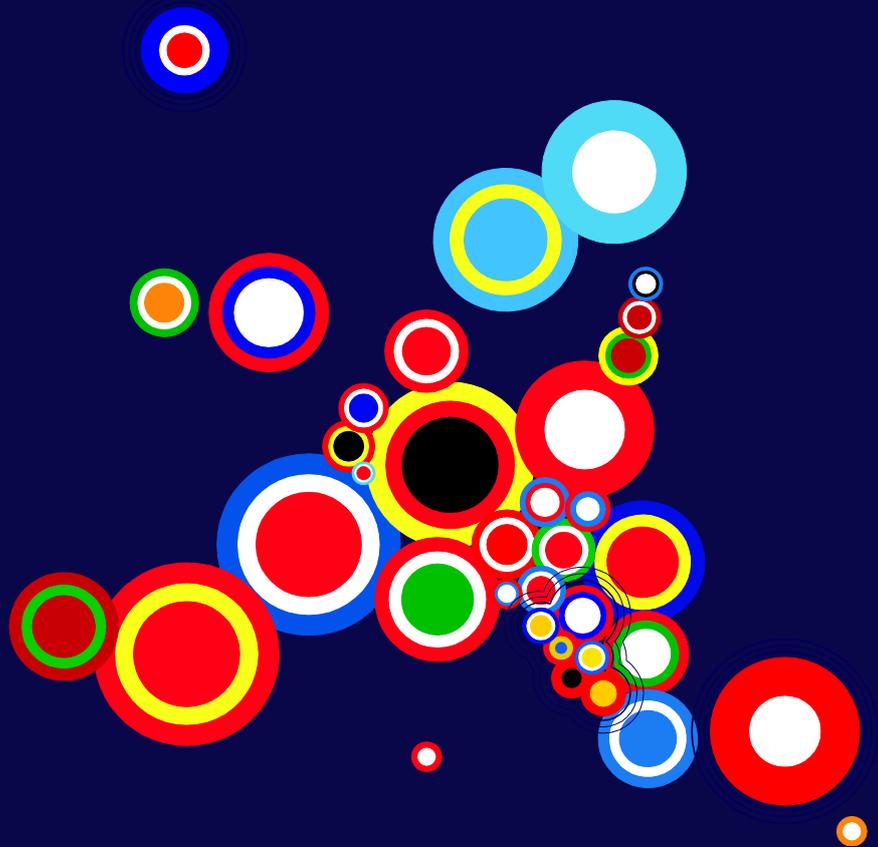




INSTRUMENT FOR PRE-ACCESSION ASSISTANCE (IPA II)



**INDICATIVE STRATEGY PAPER
FOR THE FORMER YUGOSLAV
REPUBLIC OF MACEDONIA – REVISED
VERSION ADOPTED ON XX/XX/2017
(2014-2020)**

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PART I: INTRODUCTION

1. Purpose

This Indicative Strategy Paper (the Strategy Paper) sets out the priorities for EU financial assistance for the period 2014-2020 to support the former Yugoslav Republic of Macedonia on its path to EU accession. It translates the political priorities, set out in the enlargement policy framework, into key areas where financial assistance is most useful to meet the accession criteria.

The Instrument for Pre-accession Assistance (IPA II)¹ is the main financial instrument to provide EU support to the beneficiaries in implementing reforms with a view to EU membership. Financial assistance under IPA II pursues the following four specific objectives: (a) support for political reforms, (b) support for economic, social and territorial development, (c) strengthening the ability of the beneficiaries listed in Annex I to fulfil the obligations stemming from Union membership by supporting progressive alignment with, implementation and adoption of, the Union *acquis*, (d) strengthening regional integration and territorial cooperation. Furthermore, the IPA II Regulation states that financial assistance shall mainly address five policy areas: a) reforms in preparation for EU membership and related institution-and capacity-building, b) socio-economic and regional development, c) employment, social policies, education, promotion of gender equality, and human resources development, d) agriculture and rural development, and e) regional and territorial cooperation.

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

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

Moreover, EU assistance is only one of the means to achieve the necessary progress. Last years demonstrated that political instability influences commitment and weakens the administrative capacity necessary to bring the expected fundamental reforms forward. Hence, the political dialogue with the country, focusing on fundamentals, becomes an equally important tool. The sustainability and impact of the EU funding thus is to be linked to a stable political perspective, coherent with the EU values and principles, and backed-up by a strong engagement of all stakeholders..

¹ OJ L 77, 15.03.2014, p. 11.

