an information society and the development of information and communication technology, and (c) the promotion of research and development (R&D);
- (3) *Programmes for stimulating clustering*, which include: (a) the stimulation of economic clustering; (b) intra- and inter-company technological integration; and (c) targeting foreign direct investments; and
- (4) *Programmes for promoting corporate strategies and corporate organisational structures* among which are: (a) management education; (b) business restructuring (modernisation); (c) harmonisation and introduction of international technol-

ogy standards in the Republic of Macedonia; and (d) the promotion of corporate governance.

Promotional programmes

Export promotion is a widely accepted notion regarding the position of the Government towards stimulating the export orientation of enterprises, which means that the role of the Government is to support positive externalities for all enterprises. This means continuous and systematic execution of the following functions: (a) collecting technical information for all the relevant aspects of exports to different foreign markets (institutional, legal, procedural and administrative, production, health and other hygienic and technical standards, transport costs and alternative transport corridors, etc.), and making the information available to all domestic businesses generating or planning sales to different foreign markets; (b) market research and analysis of the competition in the target international markets and conveying such information to the interested domestic enterprises; (c) undertaking promotion activities for the domestic producers and their export products; this involves cooperation regarding their presence in the foreign markets by sharing the costs of presentation, joint participation at fairs, special presentations, “road-shows”, development of promotion material, etc.; (d) promotion of the entire national economy to raise the awareness and knowledge of foreign consumers and build a “positive image”; and (e) training management staff in different aspects of export marketing, by organising seminars etc.

The standard best practice known so far is to implement these activities in a business-like manner that avoids a bureaucratic approach as much as possible. All the institutions should be organised in a network, which means one “headquarters” in Macedonia, and several “branch offices” in the most attractive and important targeted export markets. The staff should be highly professional and be paid and promoted according to their merits. It is also important to have private specialised service providers engaged under contracts. The activities will be supported by the work of other institutions, such as: economic and commercial chambers, business associations, private consulting firms, non-government, non-for-profit organisations, etc. The next function in the area of export promotion of the economy is that of the specialised bank for export promotion, with competencies in the area of finances, guarantee and credit support to export from the Republic of Macedonia.

Investment promotion consists of two parts: promoting investment from domestic sources (capital accumulation and domestic savings) and attracting foreign direct investments. Generally, increasing investments (i.e. investment promotion), irrespective of the sources of funds, is a function of the entire business, micro and macro-economic environment in the economy, meaning that the objective of all reforms and programmes of the economic policy are focused on increasing investments. In this respect, the reform projects directed towards the reduction of interest rates on commercial loans and credits, as well as the measures for stimulating and increasing domestic saving, are the priority.

Considering the importance of FDI for future growth, the Government of the Republic of Macedonia adopted a special Programme for Stimulating Investment in the Republic of Macedonia in 2003. One of the main policy messages of this programme is that: the focus of the policy should not be placed on increasing the generosity of the investment incentives, but on improving the operation of the system. This is consistent with the guiding principle that creating a business environment that is enabling to investment, and at the same time capable of increasing business profitability is beneficial for both the businesses and the state. This will also be the approach of the reforms for generating higher FDI inflow into the Republic of Macedonia in the medium and long-term.

The programme highlights five reform priorities, which were previously identified by a study of FIAS, as well as a number of additional priority areas, which will also need to be tackled, in order to help make Macedonia a more attractive investment location. The basic priorities are improving the regulatory framework and the practice of: company registration, labour legislation (work permits and visas), access to land, construction permits and customs administration. In addition to that, the programme also points to a range of other issues regarding the promotion of FDI in Macedonia which will be also tackled in the medium-term: reducing corruption, bribery and the informal economy; increasing the capacity and transparency of state administration; improving communications between the government and the private sector; improving the court system; improving the banking and financial system; improving corporate management; reducing labour market rigidities; improving the tax administration; improving the inspectorate service; and, improving competition and legislation.

The programme also reflects the necessity to continue investment promotion work in a regional SEE context, through such mechanisms as the bi-lateral trade agreements and the regional roundtables for investment agreements and investment promotion.

In order to improve the stimulation of FDI inflow, the Government is establishing an independent Foreign Investment Agency of the Republic of Macedonia, which will be organised as a one-stop-shop institution responsible for coordinating investment promotion activities and will focus on attracting FDI to the Republic of Macedonia. This agency will be established in 2004.

The Free Economic Zone Project is expected to perform a separate function in the attraction of foreign direct investments and the creation of new employment opportunities in the Republic of Macedonia. The establishment of companies and operations within free economic zones, according to the law, brings numerous benefits and exemptions.

The promotion and stimulation of the development of small and medium size enterprises (SMEs) represents a third set of programmes designed to stimulate and promote SME's. This policy will have a beneficial influence on many aspects of the entire Macedonian economy: the stimulation of market competition by stimulating the entry of new entities in the market; extensive employment of the labour force; productive investment of the population's savings and an increase in investments from local sources; stimulating inflows of FDI; enhancing exports; increasing the efficiency and productivity of big enterprises that would establish networks (clusters) with groups of small and medium size enterprises; and, creating and disseminating technological innovations, etc.

Therefore, promoting the development of SMEs deserves special attention in the future, by following the provisions of the European Charter for Small Enterprises, the recommendations of the "Lisbon Strategy" and the best practice for the promotion of SME development of EU Member States. In this respect, the main objective of the programme of measures and activities for entrepreneurship promotion is to increase efficiency and international competitiveness of SMEs, by the creation of an economic structure compatible with the structure of European countries. The Programme is focused on four basic areas: (1) building institutional infrastructure for the promotion of entrepreneurship and competitiveness; (2) the establishment of a favourable economic environment in accordance with the current development stage of the economy of Macedonia; (3) entrepreneurship promotion through non-financial forms for the support of entrepreneurship; and (4) financial reforms for the support of entrepreneurship.

Stimulation Programmes

The *programmes for promoting key production factors* of the Macedonian economy are mainly directed towards the promotion of human capital (discussed in more details in paragraph 3.7 of this Strategy), as well as of physical, administrative, research, in-

formation and communication infrastructure. However, it should be mentioned that the promotion of key production factors is not made simply by accumulation and concentration, but by improving their quality. This implies that the reforms will go beyond ensuring basic educational, scientific, administrative, physical, information and communication infrastructure and will be specifically focused on promotion and development.

Regarding the development and promotion of *physical infrastructure*, in addition to the rise in investments in transport and other similar activities (discussed in paragraph 3.5.), advanced infrastructure will be created in areas such as: distribution logistics; health infrastructure; infrastructure for recreation and sports; etc. These elements will be incorporated in the policies of the local regions in Macedonia. In this area, the private business sector will be gaining greater importance through different forms of BOT (build-operate-transfer) arrangements, different types of partnerships between the public and private sectors, the privatisation of some public services, etc.

The establishment of an information society and the development of information and communication technology (ICT) are of special importance for the future economic development of the Republic of Macedonia. During recent years, these two, and especially the telecommunications infrastructure, are experiencing relatively rapid development with an intensive concentration of investments in those industries. It is expected that these trends will continue.

The Information Technology sector in the Republic of Macedonia was recently selected as one of the four industrial clusters that will receive special support within the Macedonian Project for Improvement of Competitiveness, since rapid growth is expected within this sector. The Committee "e-Macedonia for all" has now existed for several years in the Republic of Macedonia, and the Government of the Republic of Macedonia has formed a Information Technology Commission and initiated a Project for "e-Government", aimed at the implementation of information technology in its operations.

One of the objectives of eEurope+ is to ensure that all citizens will be able to benefit from good quality communication services at affordable prices, and for this purpose, by introducing the necessary legal regulations, the following will be achieved: liberalisation of the telecommunications sector and the adoption of regulations that will ensure universal services at affordable prices, such as the use of fixed telephony that will provide access to the Internet; the reduction of interconnection fees etc.; decreases in the prices of telecommunications and use of the Internet; use of the benefits that come from information society and, wherever possible, if there is no temporary legal restriction for the purpose of exclusivity, all legal acts will be transferred and implemented for the protection of data, privacy, the protection of minors, electronic signature, intellectual property, copyright etc.

In this respect, the priorities are as follows:

- (1) Reforms for the protection of intellectual and industrial property rights;
- (2) Development of a national strategy of the Republic of Macedonia for ICT development, in accordance with the EU Action Plan, eEurope, eEurope+ and WSIS 2003, focused on: economic development; increase of employment and acquisition of new markets; joining the developed countries in the research and development of new technologies, as well as their application in the creation of new products and services; wider use of information technology in the operations of the state administration, thus improving the quality of service provided to citizens, companies and other entities, and reducing the level of corruption in state administrative bodies; and, building a cheap, fast and secure information technology structure that will provide for the needs of citizens and businesses;
- (3) Preparation of a strategy for the development of E-commerce, with the following strategic objectives: improvement of management and organisational

efficiency of the business sector; improvement of the efficiency of transactions by reducing transaction costs; and, expansion of the market and expansion in the choice and availability of precise information in order to improve service quality;

- (4) Introduction and implementation of ICT standards; and
- (5) Introduction of ICT statistical research.

Intellectual and industrial property rights

The Law on Copyright and Related Rights (LCRR) was enacted in September 1996. It was harmonised with the relevant EU legislation,. The structure and content of the Law have been prepared in line with EU directives as well as the international legal sources (primarily the Bern Convention on the protection of literature and other works of art, the World Convention on Copyright and the International Convention on the Protection of Performers, Photographers and Radio and TV Broadcasting Organisations, as well as other relevant conventions).

Further implementation, consistent with the SAA, will be conducted with two components: harmonisation of the legislation; and, the promotion and protection of copyright and related rights.

The relevant legislation will be further harmonised with the following EU regulations: Directive 91/250/EEC (additional technical harmonisation), Directive 92/100/EEC (the area of public borrowing); Directive 93/98/EEC (additional harmonisation for the protection of copyright for audio and visual works); Directive 93/83/EEC (definition of concepts); Directive 96/9/EC (transposing of databases); Directive 2001/29/EC (transposition of the right of enabling public access, technology measures and information on rights management); Directive 2001/84/EC (transposing the inheritance right of fine arts and photographs); and, Regulation 3295/94 on the custom measures and suspension procedures regarding import, export, and re-export of forged and pirated goods.

The harmonisation of the LCRR with EU directives will be completed in 2004. The Law on Industrial Property was adopted on 1 April 2004.

In order to apply the LCRR and to improve its implementation, specific activities are being undertaken in order to improve the institutional infrastructure as follows:

A Department for copyright and related rights will be established within the sector for normative-administrative affairs, copyright and related rights; a special sector for administrative-monitoring affairs and control of revenues and expenses of the beneficiaries in the area of culture. An inter-ministerial coordination body was established, in charge of the implementation of integrated protection of copyright and related rights. The coordination body will prepare a programme for the promotion and implementation of the copyright protection regime and related rights and for education and awareness raising. The programme will also include an analysis of the conditions and the development of proposals for short-term and long-term measures and activities, as well as an Action Plan for the comprehensive protection of copyright and related rights in the Republic of Macedonia.

In the immediate future, special efforts will be made to establish associations for the collective protection of author's rights (works of art and literary work) and the rights of artists-performers. NGO's will be involved in the activities related to developing public awareness about the need for the protection of copyright and related rights.

Research and Development (R&D). Macedonia is significantly lagging behind other European states in scientific and technological progress. During the transitional period, there were numerous difficulties in R&D activities: insufficient budgets; insufficient capacities, equipment and materials; insufficient institutional infrastructure; insufficient transfer of knowledge and research resources to the business sector; low investments in

the application of research and innovations; low level of private investments in research and development; and, the brain-drain problem. The crucial issue now is to upgrade the technological level of the enterprise sector in Macedonia so that it can implement the most recent technological developments. This means the implementation of a strategy to position the Macedonian economy as a technological “follower of leaders” (instead of “follower of followers”).

The objectives of the R&D policies in Macedonia are: (a) harmonisation of R&D policies with the modes of competitive advantage of some industries in Macedonia; (b) transfer of the latest R&D know-how in Macedonia; (c) development of commercially relevant technologies for Macedonia (technologies with international competitiveness potential for Macedonia); (d) establishing strong links among research centres, universities and the enterprise sector in Macedonia; and (e) increased allocations for R&D work from the budget, as well as stimulation of the financing and sponsoring of R&D projects by the business sector.

In the area of research and technological development, the Republic of Macedonia will: encourage and promote international collaboration and the transfer of knowledge and technology; introduce a monitoring and evaluation system for scientific and technological quality and research results by using internationally adopted standards and criteria; increase investments in scientific and research activities; increase the use of international funds and technical assistance; define inter-disciplinary programmes for targeted research; support the establishment of research units in the business sector to ensure the effective transfer of modern technologies; and, create conditions in order to raise the quality of knowledge and innovations and develop a technology information system.

The following priority R&D areas have been identified: sustainable development; water resource management; energy; new materials; environment; information and communication technology; healthcare; biotechnology; production of high-quality foodstuffs; and, geology science and engineering.

Clustering programmes

The economic policy of clustering in Macedonia will stimulate an on-going process of change and upgrading of the business sector. Three dimensions appear within which there are focal points for action: (1) stimulation of clustering; (2) stimulation of intra and inter company technological integration; and (3) targeting FDIs that will create clusters in the Republic of Macedonia.

Stimulation of clustering means undertaking a broad promotional and educational campaign that will raise the awareness of the benefits which clustering of enterprises creates for economic development. The leadership will come from the newly established National Entrepreneurship and Competitiveness Council of Macedonia, as well as actors at national and local levels, non-governmental and non-for-profit organisations. The programmes for stimulating public-private partnerships of different kinds and among different institutions are complementary.

For the purpose of the *promotion of intra and inter company technological integration* the following programmes will be implemented: (a) programmes for supporting joint technological projects that will be undertaken by several enterprises undertaking different types of activities; (b) programmes for supporting joint market penetration, especially in foreign markets, undertaken by enterprises in supplier-buyer relations; (c) programmes for stimulating joint training and re-training of the labour force undertaken by several enterprises undertaking different types of activities; and (d) programmes for stimulating the connection of enterprises' information systems in a single system. Further programmes will be developed.

Programmes for upgrading corporate strategies and organisation

Management education will have a very important role within the fourth set of programmes aimed at upgrading corporate strategies and organisation. In the next stage of integration of Macedonia into the EU, in order to achieve success in coping with the competitive pressure in European markets through enterprise restructuring and to increase the value added per employee, it will be necessary to pay much more attention to the education of top and middle management. Special attention will be paid to the promotion of management education in education centres and training programmes in Macedonia, as well as stimulating participation in education abroad. The ultimate goal in this respect is the establishment of a specialised high-quality business school (academy) in the Republic of Macedonia.

Enterprise restructuring (modernisation) of the business sector in Macedonia has two dimensions: (a) market modernisation (introduction of new products); and (b) technological modernisation (acquisition of modern technology and achievement of high technological standards). The introduction of new product lines will be directed toward an optimum level of specialisation, since the entire export product structure of Macedonia is very widely diversified, which erodes economies of scale. Export competitiveness will be stimulated, and it will be based more on non-price factors instead of low prices as the basis for competitiveness. In this respect, the policy programmes are: (a) stimulation of launching new products and new product design by enterprises; (b) support of projects for research into foreign markets; (c) stimulation of the introduction of new production and quality control methods, modern logistics and distribution; (d) co-financing training of internal quality evaluators of production and services; and (e) the introduction of international quality standards in the enterprises.

Technological modernisation of the enterprises in Macedonia in general will be focused towards the acquisition of the latest generation of technology which original equipment manufacturers (OEMs) are willing to transfer (sell). Among the programmes which are appropriate for this are: (a) stimulation of technological restructuring and modernisation through the co-financing of some projects and through the creation of a technological database in Macedonia; (b) stimulation of the processes of acquiring certificates for quality of production in the enterprises in Macedonia; (c) stimulation of the creation of private (revolving) funds that would offer "soft" credits for technological restructuring and modernisation; (d) stimulation of the establishment of centres for technological development and technological parks in Macedonia; (e) stimulation of the use of information technology and information infrastructure in the enterprises in Macedonia; and (f) full integration of the existing information networks in Macedonia in a single information system.

The *introduction and harmonisation of international technological standards* in the Republic of Macedonia is the third set of activities in this particular area. In that respect, the quality system ISO 9001:2000, established on a voluntary basis, is of great importance for the companies, in order to achieve better organisation and definition of responsibility for the completed tasks and for the purpose of continuous improvement in business performance. The fact that these are a precondition for the presence in EU markets is extremely important. The support provided through the policy for encouragement and financial assistance, amongst other, will be aimed towards implementation of the following projects:

- HACCP systems that introduce more efficient control of critical production nodes, mainly intended for the food industry, for which the necessary legislation will be adopted by the end of 2004. This is a precondition for the marketing of foodstuffs in the EU;
- ISO 14000 systems for the protection of the environment and for promotion and approximation to EU regulations. The introduction of these standards, which,

although voluntary, are very desirable, by companies will be encouraged and assisted by the Government; and

- The work of the newly established institutes for accreditation and standardisation will be encouraged, thus assisting the introduction and registration of these systems.

The *improvement of corporate management* in the Republic of Macedonia is very important, and this has been a matter of a comprehensive debate. It is expected that the implementation of the new Company Law will create a more favourable framework for better regulation of corporate management issues. This is a part of a wider Corporate Management Project, which includes several other complementary activities, amongst which a public education campaign is very important, as there are many minority shareholders in Macedonia after the privatisation process. In this respect, much attention will be paid to the full adoption of an accounting system, compatible with European standards, as well as to the development of efficient auditing systems based on EU methods and procedures. Efforts will be made to promote the accounting and auditing profession through the establishment of an independent professional institution in charge of the quality of accounting and audit services, hence providing quality information regarding business operations.

Company law

The Company Law is the basic law that regulates business activities in the Republic of Macedonia. It defines different types of companies, procedures and rules for their incorporation and operation. Foreign investors enjoy national treatment, and accordingly, they can establish and operate any type of private company or joint stock company. Foreign investors do not require a special licence for incorporation. They are required to meet only the general requirements applicable to all investors in specific areas, as provided by law.

In the recent past, important steps have been made in order to harmonise the laws and secondary legislation that govern the particular area of accounting and auditing systems with the Directives of the European Union. The Council Directives 78/660/EEC on the annual accounts of certain types of companies and 83/349/EEC on consolidated accounts, as well as Directive 84/253/EEC on the appointment of persons responsible for carrying out the statutory audits and accounting documents - have, to a great extent, been incorporated in the Company Law, in the articles that relate to maintaining accounting records, the distribution of tradesmen, trading books and annual accounts and the appropriate secondary legislation (Rulebooks regulating different types of charts of accounts for different types of entities), the Law on Audit and the Law on State Audit.

The reforms in these areas will continue, and they will be focused on completion of the harmonisation process, in order to ensure full compatibility of the national accounting and audit system with the systems of the developed countries and EU Directives.

3.6.3. Budget and Tax Reform

Current Situation

The management of public revenues and expenditures has been continuously developed through financial and technical assistance on a multilateral and bilateral basis. In the context of the management of public expenditures, in the period hitherto there has been a high level of development achieved in terms of budget execution and expenditure control.

Therefore, in the forthcoming period it will be necessary to make more efforts to promote the process of expenditure planning in order to reach balance and consistency.

Public Revenues

In the sphere of public revenues, a significant level of harmonisation with the European Union regulations has already been achieved. In 2000, Value Added Tax was successfully introduced, and there have been other improvements made in respect to other tax revenues as follows:

- (1) Banks are exempt for a three year period from payment of tax on property acquired through actuation of mortgages, by which the share in the tax burden in the calculation of credit interest rates has been significantly decreased. Furthermore, for the purpose of developing the securities market, the turnover of securities is exempt from tax payment, in accordance with the Securities Law;
- (2) A 100% decrease of the base for the calculation of the profit tax for investments of up to 100,000 Euro has been introduced, along with the option to transfer the right in forthcoming years, as well. The share of the total investments in respect of which the profit tax calculation base has been decreased, is 30%, instead of 25% as previously;
- (3) There have been several reforms of the VAT system: a) the general VAT rate has been decreased from 19% to 18%, while all goods and services subject to the privileged 5% VAT tax rate, except goods for human consumption, water and publications are now taxed at the general tax rate; b) the obligation to submit annual tax returns has been abolished so that the administrative burden has been decreased both for the tax payers and for the tax administration; c) the import of goods intended for projects financed by foreign donations and agreed with the Government of the Republic of Macedonia are exempt from payment of VAT; d) the Public Revenues Office is in charge of the de-registration of tax payers that submit tax returns without stating the tax on sales or the tax refund; and e) a prison sentence has been introduced for non-submission of a tax return in the prescribed period or non-payment of VAT, which will have a preventative effect in terms of respecting the law;
- (4) In order to harmonise with WTO standards, there has been an equalisation of the specific excise tax for wines and sparkling wines produced from other fruits with the specific excise tax for wines and sparkling wines produced from grapes. Furthermore, in order to benefit more from foreign donations, the tax regulations for the import of mineral oils and passenger cars intended for projects financed through foreign donations and agreed with the Government of the Republic of Macedonia, have been simplified.
- (5) With the amendments to the Law on the Levying and Collection of Public Revenues, the Public Revenue Office has been authorised to supervise the collection of the concessionary revenues. In addition, the Law changes the procedure for the payment of taxes in installments, and the only instruments for securing payments are bank guarantees and cash deposits;
- (6) In order to accelerate the process of fiscal regulation of cash flows, tax inspectors' competencies have been enhanced; and
- (7) For purposes of increasing capacities and efficiency, the process of reorganisation of the Customs Administration and of the Public Revenue Office has commenced;

there is also a process of training of employees, preparation of instructions, guidelines and information on the application of tax procedures.

The situation regarding expenditure planning is as follows:

- (1) In 2003, the Ministry of Finance introduced the process of preparing a three-year fiscal strategy and the Government of the Republic of Macedonia adopted the Fiscal Strategy for 2004-2006. In 2004 the Government adopted the Fiscal Strategy for the 2005-2007 period. The Fiscal Strategy sets the governments' policies and projects the macro-economic indicators. The Fiscal Strategy also covers the planning of overall budget expenditure, i.e. projecting income and setting expenditure ceilings for the budget users (the Central Budget) and the extra-budgetary funds;
- (2) Control over the payment of salaries in budget institutions has been introduced, and the Ministry of Finance now gives its approval for new employments in the public administration. Without this approval, a new employment in a specific budgetary institution is impossible. The Government of the Republic of Macedonia has introduced an obligation on all budget users, when submitting proposals for adoption by the Government, to obtain an opinion on the fiscal implications of the proposal from the Ministry of Finance;
- (3) The legal requirement for obligatory Government approval of programmes for utilisation of budget allocations approved by the Parliament has been introduced. This secures the conditions for earmarked and transparent use of public resources and the implementation of the defined budget policy;
- (4) The right of the Agriculture Fund to take loans and use part of the source revenues of the central government budget has been abolished;
- (5) The Law on Independent Court Budget was adopted. It enables greater independence of the judiciary by way of the independent financing of its activities;
- (6) The use of the so-called own resources according to the budget principles has been limited, with the exception of revenues from foreign project credits and donations; and
- (7) In order to achieve greater efficiency and transparency of budgetary planning, certain changes to the Economic classification of expenditures have been undertaken, in order to harmonise it with international standards. Measures have also been taken in order to put greater emphasis on programme budgeting.

Public Expenditures

In the field of expenditures the general situation is as follows:

- (1) An organised system using efficient software has been developed which secures a solid basis for liquidity planning, control of the utilisation of budget allocations in terms of the volume and structure defined in the budget, and daily updates of the accounting entries for cash revenues and expenditures;
- (2) A single treasury account has been introduced, managed by the National Bank of the Republic of Macedonia, which is based on a "zero balance" of the denar budget accounts of budget beneficiaries. This provides a high level of control and management of liquidity. There has also been partial consolidation and accounting entry of the extra-budgetary financial flows, which had an uncontrolled impact on the budget balance. In 2003, there was a consolidation of the budget deposits with

the National Bank – transfer to the stabilisation fund for monetary policy support, an external account for the regulation of relations based on servicing the foreign debt and the account of the privatisation revenues of Macedonian Telecom;

- (3) Treasury control with regard to new commitments by budget users has been introduced, as well as control of the volume of their overdue unpaid liabilities. Furthermore, the control function of the Ministry of Finance in the process of public procurement by budget users has been enhanced, whilst opportunities to commit to financial liabilities beyond the approved budget limits and extend overdue unpaid liabilities have been decreased;
- (4) In order to ensure complete accounting coverage of financial transactions and the consolidation of foreign currency accounts, the procedures for opening foreign currency accounts by budget users have been regulated;
- (5) The Ministry of Finance has established a separate unit that is recording and monitoring the public debt; and
- (6) In order to promote the process of budget execution, a liquidity commission has been established, the members of which are relevant sector managers, as well as managerial personnel of the Customs Administration and Public Revenue Office.

Priority objectives, instruments and policies

Public revenues

The reforms in the sphere of public revenues will be aimed at creating conditions for the provision of regular and timely financing of budget expenditures, continuous harmonisation with EU and WTO standards and regulations, promotion of the tax administration, adjustment to the needs for fiscal decentralisation, stimulating investments and equal and just distribution of the tax burden. In general, activities in the sphere of public revenues will focus on:

- (1) Amendments to laws that regulate matters related to customs, customs tariffs, excise tax and income tax, for purposes of their harmonisation with the legislation of the EU and WTO standards (for example, temporary imports for processing, transit, mandatory penalties, Profit Tax Law etc.);
- (2) Complete implementation of the Law on Registering Cash Payments, i.e. the introduction of cash registers;
- (3) Adoption of the Law on Tax Procedures, harmonised with European legislation, in order to regulate the work of the Public Revenue Office (PRO), in instituting administrative proceedings in accordance with the Law on General Administrative Procedures, when, through direct application of the regulations, the PRO decides upon the rights, obligations or legal interest of individuals, legal entities and other parties;
- (4) Promotion of tax accounting and updating of the registry of taxpayers at the PRO, and electronic data exchange with other bodies, in order to enable the implementation of EU Council Directives 77/799/EEC and 1979/1070/EEC on mutual assistance to the authorities in Member States responsible for direct taxation issues;
- (5) Further reorganisation of the Customs Administration and of the Public Revenue Office for the purposes of: establishing a reliable system of internal audit; continuous cooperation with the State Commission for Prevention of Corruption;

implementation of requirements arising from the Law on Prevention of Money Laundering; education and informing tax payers; training of the inspector supervision staff; and, upgrading software and hardware in order to introduce electronic access to tax collecting bodies and to facilitate and simplify tax administration both for tax collecting bodies and for tax payers and decrease tax evasion. The Law on the Customs Administration has been adopted. It regulates the status of customs officers, their responsibilities, manner of reward and sanctions. There is also a project for the introduction of a system of electronic seals for satellite surveillance of trucks transporting excise goods;

- (6) Special attention will be paid to the process of fiscal decentralisation. In this context there will be adjustments made to the legislation in order to provide for secure sources of revenues for the municipalities. The responsibilities for the levying and collecting municipal revenues will be transferred from central to local government. The draft Law on Property Tax is in the process of adoption. It envisages the transfer of responsibilities for levying and collecting taxes from the Public Revenue Office to the municipalities, and enables municipalities to define the tax rates within limits established by law. The Laws on Utility Fees and Law on Administrative Taxes, featuring characteristics similar to the Law on Property Taxes, are in the process of adoption. In the light of the obligations arising from fiscal decentralisation, there will be intensive activities for the institutional strengthening of a special unit for local self-government in the Ministry of Finance, in order to establish a single database on the operations of the municipalities (tax base, revenues and expenditures, liabilities, employment, etc);
- (7) In amending the laws in the field of public revenues, due consideration will be given to providing a sophisticated text, both simple and comprehensive, for domestic and foreign investors, and to creating an ambiance favourable for encouraging foreign direct investments; and
- (8) The establishment of conditions for the effective functioning of the financial police.

Public Expenditures

Reforms in the public expenditures field in the forthcoming period will be aimed at creating conditions for a decrease and change in the structure of the overall budget expenditure, promotion of the process of planning and enhancing the efficiency, transparency and accountability in the utilisation of public resources. In this respect, special attention will be paid to the following:

- (1) Change of the structure of budget expenditures in order to enhance their flexibility and role in the realisation of the fiscal policy objectives. In the structure of the budget hitherto, non-discretionary expenditures have taken up more than 80% (debts, salaries, social transfers, etc), which does not leave room for the pursuit of an active budget policy. This will be achieved by implementing control measures and by decreasing the wage bill (downsizing, adoption of a law on salaries, divestment of non-core activities and the abolition of agencies); urgent completion of the privatisation process; resolution of the status of loss making companies; and, reforms of the social protection system;
- (2) Consolidation of overall public expenditure by adopting a Law on Public Finances. The Law on Public Finances will enable the development of a single mode for

financing all state institutions, whether they are budget or fund institutions, agencies or public enterprises;

- (3) The establishment of an efficient public procurement system, through the recently adopted Law on Public Procurement, harmonised with the legislation of the European Union, and the establishment of an Agency for Public Procurement;
- (4) Improvement in the quality of budget planning through continuous intensive education of the personnel in the Ministry of Finance and line ministries;
- (5) Development of a network for internal auditing in the ministries. The international standards on internal audit have been adopted, and a programme of training and establishing internal audit units in the public sector has been prepared. Activities are currently under way to establish internal audit units in 17 budget users, and the nominated internal auditors have been successfully trained. The training of internal auditors for the other budget users will be completed in the second phase, and their internal audit units will be established by the end of 2005 at the latest. The third phase will cover the training of internal auditors in the units of local self-government, and their internal audit units will be established by 31 March 2006 at the latest;
- (6) Further improvements in the treasury system in order to improve the budget planning and execution processes, financial control, accounting records, and public financial resource management. Further activities will be focused on the development of its function as an entity responsible for payment operations, the approval of the use of budget allocations for the payment only of liabilities that have been previously, duly and timely announced and entered in the treasury accounting system, electronic linking of the budget users with the central treasury at the Ministry of Finance etc. In this context, special attention will be paid to anticipating the needs arising from fiscal decentralisation;
- (7) Developing the system of accounting records for public revenues and expenditures in order to provide complete, updated and verifiable data and reports on the finances and liabilities of the state; and
- (8) Developing finance and debt management by introducing new software that will secure centralised analytical records of the internal and foreign public debt, and issued guarantees.

3.6.4. Reforms of the Financial System

Current situation

Since the start of the transition, the financial system of the Republic of Macedonia has been subject to profound reforms and today it is very different compared to 1991.

Banking system

The banking system is the basic pillar of the financial system of the Republic of Macedonia. Over the last ten years, it went through numerous reforms. In the early 90's, the five banks that comprised the banking system had a very high percentage of uncollectable receivables (more than 50% of the approved loans were evaluated as nonfunctional), a large number of operational weaknesses, high indebtedness to foreign creditors, inappropriate management systems and poor control mechanisms and had lost the trust of the population. During recent years, as a result of financial and operational restructuring

and many other systematic measures, the performance of the banking system has been significantly improved. The Republic of Macedonia is one of the few countries, which, despite the extremely difficult external factors (military conflicts in the Balkans, the security crisis in the Republic of Macedonia in 2001 etc.), did not encounter a systemic crisis in the banking sector. Today, the banking system in the Republic of Macedonia can be evaluated as a sound one, secure and relatively resistant to systemic banking risks, which is confirmed through the high level of capitalisation, the stable liquidity position of the Macedonian banks and other indicators of prudent performance.

In the Republic of Macedonia in 2003, there were 21 operational banks and 16 savings houses. Savings houses have a minor share of 1.1% of the total financial potential of the banking system. Their basic function is offering financial services to the public. Out of the total number of banks, 19 are of a universal character and conduct their financial activities in accordance with the existing legal framework. There are also 2 banks of a specific character – a micro financing bank and a bank for export support and the promotion of SME's.

The Macedonian banking sector is largely privatised – less than 14% of the banks' capital is state owned. The level of banks' private ownership ranges from 66.7% to 100%. The foreign capital share of the total banks' capital in the country amounts to 45.9%. There are foreign investments in 16 banks, with shares ranging from 0.2% to 100%. In 7 of them, foreign capital has a dominant share.

During the last few years, the banks successfully conducted the conversion of relevant EU currencies to the Euro, as well as implementing the payment system reforms that instituted the banks as the basic organisations that perform payment operations in the Republic of Macedonia.

Capital market

The capital market functions through several institutions. One of the basic institutions is the Macedonian Stock Exchange, established in September 1995 and starting its operations in March 1996. The stock exchange was established as a joint stock company of 18 operators in the market - its founders. The electronic trading at the stock exchange is conducted through the first market – the official market, but transactions are also made in the second – the unofficial market. With the amendments to the tax laws there was an additional impetus to be listed on the stock exchange, i.e., in the first three years of being listed on the stock exchange the companies are exempt from payment of the profit tax by 50%. All transactions in securities are exempt from taxes. Thus far, about 97 stock holding companies are listed on the stock exchange, offering their shares for sale. The listing contributes to enhanced development of the capital market, as well as to the raising of the awareness of stock holding companies, and of the stock holders, of the benefits offered by listing their shares at the securities market (transparency, respect for international accounting standards, attraction of foreign capital, competitiveness, greater efficiency and better corporate management). Following the trend of mergers and globalisation of the financial institutions, activities to link the Macedonian and Slovenian stock exchanges began in 2002. The Memorandum of Co-operation between the Stock Exchange in Macedonia and Athens was also signed in 2002. Activities for bilateral linkages of the Macedonian Stock Exchange of Long Term Securities continued in 2003. It is expected that these processes will contribute to the acceleration of the procedure for harmonisation of the Macedonian regulations in this field with the European standards.

The Securities Commission was established in 1992. The Securities Commission is responsible for the regulation and control of the operations of the capital market and the entities operating within the market. The Securities Commission is an independent,

autonomous organisation responsible for the implementation of the Law on Securities, the Law on Investment Funds and the Law on Joint Stock Company Takeovers. The Commission has regulatory, control and educational functions and is involved in the field of international cooperation.

The Central Register of Securities was established on 31 December 2001 and operates the electronic system of registering securities. The function of the Central Register is to prevent mistakes, omissions, irregularities and inefficiency and to provide protection for minority shareholders. All joint stock companies have transferred their Shareholders' Lists to be managed by the Central Register.

The government bonds market is of special importance for the capital market. Although limited in volume and type, the government bonds were instrumental in enhancing the liquidity of the capital market. Recently, a Strategy for the Development of the Government Bonds Market has been prepared. The government bonds market in the Republic of Macedonia thus far was characterised by the lack of a continuous primary market, which has contributed to the Republic of Macedonia lagging behind other transition countries in the development of financial markets. Thus far, the Republic of Macedonia has not introduced a system for financing the needs of the state through the regular issuance of government bonds. Since 1994 in the Republic of Macedonia the auction of treasury bills by the National Bank of the Republic of Macedonia has been used as an instrument of monetary regulation. The occasional appearance of the state at the primary market was a result of the need to resolve the problem of the so called old foreign currency savings, payments to banks on the grounds of old foreign currency savings, the elimination of selective credits, rehabilitation and reconstruction, and later privatisation of the Stopanska Bank Skopje, as well as denationalisation. Considering that these bills are issued to service certain liabilities of the state, their features do not match the needs of potential investors (primarily long term). Small portions of these bonds are relatively liquid at the secondary market and their trading is stimulated by the state by granting certain advantages. In the last decade, positive conditions have been created to develop the government bonds market, and the financial markets in general, by maintaining the price stability necessary to protect the real value of issued bonds from erosion. In addition, the necessary infrastructure was created for further accelerating the development of the securities market, by establishing the necessary institutions. Furthermore, there has been a successful reform of the payment system of the Republic of Macedonia, which creates conditions for the settlement of transactions in securities in real time by applying the principle of delivery versus payment (DVP). Furthermore, as a result of the introduction of the Euro, a significant part of foreign currency savings was channeled through the banking system, which is an indicator of the return of trust by citizens in the financial institutions of the Republic of Macedonia.

The internal debt of the Republic of Macedonia covers liabilities resulting from: (1) bonds for the take over of credit balances from the Stopanska Bank for completed privatisations (new bonds); (2) bonds issued for the rehabilitation of the Stopanska Bank (preference bonds); (3) bonds of the old foreign currency savings; (4) denationalisation bonds; (5) liabilities on grounds of long term credit from the National Bank of the Republic of Macedonia; and (6) guarantees issued to legal entities using credits from domestic commercial banks - domestic guarantees. On 31 December 2002, the domestic debt was 667 million Euro and its share in the total debt was 29.7%.

The total foreign debt of the Republic of Macedonia for short-term, medium-term and long-term loans at the end of 2002 was about 1.6 billion US\$, i.e. 45.2% of the GDP. In relation to the maturity terms, the medium-term and long-term loans and borrowings dominate with 96%, while the short-term loans cover 4% of the total debt. In 2002, the structure of the medium-term and long-term debts according to types of foreign creditors was dominated by the share of official (multilateral and bilateral) creditors with 68%. The

remaining debt is towards the London Club of Creditors. The Republic of Macedonia is considered to be one of the medium indebted economies.

Insurance operations

The insurance industry in the Republic of Macedonia has a low share of the financial sector. At the moment, there are 7 insurance companies with proper licenses for insurance operations, out of which 6 have licenses for non-life insurance operations, and only one of which offers life insurance, non-life insurance and reinsurance. Besides insurance companies, there are also 4 insurance brokerages, providing insurance brokerage services in the insurance market in the Republic of Macedonia. The total share of foreign capital in this branch is 62%. There is a high level of concentration in the insurance market. About 80% of the total funds in this branch are concentrated in one company, although it has started losing part of its market. Insurance supervision is done by the Ministry of Finance, but supervising staff still lack capacity, bearing in mind their responsibilities, especially with regard to field and non-field supervision, preparation of legislation in the insurance area, licensing of insurance companies and insurance brokerages, licensing of insurance brokers, actuaries etc.

Priority objectives, instruments and policies

Banking sector

The reforms of the banking system are aimed at further strengthening its stability, security and efficiency, and achieving consistency with the international (Basel) standards and principles of efficient bank supervision, as well as with EU directives in the banking area. Numerous measures and activities will be undertaken in this field:

- Strengthening and promoting competition by encouraging the entry of foreign investors into the banking system. In this respect, the legislation will be further developed to allow for the entry of first-class foreign banks, through the establishment of their branches in the Republic of Macedonia. Thus considerable approximation to the appropriate EU directives in the banking field will be achieved. This will contribute towards an increase in the efficiency of the banks, the introduction of new financial products and new techniques of risk management;
- Establishing risk based supervision and further harmonisation with international supervision standards;
- The completion of the system to deal with banks where irregularities and illegal operations have been detected. Primarily, this would mean the establishment of an efficient procedure for the resolution of the status of insolvent banks, as well as the establishment of an efficient mechanism to exclude insolvent banks from the banking system of the Republic of Macedonia;
- The improvement of the corporate management of banks and the strengthening of internal audit and control systems;
- Building adequate measures for the prevention of money laundering through the banking system of the Republic of Macedonia; and
- In parallel with the activities mentioned above, appropriate measures will be undertaken in the judicial system, in order to ensure efficient judicial proceedings for the collection of bank receivables and the implementation of collaterals.

These and many other measures, will contribute towards the creation of a sound and healthy environment for banking investments in profitable projects in the corporate

personal sectors. This will contribute towards extending the offer of financial services by the banks, and increasing their competitiveness and efficiency, which will have a positive effect on the overall economic development.

Capital market

In addition to the general commitment to harmonise Macedonian capital market regulation with EU directives, the major reforms in this area are those set out in the Strategy for the Development of the Government Bonds Market. The basic goal of this strategy is to develop the primary and secondary market for government bonds, in order to facilitate more efficient financing of short run budget needs (unimpeded current financing of public expenditures) and the securing of long term financial resources to support economic development. At the outset, efforts will be concentrated on the development of short-term government bonds for the purpose of more efficient management of budget liquidity, with gradual prolongation of the maturity terms, depending on the success of the state in gaining the trust of potential investors and the development of institutional investors. The realisation of this goal will enable market financing of the budget deficit in the domestic currency and, at the same time, it will help decrease the macroeconomic risk related to external financing. One of the major preconditions for faster development of the government bonds market is clear definition of the legislative, regulatory and supervisory framework. The Law on the Budgets determines the framework and the principles for borrowing as well as the issuance of guarantees to the public sector. A new Law on Public Finances is being prepared which will regulate issues related to the type of public debt, the criteria for limiting the level of the total public debt, transparency in debt management, etc.

The development of the primary government bonds market rests upon the acceptance of market principles in covering the budget deficit through the issuance of bonds. The development of the primary market for government bonds is to be part of the process of economic stabilisation through finding non-inflationary sources of financing. The key elements for the establishment of an efficient primary state bonds market include: selection of financial instruments; identification of potential investors; and, selection of adequate sales techniques.

As the development of the government bonds market in the Republic of Macedonia is at an early stage, efforts to develop it further will be mainly focused on developing the primary market. It will therefore be necessary, in the initial period, for the state to be frequently present in the primary market in order to stimulate the demand for government bonds. Once the targeted volume of sales has been reached, and stabilisation of the demand for government bonds achieved, the fiscal and monetary authorities will focus on developing the secondary market for government bonds. In light of experience in the Republic of Macedonia in organising trade in securities at the Macedonian Stock Exchange, it will be necessary, in the future, to create conditions for developing the competitive market infrastructure which will contribute to a market driven decrease in the transaction costs. In this respect, in the near future, the fiscal and monetary policy will aim at developing the over-the-counter market which will enable a decrease in the transaction costs on a competitive basis, which is the basic condition for developing a liquid secondary government bonds market.

Knowing the role of the market facilitators in the development of a liquid market for government securities, the fiscal and monetary authorities will make efforts for their more successful promotion to accelerate the development of the government securities market in the Republic of Macedonia. In this context, market facilitators will be introduced after analysing the level of interest in investing and trading in government securities amongst the financial brokers in the Republic of Macedonia. Their introduction will be made in parallel with the development of the over-the-counter market. The enhancement of the

government securities market can be achieved through the introduction of repo (sale and repurchase) operations. The repo enables the temporary lack of moneys or securities to be overcome. Hence, it is widely used, both in the case of implementing monetary interventions by central banks and also by the private sector. In order to take advantage of the benefits offered by the repo operations in support of the government bonds market, and in the general development of the financial markets, the National Bank of the Republic of Macedonia will prepare a general repo agreement in the near future, which will be the basis for conducting repo transactions.

In order to optimise coordination between the monetary and fiscal policies, at the operational and strategic levels, a Committee for Coordination of the Public Debt Management, Monetary and Foreign Currency Policy will be established. The central bank will have an advisory role in this Committee in connection with interest rate trends, foreign currency exchange rates, liquidity of the banking system, conditions at financial markets etc, while the Ministry of Finance will decide on the amount, and the interest rate, of the securities to be issued in accordance with the recommendations of the central bank and the needs of the budget. In addition, this committee will discuss and decide upon activities that need to be undertaken for the purpose of further development of the primary and secondary government bonds markets.

Insurance operations

Future activities in this field will aim at further harmonisation of the legislation with the directives of the European Union, liberalisation of the market, attraction of foreign investments and strengthening the competition while particular attention will be given to enhancing the supervisory functions of the Ministry of Finance. The introduction of detailed regulations on the criteria for licensing insurance companies, the introduction of prudent principles of risk management, the insistence on financial reporting by insurance companies to the Ministry of Finance and the application of enhanced supervisory measures to insurance companies are the basic elements of enhanced supervision that will be strengthened.

Other financial reforms

The new pension system is composed of pension and disability insurance based on the solidarity principle, and on capital financing that will secure the financial and social security of citizens of Macedonia, and will create conditions for the financial sustainability of the pension system. The system is based on three types of insurance: obligatory pension and disability insurance on the solidarity principle (first pillar); obligatory capital financed pension insurance (second pillar); and, voluntary capital financed pension insurance (third pillar). Obligatory insurance represents a reform of the existing system, organised on the principle of current financing (pay-as-you-go) in which the existing insurers pay for the existing pensioners. 13% of the gross salary will be paid in this system. The obligatory capital financed pension insurance (second pillar) establishes the new pension system, financed in advance for use in the future. 7% of the gross salary will be paid to this pillar. The pension system has a third pillar – voluntary capital financed pension insurance. Future pensions will depend on the accumulated funds in the private citizens' accounts. Professional companies will manage the second and third pillars of pension insurance, in order to maximise the revenues from the capital invested. For the system to function, it is very important to establish the pension funds, and to ensure that they function efficiently and responsibly. A Fund Auditing Agency has been established that will be in charge of the regulation, licensing and supervision of the funds. It is envisaged that there will be funds guarantees in the amount of 80% of the invested capital. In the future, the pension system will be developed in the direction of a two-pillar system. However, the transition

to such a system will be gradual - over the next 50 years - and during this period the existing one pillar and the new two-pillar systems will function in parallel.

The introduction of the multi pillar pension system raises the issue of investing the funds collected as contributions to pension insurance in the new funds, on one hand, and covering the deficit in the existing funds, on the other. The successful resolution of this problem will depend to a great extent on the development of the government bonds market, which will create financial instruments adequate to the needs of these institutions.

3.6.5. Public sector reforms

3.6.5.1. Public utility reforms

Current status

The infrastructure sectors are different by their nature; some are able to operate in terms of competition (long-distance telecommunication services, cellular telephone services, truck transportation and energy production), others have the characteristics of a natural monopoly (systems for the supply of water and natural gas, energy distribution, railway - rails and fixed capital - and the local telephone network).

The process of transformation of the companies in the public utility sector in the Republic of Macedonia lacks institutions and appropriate skills. Another important aspect is that markets are small, and therefore tend to be less competitive, which requires even more effective regulation. There is a need to build an effective regulatory system in the Republic of Macedonia, especially in the public enterprise sector, even in cases where a rather comprehensive privatisation policy was adopted.

The condition in each of the public utility sectors is presented below.

Priority aims, instruments and policies

The main objective of public utility reforms in Macedonia is that competition should be established in all sectors if possible. This general principle is the best guarantee for the protection of the public interest. Therefore, the strategic goal of the effective integration of the utilities into the appropriate regional markets will be respected.

In some sectors, for various reasons including the characteristics of a natural monopoly in the sector, the impossibility of allowing any interruptions to delivery in sectors where the consumer is entitled to unconditional, continuous service provision and the protection of strategic environmental, health and security aspects of certain sectors and enterprises, it will not be possible to achieve increased competition. This, however, does not challenge the basic objective of increasing competition in the provision of public services wherever possible. Whenever it is not possible to do that directly, the objectives will be achieved through regulatory policies.

The improved functioning of public utilities will be achieved by the following reforms:

- 1) Establishing a commercial orientation and more efficient management of the public utility sector

The measures for the achievement of this objective are:

- *Corporatisation*, which will establish quasi-independence of public entities and their isolation from non-commercial pressures and limitations;
- *Management contracts*, which will increase their autonomy, interest and responsibility of management through the specification of objectives set by the Government;

- *Pricing policy*, which will create full cost recovery regimes in order to provide financial independence of the entities offering services while providing incentives for efficient operation. The prices of the service offered by infrastructure enterprises will be based on a rate of return designed to cover costs and to deliver an adequate profit margin in order to attract capital into the industry. From a broader social standpoint, the services should continue to be accessible to the poor; and
- Payment for the services is a particular challenge, especially for users of services in the public or state sector. For private consumers, techniques are being developed for simplifying account settlement, revenue collection and warnings for illegal access to the network.

2. Privatisation

Privatisation will represent one of the basic mechanisms within the process of public sector transformation at both national and local level. Privatisation will be implemented on the basis of an analysis of the specific conditions in specific areas, and all possibilities to use some of the privatisation methods will be considered, starting from privatisation of some portion of the business, through different types of concession, BOT and BOO arrangements, to privatisation of fixed assets in instances when this is going to be the most efficient solution. During privatisation, attempts will be made to attract foreign capital and the citizens will also be offered opportunities to purchase capital. Privatisation will be preceded by the establishment of an effective regulatory framework.

3. Regulatory improvements

Regulation will be a key part of the public utility reforms. As in most European Union countries, the Republic of Macedonia will adopt performance monitoring systems, needed for budgeting and impact assessment on final beneficiaries. This broad approach has been introduced in the service sector through various methods, including strategic planning, financial management and management control, human resources management, quality control, public marketing and evaluation. Those methods are implemented within the developing information and communication technologies framework.

4. Effective competition and consumers' choice

Regulatory authorities have an important role in liberalised sectors to ensure that consumers have genuine and free choice of supplier, that competition between suppliers is effective, and that universal services are being provided. Moving from a monopoly towards more competitive markets should, in principle, increase the supply of services and decrease prices. However, moving towards a situation of oligopoly with a few dominant players, which is nearly always the case in Macedonia, does not necessarily ensure that liberalisation will bring much benefit to consumers. When there are few players, firms have huge incentives to collude, at least implicitly. Furthermore, some parts of the network may be considered natural monopolies, which is a difficult situation for moving towards increased competition since it requires regulatory intervention. Competition authorities and regulators in Macedonia then have to ensure that the rules of the game are respected at all levels of the system.

5. Price liberalisation

At the sector level, it is expected that, by introducing competition, prices will start to come down, or, in areas where the state intervened with subsidies, there will be lower price increases than would otherwise have been the case. Additionally, studies initiated

by institutions from the EC show that there is a need to increase the price of electricity in the Republic of Macedonia by 30%, in order to reach an economically justifiable level. Such prospects are related to the correlation between liberalisation and lower prices in these sectors. At the macroeconomic level, it could be also expected that prices will drop throughout the economy, because network industries account for a very large portion of the economy and have a considerable effect on costs in other sectors.

6. Utility services at the local level

In the transformation of the public sector at the local level (water supply, drainage, city maintenance and green spaces, as well as waste management), a different approach is needed. A legal framework needs to be established so that the process becomes transparent to the local public as well as to national and foreign entities interested in investing in this sector.

The fulfillment of these essential objectives will be supported through regulation at the local level of those activities that will continue to be provided in a monopolistic manner.

In the light of the broad trend of decentralisation, the Republic of Macedonia will promote new methods in the public sector that will empower those in charge of public sector bodies to manage their organisations effectively and enable them to introduce new techniques and methods. This approach is often implemented through a strategy of deconcentration, which gives more autonomy to people responsible at the local level. Managers already have increased authority, especially related to financial and personnel issues. The person responsible for a sector has to ensure the effectiveness of his/her administrative unit, measured against objectives drawn from local public policies decided by politicians. A robust strategy will be central to the future of public management in Macedonia. The new public management has to be structured around several major themes: territorialisation, participatory democracy and public-private partnership.

3.6.6. Infrastructure

Current status

Road Infrastructure

Within the territory of the Republic of Macedonia, the urban road networks account for approximately 9,750 km. Generally, the road infrastructure in Macedonia can be described as relatively well developed. It is characterised by a significant development of the main pan-European Corridor 10 North-South E-75, with a total length of 172 km., passing through the territory of the Republic of Macedonia, as well as the part 10d, with a total length of 127 km. Presently, 60% of the Corridor 10 has already been constructed to highway standards, 9% is in the construction stage, and 31% is ready for construction.

The pan-European Corridor 8, East-West E-65, with a total length of 317 km. within the territory of the Republic of Macedonia, is less well developed. Only 26% is completed to the standard of a modern highway, whilst an additional 9% is under construction. The development of construction projects for the remaining part of the Corridor is underway.

The Republic of Macedonia has so far received financial support for the construction of the highways from international financial institutions, primarily the European Investment Bank, the European Bank for Reconstruction and Development, the World Bank, and EU donations. Other financing models, such as public-private partnerships, concessions and management contracts have so far not been implemented.

Railways

In the Republic of Macedonia there is 1,000 km. of railway infrastructure that primarily follows the two pan-European Corridors 8 and 10. Corridor 10 has a total length of 217 km. within the territory of the Republic of Macedonia. The railway is of standard size, electrified with a modern signal system for communication. The total length of the railway infrastructure to complete Corridor 8 in Macedonia is 339 km. 55% of the total length in Macedonia has been constructed and is in use. The Eastern part of the Corridor towards Bulgaria requires 86 km (25.5% of the total) to be completed, while the part towards Albania, requires 60 km to be constructed (20% of the total).

Two feasibility studies have been prepared for the railway infrastructure between Kicevo and Kafasan, but, for this section, detailed plans and major design projects are required before the construction can start.

Air traffic

The air traffic in the Republic of Macedonia is carried out at the two airports in Skopje and Ohrid. The airport in Skopje has modern technology, a modern air navigation system, operational under different weather conditions, and a modern information system.

Border-crossing points

Until 1998, the Republic of Macedonia made limited investment in the construction of new, or the upgrading of existing, border-crossing points. In 1996, the Republic of Macedonia and the EU signed the multi-annual national PHARE Programmes that included both border-crossing points on the border with the Republic of Greece – Medjittlija and Bogorodica. Both border-crossing points were a part of the Programme for Border-Crossing Cooperation between the Republic of Greece and the Republic of Macedonia. The projects were completed by the end of 2000. Also, recently, the construction of the terminal for heavy vehicles at the border-crossing point Blace was completed, constructed with financial support from the European Union.

Priority Aims, Instruments and Policies

The main goal of the transport infrastructure policy is to enable safe and efficient transport services that will guarantee the safety of all traffic stakeholders, the economic utilisation of energy, the enhancement of regional development and the protection of the environment. The main strategic objective is the implementation of institutional reforms in the area of road infrastructure, railway and civil air traffic.

The extensive investment requirements result from the imbalance between demand and supply for infrastructure in the major transport sub-sectors. In the sub-sectors with significant new requirements there is a need for investment in new capacities. However, in those sub-sectors where the existing infrastructure is adequate, new investments will be directed towards improving the quality of services, upgrading safety standards and resolving problems related to the environment.

Reform in the roads area – with a loan from the European Bank for Reconstruction and Development, a study is under preparation to develop a medium-term strategy for road infrastructure. As part of the Macedonian Programme for Public Investments, the following road segments are envisaged: (1) E-75, section Demir Kapija – Udovo; (2) M-5, Bitola – Medjittlija, a part of the European Corridor 10; (3) Tabanovce – Kumanovo, also part of Corridor 10; (4) Udovo – Smokvica; (5) construction of roads with two lanes for each direction in those sections of Corridor 8 whose construction has not yet started; and (6) Ring-road around Skopje, Phases I and II.

Reforms in the area of civil aviation – part of the existing Directorate for Civil Aviation will be transformed into a joint stock company for air-traffic control, owned by the state. An enterprise for air-traffic services will be established that will operate in accordance with ICAO and EUROCONTROL. Expansion and reconstruction of the airport in Skopje is planned. According to the plan, the existing area of the terminal is to be expanded from the present 5,000 sq.m. to over 11,500 sq.m., the number of check-in counters doubled, new equipment for luggage sorting installed, the existing waiting rooms for departure and arrival reconstructed, the existing zones for customs and passport control expanded and the existing capacities of the parking lot increased. The total funds required for the implementation of this plan amount to 21.23 million Euros.

Railway Reforms – it has been decided that the Macedonian Railways will be restructured by dividing the existing public enterprise into two parts. A state owned public enterprise, will be responsible for the infrastructure alongside a privately owned Transport-Joint Stock Company. In addition to this, the transformation plan envisages the financial reorganisation of both companies, to reduce the number of employees, to outsource all non-core activities, to define the infrastructure financing and the obligations of the Government as its owner, and to define how railway transport might be subsidised by the Government.

Consequently, a new Law on Railways has been prepared, incorporating EU directives, and a Law on Railway Transportation Safety will be prepared, which will result in the adoption of other secondary legislation and regulations regulating this area.

Border-crossing points – the Government programme for the period to 2005 includes the following projects: the border-crossing point Kafasan (constructing infrastructure); border-crossing point Star Dojran (upgrading its operation and constructing a customs control terminal for vehicles); border-crossing point Novo Selo (upgrading working conditions); border-crossing point Blace (upgrading electricity supply); and, border-crossing point Medjiteljia (constructing infrastructure).

3.6.7. Transport

Priority Objectives, Instruments and Policies

At the level of individual transport sub-sectors, the following goals are defined:

- Road Traffic: (1) enhancing international competitiveness of road traffic to effectively cope with foreign competition; (2) enhancing the safety of road traffic; and (3) limiting the harmful impact of road traffic on the environment to an optimal level;
- Railway Traffic: (1) enhancing the international competitive position of the railway; and
- Air Traffic: (1) integration of the Republic of Macedonia into the single air-transport market; and (2) effective regulation of service provision in air traffic.

The goals of the individual sub-sectors related to harmonising with EU legislation are:

- Road Traffic – to complete harmonisation of the legislation with the provisions of the internal market for road transport, especially in those areas that regulate access to the market and the profession, as well as social and fiscal harmonisation and continuous promotion of the existing legislation defining technical regulations and standards;

- Railway Traffic – continuous improvement of the existing legislation; and
- Air Traffic – adoption of new legislation on air traffic compatible with that of the EU and starting the implementation of all administrative, technical and other regulations in this field.

A commercial approach for the provision of transport services is a common denominator of all the measures that are to be undertaken in the Republic of Macedonia aimed at improving the international competitiveness of the transport sector. The commercialisation of transport services applies to all the reforms that stimulate the business approach of these enterprises.

Reforms aimed at promoting enhanced efficiency and the improvement of services by the transport service providers include a number of measures. One of the most important is the transport tariff and price policy. As a general rule, the prices of transportation services should be defined at a level that will reflect all the costs, both internal and external. This general rule has different implications for the prices in different transport sub-sectors. In order to internalise the negative externalities of road transportation, including the costs of air pollution and traffic congestion, it is realistic to expect a significant increase in fees in this segment of the transport sector.

For the purpose of implementing policy where the beneficiaries are to pay for the costs of externalities, there will be a continuous increase in other transportation fees in the medium-term related to the utilisation of roads, and especially the road-tolls. Conditions will be created for the prices of the railway services to be established at a level that will stimulate the transfer of cargo traffic from the roads to the railway, especially in transit transportation.

The price increase for transportation services should be accompanied by relevant measures for reducing the negative effect that the increase of tariffs will have on the vulnerable segments of the population. The traditional system of indirect subsidy through low prices will have to be replaced by a system where subsidies will come directly from the budget funds for social protection. Such subsidies will be allocated to beneficiaries based on clearly defined rules, and, wherever possible, they will be gradually abolished.

3.6.8. Telecommunications

Current Status

The market for fixed telephone services in the Republic of Macedonia has one operator, AD “Makedonski Telekomunikacii” (MT) which was privatised with 51% foreign capital in December 2000. MT has exclusive rights to provide fixed telephone services, telegraph services, telex services, telephone services through public booths, and services at rented lines, as well as to build, own and operate fixed public telecommunication networks. These rights will end on 31 December, 2004.

Recognising the importance of telecommunications for comprehensive economic and social development, the Republic of Macedonia has recently developed a telecommunication network with modern digital technology and is undertaking activities for its further modernisation, as a major prerequisite for the future convergence of telecommunications, information technology and radio broadcasting.

The basic telecommunication network was built using SDX technology with a speed of 622 Mbit/s. and 99% digitalisation of the transmission and commutation network. A rather important factor in promoting telecommunications is global and regional cooperation regarding the connection of the networks and telecommunication infrastructure, and an example of this is the Trans-Balkan Telecommunication Line (TBL) constructed by

regional cooperation as a part of Corridor 8, between Turkey, Bulgaria, Macedonia, Albania and Italy. Through this telecommunication line it is possible to connect the networks from the Near and Middle East countries, via the countries of the Western Balkans, to the European countries.

At the end of 2003, the telecommunication infrastructure in the Republic of Macedonia covered approximately 800,000 in PSTN network, of which 35,000 are ISDN subscription channels.

There are two mobile telephony operators with a total of approximately 600,000 subscribers. Internet services are fully liberalised, with about 10 Internet Service Providers, with access through the public commutation network and through rented lines. Presently in the Republic of Macedonia, there are approximately 60,000 Internet users, representing a density of 3%. In the Republic there are 2,100 telephone booths equipped with chip card technology, representing a density of 1.05 booths per 1,000 inhabitants.

In order to improve and expand telecommunications services, the Republic of Macedonia has, over the past ten years, undertaken activities to promote the telecommunications sector. With the adoption of the Law on Telecommunications in 1998, developed in accordance with EU requirements for reforms in the telecommunications sector, the foundations were laid for the privatisation of MT, and for the introduction of limited competition in the telecommunication services market. Consequently, the Government of RM privatised MT at the end of 2000, with 51% of the capital, while, competition was introduced in mobile telephony by the selection of the second mobile operator at the end of 2001.

Priority Aims, Instruments and Policy

The process of liberalisation and the introduction of competition in the telecommunications market will continue to be a priority of great importance in the future. In this respect, key factors are the expiry of the existing exclusive rights of MT by the end of 2004, and the adoption of new legislation in accordance with the Stabilisation and Association Agreement and the Interim Agreement on Trade and Trade Related Issues.

New technologies, permitting new services, will be introduced in the telecommunications infrastructure, based on GPRS for mobile telephony and ADSL and IP for fixed telephony, as well as other third generation technologies. Also, the provision of access to the minimum package of telephone services, as well as the provision of universal services throughout the country, will remain on the priority list. Laying the foundations of the future IT society will be advanced by the convergence of telecommunications, IT and radio broadcasting.

Despite the limited market in the Republic of Macedonia, it is believed that the introduction of a third mobile operator will have positive effects through better supply, higher quality services and lower prices, which ultimately will have a positive impact on the national economy.

After the exclusive rights of AD "Makedonski Telekomunicacii" end on 31 December, 2004, regulated with the Agreement on Concession and the Binding Commitment Act in the Republic of Macedonia, there will be an opportunity to liberalise and introduce competition in fixed telephony.

Such new conditions require relevant legal regulation of this area, which will be in line with European standards and legislation.

With the new Law on Telecommunications, which will be harmonised with EU regulations and directives, liberalisation and competition will be made possible in all segments of the telecommunications sector, including fixed telephony and infrastructure. All the monopolies will be abolished, conditions will be created to attract foreign

investments and encourage the emergence of new telecommunication operators, so that users will have a choice from a wide range of telecommunications services at competitive prices.

3.6.9. Energy

Current status

Electricity. At present, Macedonia has electric power generating capacity of 1,444 MW, 30 percent of which comes from hydro-electric plants. The lignite-fired thermal power plant "Bitola" alone covers about 70 percent of the overall electricity production. Some 600,000 customers are connected to the distribution network, and around 17 percent of the electricity is used by the large industrial consumers. The transmission system is interconnected at 400 kV with the systems of Greece and Serbia. In 2002, the consumption requirements were met with no more than 15 percent auxiliary imports.

The vertically integrated, state owned power utility AD "Elektrostopanstvo na Makedonija" (ESM) is responsible for the entire generation, transmission, distribution and supply of electricity, for imports and transits, as well as for maintaining the stability of the system. The process of its restructuring and possible future privatisation was started in early 2001, when the Government engaged an independent consultant to develop and propose solutions. Currently the core activities in this area are focused on the preparation of a diagnostic study of the company regarding commercial, financial, technical and energy issues, the definition of an electricity market model and a model and plan for restructuring the company. During 2004, electricity transfer will be separated from production and distribution and preparatory work will begin on the separation of production and distribution during 2005. The privatisation model will be defined in 2005, and privatisation of certain parts of AD "Elektrostopanstvo na Makedonija" will begin, in cooperation with the EBRD.

New interconnections to Bulgaria and Greece, are infrastructure projects at an advanced phase of preparation, whilst, regarding production, it is planned to construct the St. Petka hydropower plant on the Treska River, to revitalise the production blocks and activate new coal seams in REK Bitola, to restructure TE "Negotino" on coal from the surrounding mines, to develop a gas-fired cogeneration thermal power plant for electricity and heat energy in Skopje and intensify the preparatory work for the construction of the hydro-electric power plants "Boskov Most" and "Chebren" in later years.

Fossil fuels. Natural gas comes from Russia via a 100 km pipeline entering Macedonia from Bulgaria. The natural gas and oil markets in the country are dominated by private monopolies. The scale of gas usage is around 100 million cubic meters per year and is only for industrial purposes. The 800 million cubic meter gas-transportation pipeline is utilised to no more than 15 percent of its capacity, supplying industry in the northeastern part of the country and Skopje. Households are not yet connected to the gas system, though a study supported by the PHARE Programme has proposed a distribution system in the city of Skopje to serve some 50,000 households. In addition to the construction of an industrial gas-supply ring around Skopje, several pilot projects are being developed for gas supply to particular urban settlements. In 2003, a decision was made to enter into a joint venture investment for a gas-powered plant to generate both heat and electricity, which will be achieved through foreign investment.

An oil pipeline from the seaport in Thessalonica to Skopje was constructed in 2002. The Macedonian Government has developed a special methodology for the determina-

tion of the prices of oil derivatives on the basis of world market prices. Now, the Energy Regulatory Commission is in charge of determining the prices in the energy sector. There are no legal obstacles for market penetration by a foreign oil distribution company.

Skopje District Heating is the only heating company in Macedonia. It supplies around 25% of the heat needed in the city. The heat transmission network is owned by the state but licenses for heat transmission are issued by the Energy Regulatory Commission. The legal framework for independent heat producers to enter the market is in place.

Geothermal energy occurs in a number of places in Macedonia, producing hot water. However, utilisation is of a local character and is limited. The largest local geothermal systems are operating in the eastern part of the country in Kocani and Strumica. In the case of Kocani, the end use is to heat greenhouses, public buildings and industrial facilities.

The full hydro-electric potential of Macedonia is estimated to be roughly equivalent to the present level of electricity consumption of around 6000 GWh. The most extensive project for developing hydro-electricity is the Integrated Development Plan for the Vardar River Valley that could add an additional 900 MW of capacity.

Energy markets. The Ministry of Economy has overall responsibility for the management of the energy sector and is currently preparing a Government Energy Strategy.

In June 2003, the Macedonian Parliament established an Energy Regulation Commission as an independent body. The main tasks of this Commission are: to structure and establish the price of different types of energy and services in the energy sector, specified by law; to regulate the services and conditions related to access to the public power infrastructure; and, to issue licenses.

The role of the national power authority will be performed by the Ministry of Economy. Currently there is an initiative for establishing a Power Agency which will provide professional and technical assistance to the Government and the institutions of local self-government with regard to the assessment, preparation and realisation of energy policies, sustainable energy supply, the utilisation of renewable energy sources and energy efficiency, as well as preparation and coordination of investment projects of public interest.

The energy market reforms in the Republic of Macedonia are being implemented in accordance with the conditions and principles specified by the Electricity and Gas Directives of the EU and the Athens Regional Market Memorandum for SEE. Consequently, an action plan for the transformation of the electricity market in the Republic of Macedonia was prepared. The plan specifies all activities and obligations related to the legislative, administrative, financial, educational and economic areas, for the establishment and sustainable functioning of an open market for electricity, power and services in the energy sector of the Republic of Macedonia and its continuous development in the direction of integration into the regional electricity market of SEE, as a stage towards the full integration into the Internal Electricity Market of the EU.

The gas market, currently underdeveloped, will accordingly follow the electricity market. During the process of harmonisation, the new legislation will comply with the appropriate EU directives. The Republic of Macedonia is a signatory party of the Athens Memorandum and participates in the establishment of the Regional Electricity Market of SEE. The new Memorandum is expected to promote and intensify these processes.

The legislation related to the energy sector in Macedonia is based on the Law on Energy and the Law on Public Enterprises. The Energy Balance, which is prepared annually in accordance with provisions of the Law on Energy, usually shows a dependence on imports of about 40%. Macedonia has ratified the Agreement on the Energy Charter.

Priority objectives, instruments and policies

Short-term - Upgrading of physical infrastructure

The following projects concerning the upgrading of the interconnection and transmission infrastructure are ongoing:

1. An interconnection 400 kW power grid Stip – Radomir (Bulgaria). A loan of approximately 40 million Euro from EBRD was granted for this purpose. According to the plan, it is to be completed by the end of 2006.
2. An interconnection 400 kW link between Bitola and Lerin (Florina, Greece); ESM is planning to provide the 4.5 million Euro required (for the Macedonian part of the grid), which will enable the grid to be completed by 2005.

The following activities are currently underway regarding production capacity:

1. The construction of a cogeneration natural gas thermo-electric power and heating plant for Skopje (with approximately 190 MW of electrical and 150 MW heating capacity) is a project of the highest importance and has great commercial potential. The World Bank has offered technical assistance for the preparation of a feasibility study and, possibly, for the preparation of the required tender documentation for a strategic investor;
2. A project has been initiated to expand the opportunities to exploit lignite resources in order to extend the lifespan of the thermo-electric plant Bitola, currently limited to between 7 and 10 years; and
3. The construction of Matka II (Sv. Petka) dam and hydro-electric power plant has started; it will have a significant role in the system, increasing the efficiency of utilisation of the Treska River. Activities are underway to find suitable sources to funding of the construction fully.

Distribution Network

1. Considering the under-developed state of the distribution network, the uneven, and sometimes excessive, demands imposed upon it the relatively expensive cost of maintenance and the considerable power losses, upgrading the distribution network is one of the priorities in the electric-power industry. There are ongoing projects funded by the Norwegian and Swiss Governments to replace some of the old transformer stations with new technology and incorporate measuring devices and condenser batteries. The World Bank is also interested in providing technical support to reduce losses from the distribution network.

Improvement of the institutional structure

In order to establish the pricing policy and to provide better transparency within the energy sector, the Macedonian Law on Energy will incorporate the Directives 2003/54/EC and 2003/55/EC dated 26 February 2003, related to the establishment of national administrative bodies within the energy sector.

The introduction of independent producers of electricity will result in competition in the energy sector which will be regulated by decisions on investment concessions and licensing agreements, which in turn will ensure non-discriminatory access to the transfer network for third parties (if they fulfil the technical and other requirements).

Medium term

There are three strategic elements: (1) all member-states of the European Union are required by the European Union to open at least 30% of their national energy sectors after 2004; (2) the anticipated level of industrial development in the Republic of Macedonia will require an annual increase in energy supply of 3%, which is approximately equal to the electricity produced by the Hydro Power Plant Kozjak; and (3) natural gas is an energy source of the 21st century and the construction of appropriate infrastructure capacities must be supported.

Water, in spite of the fact that it provides 16% of the domestic energy supply, cannot be regarded as an energy source for the future. The existing dams have multiple purposes related to environmental issues, river regulation, the provision of potable water, irrigation and fishing. Considering that the construction of hydro power plants requires long-term investments, all investment activities in the future will be based on concessions or BOT-projects.

Coal is an energy source that has to be conserved as a resource. Reserves to meet about one third of the domestic demand should be created in the medium term. Natural gas is an optimal solution for the problems related to insufficient domestic resources. There are several aspects which make natural gas superior to other energy sources, such as its low price and the environmental effects of its utilisation.

The improvement of energy efficiency, as well as the achievement of a higher proportion of renewable energy sources in total energy production, are important for the energy sector of the country and for the reliability and efficiency of the energy supply to the customers, as well as for the creation of conditions for sustainable energy development within the country in the framework of sustainable energy development in the region and beyond.

3.6.10. System for social protection and security

Current Status

The Republic of Macedonia has a system for social protection, which, to a certain extent, covers multiple social risks. The system comprises two parts: (1) social protection, which is an activity directed towards the mitigation of poverty through financial aid to socially vulnerable people; and (2) social security which is based on the principles of insurance.

Social Protection

The system of social protection, which is based on the Law on Social Protection, specifies the following types of financial assistance:

- (1) Permanent financial assistance, which is intended for people which are not capable of working and who face severe financial hardship;
- (2) Social financial assistance is intended for the households whose members are capable of working but are still face severe financial hardship. Within the structure of this category of social beneficiaries, 93% are unemployed and the others belong to the category of employed people who have not received a salary for more than 3 months, pensioners with low pensions, and farmers. About 62,000 households are entitled to this type of assistance, which is 12% of the total number of households in the country;

- (3) Financial compensation for assistance and care, which is a social right used by citizens over the age of 26 who are not capable of meeting their physical needs without the assistance of another person. These remunerations are paid regularly on a monthly basis as long as the beneficiary meets the prescribed conditions; and
- (4) One-off financial assistance, which is a discretionary payment made when justified by particular circumstances.

Regarding the utilisation of the different types of social assistance, it should be pointed out that the criteria and procedures for implementing the social assistance payments have been reviewed. This has led to improved treatment of the beneficiaries of assistance, and a more fair distribution of assistance to the poorest groups of people.

In addition to the different monetary types of social assistance, social protection of socially vulnerable people in the Republic of Macedonia is provided through various forms of institutional provision, through organisations providing shelter, as well as other forms of provision including day care centres, families providing care etc. Decisions regarding social protection rights are made by the Centres for Social Work, which are public institutions and are organised in accordance with the territorial principle.

During 2003, intensive reform activities in the area of social protection began, primarily through the introduction of pluralism in social protection by applying various partnership models between the public and the private sectors, and the public and the non-governmental sectors. The reforms undertaken also included amendments to the Law on Social Protection, which are focused on: (1) further *de-institutionalisation*, that is, expanding the existing types of day care centres for socially excluded people (street children, homeless, victims of family violence, alcohol users, drug users etc.); and (2) *decentralisation*, that is, transferring the founding rights of the homes for the elderly people and day care centres to the local level, as well as creating conditions for each of the local communities to be able to develop those forms of institutional or non-institutional protection which would best match the needs and priorities of their citizens. The reforms being undertaken in the social sphere have two objectives: improvement of service delivery; and, improvement of the quality of services.

Social insurance

The social problem of unemployment is addressed through the *unemployment benefit scheme*. This scheme is defined by the Law on Employment and Unemployment Insurance, and is administered through the employment offices. Under this scheme, only unemployed persons who have been previously employed are eligible to receive unemployment benefit, and they receive social protection only if contributions to the Employment Fund have been paid for them by their employers. According to the newest version of this scheme, the maximum duration of receipt of unemployment benefit is 14 months for those who have been insured for over 15 years. However, those who become unemployed at or over the age of 55 are entitled to unemployment benefit until they retire, or find employment before retirement. The benefit level for this scheme is 50 percent of the average net salary of the individual for the last year when the duration of the benefit is less than one year, and 40 percent when the duration goes over one year. Furthermore, unemployment benefit also covers health care insurance and disability and old age pension.

Pension system. The Republic of Macedonia enacted the Law on Pension and Disability Insurance in January 1994. The current pension system is a mandatory universal pay-as-you-go (PAYG) regime, administered by the State Pension Fund. Pension ben-

efits are defined on an accrual formula based on mandatory retirement ages, years of service, and a ratio of wage replacement and earned wages. Pensions are indexed to the index of living costs and fluctuations of the average salary for all employees in the Republic of Macedonia. Pension benefits comprise old age and disability, each based on a specific benefit formula. The benefit regime is universal, except special regimes for farmers' minimum pensions and military pensions.

The current pension law has introduced a partial and ongoing rationalisation of the PAYG system in order to stem rising pension deficits caused by an aging population and collapsing number of contributors, as a result of systemic transformation. Most of the decline of the ratio of contributors to pensioners is due to a loss of contributors as a result of the increase in official unemployment and labour force emigration, while population aging accounts for the gradual increase in the number of pensioners. In 1994, the rate of contribution on gross wages was raised from 18% to 20%; retirement ages are being gradually raised to 63 for men and 60 for women.

While Macedonia's PAYG pension system was partially rationalised by the 1994 law, there is an urgent need for more fundamental reform. If the existing PAYG system does not change, it could face ever-increasing financial stress, eventually leaving policy-makers with no choice but to make drastic benefit cuts. In 2000, a new pension system was established, which "rationalises" the existing PAYG scheme by the introduction of strong, but fair, cost-control measures and the introduction of two new pillars – the compulsory capital financed pension insurance (the second pillar) and the voluntary capital financed pension insurance (the third pillar).

Health protection. The health care sector was developed intensively over recent years. The network of healthcare institutions and their organisational units, that provides primary, specialist and consultation healthcare, pharmaceutical and hospital care, covers all areas of the Republic of Macedonia, and enables wide accessibility to health protection which meets most of the healthcare needs of the population.

The legislation adopted in 1995 provides the opportunity to choose a family doctor who provides the following healthcare services: general medical services, prescription of medicines, issuing referrals to specialist and hospital services etc. The number of citizens per doctor is 455.2, or 2.25 doctors per 1000 inhabitants. That is less than in the western European countries, where this number is 3.5 doctors per 1000 citizens.

There are public (state owned) and private healthcare institutions in the Republic of Macedonia. Most of them perform primary healthcare services - 518 registered private healthcare organisations employing 641 doctors. There are also over 400 private pharmacies. The Republic Institute for Health Protection and the ten regional Institutes for Health Protection are responsible for preventive health protection.

One of the most serious problems facing the healthcare system in the Republic of Macedonia is the lack of finances. As result, medical equipment is badly maintained and obsolete. The depreciation of the medical equipment is over 80% and regular operation is interrupted by frequent repairs. The supply of new equipment is provided mostly through donations and humanitarian aid. Although activities have been undertaken to downsize the network of healthcare organisations and to decrease expenditure in the health sector, achieved outcomes have had limited impact.

International cooperation has also been established in the healthcare area. Cooperation with the World Health Organisation and UNICEF is the most significant. Within the framework of the initiatives of the Stability Pact for social cohesion, the following projects are being developed in the healthcare sector: improvement of the capacity of the public health staff; improvement of the monitoring and control of contagious diseases; promotion of mental health; and, strengthening the institutions responsible for health safety of food products. On-going relations with the institutions in the healthcare domain in the

Council of Europe are also being developed, and bilateral international cooperation is also being achieved.

The current status regarding the key legislation in the field of health protection is as follows:

1. Changes in the Law on Health Protection are in procedure. The goal of this law is to achieve conditions to raise the level of competence and expertise of doctors, dentists and pharmacists through the establishment of a process of licencing and licence renewal every seven (7) years. In parallel, a process for the accreditation of institutions involved in professional medical education and development will be introduced in order to achieve a higher level of knowledge and skills. This will provide the citizens of the Republic of Macedonia with better quality healthcare services. The involvement of representatives of local self-government in the management boards of public primary healthcare organisations, and the creation of opportunities to rent the premises where pharmaceutical activities are performed, will enable the decentralisation of this sector;
2. The new Law on Food Safety and Safety of Items and Materials that have Contact with Food was enacted in 2002. With this Law, the Republic of Macedonia met the EU and WTO standards and created a legal framework for approximation of the legislation earlier than the prescribed deadlines. The secondary legislation that will regulate this particular area will be adopted during 2004;
3. The Law on Protection Against Ionisation Radiation and Radiation Safety has been adopted. This Law regulates the system of control over all sources of ionisation radiation, as well as the protection of the population and the environment from exposure, or potential exposure, to ionisation radiation. The establishment of a Directorate for Radiation Safety is prescribed in that Law. The Directorate has not started its activities yet; and
4. The Law on Precursors has been adopted. This Law regulates the system of monitoring and control of the production and trade of precursors in order to prevent illegal production of drugs and psychotropic substances and protect the life and health of the population and the environment from their harmful effects.

Health insurance. In the framework of the project for reform of the healthcare sector, in cooperation with the World Bank, a new Law on Health Insurance was enacted in March 2000. This Law introduces an improved system of health insurance. After its enactment, the Ministry of Health, in close cooperation with the Health Insurance Fund of Macedonia, prepared and enacted the secondary legislation which closely regulates several issues in the field of health insurance. The Law establishes obligatory health insurance for all citizens of the Republic of Macedonia, with the right to use all elements of the basic package of health services, and the obligation to pay a contribution for health insurance.

The implementation of the health insurance system so far has shown that the system generally functions well, but there are certain problems, errors and inconsistencies.

The dominant source of revenues for health insurance is the contributions for health insurance that provide 98% to 99% of the total revenues of the Fund. Although the revenues from the contributions for health insurance are increasing nominally over the years, they are not sufficient to cover the increased expenditure for health protection required by the health organisations to provide healthcare services. The problem is greater because the revenues are not fully collected. The standards in the provision of healthcare services are lowered as a result of the insufficient finances provided for the

health organisations. There is also insufficient supply of medicines, implants and additional medical materials to the health organisations.

The Health Insurance Fund (HIF) has already prepared open tenders for public procurement of all the urgent needs of the healthcare organizations. The purpose of this is to determine the lowest tender prices available for purchases made by the health organisations according to their needs and not to perform centralised procurement by the Fund. The Fund will be obliged to provide sufficient finances to cover the purchase of medicines, implants and other medical material. This will replace the practice of centralised purchasing and distribution to meet the needs of the health organisations by the Fund.

In 2003, the HIF, in cooperation with the Ministry of Health, prepared and promulgated a new Rulebook covering procedures for payment to the health organizations for the provision of healthcare services. The Rulebook prescribes that all health institutions have to sign a contract with the Fund which defines their relationship, the type and scope of healthcare services to be provided, as well as the payment arrangements and the finances to be provided by the Fund for the healthcare services, including finances for the consumption of materials. This will put an end to the past practice of "incident" financing and will support the development of healthcare provision.

An assessment of the number of surplus employees in the healthcare sector and in the Fund is being undertaken by the Ministry of Health, the healthcare institutions and the Fund, based on objective criteria and measures. This will lead to a reduction in the number of employees in the health sector.

A significant improvement in the financial situation in the Health Insurance Fund is expected to be achieved through the changes in the Law on Health Protection that propose privatisation of the public pharmacies and renting all the remaining pharmacies and dental offices where primary dental protection is provided.

The State Sanitary and Health Inspectorate is responsible, according to the Law on Sanitary and Health Inspection, for monitoring the situation in relation to: the prevention of contagious diseases and the provision of safe food and potable water; the production of, and trade in, poisons, drugs and dangerous materials; the implementation of measures for protection from ionisation radiation; and, the implementation of the Law on Health Protection.

Under the supervision of the Drugs Bureau, the supply of medicines in the Republic of Macedonia is performed without significant obstacles. Producers are able to import raw materials on an on-going basis for continuous production and the importers of medicines can obtain permits according to a defined procedure. There are occasional problems, resulting from monopoly provision of some medications, which are solved with interventions to ensure the import of medicines that are in short supply.

In accordance with the Memorandum of Economic and Financial Policies of April 2003, general government expenditure in 2003 was reduced to 35.7 percent of GDP, through, among other measures, cancelling large increases in child allowance and reducing transfers from the central government budget to the Health Insurance Fund. An increase is envisaged in budget expenditure on the Pension and Disability Insurance Fund in 2004, because of the need to harmonise pensions with the projected increase in salaries and the payment of some legal obligations, while from 2005 onwards the increase in planned budget expenditure on the Pension and Disability Insurance Fund will be related to the reform of the pension system with the introduction of the second compulsory pension pillar.

According to the Fiscal Strategy 2004 – 2006 of the Ministry of Finance, it is envisaged that the method of funding the extra-budgetary funds, such as the Pension and Disability Insurance Fund and the Health Insurance Fund, will continue without changes in the rates or in the contributions that constitute the sources of their income. Furthermore, the extra-budgetary funds are to be financed through a variety of transfers, donations

and similar sources. The total income of the extra-budgetary funds will be determined within the established macroeconomic framework, in order to maintain macroeconomic stability, and will also reflect possible increases in productivity.

Priority objectives, instruments and policies

Social security system reform

The social security system in the Republic of Macedonia, since it has still not been comprehensively restructured and transformed, remains a rather robust and egalitarian system which offers a relatively high degree of security. But, while it remains like this, it cannot be sustained without endangering the equilibrium of public finances. It also creates significant obstacles to the improvement of the competitiveness of enterprises. On the other hand, as long as the overall economic situation of the country remains as it is, there is an obvious need for extensive social protection. Therefore, the system has to be transformed rapidly without endangering the social integration of society and without causing substantial social tensions.

Key objectives of the social sector reform are a reduction in the range of social insurance and welfare benefits, and affordable and effective schemes in the areas of poverty reduction and unemployment.

The two basic principles of the reform of this system are:

- Reduction of its egalitarian profile - every individual should be responsible for himself/herself and the social security of his/her family - the responsibility of the state is to create favourable conditions for this; and
- Making the social sector capable of performing its role in the context of a market economy.

The policies for achieving those principles are the following:

1. A reduction in social expenditures consistent with the fiscal situation in the country. This is also needed for the achievement of macroeconomic stability through implementation of the fiscal policy; and
2. Elaborating new rules and procedures for distributing social protection benefits by the use of targeted and stricter eligibility criteria, so that a higher level of benefits goes to a smaller number of beneficiaries. This is justified by the experience of 2003 when, due mostly to more rigorous inspections on eligibility, the number of households qualifying for the social protection cash benefit scheme was reduced by over 25 percent. Moreover, this policy measure is consistent with the policy of reducing the scope of the informal sector in Macedonia; thus, the overall situation regarding eligibility for social protection will become clearer, and social protection will ultimately reach only those who really need it. Eligibility for cash (and other) social benefits should not rely on the formal provision of documents, but rather on a thorough case-by-case examination.

Reform of the social insurance system

Health protection and insurance. The basic *goals* of the reform in the healthcare sector in Macedonia are:

- Provision of general access to primary, secondary and tertiary health care services of high quality, as well as access to basic pharmaceuticals;
- Establishment of more appropriate roles for the public and private sectors;

- Facilitation of fiscal sustainability of public expenditure in the healthcare sector;
- Improvement in the efficiency in using healthcare facilities; and
- Protection of people with special needs, mental illnesses and addictions.

The basic measures to achieve these goals are:

- Licensing and accrediting doctors and healthcare institutions;
- Abolishing certain types of institutions and creating opportunities for the existence of other types of healthcare organisations (institutions);
- Defining additional activities for doctors;
- Privatising primary dental health protection;
- Privatising pharmacies; and
- Privatising accommodation capacities in the natural health care institutions.

The financing of hospitals will be based on measuring performance and introducing criteria for diagnostically related groups. This measure will introduce professional management of the hospitals, increased responsibility of the management team, procurement savings and a reduction in overstaffing.

The introduction of transparent and efficient procedures for the procurement of pharmaceuticals is a special goal of the reforms. The Health Insurance Fund will apply savings policies through the implementation of an international tender for the procurement of drugs on the subsidised list.

A reduction in the number of staff is a special measure related to the reduction of expenditure in the healthcare sector. Non-medical (support) staff will be transferred to companies which will sign service contracts with the healthcare institutions. The resources that will be available as a result of the implementation of these measures will be used for the procurement of new medical assets and new investments in the healthcare sector. In the same context, a system of day hospitals will be introduced, the length of stay will be shortened, and part of the diagnostic procedures will be shortened. In order to reduce the inessential prescription of drugs, a centre for the preparation of manuals for patient treatment according to evidence-based medicine will be established.

Further reforms will be implemented through: improving the management of the Health Insurance Fund; designing a strategy for the modernisation of hospitals and designing a system of contracts; creating implementation plans for the primary healthcare policy and the pharmaceuticals policy; and, creating a strategy and implementation plan for IT services that will support the reforms in these areas. The main focus of these policies will be on the principles of long-term stability and sustainability.

A special part of the reform process of the healthcare sector is an improvement in the quality of services which will be established through (1) equipping the medical centres; and (2) continuous medical education for doctors. In addition, the conditions in the public and the private primary healthcare sectors will be equalised with the introduction of the capitation system, which will initiate the privatisation of part of the primary healthcare sector.

The promotion of healthcare in the Republic of Macedonia will also be implemented through the improvement of legislation in the following areas: proper nutrition; protection against HIV/AIDS; mental health; protection against contagious and non-contagious diseases; addictions; health protection of workers; healthy environment; and, the security of blood and blood products. These processes will be in compliance with the standards of the World Health Organisation and Council of Europe, as well as the legislation of the European Union.

Pension and disability insurance. The basic focus of the reform in this area is the continuation of the provisions laid down in legislation enacted in 2000, which came into

effect in April 2002. Those changes envisage the following: (1) raising the age limit for retirement from 60/62 to 63/64 for women/men respectively; (2) the introduction of a second pillar, which will be financed by capital funds based on individual accounts in private pension funds, starting from January 2005; and (3) the current contribution rate of 21.2% will be divided into 14.2% which will go in the first pillar (or State Pension Fund) and 7% which will go into the second pillar. The transfer to the second pillar is voluntary, except for people new to employment for whom contributions to the second pillar are obligatory. The opportunity to transfer will be open for one year, and it is expected that mostly younger people will take advantage of this opportunity, since workers will be allowed to keep a working credit worth five years in the PAYG system, if they transfer from the system with one pillar to the system with multiple pillars. The transition to the new system will be gradual and will incorporate all the positive results of the rationalisation, and it will also provide a sound and sustainable pension system in the long run.

3.6.11. Human resources and the labour market

Current status

Demographic trends and the labour force

The general demographic conditions and trends in Macedonia before the transition were characterised by an overall increase of population, which resulted in an increase in the total labour force. However, this trend has reversed in the last decade of transition. On the other hand, there are very large regional disparities in the rates of population increase which have an increasing influence on the nature of the labour force. The consequence is different territorial patterns and a concentration of the working age population and unemployed labour force in Skopje and in municipalities in the western part of the country. Domestic long-term population migration patterns also have an influence, with substantial movements from villages towards cities and the more developed municipalities, in contrast to the short-term (daily and seasonal) labour force flows.

In addition, the intensive transfer of the labour force from agriculture to non-agricultural activities (industry and services), which existed, although it continually decreased, in the period from the 1950's until the 1980's, has also contributed to the increase in the supply of labour for industry and services. Since the rate of labour force movement from agriculture to industry and services prior to the transition was lower than the rate of rural population increase, rural poverty was created. Over the past decade, rural poverty has increased further since part of the labour force laid off in the restructuring of enterprises in industry and services migrated back to agriculture, despite the poor performance of that sector. Simultaneously, limited job creation in industry and services, whose activities are mainly located in urban centres, coupled with an increasing number of women seeking employment, resulted in growing urban unemployment and poverty as well.

International migration (emigration) is a traditional characteristic of Macedonia. It has a significant influence over the size and quality of the labour force and has continued during the transition period. According to a study by the European Training Foundation on youth unemployment in SEE from 2001, the number of people who emigrated from Macedonia in the period 1990-1998 was more than 17,000, but other estimates indicate that this number is around 50,000 for the period 1994-1999 alone. It is estimated that between 320,000 and 350,000 Macedonian citizens lived outside the country in 1999. Besides the overall number, of even greater relevance to the labour force issue are demographic (structural) characteristics, which have two basic features: (1) increases in the proportion of young people (15-29 years of age); and (2) increases in the proportion of citizens with secondary or higher education.

Education and training

The analysis in the National Strategy for Poverty Reduction in Macedonia, prepared in 2002, shows that people with lower education are facing much greater difficulties in finding employment, hence their families form the bulk of the people living in poverty. More highly educated workers enjoy a relative advantage in terms of employment mobility and opportunities for self-employment. On the other hand, as it is also stated in the National Strategy for Poverty Reduction in Macedonia, people with secondary education (high school), which is the average educational level of labour market participants in the Republic of Macedonia, emerge as being at risk of facing further difficulties in the labour market. This is because even high school education proves to be an inadequate educational level for the employed to achieve a decent living standard, or for the unemployed to benefit from employment, or self-employment, opportunities.

The data on the educational attainment of the labour force show the following situation. Primary education is compulsory and the rate of participation of children is 95 percent, with continuing efforts to raise this number to 100 percent. Around 85 percent of the pupils that finish primary education enrol in secondary education, whereas the drop rate during secondary education is 20 percent. The rate of participation of the communities in secondary education is lower but constantly growing. The participation rate in university education is still rather low – it was 33.5 percent of pupils that finished secondary education in 2000, although the number of students in the universities is increasing (39 percent between the academic years 1997/98 and 2001/02). In recent years, in addition to the number of students, the number of universities in the country is also increasing. There are the three state universities, one private (South East European University in Tetovo) and other initiatives to open new higher education institutions are also in hand; there is the Pittsburgh University Graduate Centre for Public Policy Analysis and Management, as well as the Faculty of Social Sciences in Skopje.

Other forms of higher and specialised education also exist. In recent years, the number of students that study abroad (at universities in Western European and in neighbouring countries) is growing, although there is no reliable data on the exact number. The number of post-graduate students in Macedonia is also growing. In addition, numerous (predominantly private) training centres, mostly for studying foreign languages and computer education, have emerged during the transition period and, especially in recent years, the same is true for training centres and programmes in business administration. In 2003, the Government granted scholarships for specialised European Studies for the first time.

Macedonia signed the Bologna Declaration in 2003 and the universities in Macedonia are in the process of: introducing the European System of Transfer of Credits; implementing a system for ensuring higher education quality through internal and external evaluation of institutions and programmes; and, applying the Lisbon Convention regarding the mutual recognition of diplomas (the national information centre at the Ministry of Education and Science is part of the ENIC/NARIC network) etc. Yet, there is still a gap in education policy and the organisation of university education between the Republic of Macedonia and the EU. It is crucial to close this gap in order to achieve cooperation in this field.

Organised and institutionalised on-the-job training of workers is still lacking in the Republic of Macedonia, although this is especially important in enterprise restructuring.

Employment and unemployment

The employment rate in Macedonia has declined during the transition, occurring in two separate periods. The employment index dropped from 100 in 1990 to 88 in 1995 and then rose sharply to 96 in 1998. Since then, employment has again declined. On

the other hand, this trend is not consistent with changes in the GDP. In the beginning of the 1990's, real GDP dropped more sharply than employment (since enterprises mostly avoided shedding labour in the process of restructuring). The growth of GDP during the period 1996 - 2000 is attributed in the first place to Total Factor Productivity.

The employment rate in Macedonia in 2003 was only 34.5 percent, which is low by international standards, and the rate of labour force participation in 2003 was 54.5 percent, which is comparable to other countries in the region, but low in comparison to EU countries. Labour productivity growth has been uneven during the transition: agriculture shows a drop in productivity but several industrial sectors show growth, the highest being in service sectors. There was an increase in the percentage of employers in the employed population, from 2.9 percent in 1996 to 7.3 percent in 2003, reflecting the increase in the number of SMEs.

Unemployment in Macedonia is high. Labour force survey data for 2003 showed an unemployment rate of 36.7 percent, which showed an increase compared to previous years. This is due to lay offs from enterprise restructuring and liquidations, and to the start of reforms in the public sector. The unemployment rates for men and women are very similar, but are higher for the younger age groups (20-29 years), as well as for minorities, and especially female minorities (54.6 percent in 2002). Unemployment rates are also higher for the less educated members of the labour force. The overall unemployment trend in Macedonia cannot be expected to be reversed soon, due to further anticipated lay offs in the final stage of the restructuring of loss making companies and from public sector reforms (reduction of employment in public administration).

Unemployment in Macedonia has one other important peculiarity: the group of people who have been unemployed for over one year accounts for 85 percent of the total number of unemployed in 2003, and most of them also have lower levels of education. According to one new study [Policies and Programmes for Reducing Poverty and Unemployment], this group is either not looking actively for employment or may in fact be working in the informal sector.

Labour market rigidities

A comparative study of the employment protection legislation in CEEC countries concluded that, although there was a reduction in employment protection in Macedonia during the transition, the level of protection is still above the average for CEECs. Legislation related to full time employment has been substantially improved in terms of greater flexibility, however, after the recent amendments in the legislation, Macedonia has less strict regulation than the CEEC average.

Unlike wages in the public sector, wages in the private sector in Macedonia are mostly determined at the enterprise level. Average wage levels are not considered to be a huge barrier to new employment. Of greater concern are the taxes and contributions, which include personal income tax (15 and 18 percent of net salary), health insurance (9.2 percent of gross salary), unemployment benefits (1.6 percent of gross salary) and pensions (21.2 percent of gross salary). So the total wage costs to employers exceed net wage costs by up to 70 percent. An analysis of Eurostat data for a number of countries shows that, in Macedonia, the share of social contributions and taxes in total labour costs is high (labour costs to productivity), higher than in CEEC countries, while direct (absolute) wages and remunerations received by employees are relatively low.

During 2003, a special law intended to increase employment through active labour market policies was enacted. Unemployment in Macedonia is mostly structural which, coupled with the limited number of job vacancies, means that relatively simple active labour market policies have limited impact in decreasing unemployment. This is especially true for measures aimed at reducing labour costs by tackling the contributions element.

Re-qualification, training and the provision of information can be of more help to newly unemployed people, while, for the groups of long-term unemployed, programmes which are well designed, prepared and targeted specifically towards them can be more effective. Their effectiveness can also be enhanced by anticipating lay offs and involving workers in training and adjustment programmes before they are laid off.

Priority objectives, instruments and policies

Increasing and activating human capital in order to increase productivity and improve competitiveness, as well as the quality of life, is the first of the two main goals of human resource and labour market policies in Macedonia. The second goal is a rapid and substantial increase in employment to the highest achievable level. However, equilibrium between the level of employment protection and labour market flexibility has to be achieved.

The priority objectives for Macedonia in human resource and labour market policies are therefore:

- (1) To encourage job-creation;
- (2) To encourage permanent investment in human capital by providing appropriate public and private education provision;
- (3) To remove remaining institutional rigidities in labour market and social security regulations;
- (4) To encourage labour mobility; and
- (5) To try to diminish the magnitude of the "grey economy" (i.e. reduce informal employment).

Employment of foreigners

The mutual recognition of professional qualifications is one of the prerequisites for the free movement of people in order to carry out their professions within the framework of the EU. Within the system of mutual recognition of professional qualifications, there is in principle a difference between academic recognition (the recognition of diplomas and certificates as documents which confirm the level of education achieved for purposes of further study), and professional recognition (the recognition of qualifications to perform a particular occupation through self-employment or employment). Secondary Community legislation consists of specialised (sector) directives applicable to individually regulated professions, as well as directives establishing the system of general recognition (89/48/EEC, 92/51/EEC and 99/42/EC), which apply to the regulated working activities and regulated occupations not covered by sector or other directives.

The process of harmonisation and transposition of EU directives in regard to the recognition of professional qualifications in the Macedonian legislation has focused on particular specialist sectors: doctors, nurses, dentists, midwives, pharmacists, veterinary surgeons and architects. Accordingly, the harmonisation of the national legislation will refer to the relevant directives.

In preparation for the adoption of the system of general mutual recognition, a review of professional regulations in Macedonia will be undertaken, which will involve a detailed analysis of the present situation and the establishment of a database of regulated professions in the Republic of Macedonia.

Education

An improvement in the quality of education and training, as activities that will increase the chances for young people to be employed soon after they graduate, is of the high-

est priority. The modern process of education will be focused on improving peoples' qualitative characteristics, since this is of great importance for enterprise restructuring and economic development.

Macedonia already has some experience with the introduction of new standards in its education system. Discussions and preparations for the introduction of nine-year primary education are under way and will continue until this is fully implemented. In addition, support will be given to investment in higher education that meets the demand for particular qualifications.

In order to include the Republic of Macedonia in the common European higher education structure, a new legal framework will be created to implement the Bologna process and achieve the necessary condition of treating higher education as a public good. The number of student enrolments at the universities will continue to increase, as will the quality of their studies. In accordance with the Bologna process and the Communiqué of the European higher education ministers, adopted at the Berlin conference in September 2003, reforms and harmonisation will continue in the following areas: the structure of higher education degrees (undergraduate, postgraduate and doctorate); ensuring quality in higher education; removing all obstacles for student, faculty and administrative staff mobility in EU Member States and the SEE region; further development and implementation of the European credit transfer system; mutual recognition of qualifications and diplomas; strengthening of the students' role in the higher education process; strengthening of the European dimension and the attractiveness of European higher education; development of different forms of life-long learning; and, the establishment of a link between the European higher education space and the European research space into a unique "Europe of knowledge".

The implementation of the vocational training policy, aimed at strengthening the links between education and training and labour market demand will also be of concern. In this respect, dialogue and cooperation will be strengthened in the partnership between the public and private sectors in the Republic of Macedonia in the provision of appropriate institutional forms and conditions for practical training and the application of new knowledge and technology by trained personnel, in accordance with the economic reforms and labour market demand. Consistent with the Stability Pact and within the area of human resource development, the Economic Chamber of Macedonia has defined a project for the establishment of a regional centre for human resource development, which will probably be located in Ohrid. Attention will also be given to adult education, since analysis shows that education is of primary importance in finding employment. It is essential to promote education (formal and informal) as a permanent process throughout the citizen's life.

Labour market policies and workforce mobility

Activities to harmonise labour legislation with EU legislation will also be of high priority, aimed at implementing the Stability and Association Agreement. The dialogue among representatives of the Trade Unions, the Chamber of Commerce and the Government, as well as the EU Directives, will serve as a platform for the revision and upgrading of the existing labour legislation.

Amending the Law on Pensions and Disabled Workers Insurance is necessary in order to achieve equal treatment of men and women with reference to social insurance, and to reduce the ages and length of working experience on which pension rights are based. During 2003, the Labour Relations Law was brought in line with Directive 75/117/EEC, regarding the equal treatment of men and women in relation to wages, and with Directive 97/80/EC, which covers the presentation of evidence in cases of gender discrimination. The law is also harmonised with Directive 76/207/EEC on the

implementation of the principle of equal treatment of men and women with respect to employment.

Analysis will be undertaken to improve the operation of employment offices, including the application of the unemployment benefit scheme, better targeting of unemployment registration, systematic registration and reporting of vacancies etc. The recommendations of the two on-going projects in this area, (the EU Employment Policy Project and the World Bank SPIL Project) will serve as guides for improving the organisation and operations of the employment offices.

A National Action Plan for Employment 2004-2005 in the Republic of Macedonia has been prepared in accordance with the instructions contained in the European Union Employment Strategy that were adopted by the European Council in July 2003, adjusted in line with the conditions and specific characteristics of the labour market in the country, and respecting the overall social, economic and other factors that influence employment. The National Action Plan for Employment defines the content of the national strategy for employment and concrete measures that will be undertaken in order to increase employment and labour market flexibility and to deal with the issues of unemployment and social exclusion.

There is scope for additional strengthening and extension of active labour market policies. Programmes will combine counselling, raising awareness of self-employment opportunities, assistance to persons who want to be self-employed, business training and the upgrading of skills and qualifications. These programmes will be designed according to projected labour market demand in the medium-term. An issue of particular importance for job creation and increasing employment is the upgrading and development of SMEs.

The issue of the "grey economy"

Labour market reform, including measures aimed at diminishing informal employment ("grey economy") can reduce the difference between the registered unemployment rate and the unemployment rate derived from labour force surveys. This is important for pursuing future labour policy measures, for measures that are primarily aimed at job creation and increasing the potential and quality of human capital.

In this context, reducing the regulatory barriers to formal employment will be one of the priorities. This includes reducing costs and meeting other requirements for hiring, registering and laying off workers, reducing the costs of labour which result from non-wage benefits and social charges, in particular for SMEs, as well as legalising firms which currently operate in the informal sector. There is also scope for improving statistical data on the labour force, employment and unemployment. Starting from 2004, labour force surveys are being conducted at quarterly intervals to capture seasonal fluctuations.

More reliable information can also be collected on the inactive population, particularly regarding the reasons for inactivity.

3.6.12. Cultural Policy

The cultural policy, as an integral part of the social policies in the reform of the Republic of Macedonia, is focused on the preservation of authenticity, the promotion of cultural identity and on harmonisation with EU standards, regulations and criteria.

The priorities of the cultural policy of the Republic of Macedonia are the affirmation and promotion of the cultural identity and promotion of the cultural diversity of the different communities in the country, the diversity of cultural creation and cultural industries, and preservation of the cultural heritage within the Republic of Macedonia, irrespective of the historical period of origin or culture to which it belongs, as part of the European

culture and European cultural heritage. Cultural diversity is a factor for social cohesion and the social and economic development of the Republic of Macedonia.

The decentralisation process that has been incorporated in the new laws and the strategic documents in the area of culture in the Republic of Macedonia, are focused on the establishment of the civil concept in the cultural sphere, i.e. democratisation of culture according to EU standards.

Harmonisation with EU legislation means the application of the conventions and resolutions of international organisations, especially related to cultural heritage, as well as EU directives, incorporated in the new law on cultural heritage: Directive 97/7/EEC on restitution – the return of cultural artifacts that have been illegally removed from the territory of a specific country and Regulation 3911/92 on the exports of cultural goods, related to measures for exporting and importing movable items of the cultural heritage, i.e. combating the illegal trade in artifacts.

The new arrangements for financing municipalities, inter-sector cooperation, and especially cooperation with the private sector, provide opportunities for local and regional development in the Republic of Macedonia through culture. In this respect, cultural tourism has great potential for implementation of the strategy for sustainable development.

Within the framework of the culture policy, the contribution and presentation of Macedonian culture as one of the European cultural heritages will be promoted. This will be achieved through participation in EU and Council of Europe programmes and projects (EUROIMAGE, European Audiovisual Observatory, MOSAIC, HEREIN, Regional Programme for Cultural and Natural Heritage of SE Europe 2004 – 2008, etc.), as well as through improved cooperation with the EU member states and countries in the region.

3.6.13. Research activities and technological development

Current status

According to the Constitution, the state is obliged to support scientific research and technological development in the country. The Ministry of Education and Science is responsible for the organisation, financing, international cooperation, development and promotion of science, technological development, technical culture, computer science and IT systems.

The issues related to scientific research activities are regulated by several laws, which define the system, the public interest, organisational forms and management of this type of activity, scientific research personnel and other related issues. The system of scientific activities encompasses scientific research, the qualification and training of research personnel and the research infrastructure. The laws also define the public interest in scientific research in the field of the national and cultural identity of the Macedonian nation and other communities living in the Republic of Macedonia.

Furthermore, the aims of technological development are legally defined through the development of national technologies; the development of the country based on an independent economic base; the modernisation of existing production facilities; the establishment of innovation and technological centres; the establishment of the necessary technological infrastructure; and, the transfer of knowledge.

Considering the overall political, economic and other conditions that the country has faced in the recent past, industrial commitment to research and development has significantly decreased.

The research activities in the Republic of Macedonia are conducted at the: Macedonian Academy of Science and Arts; 3 Universities (two state and one private university) with 34 faculties and 3 colleges; and, 13 public scientific institutes.

Priority objectives, instruments and policies

The major imperatives in promoting scientific research and technological development are:

- Increasing the utilisation and transfer of knowledge in the economic, social, cultural and environmental development of the Republic of Macedonia;
- Encouraging and promoting international cooperation and the transfer of knowledge and technology from abroad and vice versa;
- Introducing systems for monitoring and evaluating the results of research groups using internationally accepted standards and criteria;
- Increasing investments in scientific development activities;
- Enhanced utilisation of international funds, technical assistance and other support;
- Development of an interdisciplinary approach regarding strategic and targeted research work;
- Decreasing the technological gap in order to reach the level of more developed countries;
- Establishing conditions to raise the quality of knowledge and innovations;
- Establishing a system of technological information as part of the information system in accordance with the criteria of relevant data bases, services and networks;
- Defining a model for a single infrastructure to support and develop science and technology;
- Promoting the domestic industry and companies, especially small and medium sized enterprises; and
- Defining the priorities, which will be supported through economic policy measures, as follows: biotechnology; sustainable development; high quality food production; water resource management; energy sources; development of new materials; environmental protection; information and communication technologies; health care; geological sciences; and, engineering.

Special attention will be paid to overcoming problems related to the modernisation of existing, and the development of new, scientific and technological infrastructure by:

- Further development of the academic scientific network;
- Procurement of research equipment and foreign expert literature;
- Development of a sophisticated information system; and
- Establishment of entities responsible for the transfer of technology and linking the results of the research activities with the needs of the industry.

European policy in the field of research and development in the last few years has been determined by the establishment of the so-called European Research Area – ERA. An indicator of the serious intentions of the EU countries in this respect is the allocation of 3% of GDP for research and development, i.e. 2% from the industrial sector and 1% from the the public sector.

The programmes for the incorporation of scientific research activities and the technological development of the Republic of Macedonia in the process of European integration envisage:

- Replacing depreciated equipment through the CARDS programme;
- Inclusion in the current OCS action project;
- Foreign support in evaluating projects of national importance;

- Benchmarking of scientific-technological development in order to reach European standards;
- Promotion of the researchers' mobility;
- Exchanges of experience between people in Macedonia and other European countries responsible for designing policies for scientific and technological development;
- Networking of research units at the regional and European levels into an electronic, scientific, research and education network; and
- Facilitated and cheaper access for Macedonian research institutions to research databases.

3.6.14. Agriculture

Current status

Macedonia has 1.32 million ha of agricultural land, about half of which is suitable for cultivation, and around one million ha of forests. Around 80 percent of cultivatable land is farmed on the basis of individual farms, which produce more than two-thirds of crops and livestock. The large agricultural enterprises, which are the privatised agro-combines and cooperatives, farm the remaining land. Despite cultivating small farms on poorer land, the output of the individual farms has increased by 24 percent since independence, while, in the case of the big enterprises, their production has fallen steadily since independence and in 2002 their output was 40 percent of the production levels in 1990. Public irrigation schemes, which once covered 40 percent of the arable land, now service 13 percent of arable land and are in poor condition. All socially owned land was nationalised in 1993, and the financial support to the agro-combines was withdrawn in 1995.

The share of agriculture in the GDP of Macedonia is 10 percent, and, if marketing and processing activities are added, the share rises to around 18 percent of GDP. In 2002, agricultural products amounted to 19 percent of total exports, and 15 percent of total imports. The number of workers employed in agricultural activities is 12 percent of the total work force, and about 45 percent of the population lives in rural areas.

The agricultural enterprises in Macedonia face huge problems. There are few collection stations, and even fewer facilities for sorting, grading, cooling, packaging and storing fruit and vegetables. The collection, distribution and management systems for fresh products are very rudimentary. The quality of the products also suffers from a lack of infrastructure for processing and packing. Most of the production is still sold on wholesale markets, and urban green markets are equally rudimentary. In the last few years the number of retail supermarkets chains has grown, but domestic producers often fail to achieve the quality standards necessary to compete with imported agricultural products.

Priority objectives, instruments and policies

Membership of the World Trade Organisation, and obligations arising from the Stabilisation and Association Agreement (the Interim Agreement), face Macedonian agriculture with major challenges. The SAA obligations and WTO membership on one hand lead to enhanced opportunities to export agricultural products, but, on the other hand, they lead to a lower level of import protection, lower production prices and enhanced competition in the domestic market. These changes will become increasingly evident with the gradual liberalisation that will result from the bilateral free trade agreements that the Republic of Macedonia has concluded with countries in the region. Integration in the regional markets will also have implications for the overall rural economy of the Republic of Macedonia.

Some manufacturers and agricultural processing facilities, i.e. those that are competitive, will immediately benefit from the improved access for their products to the market. However, the less efficient producers and processing facilities, as well as farmers who own lower quality land, will have to cope with competition in domestic and foreign markets. These difficulties will impact on the long-term sustainability of some rural communities, so that rural development will become an increasingly important element of agriculture policy. The preparation and implementation of assistance measures for the population will be directed at finding alternative sources of income and employment.

Thus, enhancement of the competitive capabilities needed in international markets is the basic goal of the agriculture sector reforms and development. This requires the promotion of private agricultural producers and processing facilities, in accordance with the directions defined in part 3.2., as elements for the reform of the business sector (companies). However, this also requires reforms of the public institutions responsible for agriculture, by developing measures to encourage farmers, processing facilities and the entire agriculture business to improve its competitiveness.

Public sector reforms include three basic elements: (1) enhancing the management structures at the Ministry of Agriculture, Forestry and Water Resource Management; (2) approximation of the legislative framework and the institutional structure necessary for the harmonisation of the veterinary, phytosanitary and food safety standards with EU standards; and (3) developing capacities to support rural development.

Support to the private sector will be focused on enhancing the marketing chains and on improving the access of producers and processing facilities to modern technologies. The decisions to be adopted about the type of measures and support activities will be based on their importance in terms of potential profitability, revenue opportunities and increases in employment. The structure of agricultural production will gradually change as a result of adjustment to conditions in the existing regional markets. It could be expected that the production and sales of some traditional Macedonian agricultural products will grow, while the production and sales of some other products will decrease.

Taking into consideration these challenges, the *objectives* for the development of the agriculture sector and the design of agricultural policy are:

1. Enhancing the capabilities of Macedonian agriculture to compete in the integrated regional markets in the European Union and in South-East Europe;
2. Increasing the efficiency of agricultural production, processing and marketing;
3. Establishment of appropriate, effective public and private institutions to support agricultural development;
4. Increase of agricultural revenues;
5. Securing access for consumers to healthy and safe food;
6. Optimal utilisation of the country's limited land resources, forests, and water in an environmentally acceptable manner; and
7. Establishing sustainable rural communities through continuous rural development.

These general objectives for agricultural development in the Republic of Macedonia are consistent with the basic economic goals that focus on reaching higher and more stable development rates, increase of employment, market driven allocation of growth benefits among groups and regions and continuous gradual integration with the EU.

The priorities of the agricultural policy are:

1. Harmonisation of the trade, institutional, and price policies with the obligations of the Stabilisation and Association Agreement and the conditions of WTO membership;

2. Limiting subsidies to agriculture; and
3. Reorganisation of the structures at the Ministry of Agriculture, Forestry and Water Resource Management and the related public agencies in order to enhance their capacities.

The following reforms have been implemented to harmonise the trade and price policies with WTO conditions: (1) all export subsidies have been abolished; (2) the system of import quota distribution has been reformed, i.e. quotas are distributed on a "first come first served" basis or through auctions; (3) the Government Stock Reserves Bureau concentrates its activities towards maintaining limited stockpiles of strategic food products and will conduct all future procurement and sale of relevant goods in a fully transparent manner; and (4) state support to agriculture has been limited in accordance with collective support measures equivalent to 16.3m EURO, i.e. support may be given in the amount of up to 5% of the value of the production of a given agriculture product and up to 5% of the value of the total agricultural production for non-production elements such as oil, artificial fertilizers, transportation costs, and other raw materials, used in agricultural production. This means the development of more focused direct financial support mechanisms.

The approximation of laws, policies and procedures for veterinary protection, phytosanitary systems and food safety with the conditions of the WTO and the EU requires amendments to existing, and the adoption of new, laws and procedures for harmonisation with international conventions applicable in the field of veterinary protection (International Epizootic Office), phytosanitary systems (International Plant Protection Convention), food safety, etc.

With regard to the rationalisation of the agricultural support budget, the small scale of the agriculture sector and the restricted budget resources further aggravate the situation considering the priorities in this sector. Budget resources have been used in the past to finance a wide range of relatively small scale public programmes, most of which have had little or no impact on production and productivity in this sector. Therefore, there will be efforts made to make optimum use of the limited budget resources. The following changes will be made in the forthcoming period:

1. There will be a detailed analysis of the existing budget programmes for the development of agricultural production and productivity;
2. There will be reform of the system of direct financial support applied hitherto in accordance with the systems of the EU Common Agriculture Policy;
3. The budget of the Ministry of Agriculture, Forestry and Water Resource Management will be the only source of support to public services such as veterinary protection, phytosanitary systems and food safety;
4. The budget support for research activities in the field of agriculture will be allocated on the basis of competitive conditions, according to research priorities, which will be defined jointly by the public and private sectors; and
5. There will be a focus on support for "green measures", especially those related to investments, direct financial support to producers, crediting programmes and social assistance.

In order to strengthen and restructure the public institutions responsible for agriculture policy, it is necessary to establish a management structure with sufficient capacity. In this context, it is firstly necessary to undertake an internal reorganisation of the Ministry of Agriculture, Forestry and Water Resource Management, preceded by a substantive and formal change of the competencies of various Ministries. In this respect, the Ministry

of Agriculture, Forestry and Water Resource Management will assume competencies regarding food and rural development, as it is the case with EU countries. In the context of the internal reorganisation, the Ministry will strengthen and promote services in order to achieve coordinated reform of the legislation, policy and institutions necessary to fulfill the conditions for EU membership. The basis of this reform is:

1. Strengthening the European Integration Unit and Project Management that would serve the purpose of coordinating all aspects of European Integration;
2. Establishment of a unit for analysis and information about agriculture policy;
3. Establishment of a Rural Development Coordination Unit
4. Establishment of a unit for processing and marketing agricultural food products;
5. Establishment of an IT unit;
6. Establishment of a unit for securing food quality; and
7. Strengthening the institutional forms for translating modern technology into practice.

The State Statistical Office will conduct a pilot agricultural census as a preparatory activity for the forthcoming Agricultural Census to be undertaken in 2004.

3.6.15. Environmental protection

Current status

As part of the economic development policy, the Government of Macedonia creates and implements policies for environmental protection, by which the priorities in environmental protection and the sustainable use of natural resources are determined. The protection and the promotion of the environment is a fundamental value, guaranteed by the Constitution. The gradual resolution of issues related to environmental protection and development is perceived as the way to ensure a safer and better future. Sustainable development remains an obligation of the government, and this requires the preparation of different strategies, plans and programmes. The National Action Plan for the Protection of the Environment (NEAP) was adopted in 1996, and represents the first, and still the main, strategy in this field. This document also represents an early step towards the long-term ambition of the Republic of Macedonia for integration into the European Union.

The situation and problems in Macedonia in this area, according to the National Environment Action Plan (NEAP), are the following:

- (1) In water pollution, the most significant problems derive from discharges from the mining sector, industrial plants and livestock farms, as well as from the wastewater from the larger urban centres. There are only a few municipal wastewater treatment plants in the country and therefore only a small percentage of wastewater in the country is treated;
- (2) Air quality is a major environmental concern in some urban areas, and the two in which the problem is most severe are Skopje and Veles. The main reason for air pollution in Skopje is emissions from vehicles and industry, but also a number of other sources of pollution are involved. In Veles, air pollution is mainly due to the lead and zinc smelter where there are extensive health hazards caused by the heavy metals from the plant;
- (3) Inadequate solid and hazardous waste management is another area of major concern. There are regulations on waste handling, but there is still haphazard dumping of waste;

- (4) Issues related to agricultural and forestland management are also important in Macedonia, and regular surveys of soil fertility, the controlled use and treatment of agricultural and animal waste and of secondary waste is necessary. To ensure sustainable agricultural development, policies that encourage land preservation should be implemented, and training for farmers and land conservationists has to be provided;
- (5) The preservation and improvement of the forest resource base is a long-term objective of the country. Sustainable forest management plans have to be prepared which should include preservation and forestation programmes. Re-vegetation of barren lands, the rehabilitation of erosive regions and the production and utilisation of medicinal and other forest products should be highlighted. In order to sustain hunting game populations, hunting management should be improved and hunting plans respected; and
- (6) Although the country possesses significant biodiversity potential, monitoring is inadequate. The biodiversity protection institutions are relatively weak and the sustainability of the existing biodiversity is threatened.

Within the framework of the CARDS Programme, practical activities have been initiated regarding the preparation of a second NEAP, which will be related directly to the sixth environmental action programme of the European Union and will follow its provisions.

The Law on the Promotion and Protection of the Environment and Nature was enacted in 1996. It regulates basic rights and obligations in the field of environmental protection, as well as the operation of the Environmental Protection Fund. However, although the law is comprehensive and covers almost all aspects of protection, its application is very difficult since the provisions of the law are too general regarding the respective procedures. At the same time, this law is not in accordance with the environmental legislation of the European Union. Provisions related to the protection of the environment may be found in many other laws and secondary legislation that contain environmental standards, but none of them fully implements the European Union Standards. The Republic of Macedonia has ratified many international agreements (conventions and protocols) related to the environment and the obligations deriving from these agreements must be met.

In 2002, the UN Economic Commission for Europe prepared and adopted an Overview of the Environmental Achievements in the Republic of Macedonia. The recommendations in this report will be the operational objectives of the institutions in the next few years. One of the biggest challenges resulting from the environmental policy is the achievement of an optimal balance between economic efficiency and the effectiveness of economic instruments designed to have environmental impact. Only a small number of the economic instruments that play a part in environmental protection are implemented in the Republic of Macedonia. Having in mind the complex method of law enforcement, the lack of analysis of the environmental and social costs and the direct flow of revenues into the central budget, further more detailed studies of the options, with more extensive involvement, are required in this area. In this respect, the experience and best practices of European countries and the countries of South Eastern Europe will be analysed and incorporated. This also includes mechanisms for pollution fees (polluter pays) in order to internalise the externalities by including them in production costs.

Four environmental laws have been prepared within the framework of the project "Strengthening the Capacities of the Ministry of Environment and Physical Planning". These laws are: The Framework Law on the Environment; the Law on Waters; the Law on Waste Management; and, the Law on Nature Protection. The laws have been prepared in accordance with the methodology for approximation of legislation and its full harmonisation with the relevant EU directives related to the *environmental acquis*, as

well as with the provisions of the relevant international conventions. At the same time, the Law on Air Quality was prepared with the assistance of GTZ. These laws are currently under consideration by the Parliament.

At the local level, the units of local self-government have the legal obligation to prepare local environmental action plans (LEAPs). Some municipalities have prepared such plans and the remaining municipalities will complete the preparation of these plans.

Regarding sustainable development, it is important to note that the Ministry of Environment and Physical Planning is the national coordinator of the activities related to the implementation of the recommendations and goals of Agenda 21, as well as the preparation of activities which will lead towards the preparation of a National Strategy for Sustainable Development. In this respect, the following documents have been prepared: "Conceptual Approach to the Creation and Stimulation of the National Strategy for Sustainable Development of the Republic of Macedonia" (2000); "National Assessment for Sustainable Development of the Republic of Macedonia" (2002); and, "Research Concept for the Provision of Analytical and Projection Material Aimed at the Preparation of a National Strategy for Sustainable Development of the Republic of Macedonia" (2003). Such activities will continue to be implemented in the future until a comprehensive National Strategy for Sustainable Development is developed. In addition, a "Manual for the Development of a Local Agenda 21" has been prepared, which will allow a comprehensive review of the problems and their prioritisation by policy makers at the local level, based on a uniform methodology.

Priority objectives, instruments and policies

The main goals of the country in the area of environment protection are separated into several broad issues:

- (1) Regarding the overall EU integration strategy – achieving environmentally sustainable economic development, competitiveness and an integrated approach to environmental problems;
- (2) Regarding the EU acquis – sequential harmonisation of the domestic legislation in this area with EU environmental acquis and active participation in international efforts addressing global pollution and degradation of the environment;
- (3) Protection of the biodiversity and habitats;
- (4) Active participation in international environmental protection systems; and
- (5) Sustainable management of natural resources and their protection.

Concerning the first goal, there are several general *measures and objectives* of the environmental policy through which the following will be achieved:

- (1) Progressive achievement of the optimum prices for energy and public utility services, in accordance with purchasing powers, aimed at achieving more cost-effective utilisation;
- (2) A gradual increase in investment in environmental and natural protection;
- (3) An increase in public expenditure on public environmental protection as a share of GDP ; and
- (4) Preparation of programmes for the introduction of competition and private sector engagement in public utilities.

One of the biggest challenges is to integrate the environmental policy into the other sectoral policies and so achieve the optimal combination of economic efficiency, political acceptability and environmental effectiveness of economic instruments. First, the

affordability of increasing the existing, and introducing new, instruments has also to be considered. Next is the issue of the simplification of the charging systems, whilst the use of various types of economic instruments for environmental protection must not be neglected. As the experience of CEE countries indicates, if pollution charges are properly designed and implemented, they provide improvements in several other areas of public policy: environment, innovation and competitiveness, employment, taxation and the reinforcement of other instruments.

Concerning the objective of harmonisation of the domestic legislation with EU environmental acquis, the policy measures will be achieved through:

- (1) Approximation of the legislation;
- (2) Attaining EU standards on environmental quality; and
- (3) Improving the quality of environmental media.

The Framework Law on the Environment focuses on the implementation of the procedures for the assessment of impacts on the environment and strategic assessments of the influence of plans, programmes and strategies. The law regulates access to information related to the environment, introduces procedures for integrated control and prevention of pollution, as well as plans for the prevention of disasters. A significant portion of the law is devoted to plans to ensure compliance by the existing polluters with environmental norms and standards. In this context, the law introduces a gradual approach to compliance, which involves the preparation of operational plans whose implementation is closely related to work licenses. The maximum time period allowed for achieving full compliance is 10 years (in some exceptional cases this is 15 years), during which period the polluter should specify the measures to be undertaken consistent with achieving compliance with the environmental standards.

The Law on Waters takes a new integrated approach to water resource management, following the guidelines of the framework directive on water. This involves the introduction of bodies for the management of water by river catchment areas. The law introduces plans for water resource management.

The Law on Waste allows the opportunity for the private sector to provide waste management services. Many of the competencies are transferred to the local level and this emphasises the need to strengthen the capacities of local self-government regarding waste management. The basic system of waste treatment is based on waste management plans. The system "polluter pays" and the system of proximity and minimisation of waste have been introduced. A National Plan for the Establishment of a Comprehensive Waste Management System will be prepared.

The Law on the Protection of Nature introduces the Natural Resources Management Plans, including the National Parks, creating conditions for an integrated approach to the protection of the natural heritage. The protection of ecosystems and the specially protected areas represent a contribution of the Republic of Macedonia towards the natural heritage of Europe.

The Law on Air Protection gives special attention to monitoring and controlling air pollution through a system of licensing and emission control. The Law on Air Quality has, in part, been harmonised with EU legislation, and secondary legislation is currently being prepared. In order to establish efficient monitoring of air pollution, it is necessary to complete the existing national monitoring system.

In the medium term, one of the basic goals of the Government is finalisation of the legislation in this area in order to harmonise the whole national legislation with EU Directives, which will be achieved with the enactment of laws in other related areas and the adoption of secondary legislation. The implementation of the legislation requires proper institutions and an integrated approach to natural resource management.

The Stabilisation and Association Agreement requires Macedonia to harmonise environmental legislation with that of the EU. The on-going approximation of the laws and regulations with the legislation of the EU represents an important mechanism for the efficient realisation of environmental protection policies. In this area, special attention is given to cooperation with the European Union and its bodies, with emphasis on cooperation with the European Environmental Agency. This cooperation has been intensified through various programmes of assistance from the community (PHARE, CARDS). The achievement of this strategic goal will be implemented through a number of activities:

- approximation of the national environmental legislation with the environmental acquis of the EU;
- internal reorganisation of the Ministry in order to comply with the requirements of the European integration process, through strengthening the enforcement, inspection and financing agencies;
- decentralisation of state functions and the intensive development of structures and capacities in the local self governments in the area of environment, including the preparation of LEAPs; and
- preparation of a Monitoring and Networking Strategy, Awareness Raising Strategy and an Environmental Communication Strategy, including an assessment of the existing situation and an Action Plan for the implementation of the strategies.

A major contribution towards the achievement of this strategic goal will be provided through the **implementation of EU standards on environmental quality**, which includes:

- Development of a Chemicals Management Strategy;
- Development of a Strategy for Management of the Data on the Condition of the Environment; and
- Development of a National Air Quality Strategy;

Improvement of the quality of the environmental media, which will be realised through:

- Development of a National Plan for Solid Waste Management;
- Development of a Feasibility Study for Hazardous Waste Management, including the Treatment of Organic Waste, Confiscates and Animal Waste;
- Development of a Study for Composting a Part of the Communal Waste;
- Ozone Layer Protection;
- Implementation of the activities of the National Action Plan for the Mitigation of the Influences of Climatic Changes;
- Implementation of the Basic Plan for the elimination of leaded gasoline from general use, which envisages a gradual elimination of leaded gasoline from general use by 2008.

Protection of biodiversity and habitats will be achieved through:

- Development of a National Strategy for Biological Diversity and an Action Plan;
- Development of the National Framework for Bio-safety;
- Protection of natural lakes, including amendments to the laws, development of programmes and strategic action plans for sustainable management in the catchments areas; and

- Protection of the biological diversity and natural heritage, including preparation of documentation for protection/proclamation and popularisation of the unique national heritage.

Active participation in the international environmental systems means:

- Development of a Strategy for International Cooperation in the Area of Environment, with a special emphasis on cooperation with the EU member-states; and
- Developing bilateral and multilateral cooperation, and ratification of, and accession to, international environmental agreements.

Sustainable management and protection of natural resources includes:

- Preparation of a second NEAP;
- Exploring the opportunities to introduce and develop economic instruments related to environmental protection which include the preparation of a detailed plan; and
- Preparation of a concept regarding the possibility of reallocating the national debt for investments in environmental protection.

In the development and implementation of general policies related to the achievement of sustainable development, it is necessary to insist on the introduction of an integrated approach in the development of all strategic national development documents. This is necessary because the complexity of sustainable development requires the incorporation of its basic principles in other areas. Certainly, the biggest priority regarding sustainable development, in addition to an integrated approach and the incorporation of sustainable development elements, is the development of a National Strategy for Sustainable Development, as a comprehensive strategy for overall development in the country. The Republic of Macedonia, as a member of the United Nations, has an obligation to prepare this strategy and begin its implementation by 2005.

In order to achieve the strategic goal related to sustainable development, the following activities will be undertaken in the Republic of Macedonia: (1) the establishment of a National Council for Sustainable Development; (2) the establishment of national sustainable development indicators; and (3) the preparation of a Sustainable Development Strategy for the Republic of Macedonia.

To bring the concept of sustainable development to the local level, it will be necessary to have the organisational capacity to make strategic plans for local development on a sustainable basis. The capacities of the local self-governments will therefore be strengthened to incorporate the concept of sustainable development at the local level. This will be achieved through the promotion of the preparation of Local Agenda 21s.

3.6.16. Regional, local and spatial development

Current status

Regional and local development

There are large disparities across the regions and local areas in the Republic of Macedonia. This leads to an unfavourable polarisation of economic development with a large concentration of population and economic activities in the capital Skopje and

larger urban centres. Closely related to this is the depopulation of some areas, resulting from migration from villages to cities, and from mountainous regions to low-lying areas in the country.

Despite policy measures to prevent these trends, impact on the changes shaped by market forces has been limited. In general, the economic system of Macedonia, developed in the transition, is characterised by a high level of centralisation at the national level, although, starting from 1999, decentralisation reforms are taking place. In such conditions, the policy of promoting the development of underdeveloped and demographically endangered areas in Macedonia has not been successful and it has been mostly implemented through transfers from the state budget and through the resources of the Regional Development Fund.

In Macedonia there is no regional (secondary) level of territorial administration. Regarding the local level, a separate Law on Local Self-Government was enacted in 1995 and, in conjunction with other laws, it stipulated the functions of the municipalities (units of local self-government), types of local administrative bodies, their responsibilities, the property of the communities and so on. The Law on Territorial Organisation that was enacted in 1996, creating 123 units of local self-government in the Republic of Macedonia. Due to the Constitutional Amendments adopted after the Framework Agreement in 2001, a new Law Local Self-Government was enacted in 2002. By this Law the responsibilities of the municipalities were broadened and they comprise the following: urban planning; utilities; culture; sport; social and child protection; preschool and primary education; primary healthcare protection; public services; rural planning; environmental protection; local economic development. The new Law stipulates local financing of those activities, and a new Law on Fiscal Decentralisation, and a new Law on Territorial Organisation, were enacted in 2004.

A number of municipalities in the Republic of Macedonia have recently participated in international regional cooperation, and within the PHARE programme for cross-border cooperation during the 1996-1999 period, a number of planned projects have been successfully completed. The municipalities that are close to the Republic of Greece (23 out of the total of 123) had an opportunity to apply for a grant to meet their priority needs. The proactive commitment of the municipality was one of the major criteria for receiving a grant. Besides road infrastructure, border crossings and environmental protection, grants were also provided for projects in the area of socio-economic development (feasibility studies and a small project fund).

Spatial development

In 1996 a new Law on Spatial and Urban Planning was adopted and the Spatial Plan of the Republic of Macedonia was also adopted. On the basis of the concepts proposed for the development of certain areas related to spatial development, the law provides a holistic concept of organisation, arrangement, use and protection of land in the Republic of Macedonia. It encompasses the following areas (sectors): (1) the socio-economic foundation of the plan; (2) the protection and use of natural resources (agricultural and forest land, water, minerals and energy resources); (3) the distribution of population; (4) the development and organisation of urban and rural areas; (5) the spatial organisation of public functions; (6) guidelines for the distribution of industry; (7) the development and distribution of infrastructure (water, energy, transport and telecommunications systems); (8) the development and organisation of tourist regions; (9) protection of the environment and natural resources, and the protection of immovable property that is part of the cultural heritage; (10) instructions and measures for protection from military destruction, natural and technical-technological disasters; and (11) activities for implementation of the plan.

Priority objectives, instruments and policies

Regional and local development

The main *goal* of the policy in this area is the sustainable development of municipalities (units of local self-government). Regarding territorial division and local self-government, the consensual goals are to: (1) redefine the territorial division in Macedonia into a smaller number of units; (2) correct present deficiencies in the functioning of municipalities; and (3) to increase their capacities for sustainable local economic development using their own income. This means establishing municipalities capable of performing their local functions, capable of preparing and implementing plans for local economic development and capable of acting as partners in the use of European structural funds and in cross-border regional co-operation.

Concerning the policy *measures*, in order to create conditions for economic activity and improvements in the standard of living at the local level, there will be encouragement and support for the initiatives with development potential. This will be done through the establishment of economic, communal, educational, healthcare and other types of public infrastructure. The main focus will be on:

- (1) The development of more complex local economic development policy;
- (2) Harmonisation of the nomenclature of units of territorial statistics (NTES) of the Republic of Macedonia with the nomenclature of units of territorial statistics (NUTS) of the EU, in order to produce statistical data at a regional level for monitoring regional growth, which is a precondition for EU integration;
- (3) The identification of underdeveloped regions as well as regions with significant environmental problems;
- (4) The introduction of an integrated approach to the achievement of the goals of regional and local economic development policy, through stimulation of the development of local regions;
- (5) The establishment and development of local networks of institutions and agencies that will participate in the achievement of the policy goals; and
- (6) The promotion of partnerships through the inclusion of local players from the private and public sectors, in the achievement of the local economic development policy goals.

Having in mind the general objective of establishing municipalities that will be capable of fulfilling their functions, i.e. to prepare and implement plans for local economic development and capable of acting as partners in the use of European structural funds, the infrastructure that has been established so far will be used to implement the programme for cross-border and regional cooperation. The same applies to road infrastructure, border crossings and other large civil construction works.

Currently, there is an initiative to establish cross-border cooperation with the Republic of Bulgaria, which is also an obligation arising from the SAA. The creation of opportunities for the establishment of such types of cooperation requires the preparation of a database with priority projects that have to be proposed by municipalities that are physically close to Bulgaria.

Spatial development

Based on the current level of development and problems in planning and regulation, and in land use, issues of particular importance in the immediate future will be: the well balanced use of land; and, permanent updating of plans. Activities will be focused on

creating conditions for achieving integrated economic development of the whole country, which, in the long run, will provide optimal results.

The Urban Plan, being an integrated strategic development document, will facilitate the achievement of the main development objectives and the implementation of relevant territorial decisions. The land development policy, regarding industrial development, will attempt to achieve significant and reasonably uniform development and a rational allocation of manufacturing facilities.

A new Law on Spatial and Urban Planning is currently in the procedure for adoption.

3.6.17. Statistics

The Law on State Statistics, adopted in 1997, and harmonised with international standards and EU regulations, stipulates that the State Statistical Office is the body responsible for the statistical system in the Republic of Macedonia.

A global evaluation of the statistical systems of the countries in the Western Balkan region, conducted during 2001 by EUROSTAT, included an evaluation of the statistical system of the Republic of Macedonia. The evaluation focused on the situation in the SSO, on the statistical system as a whole, on the specific institutional circumstances and environment, on the capacity of the statistical system, as well as on the main entities that provide timely, updated, factual and relevant data to the users (infrastructure aspects). The structure and the functioning of the SSO were positively evaluated and recommendations were given regarding specific activities to be undertaken to achieve full compliance with the requirements of the EU.

In addition to the Law on State Statistics, special laws on censuses are being drafted. Also a Master Strategic Plan has been prepared and enacted, as well as a Strategy and Policy for the Dissemination of Statistic Data and a five-year programme for statistic surveys 2003-2007, which reflects the requirements of the users, the *acquis* and the opportunities for rationalisation.

APPROXIMATION OF THE LEGISLATION OF THE REPUBLIC OF MACEDONIA WITH THE LEGISLATION OF THE EUROPEAN UNION

INTRODUCTION

The harmonization of the national legislation with the legislation of the EU is one of the basic requirements for the integration of Macedonia into the EU.

The Stabilisation and Association Agreement (SAA) defines a global framework for implementation of the law approximation process. According to Articles 5 and 68 of the SAA, a period of 10 years is envisaged for establishing full association, divided in two phases.

The first phase started on the date of the signing of the Agreement and will last for four years from the date that the SAA came into force. The priority areas for approximation of the legislation in this phase are the competition and state-aid policies, intellectual and industrial property, personal data protection, public procurement and the areas of quality infrastructure (standardisation, metrology, accreditation and conformity assessment).

During the second phase, the approximation of legislation will be expanded to other sectors, which are not covered within the first phase.

One of the basic goals of the process of approximation of the legislation is to develop the necessary legal framework for the functioning of a sustainable market-oriented economic system, open towards Europe, and the promotion of the Republic of Macedonia as a social state, fully respecting the principle of the rule of law. In this respect, all obstacles for undisturbed trade between the Republic of Macedonia and the EU will be eliminated, in order to have free participation of the Republic of Macedonia in the Common Internal Market of the Union.

By signing the SAA, the Republic of Macedonia has taken a proactive approach to develop preconditions to achieve the process of approximation of the national legislation to the legislation of the EU from an institutional, procedural and methodological aspect.

The effective approach related to approximation of the legislation requires, first of all, to determine the current status of the EU legislation, to make an analysis of the corresponding Macedonian regulations, and to draft new regulations that will take into account the economic aspects and the assessment of the overall impact.

The Parliament of the Republic of Macedonia and the Government of the Republic of Macedonia are responsible for the process of approximation of the Macedonian legislation with the legislation of the EU and in this context, their further cooperation will be strengthened.

The Government of the Republic of Macedonia prepares an annual Programme for Approximation of the National Legislation with the Legislation of the EU. It provides a detailed overview of all approximation activities, EU measures that are subject of transposition in the national laws, responsible institutions and implementation deadlines. The implementation of the activities is carried out by several bodies that have been established

for that purpose. A system to assess the extent to which national regulations approximate to EU legislation has also been established.

Permanent strengthening of institutional capacities is a key factor for the effective implementation of EU laws into the national legal system. The participation of the academic community, judges, prosecutors, and economic entities, i.e. of all stakeholders in every specific field will ensure more efficient implementation of the regulations. The process will be further strengthened by using IT support, by ensuring the translation of legal acts to the highest quality and by establishing the principles of transparency, deregulation, clarity, easy access, etc.

The process of harmonisation will lead to a gradual absorption of the entire corpus of *acquis communautaire* leading to the active participation of the Republic of Macedonia in the future development of EU law, once it becomes a fully-fledged member of the EU.

4.1. EXISTING LEGAL ORDER OF THE REPUBLIC OF MACEDONIA

The present legal order of the Republic of Macedonia consists of the Constitution of the Republic of Macedonia of 1991 and its Amendments of January 1992 and November 2001. In accordance with Article 5 of the Constitutional Law on Implementation of the Constitution of the Republic of Macedonia of 1991, the federal legislation which was consistent with the newly established Macedonian constitutional and legal order continued to be applicable as national legislation. This meant that, after the Republic of Macedonia gained its independence from the Socialist Federative Republic of Yugoslavia, most of the federal laws were applicable as part of the national legislation for a given period. It should also be mentioned that the timetable for drafting and adopting new Macedonian laws set out in the Constitutional Law on Implementation of the Constitution of the Republic of Macedonia of 1991 was not fully respected. This means, that there is a certain number of legal regulations from the federal system that still have to be substituted with Macedonian regulations.

Furthermore, the present Macedonian legal order also comprises the existing laws and secondary legislation.

The legislative process in the Republic of Macedonia is regulated by the Constitution, the Rules of Procedure of the Government and of the Rules of Procedure of Parliament.

The Constitution states that legislation may be proposed by: the Government, any Member of Parliament, or upon an initiative by at least 10,000 citizens. The initiative for drafting a new bill may be initiated by: any citizen, group of citizens, institution or association.

The competent ministries are responsible for drafting laws. The Rules of Procedure of the Government and the Rules of Procedure of the Parliament define the entire procedure for adopting a proposed law and its entry into force.

4.2. GOALS OF THE APPROXIMATION OF THE LEGISLATION OF THE REPUBLIC OF MACEDONIA TO THE LEGISLATION OF THE EUROPEAN UNION

The harmonisation of national legislation with the legislation of the EU is one of the basic requirements for the integration of Macedonia into the EU. The Stabilisation and

Association Agreement does not define a detailed plan of harmonisation measures, but instead gives a global framework for the law approximation process:

- According to the conditions defined in the SAA, a period of 10 years is envisaged for establishing the association between the EU and the Republic of Macedonia;
- In accordance with Article 68 of the SAA the gradual approximation of legislation will take place in two stages:

The Agreement and its coming into force in April 2004, has determined the timing of the phases for approximation of the legislation with the legislation of the EU.

The first phase, according to Article 68 of the Agreement started on the date of signing of the Agreement and will last for four years from the date that the Agreement came into force, as explained in Article 5. In this phase, the approximation of laws relates to certain fundamental elements of the Internal Market *acquis*, as well as to other trade related areas, in accordance with the programme defined in coordination with the Commission of the European Communities. The Republic of Macedonia, in coordination with the Commission of the European Communities, defines the modalities for the monitoring of the implementation of the law approximation process and law enforcement actions to be taken, including reform of the judiciary. The deadlines for the Law on Competition, the Law on Intellectual Property, the Law on Standards and Accreditation, the Law on Public Procurement and the Law on Data Protection are being set in this phase. Legal approximation in other sectors of the internal market will be an obligation to be met at the end of the transition period.

During the second phase of the transition period laid down in Article 5, the approximation of laws will extend to the elements of the *acquis* that have not been covered in the first phase.

Therefore, the goals of the process of harmonisation of the Macedonian legislation are:

- Establishment of a consistent and transparent legal system in the Republic of Macedonia in accordance with its Constitution;
- Approximation of the legal system of the Republic of Macedonia to all the legal instruments of the European Union, as well as to the policies and practices of EU legislation contained in the primary and secondary sources of law of the European Communities (*acquis communautaire*); and
- Development of a comprehensive legal framework, as one of the preconditions for the establishment of a sustainable market oriented economic system, open towards Europe and the promotion of the Republic of Macedonia as a social state, fully respecting the principle of the rule of law.

4.3. METHODOLOGY FOR HARMONIZATION OF THE NATIONAL LEGISLATION WITH THAT OF THE EU

The complexity of the process of harmonising the national legislation with that of the EU requires a methodical approach so that it can be successfully implemented and monitored. In 2000, the Government of the Republic of Macedonia prepared a methodology that explains the stages and activities in the harmonisation process.

According to the Methodology, the harmonisation process consists of four stages:

1. **Preparatory stage** - the identification of all the institutions involved in the implementation of the process, and of the activities of a technical character such as

the distribution and presentation of the European legislation in specific areas and the presentation of the harmonisation principles in general. A precondition for the successful realisation of this stage is the provision of training regarding the basic harmonisation principles (how the basic legal acts are prepared within the EU; what are their effects on the national legislation etc).

2. **Analytical stage** - translation of the relevant European legal acts into Macedonian and their incorporation in the Programme for approximation of the legislation in accordance with previously defined priorities.
3. **Transposition stage** - operational development of the new legislation in accordance with a previously defined plan. The true approximation process of the Macedonian legislation to that of the EU is taking place at this stage. Namely, this is the stage at which national and EU experts prepare the new draft laws or draft amendments and changes to the existing laws or secondary legislation in order to achieve compatibility between the legal order of the Republic of Macedonia and the EU legislation; and finally
4. **Implementation stage** – which covers both the adoption of new legislation, or amendments to existing legislation, by the Parliament, and the appropriate implementation of this legislation and the management of its effects on the existing institutional infrastructure.

4.4. PROCEDURAL ASPECTS OF THE PROCESS OF LEGISLATIVE APPROXIMATION

The commitment to the approximation of the national legislation to that of the EU has been incorporated in the Law on the Government of the Republic of Macedonia and in the provisions of the Rules of Procedure of the Parliament of the Republic of Macedonia and of the Government of the Republic of Macedonia.

The amendments to the Law on the Government of the Republic of Macedonia of 2003, give the Secretariat of Legislation the new responsibility of assessing the harmonisation of national legislation with EU legislation.

According to the last amendments to the Rules of Procedure of the Government of the Republic of Macedonia, the drafters of legal acts subject to harmonisation with the *acquis communautaire* must submit a Statement on the Harmonisation of the Legislation with the *Acquis Communautaire*. The Statement should contain information on EU legal acts that are the subject of approximation, the degree of harmonisation, reasons for any lack of harmonisation of regulations and deadlines for achieving full approximation. Thus, the Republic of Macedonia is taking the legislation of the EU as a reference model in the process of preparing new regulations.

The competencies of the newly established Parliamentary Committee on European Issues include responsibility for the acceleration of the law approximation process.

The Procedural Manual for approximation with European legislation was prepared in 2002. The Manual provides clear guidelines to individuals and bodies involved in the law approximation process, and gives operational instructions in order to reach optimal organisation, coordination, reporting and monitoring of activities.

4.5. PROGRAMME FOR APPROXIMATION OF THE LEGISLATION OF THE REPUBLIC OF MACEDONIA WITH THE LEGISLATION OF THE EU

Since 2001, the Government of the Republic of Macedonia has been developing an annual Programme for the Approximation of the National Legislation to that of the EU. In March 2004, the fourth edition of this very important document was prepared. The annual Programmes for legislation approximation give a detailed plan of the harmonisation activities, the EU regulation to be incorporated in the national legislation, the responsible institutions, and the implementation timetable.

With each successive edition the document has been qualitatively and quantitatively improved, starting with the White Paper of the European Commission for preparation of associate countries in Central and Eastern Europe for integration in the EU Internal Market (Canes 1995), and including the structure of the negotiation chapters with the European Commission (29 chapters of the *acquis communautaire*). Since 2003, the Programmes have included activities planned both on an annual and on a medium term basis. The focus of the approximation process has shifted towards secondary legislation, and, increasingly, attention is being paid to the essence of EU measures in individual chapters of the *acquis communautaire*.

The Programme is supported by a well managed database including information related to the Programme for Approximation to the European Legislation and the monitoring mechanism, in order to monitor progress and produce reports that are a complementary part of the Programme.

4.6. ORGANISATION OF THE PROCESS OF TRANSLATION OF THE EUROPEAN LEGAL REGULATIONS

High quality translation of the European regulations is an important precondition for the approximation of the national legislation to the European legislation. Activities are being undertaken in order to prepare a Macedonian version of the *acquis communautaire* that will be incorporated in the national legal system.

The process of translation of the legal acts of the European Union is complex, made up of many components. This process involves not just translators, but also lawyers, IT experts and experts from all other areas covered in EU legal acts. The complexity of the translation process imposes the need for coordination of all its components, which means that previously agreed rules have to be followed by all participants in the process.

The basic principles of the process of translation of European legal acts are as follows:

- systematic approach;
- development of unified terminology;
- linguistic and terminology correctness; and
- legal sustainability.

The Department for Translation of European Regulations within the Sector for European Integration is managing the process of translation, which comprises of the following steps:

1. Initial translation from English into Macedonian;
2. Linguistic, professional and legal revision;
3. Verification of translated materials;

4. Preparation of a glossary of terminology and expressions;
5. Database of translated regulations; and
6. Database of terminology glossaries.

4.7. INSTITUTIONAL INFRASTRUCTURE FOR MANAGING THE NATIONAL LEGISLATION HARMONISATION PROCESS

The legislative harmonisation process is managed by several bodies that are coordinated at the central level:

- Sub-committee for approximation of the national legislation comprising representatives of all ministries - a central coordinative body;
- Sector for European Integration – Unit for Integration in the Economic and Social area – main coordination role and monitoring of the entire process;
- Working groups and sub-groups for harmonisation with the *acquis communautaire* responsible for the law approximation activities at an operational level; and
- National sector specialists for specific EU measures.

4.8. PROGRESS IN THE PROCESS OF APPROXIMATION OF NATIONAL LEGISLATION TO THE LEGISLATION OF THE EU

The database on harmonisation of the national legislation with the legislation of the EU shows that so far, it holds around 400 legal regulations that have been harmonised or are being planned for harmonisation with EU legal acts. In the past, the priority has been given to the preparation of regulations that are necessary to create a legal framework for the functioning of a market economy, reform of the judiciary, public administration etc.

Significant progress has been made in the approximation of legislation in the areas of the internal market, competition and state-aid policies, industrial and intellectual property, trade law, consumer protection, financial sector, environment and agriculture.

In relation to the translation of European legal regulations, so far, around 15,000 pages of European legislation have been translated. Also, instructions and guidebooks have been developed for all entities involved in the process of translation. The database of translated regulations is being updated on a daily basis, glossaries are being prepared, and several training events have been organised for all the participants in the translation process (translators, experts, proof readers etc.).

4.9. FUTURE PLANS FOR THE PROCESS OF HARMONISATION WITH EUROPEAN LEGISLATION

The approximation of the legislation is an ongoing process, which will be continuously developed, on the one hand, following changes in the legislation of the EU, and, on the other hand, in relation to the progressive updating of elements related to implementation, including specific data on committed funds, the strengthening of institutions, and the identification of technical assistance needs.

Also, priority will be given to harmonisation of the operational and procedural aspects of the relationship between the Parliament of the Republic of Macedonia and the Government in the overall law approximation process.

The process will be further strengthened by regular monitoring using IT, but also by the parallel process of translation of the European legal acts. It is very important to complete the official translation of the European legal acts and produce legal texts of the highest quality in order to ensure their smooth transposition into the national legal system.

It is very important to plan the activities for harmonisation of the legislation in the context of the budget process. This requires the development of new skills to assess the regulatory, fiscal, economic, social, and environmental impact of new regulations.

It is necessary to adopt new principles in drafting new legislation, such as transparency, deregulation, comprehensiveness, simple wording, accessibility and a gradual approach towards parallel publication of the new legislation in printed and electronic forms.

The new regulations should always reflect the existing national, economic, social and other specific considerations and conditions in the Republic of Macedonia. Otherwise, the legislation will be completely inapplicable and unenforceable.

It should be stressed that the process of approximation and harmonisation of Macedonian legislation with that of the EU should be done in parallel with the process of ensuring consistency between the newly proposed laws and the Constitution of the Republic of Macedonia.

Accession to the EU recognises the principle of supranationality and the primacy of European law over national legislation. This principle will be reflected in the Constitution of the Republic of Macedonia, which, consequently, will need to be amended.

In accordance with Article 68 of the SAA, the focus in the first phase, will be placed on further expansion and deepening of the activities already started in specific areas related to the Internal Market (competition, state-aid, public procurement, protection of intellectual and industrial property, personal data protection and quality infrastructure), the measures of the second phase will relate to the White Book and the development of institutions with the capacity to implement the new legislation.

The harmonisation of technical regulations and standards is of particular importance, since they have a direct impact on businesses and play a key role in the elimination of technical barriers to trade. In this part of the harmonisation process, cooperation between the state bodies, the Economic Chamber and economic entities is of great importance.

The permanent development of institutional capacities is a key factor for the effective implementation of EU laws into the national legal system. Capacity will be assessed through the ability and functionality of administrative and organisational structures, the ability to implement policies adopted by the European Union, as well as the development of skills for successful negotiations with EU institutions. New laws should be of a high quality and enforceable. The participation of the academic community, judges, prosecutors, legal advisors and, if possible, all stakeholders, in all fields will ensure more efficient implementation of the legislation.

Besides the approximation of national legislation to EU legal regulations that relate to the Internal Market, Macedonian legislation will be also harmonised with other *acquis communautaire*. In this respect, financial services, the legislation related to food safety, healthcare protection of animals and plants, customs, taxes, transport, environment, social protection, protection of workers etc are all important areas.

The process of approximation of the national legislation will not end with the accession of the Republic of Macedonia to the EU. It will continue after it becomes a fully-fledged member, as is the case with all other member states. The process of harmonisation will lead to a gradual absorption of the entire corpus of *acquis communautaire* and by this enable the active participation of the Republic of Macedonia in the future development of the *acquis communautaire*.

INTRODUCTION

Justice and home affairs is an area that has gradually evolved within the Union, from intergovernmental cooperation in different areas to its establishment as the Third Pillar of the European Union Treaty (1992), and additional institutionalisation of cooperation in this field with the 1999 Treaty of Amsterdam, which also incorporated the Schengen area in the EU. Such developments in the field of justice and home affairs were the results of the need to create the political and institutional conditions necessary for the EU to be able to respond to the challenges presented by the global economy, the need to suppress international organised crime, as well as to enable free movement of people as the fourth component of the internal market. The purpose of intensified cooperation in the area of home affairs in the EU is to establish a common area of freedom, security and justice.

More precisely, this area covers:

- Visa, asylum, migration and other policies related to the movement of people (Title IV of the EC Treaty), which are dealt with according to Community principles, whose aim is the provision of free movement of persons within the EU;
- Police and judicial cooperation in criminal matters and their operation (Title VI of the EU Treaty) aimed at preventing and suppressing: racism, xenophobia, terrorism, trafficking in human beings and acts against children, drugs and firearms trafficking, corruption and fraud.

The joint actions, common positions, framework decisions for approximation of the laws and regulations of the member-states, decisions, as well as conventions adopted by the member-states are EU legal instruments to achieve the established goals. The growing *acquis* in the area of justice and home affairs pose demanding requirements on EU institutions and Member States.

Title VII in the Stabilisation and Association Agreement (SAA), signed between the Republic of Macedonia and the European Communities and their Member States, is dedicated to justice and home affairs. Article 74 establishes that “the parties will attach particular importance to the reinforcement of institutions at all levels in the areas of administration in general and law enforcement and the machinery of justice in particular. This includes, in particular, the consolidation of the rule of law. Cooperation in the field of justice will focus in particular on the independence of the judiciary, the improvement of its effectiveness and training of the legal professions”.

The Agreement regulates the following fields of cooperation: visa, border control, asylum and migration (Article 75); prevention and control of illegal migration and readmission (Article 76); combating money laundering (Article 77); preventing and combating crime and other illegal activities (Article 78); special action against corruption, money laundering and illicit trafficking in drugs is also foreseen.

The Declaration from the Thessalonica Summit of 21 June 2003, as well as the Conclusions of the EU Council, 16 June 2003, including the Thessalonica Agenda: “Western

Balkans, way forward to European Integration” underline the importance of this field in the future integration into the Union, giving emphasis to combating organised crime and corruption and the need to strengthen regional cooperation.

* * *

The immediate context for the Republic of Macedonia – its geopolitical position, the recent history of conflict in the region, the state of frontiers, the post-conflict situation – puts further critical importance on all questions related to justice and home affairs, and sets complex requirements.

Integration in the common European area of freedom, security and justice, which will also mean the provision of freedom of movement in the European Union, is of primary interest for the citizens of the Republic of Macedonia. The existing visa regime with the Union, putting the Republic of Macedonia on the negative list – meaning that entry visas are required for the EU Member States - underlines the sense of isolation of Macedonian citizens from European life and developments. The negative impact of this issue on the overall reforms and individual activities of citizens is enormous, in particular having in mind that the visa regime with the European countries became more restrictive after the introduction of parliamentary democracy in the Republic of Macedonia, when the previous non-visa regime was abolished. With the accession of the new Member States to the Union, the visa regime is even more difficult for citizens of the Republic of Macedonia in these countries, so that the problem is getting worse. The accession process of Bulgaria, as a neighboring country of the Republic of Macedonia, and Romania, from the adjacent region, may additionally complicate the situation.

Therefore, the development of a strategic approach to the issues in this area, with the formulation, and, even more importantly, the implementation of a consistent policy in all integral and complementary segments, is the only model for the gradual integration of the Republic of Macedonia into the European area of freedom, security and justice, thus enabling free movement of the citizens of the Republic of Macedonia within the borders of the Union.

The development and implementation of policies in the area of justice and home affairs is directly related to strengthening the rule of law, guaranteeing freedom and rights for citizens and ensuring stability of the democratic institutions. It is not possible to consider this area separately from the other areas of integration, for example, the economic integration, particularly taking into consideration the reform in the judiciary as one of the three branches of the Government, which is mainly addressed in this part of the Strategy.

Formulation of the approach by the Republic of Macedonia towards integration in the area of justice and home affairs depends on several key principles:

- The need to provide a system of stable institutions that operate in the area of justice and home affairs and guarantee support to other sectors involved in integration;
- The need to bring in line the standards and rules necessary for establishing close cooperation between the relevant institutions in the Republic of Macedonia with institutions of the EU and its Member States;
- The need to formulate and implement adequate sectoral policies in the area of movement of persons;
- The need to have adequate and efficient measures to combat organised crime and corruption; and
- The need to strengthen regional cooperation.

The first part of this Chapter deals with the necessary institutional reforms in the field of justice and home affairs, bearing in mind that these are the key preconditions for the integration process in this field. The fight against organised crime and corruption gets special attention bearing in mind its complexity – globally, within the Union and on a regional level – and the commitment of the Republic of Macedonia to contribute towards this fight through national activities. A separate chapter deals with policies on the movement of persons, focusing on the measures undertaken by the Republic of Macedonia in order to harmonise its legislation and practice and to strengthen its capacities, so that it can participate in the common EU policy in the field of justice and home affairs.

In the context of further policy development in this field in the Republic of Macedonia, it should be noted that this area will be the subject of further transformation within the EU, especially in the context of constitutional changes in the Union, whilst the expansion of the Union to include ten new Member States has had a significant influence. Additionally, the development of the concept of the “wider Europe” and the policy of the “new neighborhood”, to a great extent, incorporate measures and activities in the field of justice and home affairs. Therefore, within the concept of integration in the area of justice and home affairs, the Republic of Macedonia will also evaluate and incorporate all necessary elements in its relations with third countries.

5.1. INSTITUTIONS IN THE FIELD OF JUSTICE

The Copenhagen criteria precisely determine the conditions for EU membership, especially emphasising the stability of the institutions that guarantee democracy, the rule of law, human rights and minority rights protection.

The overall transitional changes in the Republic of Macedonia have imposed on the third branch of government – the judiciary – major requirements for adjustment to new legal institutions that arise from the essential changes in the system. This process developed in parallel with the process of positioning this branch of government as a separate authority and the process of deep internal institutional changes. These circumstances resulted in increased challenges for the judiciary, with respect to the implementation of its key functions of protecting citizen's rights and freedoms and guaranteeing the rule of law.

The basic goal of the reform is the development of European standards in the system of justice. The guiding principles of this strategy are: to define and reconfirm the existing approaches for development of the institutions in the justice system in the Republic of Macedonia; to support the fulfilment of the commitments made in the process of stabilisation and association; and, to prepare the Republic of Macedonia for membership of the European Union. In this context, the priorities will focus on judicial reforms, especially on strengthening the independence of the judiciary, as well as on improvements in the efficiency of, and reductions in the number of cases in, the courts.

Application of the following underlying principles also represents the goals of the institutional reform in the judicial system:

1. The rule of law;
2. The principle of separation of authorities between the legislative, executive and judicial branches;
3. Guaranteed independence of the judiciary;
4. Protection of citizen's rights;
5. Guaranteed equal access to justice;
6. Acceptance of all relevant European standards in the field of justice; and
7. Enabling institutions in the justice system to apply European law and European Union law.

5.1.1. The Judiciary

Current status

The judiciary and the status of judges in the Republic of Macedonia has undergone significant transformation. A unified organisation of the judiciary in the Republic of Macedonia has been established, where special courts are prohibited. There are only courts of general jurisdiction (there are no specialised courts) – 27 courts of first instance, three appellate courts and the Supreme Court of the Republic of Macedonia. According to Article 32 of the Law on Courts (Official Gazette of RM, No. 36/95) 16 courts of first instance have extended jurisdiction.

Judges are appointed and dismissed by the Parliament of the Republic of Macedonia upon proposal by the Republic Judicial Council. The Republic Judicial Council consists of seven members, elected by the Parliament from among distinguished lawyers for a term of office of six years, with a right to be re-elected. Two of the members of the Republic Judicial Council are proposed by the President of the Republic, while the remaining five are proposed by the Committee on Election and Appointment of the Parliament of the Republic of Macedonia.

The Constitution and the law precisely regulate the requirements for appointment and dismissal of judges. Judges have life tenure and enjoy immunity. In 1996, after the adoption of the Law on Courts and the introduction of life tenure for judges, judges in the Republic of Macedonia were re-elected.

Although the Constitution and the laws basically establish institutional and functional guarantees for the independence and impartiality of the judiciary, one of the issues that is subject to public criticism and analysis in particular, is the mechanism for the appointment of judges, as an opportunity for political influence in the appointment process.

The total number of judges, according to the systematisation, is 665. Out of them, 24 are judges of the Supreme Court of the Republic of Macedonia, 84 are judges in the Appellate Courts, and the others are judges in the Courts of First Instance. The total number of employees in the judiciary who are not judges is 2092, which means a ratio of 3.3 employees per judge.

The Association of Judges, founded in 1993, is a professional association of judges which contributes towards strengthening the position of judges. It has adopted a Code of Ethics for Judges. The Association is particularly active in the area of training – the education of judges so far, has been organised mainly by the Centre for Continuous Education of Judges, established by the Judges Association in 1999.

The Parliament of the Republic of Macedonia adopted the Law on Court Budget in 2003, which regulates the procedure for preparing, establishing and implementing the Court Budget, as well as regulating the establishment and work of the Judicial Budgetary Council. The members of the Judicial Budgetary Council are the President of the Supreme Court (the Chairman), the Minister of Justice, the Presidents of the three appellate courts and three Presidents of courts of first instance, under a rotation system. The Council, as an operational body, defines the criteria and methodology for the preparation of the judicial budget, carries out the disbursement of funds to the courts and undertakes measures for timely implementation of the budget, approves funds for new employment within the set limits, appoints the internal Auditor, etc. The predominant influence of the judiciary over the discharge of the judicial budget is a significant step towards strengthening the independence of the judiciary.

Macedonian courts face problems related to long procedures and a very large case-load. This mainly refers to first instance courts, while the appellate courts resolve most of their cases within one year. In 2003, the Supreme Court of the Republic of Macedonia had 8,828 cases in all areas, out of which 4,615 cases remained unresolved at the end of

the year (4,075 of those are administrative disputes). This opens the issue of redefinition of the jurisdiction over the proceedings in administrative cases. In 2003, the appellate courts had 30,471 cases in total, with 2,232 unresolved cases at the end of the year, which can be considered as efficient operation. The issue of the scope of jurisdiction of the appellate courts is also relevant. Quite obviously, the courts of first instance have the most serious backlog of cases. These courts, in the past year had to deal with a total number of 1,163,319 cases, and there were 501,706 unresolved cases at the end of the year, i.e. they had an efficiency of around 50%. The majority of the backlog, according to statistical data, is related to misdemeanor cases – 146,003; administrative cases – 175,337 and litigations – 28,969.

This undoubtedly points to the need for urgent restructuring of the courts in the Republic of Macedonia and a redefinition of their jurisdiction. This will be achieved through amendments to the material and procedural laws and through restructuring. It was estimated that an average civil case takes one and a half to two years to be completed. The courts of first instance also have the biggest backlog related to misdemeanor cases, which clearly points to the priority areas that need to be tackled. Some provisions in the procedural laws also contribute to such inefficiency, resulting in delays in the procedure. Additionally, the caseload is inadequately distributed among the courts, notably amongst judges, and an important issue is also the productivity and allocation of the non-judicial personnel. On the other hand, the absence of a case management system and inadequate IT support for the courts, contributes further to the limited efficiency of the judiciary. The problem with the inefficient summons service has a direct impact on the delay in the procedures and contributes to the inefficiency in resolving court cases.

Cooperation with the courts in the EU member states and the region is not sufficiently developed, particularly in respect to strengthening the professional capacities in the Macedonian courts to apply European standards in the administration of justice and the application of European Law.

Priority Areas and Reform Policies in the Judiciary

The key challenge for the judiciary is to increase legal certainty for citizens and to strengthen their trust in the judicial system.

Considering the present operation of the court system in the Republic of Macedonia, the following priority areas require significant changes:

1. Strengthening the independence and impartiality of the judiciary;
2. Improvement of efficiency;
3. Human resources development;
4. Development of the judicial funding system; and
5. Strengthening IT support.

A comprehensive **judiciary reform strategy** will be prepared by the end of 2004, with the involvement of all relevant stakeholders in this field.

Strengthening the Independence and Impartiality of the Judiciary

(1) The consistent pursuit of the objective to develop an independent judiciary requires changes to the mechanisms for the appointment of judges, and the composition of, and mechanism of appointment to, the Republic Judicial Council in order to ensure the predominant influence of judges in the appointment of members of the Republic Judicial Council, and consequently, their impact on the nomination of holders of judicial office. For that purpose, a broad analysis and debate will precede the necessary amendments to the Constitution and related laws, that could be developed during 2005. A special com-

mittee has been established, made up of representatives from the judiciary and experts to support such initiatives.

In parallel with the initiation of such changes, there will be a comprehensive implementation of the commitment to eliminate political influences in the process of appointing judges. Also, measures will be taken by the Republic Judicial Council to establish objective criteria and performance standards in the process of nominating candidates for judges or proposals for dismissing judges, as well as for strengthening accountability mechanisms. This will significantly contribute towards more objective procedures for appointing and dismissing judges.

More precise definitions of the disciplinary responsibility of judges, of the role of the presidents of courts and of the Republic Judicial Council, an improvement in, and promotion of, the Code of Judicial Ethics and the introduction of anti-corruption procedures within the courts are all measures which will contribute towards strengthening the position of the judiciary, its independence and impartiality. This will, in turn, reinforce public trust and confidence in the judiciary.

Improvement in the Efficiency of the Courts

(1) *Simplification and speeding up of courts proceedings:* Currently, changes to the Laws on Criminal Procedure and on Litigation Procedure are being prepared, and the procedure for the adoption of a new Law on Enforcement that will annul the existing Law on Enforcement Procedure is underway. There will also be changes and amendments to the Law on Non-Contentious Procedure that is to be adopted in 2005. These amendments will ensure full observance of the principle of a trial within a reasonable time, by determining deadlines for the completion of specific procedural actions and by enhancing the instruments for its application and control. The amendments in the civil proceedings will include a deadline on the time when new evidence can be introduced, define a new position of the court meaning a restricted application of the investigation principle, and will abolish the legal remedy "protection of legality" that enabled the public prosecutor to intervene in civil litigations between individuals. There is also a need for changes to the Law on Courts, with respect to the organisation and jurisdiction of the courts.

(2) *More efficient supervision over the length of court proceedings* will be ensured by introducing special mechanisms within the courts, including, for example, the instrument of a *supervisory complaint*, which requires amendments to the Law on Courts, planned for 2005. The same objective will be reinforced by the precise definition of the competencies of the Republic Judicial Council in supervising the performance of judges, and the introduction of a list of sanctions for judges whose lack of diligence and professionalism leads to unjustified delays in court proceedings. The establishment of an effective system in this area is closely related to the requirement for constitutional changes related to the current position of the Republic Judicial Council.

In addition, within the current efforts to improve supervision over the length of court proceedings, the provisions of the Law on the Ombudsman enacted in 2003, stipulate precisely the authority of the Ombudsman to undertake protective measures to combat unjustified delays in court proceedings or to act against court administration staff who act without due diligence or responsibility in the performance of their duties.

(3) *Improvements in the system and procedures for the enforcement of court judgments and decisions* will be enabled by the adoption of the Law on Enforcement and Security that will supercede the Law on Enforcement Procedure. There will be two distinct stages in enforcement - approval of enforcement given by the court, and implementation of enforcement that will no longer be the responsibility of the court but will be transferred to executors - people with public authority whose status is fully regulated by the law.

With these changes, there will be fewer opportunities for the abuse of legal remedies in the enforcement process, because the grounds for appeal against enforcement decisions will be limited and the appeals will have to be justified and proven. The efficiency of the procedure will also be increased, because a large part of the enforcement process, so far conducted by the court through decisions and conclusions, will be transferred to executors, against whose actions no regular legal remedy is allowed.

(4) *Service of process of summons and court documents:* An improvement in the efficiency of service of process has been identified as an immediate priority. This will be achieved, on one hand, by undertaking measures in line with the current legislation, which will stimulate the productivity and efficiency of the personnel responsible for service of process, and will provide training and performance control, as well as more efficient organisation of their work. On the other hand, with the appropriate legal framework in place, the service of process will be carried out by specialised services outside the courts.

(5) *Exemption of misdemeanors from courts' jurisdiction:* The disposition of a substantial backlog of misdemeanor cases, the withdrawal of misdemeanors from court's jurisdiction, and a simplification in misdemeanor proceedings have been identified as issues that require attention in the short term.

(6) *Introduction of alternative dispute resolution system:* The development of a general system for alternative dispute resolution is a medium-term objective, which will contribute towards a reduction in the number of cases to be dealt with by the judiciary. New legislation pertaining to alternative dispute resolution will be drafted within three-years, especially in the areas of family law, labour law and consumers' protection. An ethical code for mediators will be developed and the introduction of the system will be supported by training future mediators.

(7) *Introduction of case management system.*

5.1.1.1. Human Resources Development

- (1) Developing the training system, as well as the procedures for recruitment, promotion and performance assessment of judges and court personnel, are identified as short-term priorities. The system of training of judges will be based on the principle of mandatory training and stimulation i.e., the results of such training will be taken into consideration in their career development and remuneration.
- (2) With the allocation of 2% of the independent court budget for the training of judges, a National School for the Training of Judges and Prosecutors will be established. The School will play a crucial role in the establishment and implementation of a system for the continuous education of judges.
- (3) Priorities in the development of the curriculum for judges are: the application of uniform standards in the administration of justice, particularly observance and protection of human rights consistent with European (i.e. international) standards; ensuring in-depth knowledge in the particular areas of the law which support the functioning market economy and integration into the European Common Market; the development of judges' capacity to apply the *acquis communautaire*, based on the principle of supremacy of Community law; and, general training on court management, case management and the use of relevant information systems. In this respect, programmatic study visits to EU member states will be a useful mechanism to improve the professional capacity of judges and to establish long-term cooperation among professionals.

- (4) Enhancing the efficiency of court administration requires consistent implementation of the current procedures for the recruitment, performance assessment and promotion of court administration staff. A reallocation of resources and other measures to improve their productivity are applicable within the current system of court management. A short-term priority is the introduction of a system of continuous training for court administration staff tailored to the needs of different categories and job profiles, and according to the specific areas that are important for immediate improvements in the operations of the courts.

5.1.1.2. Improvements to the financial system of the judiciary

The introduction of the independent court budget created a solid basis for the judiciary to make a more powerful impact on the allocation, distribution and management of resources provided for the courts. Hence, one of the short-term priorities is the consistent and efficient implementation of the Law on Independent Judicial Budget and the establishment of criteria for the financial system of the judiciary.

In the medium-term, the possibility of increasing the salaries of judges will be analysed, within the budget limits, as one of the important elements that determine the overall position of the judiciary in society.

5.1.1.3. Strengthening of IT support to the judiciary

The implementation of the Project on Computerisation of the Judiciary is considered to be a priority in the short term. After implementing the pilot projects, the software that has already been prepared will be fully applied in all courts. In the medium-term, a compatible IT system will be introduced in the courts. In parallel, there will be an compatibility will be developed to permit the system to be linked-up with other relevant institutions, such as public prosecutors' offices, prisons, lawyers, public notaries, the Ministry of Justice and the Ministry of Internal Affairs. This area includes activities aimed at developing standards for the exchange of information between different entities within the justice system, the preparation of a uniform system for data collection, statistical analysis, and case management, as well as implementation of the project to create a functioning web database for the Company Registry.

5.1.1.4. Transparency and Public Access to Court Processes

- (1) In order to improve the trust and confidence of the public in the judiciary, the relations between the courts and the media will be determined in accordance with the Law on Access to Information, which is in the process of adoption. The short-term priorities are: training for those in the courts responsible for communicating with the media, and the creation of web sites as a basis for the presentation of courts' activities and operations.

5.1.2. Other Institutions in the Justice System

5.1.2.1. The Public Prosecutors' Office

Current Status

The Public Prosecutors' Office, as an autonomous state body, is responsible for the prosecution of people who have committed criminal or other offences punishable by

law. The Public Prosecutor is appointed by the Parliament for a 6 year term of office and can only be discharged by the Parliament. He/she is granted immunity, the terms of which are determined by the Parliament. The professional qualifications required are equivalent to those required for appointment as a judge. The Public Prosecutors' Office is organised at three levels, based on the principles of hierarchy and subordination: Public Prosecutors' Office of the Republic of Macedonia (Chief Public Prosecutor and 10 deputies), 3 Higher Public Prosecutors' Offices in Skopje, Stip and Bitola, and 22 First Instance Public Prosecutors' Offices. The performance of the prosecutorial function is regulated by a Code of Conduct.

New crime trends, the cross-border character of many types of crime and other social circumstances that influence crime, impose the need for changes in the status, structures and procedures of the Public Prosecutors' Office, particularly in the way it cooperates with other bodies. These changes have been reflected in new legislative provisions.

II. Reforms of the Public Prosecutors' Office

The strengthening of the position and responsibilities of the Public Prosecutors' Office in crime prosecution, as well as the strengthening of its capacities in the prosecution of organised crime, are the basic goals of the new provisions contained in the Law on the Public Prosecutors' Office. The Law incorporates the Recommendation 19 (2000), adopted by the Ministerial Council of the Council of Europe on 6 October 2000.

1. Strengthening the status of public prosecutors

In order for public prosecutors to be successful and efficient, it is important to ensure the necessary conditions for their professional recruitment and promotion, the introduction of criteria for career development, reasonable conditions with respect to their status and remuneration, as well as means to ensure their personal security. It is also important to define the basis for disciplinary proceedings against public prosecutors who abuse their position. The new law strengthens the independence of this body and its independence from the executive branch of government, especially through the proposed provisions for life tenure of deputy public prosecutors. The prosecutors in the first instance Public Prosecutors' Offices will receive life tenure only after the expiry of the initial 6-year term of office. A Council of the Public Prosecutors' Office is also to be established.

The work of the public prosecutors is regulated by a Code of Professional Conduct, which has been improved during 2004, thus establishing regular internal control and standards of professional conduct for public prosecutors.

Also, a proper approach to public relations will be established, in conformity with the Law on Access to Information, which is also in the process of adoption.

2. Improvement of the efficiency of the Public Prosecutors' Office in criminal prosecution and cooperation with other institutions and participants in the procedure

Increased efficiency in the prosecution of criminal offences requires efficient cooperation between the Public Prosecutors' Office and the Police. The modalities of such cooperation need to be defined.

On the other hand, the Public Prosecutors' Office will strengthen its position as an institution that verifies the legality of investigative actions undertaken by the Police, and, in doing so, it will control the manner in which the police respect human rights during the proceedings.

Special emphasis will be placed on the establishment of an efficient witness protection system and the establishment of a system for the protection of the victims of criminal acts.

3. Strengthening of the capacities of the Public Prosecutors' Office in combating organised crime and corruption

The new law incorporates the measures directed towards specific action against organised crime that were adopted by the Government of the Republic of Macedonia in November 2003³, to strengthen the capacities of the Public Prosecutors' Office in the prevention of organised crime through the establishment of a special Department for the Fight Against Organised Crime and Corruption with a jurisdiction over the whole territory of the Republic. The Department will be operational by the end of 2004. This specialised Department will establish cooperation and coordination with all other entities involved in combating corruption and organised crime, mainly with the Ministry of Internal Affairs and the courts.

4. Human resources and infrastructure

An important element in the development of the Public Prosecutors' Office is the establishment of a system for training public prosecutors, by introducing mandatory training before taking up the post, as well as continuous training, especially regarding new types of crime, combating organised crime, witness protection, comparative criminal-legal systems and international cooperation in criminal matters. The training of public prosecutors will be conducted within the framework of the National School for Education of Judges and Public Prosecutors.

Regarding the infrastructure, one of the short-term priorities is the establishment of an IT system in the Public Prosecutors' Offices and the improvement of the technical equipment. In the medium term, there will be a functional electronic link established with other institutions – courts, police and prisons.

5. Strengthening regional cooperation

The Public Prosecutors' Office of the Republic of Macedonia will develop further cooperation with other Public Prosecutors' Offices in South-East Europe within the framework of a Memorandum of Understanding. The objective of the Memorandum is to achieve more efficient suppression of crime on a regional level. For that purpose, liaison officers will be appointed, and there are plans for a special database to be developed.

Simultaneously, the Public Prosecutors' Office will develop its cooperation with appropriate institutions and associations in EU Member States, both for the exchange of experience and the establishment of efficient mutual cooperation.

Reform of the Public Prosecutors' Office – Priorities (*new law of 2004*)

- Strengthening the status and independence of the Public Prosecutors' Office;
- Improvement of the efficiency of the Public Prosecutors' Office in criminal prosecutions and cooperation with other institutions and participants in the procedure;
- Strengthening the role in the protection of legality and human rights during the procedure;
- Strengthening capacities for combating organised crime;
- Human resources development;

³ Read more in Item 7: Prevention of organised crime and corruption

- Establishment of an IT system and its connection with the appropriate institutions;
- Regional cooperation: Memorandum of Understanding.

5.1.2.2. *The Bar*

Current Status

According to the Constitution of the Republic of Macedonia (Article 53), the Law on the Bar (Official Gazette of the Republic of Macedonia No. 59/2002), and the By-law of the Bar Association of the Republic of Macedonia (Official Gazette of the Republic of Macedonia No. 97/2002), the bar is an autonomous and independent public service providing legal assistance and carrying out public mandates in accordance with the law. It is performed by individual attorneys or attorneys working together in a law firm. They are registered, in conformity with the conditions prescribed by law, in the Book of Attorneys maintained by the Bar Association of the Republic of Macedonia (BARM). The attorney/lawyer provides legal assistance to any client with due diligence and to the best of his/her professional knowledge, according to the law, the Code of Ethics and other acts of the Bar Association, and keeps information revealed by his/her client confidential.

In the performance of his/her service, the lawyer/attorney is granted immunity. He/she cannot be apprehended or have his/her liberty restricted for a criminal offence committed in the performance of attorney's services without the prior consent of the Bar Association. The By-law of the Bar Association governs its mandate and operations, the rights and duties of attorneys, the procedure for issuing and withdrawal of licenses, and other relevant issues.

Priorities:

Amendments to the Law on the Bar are planned in 2005.

The priority issues are as follows:

- (1) Improvement of clients' protection by guaranteeing mandatory indemnification for malpractice;
- (2) Provision of continuous training for lawyers and exchanges of experiences with EU Member States; and
- (3) Adoption of a new Code of Ethics.

5.1.3. Enforcement of Sanctions

Current Status

The prison system in the Republic of Macedonia is based on the constitutional principle that the freedom of any individual cannot be restrained except by the decision of a court following proceedings defined by law. The convicted individuals have all the freedoms and rights defined by the Constitution, except the right of free movement under established mechanisms for control and supervision during imprisonment. The Law on Enforcement of Sanctions sets out the basis of the reforms following European standards.

The Sanctions Enforcement Administration is responsible for the management and development of the sanctions enforcement system. There are 8 prison-correctional institutions and two juvenile correctional institutions; of those one is a closed prison, 5 are semi-open prisons, one is an open prison, one is a juvenile prison and two are juvenile

correctional houses. The institutions are understaffed and there is a need to further improve accommodation facilities and equipment.

Reform policy in the sanctions enforcement system:

- *Improvement in the implementation of European standards in the prison system:*

In addition to the lawful implementation of the European Prison Rules of the Council of Europe, the UN Minimum Standard Rules for Treatment of Prisoners and the Convention on Prevention of Torture and Inhuman Treatment, the focus in the coming period will be on practical implementation through an improvement in living conditions in the institutions, respect of the rights to health protection and other guaranteed rights and, generally, provision of high quality treatment and re-socialisation.

- *The network of prison-correctional institutions is being redefined* in accordance with the need for longer imprisonment compared to previous sanctions, establishment of prison hospitals and definition of the status of the economic units operating within the prisons;
- *Improvement of living standards of convicted persons and improvement of the technical equipment in the institutions.*
- *Improvement of staffing levels* by improving the living standard of the employees and the conditions in which they perform their duties, as well as by continuous training (and defining the status of the Training Centre);
- *Introducing a system of enforcement of alternative measures;*
- *Implementation of the IT Project in the prisons and establishing links with the IT system in the Ministry of Justice, the Sanction Enforcement Administration and the courts.*

5.2. JUDICIAL COOPERATION IN CIVIL AND CRIMINAL MATTERS

5.2.1. Judicial Cooperation in Civil Matters

The judicial cooperation in civil matters (Chapter IV of the European Communities Treaty) is aimed at facilitating the member states to understand better the civil and non-contentious acts adopted in each member state, to enhance and simplify cooperation in the presentation of evidence, the taking of confessions and the enforcement of decisions in civil and commercial cases, including decisions brought in non-contentious cases. At the same time, judicial cooperation in this area should improve compatibility of legal norms applied by the member states concerning jurisdiction and conflict of jurisdictions, and should eliminate numerous impediments to the normal course of civil proceedings, and whenever necessary, ensure compatibility with civil procedure norms applied by the member states.

The essence of judicial cooperation in civil matters in the EU is not unification of the different legal systems of the member states, but adherence to common rules, which enables uninterrupted functioning, and equal protection of economic entities within the Common Internal Market, as well as the application of Community Law by all member states.

A general precondition for such cooperation in civil matters is the attainment of an appropriate level of harmonisation of the national legislation of the Republic of Macedonia pertaining to civil law with Community Law.

In order to establish and maintain judicial cooperation in civil matters, the following measures need to be undertaken in the Republic of Macedonia:

- Simplification and expedition of civil and commercial law proceedings concerning civil and non-contentious acts;
- Harmonisation of Macedonian provisions concerning conflict of law and jurisdiction with those applied by the EU Member States.
- Compatibility of norms applied in civil proceedings in the Republic of Macedonia with those applied by the EU Member States.

Harmonisation of Civil Legislation

The legal system of the Republic of Macedonia in the domain of civil law has been under constant reform ever since the country's independence. The key objective has been to adjust the legal system with new values guaranteed by the Constitution – market economy based on private ownership.

Major reforms were undertaken which resulted in new legislation in the area of ownership rights, contractual obligations, commercial companies (adoption of a new law is underway), banking, public utilities, consumer protection, competition, fiscal reform, intellectual property, and other civil law areas. Simultaneously, a legal and institutional framework in support of the processes of privatisation and denationalisation was developed. Future reform efforts will be aimed at continuing and programmatic approximation to European legislation, where crucial attention will be given to consistent implementation and capacity building.

The key weaknesses in the civil law reform have been identified in the civil procedure laws, namely the Laws on Civil Procedure, on Non-Contentious Procedure and on Enforcement Procedure, where comprehensive changes are under preparation.

Priorities for Judicial Cooperation in Civil Matters:

- 1) Further harmonisation of the national legislation concerning civil matters with the relevant EU legislation, particularly the procedural law and provisions concerning conflict of jurisdiction;
- 2) Further ratification and implementation of international agreements in this area;
- 3) Improvements in cooperation and coordination between line ministries, relevant public institutions, and courts in the Republic of Macedonia;
- 4) The establishment of a special unit within the Ministry of Justice (apart from the current department for international relations) which will be charged with maintaining relations with similar departments from the EU member states, and will be responsible for: collecting evidence for non-contentious proceedings and cases; determining the jurisdiction of law enforcement institutions in non-contentious cases; collecting evidence in civil and commercial cases; assessment of evidence in courts; and recognition and enforcement of court decisions and judgments;
- 5) Strengthening the administrative capacity of the Ministry of Justice and providing training for civil servants in this area;
- 6) The development of integrated databases for cooperation in civil matters between the Republic of Macedonia and the European countries, which will be connected to

the electronic data bases of other countries in the region and those of EU Member States;

- 7) Establishing a regional cooperation and coordination framework in this area;
- 8) Strengthening international and regional cooperation between the courts in the field of joint legal assistance, extradition and transfer of convicts, as well as in the direct exchange of information; and
- 9) Fostering cooperation with relevant institutions and preparation for accession to the European judicial network in civil and commercial matters.

5.2.2. Judicial Cooperation in Criminal Matters

The objectives of judicial cooperation in this area with EU member states are to facilitate and foster cooperation between responsible ministries and judicial or other relevant authorities of the member states in respect to criminal proceedings and the execution of judgments; to facilitate extradition; to the extent needed, to ensure compatibility of legal norms applied in this area; to prevent conflict of jurisdiction between member states, etc. In addition, judicial cooperation in criminal matters should establish minimal rules concerning constitutive elements of a given crime, and sanctions for organised crime, terrorism, and illicit drug trafficking.

The major precondition for successful judicial cooperation in criminal matters is harmonisation of the Macedonian criminal legislation with EU legislation, as well as its compatibility with the relevant EU norms.

Current Status Concerning Harmonisation of Criminal Legislation

The criminal legislation, both substantive and procedural, is under constant reform, and a high level of compatibility with the European standards and practices has been already achieved.

Amendments to the Criminal Code and the Law on Criminal Procedure were adopted in 2004, which enable implementation of ratified international conventions and harmonisation with EU legislation. The Republic of Macedonia has thus far adopted the most important conventions concerning criminal matters⁴. A significant novelty is the introduction of criminal liability of legal persons⁵. The most recent changes of the Law on Criminal Procedure provide for the broadest possible legal assistance, simplifying the procedure and conditions for obtaining such assistance, and for direct cooperation and exchange of information between prosecuting and judicial authorities. At the same time, the procedures for extradition and transfer of convicted persons have been brought into conformity with the EU legislation – the European Convention on Extradition, as well as the European Convention on Transfer of Convicted Persons.

⁴ The European Convention on Transfer of Convicted Persons (1999), European Convention on Mutual Legal Assistance in Criminal Matters with the Protocol (1999) and its Second Protocol (2001), European Convention on Extradition with the two Protocols (1999), UN Convention on Illicit Trafficking of Narcotic Drugs and Psychotropic Substances (1993), The Council of Europe's Penal Anticorruption Convention (1999) and the Civil Anticorruption Convention (2002), Convention on Money Laundering, Detection, Seizure and Confiscation of Crime Proceeds (2000), the Roma Statute of the International Criminal Tribunal (2002), the Council of Europe's Convention on Transfer of Criminal proceedings.

⁵ This was a result of bringing national legislation in line with the Second Protocol to the Convention on Protection of Financial Interest of EU as of 1997, OECD Convention on Prevention of Corruption of Foreign Officials in International Transactions.

Priorities:

- 1) Comprehensive harmonisation of the national criminal legislation with the relevant EU legislation.
- 2) Capacity building and development of responsible institutions (Ministry of Internal Affairs, Ministry of Justice, Public Prosecutors' Office and courts) for their effective cooperation in criminal matters and the continuing education and training of their staff.
- 3) Cooperation with relevant institutions and preparations for accession to the European judicial network.

5.3. REFORMS IN THE AREA OF HOME AFFAIRS

Current Status

The period after the independence of the Republic of Macedonia brought new challenges in relation to the rule of law and maintenance of internal stability in the country. The process of democratisation and the process of transition, accompanied by economic crisis, aggravated by regional instability, warfare and conflicts at a broader social level, were also characterised by the transformation of social values and norms of conduct. Such processes also resulted in new forms of crimes, with increased violence, the presence of organised and transnational crime, as well as significant increases in the level of re-offending.

Inter-ethnic tension was an additional aggravating factor in the process of internal democratisation and the guarantee of the principle of the rule of law.

The responsibilities of the Ministry of Internal Affairs are set out in the Constitution of the Republic of Macedonia, the Law on Internal Affairs, the Law on Organisation and Operation of State Administration Bodies and other laws and secondary legislation.

The Ministry of Internal Affairs is responsible for the uniformed part of the police, the criminal police, the border police, and the Intelligence Agency. The Heads of the Regional Police Offices are accountable to the Ministry of Internal Affairs. The Ministry is under the control of civilian minister, while the Parliamentary Committee supervises the work of the Ministry. According to the Strategy for Integrated Border Management, the Ministry of Internal Affairs will take over fully the management of border control from the Ministry of Defence by 2006. The Intelligence Agency, as a separate state body, is accountable to the President of the Republic.

The Ministry of Internal Affairs has a centralised model of organisation. The Bureau for Public Security and the Directorate for Security and Counter-intelligence are bodies within the Ministry. The public security system is entrusted to the Bureau for Public Security, which consists of the Criminal Police Department (civilian forces), and the Police Department (uniformed forces). The execution of activities related to security and counter-intelligence⁶ is under the competence of the Directorate for Security and Counter-intelligence (DSC). There is a special Parliamentary Committee for monitoring the work of the DCS and the Intelligence Agency.

The Ministry of Internal Affairs is organised at three levels: the central level comprising the headquarters of the Ministry of Internal Affairs, the regional level including 12 Sectors

⁶ Matters related to the protection from espionage, terrorism or other activities aimed at destroying democratic institutions by forceful means, as well as protection from serious forms of organized crime are regulated by the Constitution of the Republic of Macedonia.

for Internal Affairs, and the local level including 23 Units for Internal Affairs. In June 2003, the Ministry of Internal Affairs performed its functions with 11,135 employees, of whom 60.7% were uniformed police, while 11% were in the Criminal Police Department.

According to the Constitution (Article 95) and the Law on Civil Servants,⁷ the civil servants and those appointed (except the Minister and his deputy) cannot be politically active. According to the Law on Local Self-Government⁸, the Head of the Regional Office of the Ministry is appointed by the Municipal Council from among three candidates proposed by the Ministry. There is a clear legal procedure and conditions for the dismissal of appointed officials.

The work of the Criminal Police in the area of detecting modern forms of organised crime, corruption and money laundering, was, to a significant extent, aggravated because of the constitutional restriction on implementing special investigative measures. This was resolved with the adoption of the Amendment to Article 17 of the Constitution of the Republic of Macedonia. Specific laws on communications surveillance, witness protection and combating terrorism are under development which will be implemented through the adoption of relevant secondary legislation and changes in the criminal legislation, which should be adopted by the end of 2004 and the beginning of 2005.

The criminal and uniformed police are inadequately equipped with IT and other equipment, creating an additional difficulty in the performance of their functions within the Ministry of Internal Affairs. Consequently, there is an urgent need to instal the relevant IT and telecommunication infrastructure, to improve the capacity of the crime forensic service, and to establish an efficient system for the collection and analysis of criminal data, with appropriate links between the records maintained by the Ministry and those of other competent state bodies, institutions and judiciary bodies.

The absence of a permanent system for education and training and a consistent system for human resource management, presents serious difficulties in establishing efficient police. In this respect, the abolition of the specialised higher education in this area in 1995 proved to be unsustainable. The perceived need for continuous education to meet the needs of the police resulted in the establishment of the Police Academy in 2003.

5.3.1. Police Reform

A wide range of reforms related to the Framework Agreement have been undertaken, primarily aimed at improving efficiency in combating crime, confidence building among citizens from all communities and incorporating European standards in implementing the principle of the rule of law. During 2003, the focus was concentrated on stabilising the situation and preventing activities of criminal groups as a consequence of the 2001 conflict. In parallel with these measures, activities to achieve equitable representation of the members of the communities in the police and to strengthen confidence among citizens were intensified. The results in this area made it possible to re-focus activities towards strategic measures with long-term implications, as well as institutional strengthening. Within this framework, the reform of the police has a key place. All these activities also are supported by the EU police mission PROXIMA.

The Police Reform Strategy has been adopted (2003), along with Measures for Concrete Actions Against Organised Crime (2003), the Strategy for Integrated Border Management (2003), the Migration and Asylum Action Plan (2003), the National Programme for Combating Trafficking in Human Beings and Illegal Migration (2002), and other documents.

⁷ Official Gazette of RM, No. 59/2000, (112/00, 34/01, 103/01 and 43/02).

⁸ Official Gazette of RM, No. 5/2002.

The police reform is aimed at creating a modern police force, based on the principles of the rule of law, and protection and respect for human rights and freedoms.

The key objectives established in the Police Reform Strategy are:

- Efficiency in police operations;
- Organisation, professionalism and efficiency;
- Technical and technological equipment;
- Accountability and motivation of employees; and
- Police functioning as a service for citizens.

The enhanced efficiency of police operations will result in increased safety and security of persons (natural and legal) and property (private and state owned), reduction in the crime rate and a higher level of disclosure. Efficient coordination of the police with other state institution in enforcing the laws, cooperation with citizens, openness to the public and efficient international cooperation are all prerequisites for achieving such results.

The reform goals are: the introduction of organisational units that will be easy to manage; the establishment of a self-accountability system on a regional and local level; the development of an organisational structure reflecting tasks; a reduction in the need for the daily allocation of tasks; the elimination of possible overlapping competencies and multiple supervision that will be replaced by professional supervision and control along hierarchical lines; the fostering of the transfer of information by reducing the number of organisational units and removing the so-called “non-police” functions; and, the establishment of a consistent organisational structure for the Ministry of Internal Affairs, according to European standards, which will ensure full implementation of the essential police functions.

The transfer of competences to the Regional Offices, which will bring about certain degree of independence in their performance and in the use of financial resources, will result in enhanced accountability and motivation of employees. The motivation of employees will be also stimulated through a professional system of recruitment, promotion and evaluation, and the protection of labour rights. At the same time, mechanisms for the protection of human rights and freedoms in the work of the police are being strengthened. An independent internal control system with respect to professional standards will be implemented by the establishment of a special Internal Control and Professional Standards Unit directly accountable to the Minister.

One of the priority areas of the reform is the establishment of a consistent system of continuous professional development for staff and the application of modern management methods, as well as on-going training of employees in the application of new working methods.

In order to provide relevant education for the personnel who will be working in the area of police and home affairs, a Law on the Police Academy was adopted, which enables graduate, specialised, masters and doctoral studies, as well as continuous education for the needs of the Ministry of Internal Affairs and other administration bodies. The Action Plan for development of the Police Academy 2003-2008 has also been adopted. The Academy is now to meet all the legal requirements for operation, having developed curricula, recruited teaching staff and procured equipment.

A system of “community policing”, i.e. joint action by the police and citizens, is being introduced to resolve security problems in the local community through pro-active programmes, as well as through confidence building measures designed to achieve equitable representation of the members of the under-represented communities in the police structure.

Increased transparency in the work of the Ministry of Internal Affairs and greater openness towards the citizens will also contribute towards enhancing the confidence of citizens in the law enforcement bodies.

The reforms in the police also involve considerable strengthening of the Organised Crime Unit⁹, with parallel strengthening of the capacities for crime-intelligence analysis.

Police reform – priorities:

- Reorganisation and deconcentration;
- Professional standards, human rights protection;
- Strengthening of capacities to combat organised crime and analyse crime-intelligence;
- Human resource development: accountability, motivation, continuous educational system – Police Academy;
- Upgrading of the IT system, establishment of databases and their management in accordance with EU standards;
- Proactive approach with the local community; and
- Transparency.

The improvement of police efficiency largely depends on the upgrading and modernisation of the IT-telecommunication network and building an integrated information system with databases and management standards which will enable cooperation and gradual integration into the Schengen system.

These reforms, in the medium term, will result in a fully transformed police service, in accordance with the European standard, capable of cooperating on an equal footing with the police services of the EU member-states and able to implement the *acquis* in the area of justice and home affairs, and notably the Schengen *acquis*.

5.4. PERSONAL DATA PROTECTION

The protection of personal data is a legal imperative in exchanging information; a mechanism that provides trust between the investigating bodies, and at the same time supports international investigations. Without efficient functioning of this mechanism it is not possible to have an efficient indictment procedure of high quality, especially when persecuting organised criminal groups.

This system implies an understanding of how to achieve an efficient and advanced technical and IT culture, as well as respect for the protection mechanisms related to human rights and privacy.

The functioning of the system for personal data protection is a condition without which the development of an efficient exchange of information with EUROPOL and the Schengen zone countries is impossible.

Current Status

The Constitution of the Republic of Macedonia of 1991 guarantees the safety and confidentiality of personal data, and, in particular, the protection of the personal integrity of citizens when personal information is processed electronically. The Law on the Protection of Personal Data was adopted in 1994. It regulates the collection, processing and retention of information. This Law defines legal, organisational and technical measures against illegal gathering, analysing, destroying and imparting data, as well as illegal access to data or databases. In January 2002, the Law for Amendment of the Law on

⁹ More details in 5.8.: Prevention and combat against organised crime

Personal Data Protection was enacted ("Official Gazette of RM" 4/2002), in order to enable an appropriate level of personal data protection, incorporating the principles of legal processing of personal data, especially the special categories of personal data, as established by Directive 95/46/EC.

The 1981 Convention for Personal Data Protection regarding automatic processing of personal data of the Council of Europe has been ratified.

A new Law on Personal Data Protection is being drafted, aimed at harmonisation with EU standards in this area. Considering that the enactment of this law is the key precondition for the implementation of all activities related to policies for the free movement of people, as well as for the implementation of previously adopted strategies and action plans in the Republic of Macedonia, its enactment is of the highest priority.

The ultimate goal is to establish an efficient legal framework and operational system for the protection of personal data fully compatible with that of the EU, as a prerequisite for international protection and exchange of data, and respect for human rights and privacy.

The responsible bodies are the Ministry of Internal Affairs, and, with the enactment of the new Law on Personal Data Protection, the Directorate for Personal Data Protection. This is an independent state body responsible for supervision to ensure the legality of personal data processing activities.

Priorities:

- (1) Adoption of the Law on Personal Data Protection, harmonised with EU standards and supported by secondary legislation, which will: define types of data that can be contained in databases; define access rules to personal databases in accordance with EU standards; establish an independent supervisory body; and create procedures for citizens to access their personal data, and, if necessary, to ensure that errors are corrected;
- (2) General awareness raising regarding the importance of the personal data protection system and the need for it to be respected.

5.5. POLICE AND CUSTOMS COOPERATION

5.5.1. Police Cooperation

Police cooperation within the EU incorporates joint activities agreed by the Council of the European Union and implemented through the European Police Service (EUROPOL).

To implement the joint activities, operational cooperation is established between the relevant police, customs and other specialised law enforcement services aimed at: preventing, detecting and investigating criminal acts; gathering, maintaining, analysing and exchanging relevant information, including suspicious financial transactions; cooperation and joint initiatives in the area of training; exchange of liaison officers and other officials; the use of equipment and forensic techniques, as well as joint evaluation of special investigative techniques, related to the identification of serious forms of organised crime.

EUROPOL, in close cooperation with officer-experts, supports and coordinates special investigations conducted by the relevant bodies of member-states. EUROPOL may request that a member-state conducts an investigation or that its expertise be put at the disposal of another member-state in the investigation of organised crime.

Current Status

Matters related to international police cooperation in the Republic of Macedonia are the responsibility of the Sector for International Police Cooperation, in the Ministry of Internal Affairs. The National Central Bureau of Interpol, within the Sector, is responsible for police cooperation at an operational level.

The Police Reform Strategy provides opportunities to promote the expansion of co-operation with European police organisations, in particular with EUROPOL.

A prerequisite for intensified cooperation with EUROPOL and with the EU member-states is the adoption of the Law on Personal Data Protection. In addition, it is necessary to permanently enhance the analytical capacities of the law enforcement services, their mutual cooperation in investigations, and provision of evidence.

Priorities

In the short term, the objective of the Republic of Macedonia is to sign a Cooperation Agreement with EUROPOL, while, in the long term the objective is to promote strategic and operational cooperation .

- (1) Harmonisation with EU standards and implementation of the Law on Personal Data Protection ;
- (2) Signing a Cooperation Agreement with EUROPOL;
- (3) Upgrading equipment and IT systems to support the exchange and security of information; and
- (4) Continuous training of staff.

5.5.2. Customs cooperation

Current Status

Changes were made in the 1998 Customs Law aimed at achieving greater efficiency in the customs procedures, taking account of the principles of selectivity and risk analysis and the simplification of procedures. With the Law on Customs Administration, adopted in July 2004, the procedures and management of the Customs Administration have been harmonised with European standards and the Customs Administration was given special responsibilities to implement the law.

In the harmonisation process, special emphasis is given to defining the operational responsibilities of the Customs Administration, and its role as a service that will actively participate in the suppression of cross-border crime. The secondary legislation required to operationalise the responsibilities of customs officers as set out in the Customs Law is being prepared. This relates primarily to regulations covering the carrying and use of arms, the use of special investigative techniques and equipment in suppressing crime, the increase of control within the customs area, etc.

The principle of transparency in the operation of the Customs Administration, as a organisation that is primarily defined as a service to businesses and citizens, is satisfactorily implemented, in particular through the availability of information on the web-site of the Customs Administration.

The IT system is established in accordance with the rules for gathering, analysing and exchanging information in the different areas of customs operations, following the standards of the World Customs Organisation, the EU and the UNCTAD Programme. This system is operational and accessible for all stakeholders around the clock.

In order to support the prevention of organised crime and corruption, an open line for citizens, traders, transporters and all other concerned stakeholders has been established. They can report cases of smuggling, illegal trafficking of arms or drugs, or cases of corruption to the relevant services. Trained officials analyse the information that is received and conduct further investigations in cooperation with the police and the Public Prosecutors Office.

Priorities

- (1) Adoption and implementation of secondary legislation aimed at the operationalisation of responsibilities defined in the Customs Law; establishing transparent and clear procedures with detailed description of the authorisations and responsibilities of customs officers;
- (2) Reorganisation and human resource development aimed at developing a highly professional customs service focused on clients and dedicated to the provision of services;
- (3) Further development of the selectivity system, which contributes to more efficient control;
- (4) Development of information systems to fully support different customs procedures and responsibilities, including the introduction of IT applications in customs procedures;
- (5) Full coverage with appropriate surveillance equipment at border-crossing points and terminals aimed at providing control and efficiency during the flow of passengers and goods, as well as the prevention of illicit cross-border activities;
- (6) Defining a generic and specialised training programme with an appropriate institutional framework, as well as establishing a joint training programme with other services involved in cross-border cooperation and combating organised crime;
- (7) Strengthening communication with the public and coordination with other governmental bodies and NGOs to enhance public opinion and public awareness about the importance of having an efficient customs system; and
- (8) Development of customs cooperation at national and international levels.

5.6. PREVENTION OF ORGANISED CRIME AND CORRUPTION

5.6.1. Combating Organised Crime

Organised crime is a relatively new phenomenon in the Republic of Macedonia. The increase of trans-national criminal organisations at a global level and security problems in the region, accompanied by embargoes and internal transitional problems, were the factors that contributed to the emergence of organised crime. The Republic of Macedonia is particularly susceptible to cross-border crime, given its geographical location.

The analysis of statistical data by the Ministry of Internal Affairs shows increased intensity in the most serious criminal acts, such as the smuggling of drugs and firearms, and those criminal offences which, statistically, are recorded as acts of organised crime.

The latest information shows that the efficiency of the responsible bodies has improved, especially in relation to human trafficking, illicit drugs trafficking and corruption. However, in practice, the lack of proper regulations limits the gathering of evidence and its processing. Therefore, besides the development of an appropriate legislative

and institutional framework, it is essential to strengthen the capacities of all institutions involved in this area and to allocate the appropriate resources.

Strengthening the capacities for combating organised crime and corruption, both at national and regional level, is a strategic interest of the Republic of Macedonia. Such intentions coincide with the explicit EU commitments articulated at the London Conference (2002) and the Thessalonica Summit (2003), supported by specific EU programmes.

In November 2003, the Government adopted measures aimed at specific action against organised crime, while the National Action Plan for combating trafficking in human beings and illegal migration was adopted in February 2002, with measures aimed at specific action against organised crime, which are coordinated at a regional level.

Legal Framework

The Republic of Macedonia is continuously making efforts to follow and implement international norms in this area. So far, the Republic of Macedonia has ratified the most important multilateral agreements for combating crime.¹⁰

This framework includes a number of laws, such as: the Criminal Code (1996); the Law on Criminal Proceedings (1997); the Law on Money Laundering (2001); and the Law on Financial Police (2002). In December 2003 the Parliament adopted the Amendment to Article 17 of the Constitution of the Republic of Macedonia, which enabled the use of special investigatory methods. The new laws, in principle, incorporate European standards deriving from international treaties and recommendations, and serve as a solid basis for establishing an efficient system of crime prevention and suppression.

According to the Criminal Code of the Republic of Macedonia (November 1996, amendments of 1999 and 2004) acts of organised crime are defined in accordance with international standards. The Criminal Code stipulates that membership of a criminal organisation is considered a criminal act, while criminal acts committed by several persons or an organised network is considered a criminal act of organised crime. The law also stipulates that criminal codes will apply to nationals of the Republic of Macedonia when they commit a criminal act abroad. This provision supports international cooperation.

The latest amendments to the Criminal Code further strengthen the penal policy regarding criminal offences related to organised crime, while new provisions and criminal offences are introduced that will facilitate the discovery and successful prosecution of such criminal offences. In this respect, there are new penal provisions incorporated in the Criminal Code which relate to the smuggling of migrants, illegal influence on witnesses, etc. For some criminal offences, the offender may be exempted from punishment¹¹ if

¹⁰ The European Convention on Transfer of Convicted Persons with the additional Protocol (1999), the European Convention on Mutual Legal Assistance in Criminal Cases with the additional Protocol (1999). Second additional Protocol of the European Convention on Mutual Legal Assistance in Criminal Cases (2003), the European Convention on Extradition with the two Protocols (1999), Penal Anticorruption Convention (1999), the Civil Anticorruption Convention (2002), Convention on Money Laundering, Detection, Seizure and Confiscation of Criminal Proceeds from a criminal offense (1999), UN Convention on illegal trade in narcotics and psychotropic substances (1993), the Roma Statute of the International Criminal Court (2002), Protocol number 12 to the Convention for protection of human rights and fundamental freedoms (2004), Protocol number 13 to the Convention for protection of human rights and fundamental freedoms, regarding the abolishment of the death penalty in all circumstances (2004), International convention on repressing terrorist attacks with explosives (2004), International convention on preventing funding of terrorism (2004),. The procedure for ratification of the UN Convention Against Transnational Organised Crime is underway, together with the Protocols related to Trafficking in Human Beings and Combating Smuggling of Immigrants.

¹¹ The criminal offence "unauthorized manufacturing and sales of narcotic drugs, psychotropic substances and precursors".

the offender reveals, or significantly contributes to the discovery of, the offence while the perpetrator of such criminal offences is not exempt. The amendments also include the penal responsibility of legal entities which facilitates investigations into organised crime, especially criminal offences related to economic and financial crime. The amendments strengthen the arrangements for investigation and the application of penalties in the area of financial crime, money laundering and corruption,¹² and introduce the confiscation of criminal proceeds as a penal measure.

The Law on Criminal Procedure has also been amended. It enables greater efficiency in criminal proceedings, and implements the Amendment to Article 17 of the Constitution, as well as implementing the international conventions that have been signed in this area. In addition, provisions for the protection of victims, for compensation for damage to victims, and for witness protection have been introduced. Also, the provisions enable the use of special investigation techniques, as a powerful law enforcement instrument.

In order to implement the Amendment to Article 17 of the Constitution, the Law on Conditions and Procedures for Monitoring Communications and the Law on Witness Protection will be adopted in 2005.

In the medium-term, a more extensive reform of the criminal legislation is required. In this respect, a legal procedure should be defined to transfer the burden of proof regarding property to the defendant, which is especially important in proceedings related to organised crime and money laundering.

During the implementation of the priorities, the protection of human rights and civil rights, guaranteed by the Constitution of the Republic of Macedonia, is to be the common denominator.

Institutional Support

The measures to combat organised crime will be supported by activities focused on institutional development, especially for the specialised units defined in the document Measures Aimed at Concrete Action Against Organised Crime adopted by the Government.

With regard to the police reform, a special Department for Organised Crime has been introduced in the organisational structure of the Criminal Police.¹³

The establishment of a special Department for Organised Crime in the Public Prosecutor's Office, as well as specialised training for judges in cases of organised crime will contribute to strengthening the capacities for preventing and combating organised crime.

In accordance with the Law on Money Laundering, the Directorate for Money Laundering Prevention was established within the Ministry of Finance in March 2002. The Law on Money Laundering and Other Income Considered as a Criminal Act, adopted in July 2004, defines the competence of the Directorate and its relations with other entities, physical and legal persons, and implements European standards. The measures for combating organised crime include specific measures to strengthen the capacities of the Directorate. In addition, a special National Strategy for Combating Money Laundering is

¹² Of relevance in this area, specially regarding combating corruption, is the criminalisation of "concealing the origin of inadequate possession of property", which covers officials and the responsible persons in a public enterprise or institution, who give false data about their incomes, or for whom it is established that their property to a great extent exceeds their legal incomes.

¹³ A special Sector for Financial Crime, a Sector for International Police Cooperation, a Sector for Special Investigation Techniques, a Unit for Witness Protection, and a Unit for Searching Activities will be established. Also, the establishment of a special Sector for Criminal Intelligence Analysis is planned; it will exchange information with the relevant sectors in other specialised units, such as the Directorate for Money Laundering Prevention, the Financial Police and the Customs Administration.

to be adopted by the end of 2004. It is important that the Directorate fulfils the required technical, personnel and operational conditions in order to participate in the international organisation of similar institutions, the so-called EGMUND group, and participate in the direct exchange of information.

The Financial Police is an operational service for law enforcement, which, in accordance with the Law on Financial Police, is part of the Ministry of Finance. The Financial Police is authorised to collect evidence in the pre-criminal procedure, while the financial officials have the same authority as the officials in the Ministry of Internal Affairs. The staffing and training of this service is underway.

Considering the phenomena of organised crime and the need for a multidisciplinary approach in combating it, it is necessary to establish at the operational level close cooperation between different specialised institutions in order to exchange information and coordinate activities. For that purpose, activities are being undertaken to establish a National Centre for cooperation, collection, analysis and exchange of crime-related information. This Centre will be assisted by all institutions, which within their operational competencies, are actively participating in the suppression of organised crime.

In order to improve the efficiency in combating organised crime, it is essential to establish compatible and mutually connected databases in all relevant institutions, with further links with appropriate networks at a regional level. This is a task that has to be completed in the medium term.

Regional and international cooperation

Specific results in the efforts to strengthen the capacities in combating organised crime, corruption and money laundering have been achieved through active cooperation with different international organisations and initiatives. The Republic of Macedonia is actively participating in the Stability Pact initiatives for organised crime (SPOC), corruption (SPAY), in the group of states for combating corruption within the Council of Europe (GRECO), and the Committee for Assessing Measures for Money Laundering (MANIVAL), while concrete results in improving the capacities are achieved in cooperation with UN and European Union units.

The Ministry of Internal Affairs and the Customs Administration undertake a number of activities, which, together with the relevant services in the neighbouring, and other, states in the region, have signed bilateral cooperation agreements in areas related to combating crime. In September 2003, the Adriatic Charter was signed in Ohrid (Republic of Macedonia, Republic of Croatia, and Republic of Albania) to enhance cooperation in combating organised crime and trafficking in firearms, drugs and people. Bilateral agreements for cooperation in the area of organised crime have been signed with the Republic of Albania, Serbia and Montenegro. The Republic of Macedonia will continue discussions in order to enter into such agreements with all countries in the region.

Priorities:

- (1) Ratification of the UN Convention on Combating International Organised Crime and its Protocols;
- (2) Adoption of the Law on the Conditions and Procedure on Communications Surveillance, and the Law on Witness Protection (2004);
- (3) Establishment of the necessary institutional infrastructure to support the application of special investigation measures;
- (4) Establishment of a Central Service for Analysing Criminal Intelligence Data and the development of a pro-active and multidisciplinary approach in investigations, based on good analytical information and analysis;

- (5) Development of capacities to implement quality financial investigations and the use of temporary measures for seizure;
- (6) Education and training of personnel, including training judges and public prosecutors;
- (7) Establishment of compatible databases and systems for exchanging data between the bodies responsible for the prevention of organised crime; and coordination of activities through the National Centre for cooperation, collection, analysis and exchange of crime-related information;
- (8) Preparation of a National Strategy for Combating Money Laundering;
- (9) Staffing and technical equipment of the Directorate for Money Laundering Prevention, and fulfilment of the necessary conditions for the participation of the Directorate in the EGMUND group, full staffing and provision of technical equipment for the Financial Police.

5.6.2. Prevention and Suppression of Corruption

Public opinion polls regarding corruption indicate enhanced awareness of the public about this problem. There is a general perception that the level of corruption is high, while foreign investors believe that it is one of the key factors that discourages direct investments necessary for economic growth and the creation of new jobs. However, statistics on criminal offences related to corruption are not in balance with the general views regarding corruption. This is most probably a result of the general difficulties in detecting these offences, but also a result of the constitutional limitation on the use of special investigation measures. It is expected that increased pressure from the public, the increased level of political will and the development of the necessary legal mechanisms will contribute towards more visible results in combating corruption.

The ultimate goal is to create an environment of “zero tolerance” of corruption, and to turn corruption from a low risk and highly profitable activity into a high risk and low profit activity. It is a fact that, in the long run, corruption will be prevented by general strengthening of the institutions guaranteeing democracy, and by enhancing mechanisms for horizontal control among the institutions in the system (system of integrity). However, it is also necessary to develop specific activities and legal measures aimed at preventing and suppressing corruption.

The Anti-Corruption Law was adopted in 2002, and it was amended in June 2004.

In November 2002 the State Anti-Corruption Commission was established. The members of the State Commission are elected by the Parliament of the Republic of Macedonia. The Commission is independent and autonomous in exercising its legal competences. The members of the State Commission submit annual reports to the Parliament of the Republic of Macedonia. The role of the Commission is primarily preventative and supervisory.

In June 2003, the Commission adopted a State Programme for the Prevention and Suppression of Corruption. The State Commission has made an impact on strengthening the accountability of officials and legal entities with statutory responsibilities for the management of public funds. Full implementation of the recommendations included in the State Programme will contribute to the development of an efficient system for preventing and suppressing corruption, strengthening the rule of law and developing the economy.

Measures to reduce discretionary rights in the administration and the introduction of the system “first-come-first-served” by the Government are also aimed at eliminating possibilities for corruption.

In state administration bodies, especially in those with a high volume of public procurement, specific measures are being taken to combat corruption (for example: recording the proceedings, changing the committee members etc). In parallel with the changes to the Law on Public Procurement, these specific measures will result in a consistent mechanism of control in order to prevent corruption, especially in public procurement procedures.

The State Programme for the Prevention and Suppression of Corruption is, to a significant extent, supported by the civil sector (media, NGOs, university institutions and independent experts), and the private sector.

Priorities:

- (1) Ratification of the United Nations Convention on combating corruption;
- (2) Implementation of the State Programme for the Prevention and Suppression of Corruption;
- (3) Enhancement of the independence of the State Commission and acquisition of the status of a legal entity;
- (4) Introduction of strict mechanisms for the control of public procurement proceedings; and
- (5) Enhancement of cooperation between state bodies and the civil sector.

5.6.3. Combating Terrorism

Activities have been undertaken to develop a relevant legal framework by adopting a special Law on the Fight Against Terrorism, by implementing relevant international instruments, and amendments to the current criminal legislation. The Republic of Macedonia ratified the European Convention on Combating Terrorism, adopted by the Council of Europe in January 1997, and the ratification of the UN Convention on the Fight against Terrorism is in process.

The penal policy regarding criminal offences related to terrorism has been enhanced through the adoption of changes in the Criminal Code. The establishment and membership of terrorist organisations, and the provision of assistance (by funding or other means) to terrorist and other criminal organisations and groups are now defined as criminal acts. Given that the control of funds to support terrorism is of significant importance in combating terrorism, the penal provisions related to money laundering have been changed, and the Law on Money Laundering has been amended to incorporate the special recommendations to combat terrorism of the FATF as well as other international recommendations. In this respect, it is important to strengthen the Financial Police, the Directorate for Money Laundering Prevention and the other institutions that have a legal responsibility to report on specific financial transactions, in order to implement the measures aimed at controlling the funding of terrorism. It is also necessary to involve the responsible bodies efficiently in the international exchange of financial and other intelligence data.

Considering the general Guidelines on Human Rights and Combating Terrorism of the Committee of Ministers of the European Council, the full guarantee of human and civil rights is to be secured by implementing measures to combat terrorism.

With regard to international activities, the Republic of Macedonia is actively participating in all regional and international initiatives to combat terrorism, such as the Council of Europe Multidisciplinary Group for International Action Against Terrorism (GMT), and in the work of expert committees for special investigation measures related to terrorist acts (PC-TI), and witness protection (PC-PW).

Priorities:

- Ratification of the UN Convention on Combating Terrorism;
- Adoption of a Law on Combating Terrorism;
- Strengthening control measures for funding terrorism;
- Strengthening the capacities of the specialised unit for combating terrorism in the Ministry of Internal Affairs, of the Directorate for Money Laundering Prevention, and the Financial Police; and
- Efficient involvement in international cooperation on detecting and investigating terrorism.

5.7. VISA, ASYLUM, MIGRATION AND OTHER POLICIES RELATED TO FREE MOVEMENT OF PERSONS

The establishment of the Schengen system implied a number of measures related to the free movement of persons – visa, asylum and migration and other policies in this area. With the 1999 Amsterdam Treaty, the EC covered the Title under the heading “Visa, Asylum, Migration and other Policies Related to the Free Movement of Persons” as one of the priorities of the Community covering measures related to external border control, asylum and migration and judiciary cooperation in civil matters.

The harmonisation of legislation and practice of the Republic of Macedonia in this area is of prime importance, because the full implementation of European standards in this area will significantly contribute towards the integration of the Republic of Macedonia into the European area of freedom, security and justice.

The strategic priorities of the Republic of Macedonia take several elements into consideration:

- a) Policy and practice to date in the area of free movement of persons across the borders of the Republic of Macedonia depended, to a significant extent, on the situation in the region. The Kosovo crisis in 1999 in particular with the enormous influx of refugees that resulted was an extremely difficult challenge for the operation of the system.
- b) The present situation in the Republic of Macedonia is characterised by intensive work to strengthen policies relating to the movement of persons through strategic planning (adoption of strategies and action plans) and the development of relevant legislation compatible with that of the EU. All strategic documents adopted so far indicate that there is a critical need to strengthen administrative capacities through training and urgent upgrading of IT systems.
 Unless the harmonisation of the legislation is followed by relevant institutional strengthening it will not produce the required results. The allocation of suitable personnel with adequate capabilities, the provision of continuous training, and, in particular, the development of the necessary IT support through the development of integrated IT systems and databases are crucial in implementing the policies for the free movement of persons.
 The establishment and maintenance of continuous inter-ministry cooperation is equally important.
- c) In parallel with the harmonisation of the legislation and the application of EU standards, cooperation with the EU should be developed in this area, with gradual integration into the relevant systems for the exchange of information.

- d) In the future, considering the changed situation in the region, and accession to the EU, a gradual change can be expected in the trends of the movement of persons across the borders in the region. An analysis of this movement will serve as a basis for future planning of instruments to implement the policies related to the movement of persons.
- e) During the future development and implementation of the policies, it will be necessary to continuously monitor the development of the policies and EU legislation, and to adequately adjust the policies in the Republic of Macedonia, taking into consideration the specific situation and priorities of the Republic of Macedonia.

In December 2002, the Government of the Republic of Macedonia adopted a national Action Plan for Migration and Asylum within the Migration and Asylum Initiative of the Stability Pact. In addition, in 2003 a Strategy on Integrated Border Management was adopted. These documents contain the key goals, mechanisms and instruments for pursuing a consistent policy by the Republic of Macedonia in the area of movement of persons.

The policies, instruments and mechanisms in the area of visa, asylum and migration are complementary and mutually conditioned.

The ultimate goal of the policies in the area of movement of persons is the integration of the Republic of Macedonia within the borders of the Union, which, at a technical level, means implementation of the Schengen Information System. It implies prior compliance between the IT systems in the Republic of Macedonia in the area of visa, migration, asylum and integrated border management and the Schengen Information System and the establishment of cooperation between the police and customs authorities with the Schengen Information System countries.

5.7.1. Visa Policy

Visas and their control provide a special instrument for the efficient control and prevention of illegal migration where the main element of protection is achieved through prior control of foreign citizens before they travel to the destination country.

The Republic of Macedonia is particularly focused on these issues and the responsible institutions consider this issue a priority. Specific gaps have been identified and there is a need to reform the legislation and to implement sector specific training for staff, and establish a compatible data network.

The other aspect of visa policy which has significant importance for the Republic of Macedonia is the liberalisation of the visa regime of the EU for citizens of the Republic of Macedonia. The measures that are to be undertaken by the Republic of Macedonia to achieve progress in this respect are not only special visa policy measures, but are related to all the other policies in the area of justice and home affairs, compliance with EU legislation and its implementation in practice. However, in addition to these measures, it is necessary to implement European standards when preparing personal and other documents.

Current Status

The Ministry of Internal Affairs and the Ministry of Foreign Affairs are responsible for visa matters in the Republic of Macedonia. The Ministry of Internal Affairs is responsible for the issuance and extension of resident permits and border control, while the Ministry of Foreign Affairs covers these responsibilities through its consular offices.

The legal framework for the visa regime in the Republic of Macedonia has been completed with the adoption of several laws and items of secondary legislation. Instructions have been developed and training of staff has been delivered to support the legislation adopted. Some of the most important acts in this area are: Law on Movement and Residence of Aliens (2004), Law on Crossing the State Border and on Movement in the Border Belt (2004), the Law on Travel Documents of the Citizens of Republic of Macedonia (1992, and amendments of 2004), as well as the Instructions to Diplomatic and Consular Missions Abroad of the Republic of Macedonia on the Issuance of Travel Documents and Visas, and on the Maintenance of the Register for Issued Visas and Document to Aliens (1998).

The limited number of consular offices abroad contributes to the practice of issuing visas to aliens at the borders. This problem will be tackled by specific measures, and by strengthening the prior control system.

Regarding training, it is necessary to enhance the present programmes of specialised training on visa issues, both in the consular offices and in the police, based on a unified system of e-data where methods of analysis and risk selectivity will be strengthened.

Priorities:

The goals in this area are to fully align the visa legislation, to respect and act in accordance with European standards, and, in particular, to respect the principles of the Schengen visa regime and its implementation.

Priority activities in the short and medium-term are:

- (1) Adoption of secondary legislation for the movement and residence of aliens, adoption and implementation of measures required for alignment of the visa legislation of the Republic of Macedonia and its practice with EU legislation;
- (2) Compatibility of rules on international cooperation in the area of visa and visa control between the Republic of Macedonia and the EU member-states, as well as the establishment and maintenance of a regional framework for cooperation and coordination;
- (3) Coordination and cooperation at national level between the competent ministries and other relevant public institutions; clear division of competences between the Ministry of Foreign Affairs and the Ministry of Internal Affairs;
- (4) Establishing electronic connection and a joint database between the Ministry of Internal Affairs, the border-crossing points – the units for border management – the Ministry of Foreign Affairs and the consulates abroad;
- (5) Enhancing the administrative capacities of the Ministry of Internal Affairs and the Ministry of Foreign Affairs through relevant specialised training;
- (6) Introduction of a new Macedonian passport, which will also include biometric data;
- (7) Simplification of visa procedures to achieve a higher level of efficiency by strengthening the procedure for prior inspection;
- (8) Introduction of quality visa labels in accordance with the required EU standards for protection;
- (9) Visa issuance at the border crossings only in exceptional cases, in accordance with EU legislation; and
- (10) Modernisation of the equipment for the detection of forged documents.

5.7.2. Asylum

Current Status

In the Republic of Macedonia the right of asylum is a constitutional issue; the right of asylum is guaranteed for aliens and stateless persons persecuted for political and democratic opinion or activity.

The issues related to asylum and the definition of asylum rights were regulated in the Law on Movement and Residence of Aliens, adopted in 1992.

During the various crises between 1992 and 2001, the Republic of Macedonia hosted up to 65.000 refugees from Bosnia and Herzegovina after the 1992 war, and 360.000 refugees from Kosovo after the 1999 war. All these refugees were granted the status of “temporary humanitarian assisted persons” (PHAPs-temporary protection regime).

The institute of temporary protection was introduced in the Republic of Macedonia in 1993 when the war started in Bosnia and Herzegovina. In accordance with the obligations resulting from accession to the 1951 Convention relating to Refugee Status and its 1967 Protocol, and governed by the principle of “non-refoulment”,¹⁴ the Government of the Republic of Macedonia adopted a decision on March 3, 1999 to grant temporary protection status to all persons who had fled to the Republic of Macedonia as a result of the military activities in Kosovo. Several ministries were entrusted with the task of implementing the decision in accordance with their responsibilities. The last decision in relation to this issue was adopted in March 2003, and the number of persons holding this status is permanently declining.

Procedures for granting asylum, according to the Law on Movement and Residence of Aliens, began to be administered at the end of 2000. The Unit for Asylum and Immigration within the Department for Alien and Immigration Issues at the Ministry of Internal Affairs began the individual procedures to determine the refugee status of persons originating outside the territory of the former Yugoslavia, as well as the refugee status of those categories of persons whose temporary status had expired.

Macedonia continues to host refugees from Kosovo under the temporary protection regime. In addition, Macedonia is hosting a number of refugees recognised under the Law. Newly arrived asylum seekers can lodge individual claims for refugee status under the provisions of the Law on Asylum and Temporary Protection.

In view of the information given above, the general conclusion that can be drawn is that the number of people seeking asylum in the Republic of Macedonia is rather small, and the system is functioning adequately.

The relevant international framework on which the legislative framework for asylum in the Republic of Macedonia is based is the Recommendation R (81) 16 adopted by the Committee of Ministers of the Council of Europe on November 5, 1981 on harmonisation of national asylum procedures, the 1951 Geneva Convention on Refugee Status, and the 1967 Protocol, as well as the European Convention on Human Rights.

In 2003, a new Law on Asylum and Temporary Protection was enacted, incorporating the basic principles regulated in relevant international acts. The Law defines the terms asylum, recognised refugee and person under humanitarian protection, and guarantees the principle of non-refoulment.

¹⁴ Regulated by Article 33 of the 1951 Convention Relating to the Status of Refugees, Article 5 of the Convention Against Torture and other Cruel, Inhuman and Degrading Treatment or Punishment, and Article 3 of the Convention on Protection of Human Rights and Fundamental Freedoms.

The Ministry of Internal Affairs is responsible for decisions on the recognition of the right to asylum, on the withdrawal of the right to asylum and on refugee status. In case of complaints, a Commission of the Government of the Republic of Macedonia decides on further action. There is also a right of appeal to the Supreme Court as the court with jurisdiction over administrative procedures.

A refugee with recognised asylum status acquires the right to permanent residence, as well as accommodation, means of subsistence and healthcare for a maximum period of two years from the date of delivery of the decision of recognition of asylum status, except in cases when the alien is not able to obtain income and provide subsistence. The funds for this purpose are provided from the budget of the Republic of Macedonia.

The Shelter Centre for asylum seekers is currently under construction, and it is expected to be fully functional in 2005.

Cooperation between the relevant ministries is satisfactory, but there is a need for relevant training for the personnel. The main problems are in communications and electronic connections, the absence of a central database that would enable monitoring of the movement of asylum seekers, and the training of personnel dealing with people whose asylum applications have been rejected.

In order to achieve more efficient implementation of the Law on Asylum and Temporary Protection, there is a need to adopt a regulation on the Application Form for Asylum, and the procedure for maintaining relevant records.

The Ministry of Internal Affairs is the body with overall responsibility, with specific responsibilities falling under the Ministry of Internal Affairs, the Ministry of Justice, the Ministry of Labour and Social Policy and the Ministry of Health.

Priorities:

The necessary measures are specified in the Action Plan on Migration and Asylum, while the priority activities are:

- (1) Implementation of the Law on Asylum and Temporary Protection and adoption of the relevant secondary legislation;
- (2) Introduction of a unified form to apply for recognition of refugee status in the Republic of Macedonia, translated into a number of international languages, and the preparation of a booklet translated into a number of international languages related to the asylum procedure;
- (3) Staffing the Section for Asylum and Migration and providing relevant equipment; continuous training for this Section, as well as training for the inspectors for aliens in the regional units and border police;
- (4) Redesigning the IT system for the registration of aliens; establishing a database and developing mechanisms for analysis;
- (5) Construction of new accommodation facilities for asylum seekers, and the establishment of an efficient procedure for their reception and accommodation, in accordance with the Law on Asylum and Temporary Protection;
- (6) Introduction of rules and conditions for better coordination and cooperation between ministries and institutions responsible for asylum issues;
- (7) Implementation of efficient cooperation and exchange of information at national and international level among responsible services while respecting the rules for protection of personal data in accordance with EU standards; and
- (8) Harmonisation of the national legislation related to the rights of refugees, including family reunion, in accordance with international and EU standards.

5.7.3. Migration

Current Status

Relevant issues related to the migration policy are regulated by the Law on Movement and Residence of Aliens adopted in 1992.

In order to assist in the prevention of illegal migration to the EU, the Republic of Macedonia has signed readmission agreements which have come into force with Italy, Slovenia, France, Switzerland, Slovakia, Bulgaria and Croatia. Macedonia has also signed agreements, which are not yet in force, with Hungary, Romania and Germany, and is negotiating such agreements with the Benelux countries, Denmark, Czech Republic, Ukraine, Poland, Albania and Latvia.

It is generally accepted that the migration system must contribute to the efficient control of illegal migration, as well as ensure respect for international standards. This includes a procedure for prior control of entry into the country, systems of visa control, the development of special programmes to combat smuggling of migrants and trafficking in human beings and respect for the status of victims.

In 2002, the Government of the Republic of Macedonia adopted a National Programme to combat illegal trafficking in human beings and illegal migration into the Republic of Macedonia, which includes a legal framework and practical measures to introduce a more comprehensive and better coordinated system of management of issues related to the fight against trafficking in human beings and illegal migration.

Republic of Macedonia is mainly considered as a transit country in relation to illegal migration, although it is possible that this position might change.

The Ministry of Internal Affairs is the body with overall responsibility, while some responsibilities rest with the Ministry of Foreign Affairs, the Ministry of Justice and the Ministry of Labour and Social Policy.

Priorities:

The goal is to adopt and implement EU legislation and practices on migration (admission, readmission and expulsion), including prospective common asylum and migration procedures, aimed at controlling and preventing illegal immigration.

The measures to be undertaken in this area are also set out in the National Action Plan on Migration and Asylum.

Priority activities are as follows:

- (1) Efficient implementation of functions controlling the movement and residence of aliens;
- (2) Re-design of the existing IT system for the registration of aliens;
- (3) Law approximation in the area of employment of foreign citizens;
- (4) Improvement of coordination between responsible ministries and other public institutions;
- (5) Further improvements to the existing accommodation facilities and social support mechanisms for refugees;
- (6) Strengthening of border management and preparations for full implementation of the Schengen Convention;
- (7) Harmonisation with EU legislation and practices on migration (admission, readmission and expulsion);
- (8) Enhancing readmission through ratification and implementation of relevant conventions and treaties, as well as harmonisation of the existing agreements on readmission with the EU;

- (9) Training of officers who will implement the readmission agreements;
- (10) Development of a policy and procedures for repatriation, promoting voluntary repatriation, a procedure for escorted repatriation, as well as a special procedure for the repatriation of minors and vulnerable persons;
- (11) Promotion of the effective functioning of the reception facilities for aliens starting with a Transit Centre for aliens;
- (12) Construction of new facilities to accommodate persons waiting to be repatriated; and
- (13) Enhancing cooperation with the receiving states, controlling and promoting or developing diplomatic agreements.

5.7.4. Integrated Border Management

With the expansion of the borders of the EU and their closer proximity to the region, the application of the concept of integrated border management is becoming even more important – both at the national and regional levels. This concept is based on the inter-relationships between border management problems and the need to tackle them in an appropriate and coordinated manner. To that end, all the aspects necessary for efficient border management are taken into consideration – the need to achieve a smooth flow of people and trade, but also the need to prevent illegal trade and illegal crossings. Such an approach implies cooperation at the national level between all relevant bodies and institutions, and continuous enhancement of cooperation at regional and European levels.

The concept of integrated border management incorporates the policies for free movement of persons described earlier in this document.

The goal is to adjust policies and systems so that the Republic of Macedonia can become a part of the Schengen system, which includes the gradual adoption and application of the Schengen acquis.

Current Status and activities undertaken

The weaknesses of the existing border management system mainly relate to the allocation of responsibilities, omissions in the procedures and inappropriate equipment and IT support. In most cases, the facilities were obsolete, small and inadequate for the monitoring of travelers, both at the border posts and at the international airports. The equipment to identify forged documents and for the secondary inspection of documents, as well as for the testing of vehicles, is also obsolete and insufficient.

The database is not centralised and it contains data only on persons that are prosecuted for criminal offences or who are not allowed to enter the country. In this field, a weakness that has to be overcome is the insufficient use of statistical data, which is mainly a result of the absence of appropriate written procedures and instructions. This is directly affecting the detection of forged documents.

The National Strategy for Integrated Border Management was adopted in 2003 and will be supported by an Action Plan that will include specific measures and timelines for its implementation. The Strategy is a result of the full recognition of the necessity, urgency and importance of radical changes in border management. The document reflects the particular situation in the state, socio-political conditions and the legal system, taking into consideration the comparative experience of other countries that completed such transformation, the international instruments and the legislation of the EU member-states and candidates, and the recommendations presented in the Schengen catalogue of best practices.

The new system will provide a higher and more efficient degree of control of passengers and goods that enter, transit or exit the country. The system for the collection, analysis and processing of data will be fully reformed in accordance with the methodology for collection of intelligence information, which will contribute towards ensuring better security and the elimination of all dangers that might arise as a result of domestic and international crime.

The basic principle is that this system must provide free movement of goods and passengers and promote the principles of free trade and exchange.

Institutions responsible for the implementation of the Strategy are: the Ministry of Internal Affairs, the Ministry of Defence, the Ministry of Foreign Affairs, the Ministry of Finance – Customs Administration, the Ministry of Agriculture, Forestry and Water Management, the Ministry of Health and the Ministry of Transport and Communications.

The Strategy envisages withdrawing the Army of the Republic of Macedonia from border management responsibilities by December 31, 2005 and designing transparent procedures which describe the responsibilities of the Ministry of Internal Affairs. A National Border Police Service, within the Ministry of Internal Affairs, will be established as the core agency responsible for border management, and will take over responsibilities for surveillance of the state borders. In order to ensure a smooth transfer of competencies, a programme is being prepared for the transfer of security and control of the state borders of the Republic of Macedonia to the Ministry of Internal Affairs.

A National Coordination Mechanism on border management has been established, in order to ensure cooperation, coordination, common support and information exchange.

The Law for Amendments of the Law on Internal Affairs (Official Gazette 19/04) and the Law for Amendments of the Law on Crossing State Borders and Movement in the Border Belt (Official Gazette 19/04) have been adopted, and the Law on Monitoring and Control of the State Border will be enacted by the end of 2004.

The recruitment of the necessary personnel for the border police will be accompanied by training which will continue until the optimum number of employees in this service is reached in 2006.

Regional and international cooperation is implemented within the framework of the SECI Centre, Stability Pact, the Ohrid Conference on Regional Border Management, the Budapest process and SIOFOK process.

Priorities:

The priorities are identified in the Strategy for Integrated Border Management. The Action Plan, presently under development, will define the concrete measures and timescales for the implementation of individual activities.

The key priorities in the area integrated border management are:

- (1) Adoption of a Law on Control and Surveillance of State Borders and the development of relevant secondary legislation,
- (2) Establishment of border police within the Ministry of Internal Affairs according to a specific Programme (2004-2006);
- (3) Establishment of a National Coordination Centre on Border Management (by the end of 2004);
- (4) Establishment of a National Border Monitoring System;
- (5) Establishment of a management system for border data; preparation of an IT and telecommunication analysis directed towards implementation of IT systems linked with the state border crossings in the region, according to a data and function model; this system is consistent with the Schengen IT system and the Strategy for IT systems;

- (6) Categorisation of border crossings;
- (7) Laying down procedures and defining the competencies and cooperation between the border police and the Customs Administration;
- (8) Establishing procedures and defining the competencies and cooperation with the responsible bodies from other competent ministries in the field of phytosanitary, veterinary and forest inspection, food safety and “green border” procedures;
- (9) Establishing procedures for coordination with the military forces;
- (10) Introduction of a closed video monitoring and surveillance system at the border crossings;
- (11) Improvement of the infrastructure facilities at the border crossings;
- (12) Strengthening the functions of profile determination, gathering intelligence and proactive investigation and cooperation with the other competent departments and services to combat illicit trade and cross-border organised crime;
- (13) Coordination with neighbouring countries on issues of common interest (common priority border crossings, common approaches for customs and marking of frontiers);
- (14) Implementation of a methodology for border control through agreed approaches for border control for:
 - a) Borders with EU member-states and Bulgaria covering both green borders and international airports;
 - b) Borders with other countries included in the stabilisation and association process;
- (15) Developing cooperation at a regional and international level, both at the preventative level and the response level;
- (16) Implementation of generic and specialised training for border police; and
- (17) Strengthening relations with local self-government and the public.

INTRODUCTION

The establishment of a public administration that will be capable of carrying the burden of integration into the European Union, as well as the obligations that arise from membership, is a top priority that establishes a horizontal link between all sector reforms in the process of European Integration and is an essential factor for their success.

The transitional process, generally described as reconstitution of democracy, rule of law and market economy, requires a redefinition of the role of the public administration and its relation to politics, economy and civil society. On the other hand, the accession to the EU, besides the general process of reform adjustments, lays down specific requirements with respect to the accession process and the assumption of obligations that arise from membership. Public administration reform in general and its adjustment for the purpose of EU accession are two complementary processes that require an integrated strategic approach.

Although EU legislation (*Acquis*) have significant effects on institutional issues within individual sectors, there are no *Acquis* that deal with administrative structures in general. The institutional framework, structure and scope of the public administration systems of Member States differ to a great extent. On the other hand, bearing in mind the fact that national administrations are responsible for implementation of the *acquis communautaire*, there is a general obligation for certain results to be achieved, and this relation is valid not just for the central authorities of the Union and its Member States, but also amongst individual Member States, and even amongst natural persons and all other bodies that are implementing legal requirements that arise from the EU. EU membership *de facto* defines empirical standards for the public administration and inevitably determines sanctions if those are not followed, but the EU allows discretion on how to fulfil these goals in practice. This is the basic challenge for the public administration in the EU, in all the present Member States or any of the candidate countries.

Therefore, being in accord with the single European Administrative Space does not represent harmonization with certain compulsory norms related to structure and organisation in the administration, but compliance with certain public administration operational standards that provide for efficient implementation of the *acquis communautaire*.

The experience of integration of CEE countries so far, shows that public administration reform is one of the critical activities that have a considerable effect on the progress, pace and success of the adjustment of the applicant country to the EU. Bearing in mind this general experience, as well as specific lessons, the Republic of Macedonia assigns a very high priority to the further planning and implementation of the process of public administration reform.

The basic goals of public administration reform in the framework of EU integration are as follows:

- Adjustment and development of the public administration in the Republic of Macedonia for the purpose of the continuous process of transposition and implementation of the European legislation;

- Developing relevant capacities of the public administration to design and implement the overall reforms of the economic, political and legal system; and
- Building institutions that are necessary to ensure the free flow of goods, capital, services and people in the EU.

In paragraph 4 of the Preamble, the Stabilisation and Association Agreement specifies public administration reform as one of the goals of the Agreement, and Article 74 stipulates the obligation of both sides to “attach particular importance to the reinforcement of institutions at all levels in the areas of administration in general and law enforcement and the machinery of justice in particular”.

The implementation of the Stabilisation and Association Agreement requires an appropriate adjustment of the public administration to make it capable to implement its provisions. This results from the fact that the Agreement, in effect, means the gradual convergence towards all Community policies, which accordingly, also implies relevant institutional convergence.

6.1.1. Public administration reform – Progress so far

The general transitional problems, as well as specific problems that followed the establishment of the Republic of Macedonia as an independent state, have laid down the global framework, within which, the public administration of the Republic of Macedonia can be considered as both object and subject of the reforms. The public administration in the Republic of Macedonia has been continuously faced with the pressure to respond to the specific and current requirements that have been qualified by the circumstances of independence of the Republic of Macedonia and by regional circumstances, but also with the key challenge to provide a substantive contribution towards the choice of strategic goals for the reform processes both generally and at the sector level. Hence, the intensity of the public administration reform was not uniform – an assessment that relates to the transitional reforms in the Republic of Macedonia in general. Consequently, the priority in this phase is capacity building in the public administration in order to complete the key segments of the reform, necessary for EU integration.

The concept of public administration reform was formulated in the Strategy for Public Administration Reform, adopted by the Government of the Republic of Macedonia in 1999. This document defines the following reform principles: rule of law, transparency, competency, stability, accountability, predictability, equal treatment, efficiency and ethicalness.

The Strategy identifies the following areas of public administration reform:

- State administration system;
- State administration system (the executive);
- Public administration system;
- Local self-government system;
- Redefining the role of the State;
- Exercise and protection of citizen’s rights;
- Public finance restructuring; and
- IT system development.

The public administration system in the Republic of Macedonia comprises the central core of state administration – administration in different branches of government – legislative, executive and judicial, including local self-government administration, whereas the more general term of public administration would also include the administration in all other areas of public interest.

The objectives formulated in the Strategy for Public Administration Reform of 1999 are valid and fully compatible with the goals of the European Integration process, the additional priorities as imposed by the implementation of the Constitutional provisions that arise from the Framework Agreement with respect to the equitable representation of the members of the communities and with the decentralisation process. Following the amendments to the Constitution of the Republic of Macedonia in 2001 and the introduction of the principle of equitable representation of the members of the communities in the public administration, an increase in their representation became one of the priorities in the process of public administration reform. At the same time, the current decentralisation process implies major changes in the manner in which most of the public services will be provided, with considerable transfer of competences from central to local government in the areas of education, social protection and local economic development.

In respect to status issues and distribution of competencies, generally speaking, the legal framework has been already established, both for the administration system in the executive and the state administration system. The Law on Government and the Law on the organization and operation of State Administration Bodies have been enacted in 2000, thus reducing the number of ministries and simplifying the structure of the bodies.

The Law on Civil Servants was enacted in 2000, with many successive amendments, including those for the implementation of constitutional provisions for the equitable representation of the communities. The legal framework was also completed with the adoption of secondary legislation, in accordance with the Law on Civil Servants.

The Civil Servants Agency was established in 2000, as an independent state body, accountable to the Parliament of the Republic of Macedonia. The Agency is responsible for: preparation of secondary legislation pertaining to civil servants; development of human resource management policies and coordination of training; providing recommendations on the organisation and systematisation of jobs and positions in bodies covered by the Law. The Agency is also responsible for promoting the efficient and effective performance of civil servants. The Agency has the role of a second instance appeal body in appeal procedures with respect to rights and obligations that arise from the Law on Civil Servants. Accordingly, in addition to its administration and development function, the Agency also has a control function. The Director of the Agency is obliged by law to submit an annual report to the Parliament regarding the implementation of the Law on Civil Servants. The Agency also maintains a Civil Servant Registry.

6.2. PRIORITY ISSUES OF THE REFORM

6.2.1. Concept and optimisation

The idea of a small, efficient and accountable public administration is dominant in the Republic of Macedonia. The overall employment in the public sector accounts for 4.5% of the population, which is comparable with CEE countries, and 7.5% of public expenditure goes to meet the requirements of the public administration. If these data are correlated with the trends in the economy, then there are insufficient grounds to justify this level of employment and public expenditure in the public sector. Therefore, there is a need to downsize the public administration.

The issues of the *structure, distribution and utilisation of human resources in public administration* are even more important. Generally, it is necessary to reallocate resources towards priority areas of the reform. Such reallocation, together with planned and continuous capacity building and changes in the resource management system are the instruments that might ensure more important progress in the achievement of the reform goals.

In comparison with the state administration, whose concept has been legally completed, the legal framework relating to public services, which employ the major part of the administrative staff (around 70,000 employees, compared to 32,000 civil servants, including the army and police), has yet to be completed. The reforms in the public service sectors like social protection, education, healthcare, science, culture etc. are still ongoing, but there is a need to develop a general framework for the transformation of this sector. Hence, one of the priority issues is the elaboration of the public administration concept, which, besides resolving status issues of institutions and employees, should provide the answer with respect to provision of high quality public services and ensuring appropriate control mechanisms by the customers and the state. Consequently, the development of the legal framework is a priority, especially the adoption of the Law on Institutions.

The transfer of certain state functions from the public to the private sector is a continuous process. However, in parallel with this process, there is also a need to strengthen the regulatory and control functions of the state. As part of the process for redefinition of the state's role, there are certain activities for *divestment of the non-core functions*. In 2003, the Government adopted a programme for the divestment of certain functions of the state administration.

The implementation and further development of this public administration concept, will be supported through strengthening of the institutional support for the process, as part of the activities of the General Secretariat of the Government.

Priority activities:

- Enactment of the Law on Institutions (2005);
- Strengthening of the regulatory and control functions of the state in the provision of public services;
- Implementation of the divestment programmes (short-term);
- Implementation of the public sector downsizing (short-term); and
- Establishment of a Unit responsible for public administration reform within the General Secretariat of the Government (2004).

6.2.2. Strengthening of the capacities for strategic planning and policy analysis, coordination and implementation

The process of EU integration requires an efficient process of political decision making, within clearly defined strategies that define the Macedonian national interest. This imposes the primary need to strengthen capacities in the public administration for strategic planning and policy making, which have a significant impact on the overall institutional capacity of the state. The *cycle of strategic planning (including budget planning), policy making, establishment of primary and secondary legislation, defining regulatory functions, implementation, monitoring and analysis* comprise the framework for activities that have to be undertaken in order to have an appropriate public administration reform. The horizontal reform of public administration is also aimed at strengthening the functions of analysis, policy making, monitoring of the implementation and detachment of the “pure” implementing functions. In parallel, the specific requirements related to institution building need to be developed as part of the accession towards the EU.

The established mechanism for setting the strategic priorities of the Government, supported by a medium-term fiscal strategy, provides the basis for further development of the policy making process. In this respect, the key priority is to strengthen the capacity for impact assessment of primary and secondary legislation (economic, social and fiscal

impact) and to ensure consultation process with the stakeholders. This is also relevant for the approximation of the national legislation to the legislation of the EU.

Functional analysis in the ministries and other state administration bodies (currently underway) will identify the weaknesses in the structure of the state administration system, possible duplication, and the degree of utilisation of resources. The functional analysis will provide the basis for the establishment of the institutional and organisational framework required for the fulfilment of the strategic objectives, both horizontally and on a sector level, as well as for the specific requirements laid down by EU legislation. Considering the limited resources, frequent organisational restructuring imposed by short-term objectives and needs should be avoided and an approach to the long-term planning of capacities and resources should be implemented, if necessary, in phases.

In order to increase the efficiency of the Government, activities for the improvement of inter-ministerial cooperation and coordination have been initiated, especially through strengthening the functions of the General Secretariat of the Government of the Republic of Macedonia, as defined in the Strategic Plan for Development of the General Secretariat. The Strategic Plan provides for the establishment of a Sector for Strategy, Planning and Monitoring, a Sector for Policy Analysis and Coordination and a Unit for Public Administration Reform. In accordance with the Strategic Plan, the role of the Collegium of State Secretaries has been strengthened.

In order to support and improve efficiency in the implementation of the laws, there is a need to strengthen the inspection function, which is also important with respect to the obligations that have been accepted under the Stabilisation and Association Agreement.

Priority activities are:

- Consistent implementation of the strategic planning system and strengthening of administrative capacities for strategic planning, policy development, analysis and coordination;
- Strengthening of consultation processes and impact assessment of the primary and secondary legislation;
- Institutional and organisational restructuring of administrative bodies on the basis of functional analysis and long-term requirements;
- Implementation of the Strategic Plan for Development of the General Secretariat of the Government; and
- Strengthening and reorganisation of the inspection services.

6.2.3. Implementation of the principle of equitable representation of the members of the communities in the public administration

The legal framework for the implementation of the constitutional provisions for equitable representation of the members of the communities that are not a majority has been established. The implementation of this constitutional principle imposes the need for specific solutions that will not violate the constitutional principle for equal access to employment and the principle of competency.

In April 2003, the Government adopted specific measures necessary for improvement of the equitable representation of the communities in the public administration and public enterprises.

Specially designed training for the members of the communities will be provided as one of the methods to achieve equitable representation of the communities in the administration.

The level of representation of the communities in the administration will also increase through the significant increase in the number of jobs that require knowledge of the community languages, in accordance with the legal provisions, and through the necessary restructuring of public administration to satisfy the needs of the decentralisation process.

Finally, the potential for employment of members of the communities, especially representatives of the Albanian community, in public administration will be significantly improved after providing higher education in the mother tongue.

Priority activities are:

- Adoption of a strategy for improvement of the representation of the members of the communities in the public administration;
- Implementation of training programmes for the members of non-majority communities;
- Identification of all positions within the public administration system that require knowledge of a non-majority community language; and
- Preparation of annual plans for achievement of equitable representation in the public administration.

6.2.4. Promotion of administrative management and human resource management systems

The efficiency of state administration bodies and the full contribution of administration in the development and implementation of the reform can only be achieved through significant changes in the administration management system. Such changes would mean that decisions would no longer be made at the highest level (political and administrative), but delegation of responsibilities would be encouraged, thus increasing responsibility and stimulating motivation of civil servants, especially at all levels of management.

The constitutional provisions, the legal framework established with the Law on Civil Servants and the appropriate secondary legislation, as well as the establishment of the Agency for Civil Servants, enable the proper implementation of the merit system in the process of recruiting civil servants and the prevention of political or any other kind of patronage. The consistent implementation of these constitutional and legal provisions will have an important influence over the achievement of the expected goals of administration reform in general.

One of the measures that has to be implemented as a priority is the implementation of the civil servants' assessment system, which should have a significant effect on their accountability, efficiency and motivation. The decompression of the civil servants' salaries will contribute to the same goals; it will be implemented gradually, since the budget balance needs to be maintained. On a long-term basis, this measure should attract high quality personnel in the state administration, it should act as a "barrier" against possible corruption and contribute towards strengthening the dignity of the civil servant's profession.

Additionally, a higher degree of mobility within state administration might provide for more efficient reallocation of the present resources.

Increases in administrative capacity will also be achieved through the preparation and implementation of continuous training plans – both at the general level, to improve management and administrative skills, and at the sectoral level. Therefore, a Training Strategy for Civil Servants will be adopted.

The operational processes and procedures in the administration system will be standardised. The objective is not to formalise the procedures but rather develop a

unified approach and the modernisation of the work of the administration. Although the strengthening of the professional integrity and dignity of civil servants is a process that will depend on wider social circumstances, this process needs to be encouraged by strengthening their participation in the creation of a more stable environment for the modernisation of the operational system within state administration.

Regulating the conflict of interests amongst public administration employees, on the other hand, should provide a stronger legal framework to combat corruption.

Priority activities are:

- Consistent implementation of Macedonian legislation for professional, politically neutral and impartial operations by civil servants;
- Introduction and implementation of a modern system for governance and management, delegation of competencies, and management and development of human resources in the administration (in the medium term);
- Implementation of the civil servants' assessment system (starting from 2004);
- Phased decompression of civil servants' salaries (starting from 2004);
- Adoption and implementation of a Training Strategy for Civil Servants (in the medium term);
- Improving the provisions of the Law on Prevention of Corruption with respect to conflict of interest; and
- Introducing mechanisms for a higher degree of mobility within state administration.

6.2.5. Protection of citizen's rights, transparency and relations with the civil sector

There are constitutional and legal guarantees in the Republic of Macedonia regarding administrative proceedings, as well as protection before the Supreme Court. The present arrangements for resolving all administrative disputes through the Supreme Court should be reconsidered, bearing in mind that this court is burdened with cases that often are not suitable to be reviewed by the highest court in the country. The procedure for the adoption of a new Law on General Administrative Procedures is underway. The new law stipulates shorter proceedings, strengthened mechanisms for the protection of citizen's rights and easier access to services.

One of the priorities is to establish the necessary framework to provide access to information, which is an essential element of strengthening the position of citizens in their dealings with state bodies. The Law on Access to Information will be adopted by the end of 2004.

An important factor in the overall reform process is cooperation and partnership between the Government and the civil sector. Although there is a general legal framework for this kind of cooperation (the Law on Foundations and Citizen's Associations), the development of a Strategy for cooperation/partnership of the Government with the civil sector is an indispensable next step. This cooperation should be particularly aimed towards strengthening the consultative role of the civil sector in the process of policy development, as well as towards improving trust within the civil sector. Establishing structured communications with the civil sector will also provide the corrective role that citizens should have regarding the work of public administration. This, as well as defining the public interest in the activities of the NGO's, will be reflected in the amendments of the Law on Foundations and Citizen's Associations in 2004.

Increasing the transparency of the work of the state bodies is important, not just for the purpose of informing the citizens about their rights and mechanisms that they can use in order to practise them, but also to ensure support for government policies and strengthening the trust that people have in public institutions.

The role of the Ombudsman has been strengthened, with respect to the protection of citizen's rights and freedoms before bodies of the state. The implementation of this commitment will be reinforced by establishing mechanisms within the administration to ensure accountability regarding proceedings initiated by the Ombudsman.

The priorities are:

- Changes to the Laws on General Administrative Procedures and Administrative Disputes (2005);
- Review of judicial control over administrative decisions by the Supreme Court (in accordance with the Strategy on Reforms in the Judiciary in 2005);
- Adopting a Law on Access to Information (2004);
- Implementation of the Law on Prevention of Corruption and development of mechanisms for the prevention of corruption in administration; and
- Preparation and implementation of a Strategy for cooperation between the state administration and the civil sector (2005).

6.2.6. Public administration and decentralisation

The increase in the competencies of local self-government in local economic development, rural and urban planning, local financing, environmental protection, public services, education and healthcare, in accordance with the Law on Local Self-Government of 2002, means a reform of the role of the state in the management of the sectors that are to be decentralised. Bearing in mind that the capacities of local self-government were already limited in relation to the existing competencies (urban planning, utilities, culture, sport, social and child protection, preschool pedagogy and education, basic healthcare protection and other areas), a comprehensive and thorough reform in the management of local affairs is essential.

The objectives for the sustainable transformation of the public administration in the local self-government have been stated in the Local Self-Government Strategy adopted in 1999 and a related Action Plan provides a framework for continuous monitoring and implementation.

The reforms encompass:

1. At the local level – strengthening of local capacities in planning and local resource management; and
2. At the central level - strengthening of the role of the state in strategic planning and national resource management, as well as the monitoring function to ensure implementation of the laws.

In April 2003, the Government of the Republic of Macedonia adopted an Operational Plan for Decentralisation. The priorities and schedule for the administrative reform in local self-government are closely linked to the stages of the decentralisation process:

1. Defining the new territorial organisation of the units of local self-government (2004);
2. Adoption of the Law on Financing the Units of Local Self-government (2004) and its implementation, starting from 2005; and

3. Phased transfer of competencies in the relevant sectors to local self-government, starting from 1 January 2005.

A short-term priority in the decentralisation process is the requirement to strengthen the institutional arrangements and meet the needs for well qualified and trained personnel in order to assume new competencies in the areas of planning and implementation of the budget, and the internal audit function. At the same time, external audit, which is conducted at a central level, also has to be strengthened. Capacity building is also necessary for the implementation of the public procurement procedures at a local level.

The municipalities are responsible for the organisation of their own administration. The practice to date has shown a relatively high level of uniformity in the organisational arrangements of the municipalities, resulting from the present competencies and tradition. This framework is being adjusted in order to enable effective and high quality performance, and to strengthen the functions of the local administration, particularly in the area of local development and resource planning. In addition to the citizen oriented approach, and citizen participation in the overall management at the local level, the administration in the municipalities also has to work towards respecting the requirements and needs of the business sector. Such a shift in the focus of the work of local administration will be possible only with the implementation of a decentralised management system, strengthening the advisory functions and the monitoring of policy implementation.

Therefore, the key elements of the administrative reform of local self-government are as follows:

- Developing capacities for efficient implementation of all competencies of local self-government; and
- Introduction of modern management models, which will provide efficient exercise of citizen's rights and a higher degree of participation of citizens in the management of local competencies and the promotion of local development.

Such reforms would be complementary to the specific requirements that arise from the process of integration of the Republic of Macedonia into the European Union, especially from the viewpoint of regional development, preparations for the use of the structural funds of the Union, as well as the implementation of cross border cooperation within EU cross border programs.

Priority activities are:

- Implementation of the Operational Plan for Decentralisation;
- Strengthening of administrative capacities for the implementation of the process of fiscal decentralisation;
- Strengthening of administrative capacities for the efficient implementation of the functions of local self-government in all areas under its competency, especially areas where the local self-government will undertake new competencies pursuant to the Law on Local Self-Government of 2002; and
- Establishing mechanisms for the efficient supervision of local self-government performance – at local and central levels.

6.2.7. Restructuring of public finance

The measures that have been undertaken so far in the area of public finance have been mainly aimed at reforms of the budget, financial management and the control of public expenditure, with special emphasis on the treasury system.

The Strategic Plan adopted by the Ministry of Finance reflects the priority objectives and activities of the Ministry in the public administration reform process. The key objectives include: the development of a proactive budget system integrated with the strategic priorities of the Government; improvement of the public revenue and expenditure management process; debt management; improvement of the tax collection system; and, harmonisation of the accounting and audit standards with those of the EU and international accounting standards.

Recent changes in the system of strategic planning incorporate fiscal planning as an instrument of policy planning, including the adoption of a three-year Fiscal Strategy. This lays down the main foundations for capacity building in the area of strategic planning and linking it to budget planning and programme planning, especially in order to strengthen the development component of the budget. Planning will be conducted within the set ceilings with respect to budget spending, and will be supported by a set-aside to fund new initiatives that support the identified strategic priorities.

One of the key priorities is the completion of the legal framework referring to public expenditure and public debt. The adoption of a Law on Public Debt, and a Law on Public Finances, as well as amendments to the Law on Budgets, particularly in relation to public finance control, are planned for 2004 – 2005.

The further development of the legislative framework and institutional capacity for public procurement, including the establishment of a Public Procurement Agency, remains a priority in this particular area.

There is a special focus on internal audit. The plans for the improvement of the internal audit function foresee gradual strengthening of internal audit at the central level (2004), in the public services (2005) and in local self-government (2006). A Law on Internal Audit in the Public Sector will be adopted in 2004.

The priorities are as follows:

- Implementation of the Medium-term Fiscal Strategy 2003-2006 and the Fiscal Strategy 2005 - 2007;
- Adoption of a Law on Public Debt, Law on Public Finances and amendments to the Law on Budgets;
- Adoption of secondary legislation and the establishment of a Public Procurement Agency (2004-2005);
- Adoption of a Law on Internal Audit in the Public Sector and implementation of the plans for internal audit strengthening (2004-2006);
- Training of civil servants in the relevant departments on fiscal impact assessment of laws and other regulations, as well as on implementation of the development function of the budget; and
- Capacity building in the state bodies on financial management.

6.2.8. E-Government

In order to ensure a coherent approach in the use of information technology in the public administration and, generally, to support the processes of political decision making, the Government established an IT Commission. The remit of the Commission is to analyse the situation; to provide advice to the Government to assist in the coordination of activities; and, to prepare a National IT Strategy. The Commission has adopted its Action Plan for 2003–2007; this includes the development and adoption of an e-Government Strategy.

The development of further IT implementation in the public administration will continue in two main directions:

- Incorporation of information technology in the overall process of modernisation of the public administration; and
- Use of information technology in order to improve transparency and the delivery of services.

Specific activities:

- Adoption and implementation of a Strategy for IT development in public administration (medium-term);
- Creation of a general concept for presentation of the political decision making process via the Internet, including arrangements for communication between citizens and the Government and public administration (medium-term);
- Establishment of a Unit in charge of IT system development in the General Secretariat of the Government of the Republic of Macedonia; and
- Establishment of a system for the continuous training of employees.

6.3. THE APPROACH TO INSTITUTIONAL BUILDING FOR APPROXIMATION TO THE EU

6.3.1. Institutional building for implementation of the *acquis*

The EU integration process lays down specific requirements with respect to institutional arrangements in order to implement the requirements of European legislation, which, primarily, have to establish the mechanisms needed for participation in the Common Market. The institutional requirements may be explicit in the EU legislation, or they may be posed in terms of a requirement of the EU to implement specific functions or to achieve specific results.

Bearing in mind the need for the Republic of Macedonia to achieve significant progress in the process of European Integration, but also the limited resources available to the public administration at this moment, there is a need for a long-term, systematic and rational approach towards the issue of institutional development and capacity building.

This approach will be based on the following principles:

- *integration*: incorporation of the requirements for institution building that arise from the European Integration process with the overall process of restructuring the public administration ;
- *rationality*: establishing new institutions where necessary, upgrading existing institutions that have competencies in specific areas, and in parallel, developing staff and providing adequate equipment.

A precondition for the establishment of well-functioning institutions that meet the requirements of the European Integration process is the analysis of the present legal and institutional arrangements and the capacities of the responsible institutions, as well as the analysis of the horizontal links between ministries and state administration bodies with respect to approximation and implementation of the European legislation. This aspect of the analysis will be incorporated in the functional analysis of the state administration bodies.

The systematic building of institutions necessary for European Integration will relate to the implementation of the Stabilisation and Association Agreement, which also provides the necessary framework for the gradual development of capacities towards integration into the EU.

The existing legal framework and procedural rules underline the importance of impact assessment applied to the transposition of European legal acts, including the resource consequences. Additionally, a comprehensive database has been created which will incorporate all aspects of the European Integration process. The emphasis will be placed on the full implementation of regulations and the provision of specific sector oriented training on the use of the existing databases.

INFORMING THE MACEDONIAN PUBLIC ABOUT THE EUROPEAN INTEGRATION PROCESS OF THE REPUBLIC OF MACEDONIA

INTRODUCTION

The preparations for full integration into the European Union of the Government of the Republic of Macedonia will lead to political, social and economic decisions that will have a considerable impact on the lives of all its citizens. Many decisions will have substantial benefits. Others will have negative consequences. It is important, therefore, that the public is carried through these by being kept fully informed of the decisions, of the reasons for them, the benefits and costs likely to flow from them, and by being encouraged to participate, feel engaged and involved.

To achieve this, in March 2003 the Government adopted a wide-ranging Communication and Information Strategy on the process of European integration by the Republic of Macedonia, together with an Operational Plan, setting out the action it proposed taking. At present, over two-thirds of the population support full entry into the European Union. The Strategy's aim is not just to maintain, but to strengthen this level of support. The Operational Plan is being implemented.

The Strategy is based on providing a regular flow of information to the general public, and to specific key sectors, through the most appropriate means. Its objectives are to strengthen awareness of the significance of EU entry, and the Government's case and to increase confidence in the EU institutions. A further goal is to gain the support of EU Member States for Macedonia's entry in the Union.

The Strategy is built on the principles of openness and transparency, wherever possible involving and engaging all the relevant parts of society.

The Strategy is being implemented by the Information Unit in the European Integration Sector, working closely with all relevant Government Ministries, Agencies, and bringing in, wherever possible, non-governmental organisations and individuals.

7.1. BACKGROUND

The European integration process will have a considerable impact on the lives of Macedonian citizens. Changes to organisations and systems will be radical and complex. Difficult decisions will have to be taken. Many aspects of life will be affected. To gain and maintain support for integration, it is essential that the public, and many sectors of society, are kept fully informed of developments and, as far as is possible, are involved in the decision making process.

To that end the Government agreed a Communication and Information Strategy in March 2003¹⁵, together with a plan setting out the action it proposed taking. This Strategy is being implemented.

¹⁵ Details of the Strategy and how it can be accessed (www.sei.gov.mk)

7.2. PRINCIPLES AND OBJECTIVES OF THE COMMUNICATION AND INFORMATION STRATEGY ON THE PROCESS OF EUROPEAN INTEGRATION OF THE REPUBLIC OF MACEDONIA

The Strategy is founded on the following basic principles:

- the general public will be provided with a regular flow of accurate and timely information about the integration process, clearly emphasising the obligations, as well as the benefits, of membership. The Strategy will be based on openness and transparency, where possible involving and engaging all the relevant parts of society;
- its basic tone will be realistic optimism – the Republic of Macedonia recognises the opportunities and benefits for Macedonian citizens, but is also aware of the complexity of the accession process, and the significance of the harmonisation of the national legislation.
- it will engage with and involve those bodies and institutions, which have key roles to play in the European integration process. This includes the main departments of the public administration, the EC Delegation in Macedonia, the non-governmental and business sector, and the media. Its intention is to ensure full involvement of these institutions, making use of their knowledge and expertise.
- it will be based on a clear understanding of public attitudes to the integration policy, and to the public's information needs. This will be achieved through regular public opinion polls, contact with key stakeholders and monitoring the media and websites.

The main aim of the Strategy is to maintain public support for the Government's policy of fully-fledged membership of the EU. Its general objectives are to:

- raise awareness of the significance of the EU for Macedonia, as well as the Government's reasons for pursuing a full integration policy;
- increase confidence in the EU institutions through improved knowledge and greater understanding;
- maintain public support by emphasising the reality and the importance of integration through open and transparent discussions about the difficulties and benefits; and
- influence EU Member States to support Macedonia's candidacy for full membership.

7.3. MESSAGES

In order to meet these objectives, the Strategy recognises the importance of ensuring that the messages coming from Government and those representing the EU institutions are co-ordinated, consistent, comprehensive, up-to-date and based on a clear understanding of public attitudes and information needs. Research carried out in late 2002 indicated substantial public support for EU membership. This has been supported by a more recent study. It is planned to continue this research periodically, in order to help shape the information the public most needs to have, and to adjust the Strategy to take account of particular concerns or issues.

The initial research indicates that messages should be based on the following broad issues, in order of significance:

- the benefits of EU membership – why full accession is so important;
- the processes needed to become a member state;
- which are the EU Institutions and how do they function; and
- why Macedonia should be fully integrated – its case for entry.

To ensure continuity and consistency, a Newsletter setting out the key messages will be prepared and distributed to all the main parties involved in the integration process, and to wider audiences, such as politicians at national and local level. This material is intended to form the basis of presentations, speeches, papers, documents, texts and briefings envisaged in the Strategy.

7.4. TARGET AUDIENCES

The Strategy recognises the importance of reaching a wide range of audiences. It identifies these as being:

- all levels of staff in the public administration involved in the integration process, including those working on the reforms of national programmes;
- politicians and officials who make strategic decisions – Ministers and their Deputies, State Secretaries, Members of the Parliament, political parties, officials and their councillors in the local self-government;
- Creators and public opinion “mobilisers” - persons and/or institutions that influence others, such as eminent public figures, academics, business leaders, political parties. This also includes the media;
- Business and commercial entities, including representatives of small and medium sized companies;
- The agricultural sector;
- Non-governmental organisations;
- The general public as a whole, but particularly unemployed people, and staff and students in education; and
- Staff in diplomatic and consular representative offices, particularly in the embassies of the EU Member States, and EU institutions.

An important strand of the strategy is to ensure that important figures in the EU Member States, including the European Commission, are left in no doubt about Macedonia's credentials for full membership.

7.5. MEANS OF COMMUNICATING WITH THE PUBLIC IN THE REPUBLIC OF MACEDONIA

To achieve the objectives of the Strategy it is crucial to communicate in ways best suited to the audiences' needs. The Information Unit of the Sector for European Integration in the General Secretariat of the Government of the Republic of Macedonia is establishing a European Integration Information Centre with the task of co-ordinating the flow of information to all audiences.

The Strategy envisages two phases of activity.

In Phase 1, lasting two to three years, the emphasis will be on ensuring staff, decision makers, public opinion formulators, Euro sceptics, the media, and staff in diplomatic and consular representative offices in EU member states, as well as the general public is kept fully informed. To this end, the Information Centre has produced:

- A leaflet answering some of the main questions of concern to the public; and
- A CD-Rom, giving a profile on Macedonia, in English intended for audiences in EU Member States.

The Information Centre will be producing:

- A Newsletter containing the latest information on the accession process;
- A brochure setting out the policy of the Government of the Republic of Macedonia, describing the integration process, the functions of the main EU institutions, as well as a description of its policies; and
- Display material (including presentations).

The Sector for European Integration has developed its website to be a prime source of information on the accession process. It will also be establishing a free info-line and operating a travelling library ("Eurobus").

The media will be fully briefed so that it can provide a flow of information to the public.

In Phase 2, which to some degree will overlap with Phase 1, the emphasis will be on providing more in-depth information to specific sectors, such as business and commerce, education, agriculture and NGOs. This will involve a programme of lectures, seminars and public meetings, supported by appropriate literature and web information.

7.6. MONITORING AND EVALUATION

The Strategy will be informed and, where necessary revised, by means of regular public opinion polling, close monitoring of the public mood through the media and websites, through calls to the Information centre and feedback from various events and activities organised as part of the Strategy.

7.7. IMPLEMENTATION OF THE PROGRAMME

The Strategy will be managed by the Information Unit within the European Integration Sector. Its main tasks and responsibilities will be to co-ordinate and direct the communication activities through liaison with the relevant institutions and interested organisations, gathering and delivering materials and organising events, monitoring progress and producing regular progress reports.

As part of its duties, it will hold regular meetings involving the Sector for Public Information of the General Secretariat of the Government of the Republic of Macedonia, public relations officials from the Information Agency, the Ministry of Foreign Affairs, Chambers of Commerce, European Commission Delegation in the Republic of Macedonia, the Broadcasting Council, the Macedonian Information Agency, Macedonian National Radio and Television and the Association of Journalists.

An Operational Plan for Phase 2 was adopted in March 2003. This sets out the steps and activities necessary to launch the organisation and provide the materials as well as the arrangements for the delivery of the Strategy. The Sector for European Integration will select the NGOs, professional agencies and experts to participate in the Strategy, based on the advice of expert consultants and in accordance with the legal provisions.

A further Operational Programme, with different time dynamics and other sources of financing and co-financing will be prepared for the implementation of the second phase, which will continue until the Republic of Macedonia enters the EU.

7.8. EXPECTATIONS AND GOALS OF THE STRATEGY

- *Short term*
 - (1) Every citizen of the Republic of Macedonia to be aware of the Government's policy for full European integration;
 - (2) Closer cooperation with the EU and its member states to build understanding of Macedonia and its case for EU Entry.
- *Long term*
 - (1) Support from the public for the implementation of this integration strategy and the action plans which flow from it;
 - (2) Active participation from key parts of the public in the process of euro-integration;
 - (3) Substantial cultural, intellectual and scientific cooperation with EU member states; and
 - (4) Macedonia to be perceived as an integral part of the European project.

IMPLEMENTATION OF THE NATIONAL STRATEGY FOR EUROPEAN INTEGRATION OF THE REPUBLIC OF MACEDONIA

INTRODUCTION

The Republic of Macedonia is one of the smallest countries in Europe, with limited financial and human resources.

The European integration process is very complex, extensive, lengthy and costly and it should be managed and coordinated with maximum utilisation of the available capacity, utilisation of the positive experiences of the accession countries and efficient utilisation of financial and technical assistance from the European Union and other donors that have direct impact on the development of the country and the EU integration process.

Institutionally, the structure for the management of the European integration process has developed since September 1996. The structure has gone through a number of changes to respond to the new requirements of the European integration process.

There are a number of institutions that have an important role in the implementation of the strategy, in political, technical, and operational terms.

The most important issues of policy development, priority setting and decision making are the responsibility of the three branches of government – legislative, executive and judicial. The legislative branch, with respect to building a new system in the Republic of Macedonia, fully harmonised with EU standards, in all areas of social life and work; the executive branch with respect to the implementation of EU policies and standards in practice, and the judiciary with respect to their correct enforcement, in a manner consistent with practice in the EU Member States.

A large number of institutions and bodies have been established with executive functions in order for the policies and priorities of the different aspects of the process of European integration to be implemented.

To support the process, financial means are essential, and they will be primarily provided by the Budget of the Republic of Macedonia. However, attempts will also be made to ensure the necessary coordination for maximum utilisation of the programmes of financial and technical assistance coming from the EU.

8.1. STARTING GROUNDS FOR IMPLEMENTATION OF THE STRATEGY

Within the context outlined above, and the fact that the system is constantly upgraded and modernised, learning from the experience of countries of similar size, an institutional system was established and is functioning in the Republic of Macedonia to support fully the European integration process.

In order to implement successfully the European integration process, as the fundamental aim of this strategy, it is necessary to ensure:

- A well functioning institutional framework for the management and coordination of the integration process;
- Good coordination that will increase the effects and speed-up the process;
- Sound analytical preparation for political decision making;
- Well qualified and skilled staff whose security, motivation and continuity are ensured;
- That the law approximation process is adequately supported by institutional building and the enforcements of laws;
- The involvement of staff in all ministries and institutions that will implement European regulations; and
- Timely development of teams in all ministries to constitute the core of the negotiating teams in the negotiation process leading to membership of the EU.

The public administration will have the most important role in the successful implementation of the strategy. Therefore the administration will have to be appropriately organised and strengthened, i.e. trained. The numerous activities that are to be undertaken will be adequately funded by the Budget of the Republic of Macedonia, with support from international donors and EU programmes.

8.2. NATIONAL ASPECTS OF THE IMPLEMENTATION PROCESS

8.2.1. Implementation

Considering that the objective of the Strategy is to ensure that the reform steps aimed at European Integration are consistent, it sets out the basis for the planning of all sector specific strategies and includes specific implementation plans and programmes.

It is to be implemented through the Annual Action Plans for the implementation of the European Partnership and the Legislative Approximation Programmes.

All implementation programmes and plans in the area of European integration will be supported by a single database that will unite the strategic elements of planning, the measures and activities envisaged, including the required institutional changes and the required resources. The database will also contain the projects planned in the CARDS Programme, as well as other projects undertaken in cooperation with donors, in order to avoid overlaps and to facilitate the planning of new activities.

8.2.2. Tasks and Responsibilities of National Institutions

From an institutional point of view, the structure for managing the European integration process started to develop in 1996. The infrastructure, which was established upon the country's own initiative, was initially intended for the coordination of activities related to the PHARE Program, but its scope was later on expanded towards coordinated monitoring of agreed relations, as well as raising the relations with the European Union to a higher level.

On the basis of the accumulated knowledge and experience, during the following years the system was gradually upgraded in order to expand and deepen the competencies and tasks, as well as to increase its functionality and efficiency.

There is no such thing as an ideal and unchangeable predetermined structure for management and coordination of the European integration process. However, the existing system has so far shown visible and recognised results in stimulating, expanding and enriching the European integration process.

All key national institutions involved in the implementation of the national strategy are described below:

Parliament of the Republic of Macedonia

The Parliament of the Republic of Macedonia, being the highest legislative authority and the highest representative body of the citizens of the Republic of Macedonia, plays a vital role in the process of the European integration. Consequently, the Parliament of the Republic of Macedonia plays a substantive role in the implementation of the Strategy especially in the law approximation process and in defining specific state policies in different sectors of the EU integration process. Furthermore, it receives regular and timely information about the operational steps that the Government of the Republic of Macedonia takes in the European integration process, in particular through annual sessions of the Parliament and the Government on the progress made in the EU integration process and regular quarterly reports submitted by the Government to the Commission on European Issues in the Parliament.

The Parliamentary Commission on European Issues has the mandate to:

- inform the Parliament on all issues related to European integration;
- deal with issues related to the conformity of proposed laws with the legislation of the EU;
- monitor and encourage the harmonisation of Macedonian legislation with that of the EU;
- propose measures for improving the harmonisation process;
- comment on and propose activities of the Parliamentary working bodies dealing with these issues;
- monitor the progress on the fulfilment of commitments arising from the agreements between the Republic of Macedonia and the European Union;
- monitor the activities of the Government and state administration bodies aimed at gaining membership for the Republic of Macedonia in the EU and offer comments and recommendations;
- monitor the implementation of the programmes and other documents of the EU institutions in the Republic of Macedonia, including programmes of financial assistance;
- encourage and implement activities aimed at informing the public about the European integration process;
- cooperate with relevant Parliamentary Commissions in other countries; and
- review other issues related to EU integration.

The role of this Commission will be strengthened in the near future. A special procedure needs to be introduced for the adoption of regulations that have been fully harmonised with EU legislation, in order to simplify and speed up the procedure and to avoid any changes to draft legislation in relation to harmonisation with the appropriate EU acts. In addition, the Parliament, and particularly the Commission on European Issues, should have a pro-active role in the implementation of the Communication and Information Strategy. The issue of staffing the advisory support units with staff specialised in European integration issues in the Parliament and the Commission on European Issues is a priority.

Annual meetings between the Parliament of the Republic of Macedonia and the European Parliament through the Cooperation Delegations of both Parliaments have been a regular practice. Since the SAA came into force, a Parliamentary Committee on Stabilisation and Association has been established. These meetings constitute a forum where the Members of Parliament exchange opinions and discuss issues related to the prospects for the integration of the Republic of Macedonia into the European Union. The Forum is a place where it is possible to lobby for the positions of Macedonia, to discuss achievements and determine the priorities important for faster association with the EU.

President of the Republic of Macedonia

The President of the Republic of Macedonia, holding the highest office with competencies falling within the area of foreign policy, has an important role in, and considerable influence on, the entire European integration process. The President's role is becoming increasingly important, given the imperative, that throughout the European integration process, the state as a whole acts in unison at all levels, with a precisely defined policy and agreed priorities, actions and implementation timescales.

In order to synchronise and maximise the effects of the European integration process, it is necessary to maintain regular contacts, consultations and coordination concerning the policies, priorities, and opinions developed at a technical level and verified at a political level. The President of the Republic of Macedonia receives all government documents related to the European integration process in time and transmits the common and agreed positions on individual issues to the partners abroad.

Government of the Republic of Macedonia

Within the European integration process, the Government's task is to determine the strategic priorities, incorporate them in the annual work programme of the Government and support them with funds from the Budget of the Republic of Macedonia. This process of linking the priorities with the budget is of great importance and is being implemented for the first time this year.

The Government is directly responsible for setting policies and priorities, decision making and setting timescales for the implementation of the integration process, and it is also a direct counterpart in communications with the relevant EU institutions.

Within the scope of its responsibilities, the Government has a proactive approach in informing the public on the overall EU integration process.

The Government has appointed a Deputy Prime Minister responsible for the EU integration process, who, as a member of the Government, gives significant political weight to the entire EU integration process.

Deputy Prime Minister Responsible for the EU Integration

The Deputy Prime Minister responsible for the EU Integration is the minister responsible for managing and coordinating the EU integration process.

The Deputy Prime Minister responsible for the EU Integration, as President of the European Integration Working Committee, consisting of State Secretaries in the line ministries, ensures stronger coordination and guides the activities in the European integration process and makes sure that they are regularly monitored.

In addition, the Deputy Prime Minister of the Government is the National Coordinator of Foreign Assistance, responsible for coordination, targeting and use of EU assistance

and other bilateral and multilateral assistance in order to support the EU Integration process.

The European Integration Sector, within the General Secretariat of the Government, provides expert and administrative support.

Ministry of Foreign Affairs

The Ministry of Foreign Affairs is responsible for providing foreign political support related to the integration process of the Republic of Macedonia, notably for timely provision, transfer, distribution, as well as presentation of all political, strategic and operational information and positions related to European integration through the Mission of the Republic of Macedonia to Brussels, to all the structures of our country in the EU member states, to all the embassies of the EU member states in the country, and to all other European institutions. The Ministry of Foreign Affairs is responsible for the political part of the EU integration process and building a better position for the country abroad. It provides support to the external-political aspect of the integration, with a special emphasis on the political dialogue, regional cooperation, relations with the EU and its Member States, accession countries – now new members – candidate countries, neighbouring countries and members of the stabilisation and association process.

Mission of the Republic of Macedonia to Brussels

The Mission of the Republic of Macedonia plays an important role in the EU integration process. It is responsible for the collection of information, analysis and following all events within the EU institutions, as well as within the missions of other countries represented in Brussels, above all the EU member-states and the countries included in the stabilisation and association process. The Mission should be further staffed and strengthened.

The opportunity to communicate the views and positions of the Macedonian Government concerning key issues regarding the EU integration process directly to its counterparts is also particularly important.

The Mission of the Republic of Macedonia is the most important channel for the transfer of information in order that views and positions regarding the European integration process will be promoted, and it is specifically through this Mission that they will be disseminated outside the country.

General Secretariat

With the implementation of the current reform, the General Secretariat of the Government of the Republic of Macedonia will become one of the key institutions in the EU integration process, as the body responsible, among other things, for public administration reform. A Sector for Strategic Planning and a Sector for Policy Coordination will be established within the General Secretariat, which, together, with the existing Sector for European Integration, will ensure the implementation of political decisions to accelerate the process of European integration.

This is exactly the level at which the pace of the institutional changes and strengthening the institutional capacities in the EU integration process is determined.

Sector for European Integration

The main responsibility of the Sector for European Integration within the General Secretariat of the Government is to organise, coordinate and synchronise the EU integration

process. The most important activities of the Sector include monitoring the implementation of the Agreements with the EU, organising and coordinating the economic and social integration, organising and coordinating the integration in the justice and home affairs area, horizontally coordinating the approximation of national legislation to that of the EU, supporting and guiding the institution building and strengthening process, translating EU regulations, coordinating foreign assistance, monitoring the realisation of donations aimed at European integration and information and publicity of issues regarding the EU and the European integration process.

In the immediate future, as a result of the increased obligations arising from the European integration process, the Sector is to be reorganised, expanded and fully staffed. The staff of the Sector will be appropriately trained and developed.

European Integration Units within Ministries

From the very beginning, when the initial structure for support to the European process was established, there was a need to establish communication and coordination nodes in all the line ministries. These bodies were established as units or sectors, depending on the policy of the individual ministry, but generally they all follow the structure of the central Sector for European Integration, with the same range of competencies. These units, which mainly have a coordination role regarding European integration issues within the framework of the ministries, are in permanent and direct contact with the Sector for European Integration about all issues within their competency. This network of European integration units is the key operational element in the institutional structure of the European integration process.

Legislation Secretariat

The Legislation Secretariat also has an important position in the chain of key institutions and bodies that are carrying out the EU integration process and implementing the National Strategy for EU integration.

This body ensures consistency in the legal system and gives professional opinions on the conformity of the proposed laws and other regulations to the Constitution of the Republic of Macedonia, to EU legislation and to the international treaties ratified in accordance with the Constitution of the Republic of Macedonia.

One of the major tasks of the Legislation Secretariat is to verify the new legal acts in terms of their conformity to the EU legislation.

European Integration Centre

The renewal of the European Integration Centre, as a foundation established by the Government, will serve, above all, to intensify research and analysis as a basis for making relevant political decisions. The Centre will also produce analyses to help set priorities and guide sector specific policy development and manage a documentation and library centre for European literature and documents.

8.2.3. Inter-Ministerial Coordination

The implementation of the strategy requires coordinated action by all national institutions, notably the Government of the Republic of Macedonia, through efficient coordination mechanisms, i.e. by establishing an efficient coordination process that will provide systematic preparation for approximation and membership to the European Union.

The Government of the Republic of Macedonia has established an institutional system for inter-ministerial coordination of the EU integration process at a number of levels and it is being continuously upgraded and strengthened. The following inter-ministerial structures actively participate in the EU integration process, especially in the areas of the approximation of legislation and its harmonisation with that of the EU, and in the area of foreign assistance coordination:

The Government of the Republic of Macedonia is the highest political body that plays a central role in making decisions on the policy, strategy, priorities, and basic directions in the EU integration process.

The European Integration Working Committee is a body that sets the methods and the timescales for implementing the strategic decisions, political guidelines and priorities of the Government of the Republic of Macedonia. It is chaired by the Deputy Prime Minister of the Government who is responsible for EU integration, and it comprises State Secretaries from all the ministries. This body has recently been modified in order to increase its efficiency and operational effectiveness. The Working Committee is an operational forum for discussing important issues in the area of European integration (implementation of EU agreements, monitoring the Stabilisation and Association Process, legislation harmonisation, translation of legal acts, coordination of foreign assistance) and for devising proposals, suggestions and decisions on how to intensify the integration process.

The Sub-committee of the EU Integration Working Committee for the Approximation of Legislation to EU legislation is a central coordination body consisting of senior civil servants from each Ministry and the Legislation Secretariat. The important functions of the body include preparing annual programmes for legislation approximation and coordinating the working groups and sub-groups for harmonisation with *acquis communautaire*.

Working Groups and sub-groups on harmonisation with the *acquis communautaire* were established by the Government of the Republic of Macedonia in the beginning of 2003. There are 29 groups in accordance with the number of chapters in *acquis communautaire*, and they constitute the nuclei of the future teams of the Republic of Macedonia for negotiations with the EU. They include representatives from the ministries, academic institutions, the Chamber of Commerce, the Legislation Secretariat and other stakeholders. The working groups are responsible for operational implementation of the activities related to the approximation of national legislation to the legislation of the European Union.

Technical Committees for Translation, that mainly consist of representatives from the Ministries and other external experts – from the academic, scientific and other institutions, are responsible for professional and legal revision of the translated legal acts. One of the most extensive activities of the EU integration process is the translation of the European legal acts, and this process in the Republic of Macedonia is carried out by translation agencies and is coordinated by the European Integration Sector.

8.2.4. Institutional Capacity - Upgrading and Strengthening

Human resource development, and above all, appropriate organisation and capacities within the public administration, is an important prerequisite for efficient implementation of the national strategy.

Therefore, the Government of the Republic of Macedonia is implementing reforms in the public administration in order to ensure professionalism, accountability, competence and independence in its operation. The aim is to strengthen the absorption capacity of the public administration, especially regarding the policies, issues and activities related to the European integration process.

However, the EU integration process does not exclude the academic potential in the country, and therefore cooperation with the academic community is necessary for successful implementation, both at the operational level and at the level of development and research.

EU Training Strategy for Civil Servants

In 2001 the Government of the Republic of Macedonia prepared an EU Training Strategy for Civil Servants, which is a general document that identifies the needs, objectives, target groups and the forms of training for civil servants from a horizontal and sector oriented perspective.

The EU Training Strategy is an instrument for the active commitment of, and the allocation training opportunities to, for civil servants working in the executive, legislative and judicial branches.

The Strategy provides training for the media and for the NGO sector in order to increase the awareness and the general knowledge about issues related to the EU and the European integration process.

The implementation of the Strategy takes place through two-year operational plans, whose implementation is actively supported by funds provided from the Budget of the Republic of Macedonia as well as with the active participation of foreign donors.

Institution Building Plan

The Government of the Republic of Macedonia is undertaking measures to identify the activities related to building democratic, competent and sustainable institutions that are necessary to implement the long-term project for EU membership.

A key document is the Institution Building Plan for implementation of the *acquis communautaire*, its aim being to define the timeframe in which the Republic of Macedonia will fully implement the European *acquis*. Institution building from the aspect of the performance of functions that derive from *acquis* involves establishing new institutions, reorganising the existing ones by changing the current set of functions and strengthening the existing institutions in order to enable them to perform their functions more efficiently.

Graduate Studies and Specialisation Outside the Borders of the Republic of Macedonia

In 2003 the Government of the Republic of Macedonia established a Programme for Awarding Scholarships for Graduate Studies in the area of Euro-integration (Economics, European Law and Multi-disciplinary European Studies) at universities in EU countries. The Programme is being successfully implemented.

This manner of strengthening and upgrading capacities, which is aimed at successful implementation of the EU integration process and the efficient and sustainable functioning of institutions, has been supported by the Budget of the Republic of Macedonia and by international donors through co-financing.

After their return to Macedonia, the individuals who have received Scholarships are required to work in the public administration, which is a very important measure for providing our own resources, overcoming the dependence on continuous technical support and ensuring sustainability of the reforms.

Centre for Continuous EU Training

A Centre for Continuous EU Training was established within the TEMPUS project. The primary target group are civil servants. The curriculum of the Centre is developed in cooperation with the College of Europe in Bruges, Belgium.

The aim of this Centre is not only to train staff from the administration to become lecturers and experts on EU integration, but also to improve the general and professional knowledge in specific areas of the EU integration process. Partners in the designing and operating of the Centre are University Departments and other higher education institutions in the Republic of Macedonia.

Cooperation with EU – Twinning Mechanism

The Republic of Macedonia has expressed strong interest in using different forms of cooperation, expertise, and technical assistance aimed at institutional strengthening and building the capacity of national institutions.

The twinning mechanism is a key instrument of the European Commission used to strengthen the administrative capacities of the EU candidate/accession countries. This instrument became available to the Republic of Macedonia in 2003 as a model for implementing projects financed through the CARDS programme. In the future, efforts will be made to use this mechanism more frequently to give the national institutions direct access to foreign expertise, with a view to more successful implementation of the EU integration strategy.

Internship in the EU institutions / National Administrations of EU member-states and accession countries

Civil Servants in the Republic of Macedonia need to gain experience and to participate in the services of the European Commission and the national administrations of EU member states and accession countries. The Republic of Macedonia has several interns in the services of the European Commission and occasionally it can send interns to the German and French administrations. The Government's aim is to extend this model of cooperation with the services of the European Commission and to establish continuous models of similar cooperation with the national administrations of the member-states.

8.2.5. Establishment of a Unified IT structure

The complexity of communication amongst all institutions and stakeholders in the implementation of the strategy for EU integration requires the establishment and unimpeded functioning of IT infrastructure.

It is necessary to equip all the involved entities with hardware and software and to put several databases into operation:

- Database on harmonisation with the European legislation
- Database on translation of European regulations

- Database on training events conducted
- Central database on foreign assistance

The information flow and the use of systems to manage documents through intranet and internet will significantly speed up all the activities, simultaneously providing comprehensive monitoring of the entire European integration process.

It is necessary to train those who are to implement the EU integration process in using, managing, revising and updating the status of the databases mentioned above.