With a view to delivering on the priorities set for EU financial assistance for the former Yugoslav Republic of Macedonia, this Strategy Paper sets meaningful and realistic objectives, identifies the key actions and actors, describes the expected results, indicates how progress will be measured and monitored, and sets out indicative financial allocations. The priorities defined for financial assistance will serve as a basis for the (multi-) annual programming of IPA II funds from 2014 to 2020. The indicative financial allocations allow for an appropriate amount of assistance to remain available as a 'reward', on the basis of an assessment of performance and progress over a period of several years but not later than in 2017 and 2020 respectively, as defined in the IPA II Regulation.

This Strategy Paper has been reviewed at mid-term and revised as appropriate. It may also be revised at any time upon the initiative of the European Commission.

2. Consultation on this Strategy Paper

The present Strategy Paper is an assessment by the European Commission and the Government of the former Yugoslav Republic of Macedonia of the country's needs in the context of its European integration process. It integrates the new priorities for the EU and the region that emerged in the last years, notably in relation with the migration crisis and the fight against terrorism. The Strategy Paper takes account of key documents, such as the Urgent reform Priorities and Przino agreement, Commission Country Report and recommendations (notably on economic governance), national strategic documents, reports from other relevant organisations, and information on current and past EU financial assistance. It is also a result of intensive consultations conducted with EU Member States, international financial institutions, international organisations, civil society and other donors and stakeholders represented in the country. A strategic dialogue with the European parliament has also been conducted.

PART II: ANALYSIS OF THE NEEDS AND CAPACITIES

1. Political and economic context

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

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

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

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

However, the political crisis since 2014 slows down the reform processes in all sectors and undermines the economic development. Finding back the needed political stability is crucial for strengthening the system of checks and balances and pushing forward the reforms. It is important that the country systematically addresses and resolves the challenges highlighted in Urgent Reform Priorities, Przino agreement, the Country Reports and the conclusions of the High-Level Accession Dialogue.

Dialogue between political parties needs to improve, and there is a need for more constructive politics in the national interest. The country needs to further reduce corruption and establish a modern and transparent public administration. The independence, efficiency and the professionalism of the justice system have to be strengthened as a priority.

More than ten years after the signature of the Ohrid Framework Agreement, inter-community relations are stable but remain fragile. The process of national reconciliation and full reconciliation between the communities needs to continue. The decentralisation process merits greater attention.

At the same time, the economic reforms undertaken delivered results and in the instable international economic environment the country has succeeded in keeping the macroeconomic stability. The average annual economic growth in the period between 2009 and 2015 was 2.1% and it is among the strongest in the South East Europe. Respectively for 2014 and 2015 the country has recorded GDP growth of 3.8% and 3.7%. GDP per capita in 2012, EUR 3,986, was well below the EU average of EUR 34,410. At the same time the country has a GDP per capita at around 60 % below the EU-28 average and although there is a positive trend the converge to the living standards of the EU member states remains a challenge. Despite economic reforms, total unemployment remains high at 24.5% of the labour force for 2016, one of the highest unemployment rates in the region and well above the EU average of 9.4%². The country needs to bring down structural and long-term unemployment and improve its socio-economic development through, inter alia, support for the business environment, agricultural sector, research and innovation capacities, and through investments in its infrastructure.

In the field of gender equality, the participation of women in the labour market remains low and women comprise substantial percentage of the economically inactive population. Gender stereotypes existing in the society help to preserve a structural gender gap in economic, political and social areas.

Since 2015 the unprecedented migration flows have raised new challenges for the country with over 1,000,000 migrants crossing the country via the Western Balkan Route. About 30% of the migrants are female; there are also many families, including small children, and some elderly who have additional protection needs. The scope of the migration flows and their varied and complex nature put at pressure the structures, capacities and the material and human resources of the country and have had a direct impact on affected local communities. The country has managed the migrants flow with relatively effective controls and registration procedure without major prolonged closure of the border crossings. In addition about 10% of the country yearly allocations for years 2016 and 2017 were re-focused to support the EU

² Cf. Eurostat

migration policy. In its turn, the EU has been using all possible tools to help the former Yugoslav Republic of Macedonia cope with the refugee crisis and is providing significant financial and technical support including purchase of vehicles, surveillance, medical and waste treatment equipment and facilities and putting in place joint patrols of national and EU member states border officers.

For the sake of a low carbon and climate resilient development and the reduction of pollution levels, the country will have to address environmental challenges through reforms in the environmental and transport sub-systems, capacity-building efforts and capital investments. The implementation of the environmental acquis is a funds-intensive process, which would require the EU support. In addition, the December 2015 Paris Agreement establishes an additional commitment and requires substantial contributions to ensure the transition to clean energy.

The revised Strategy Paper is intended to guide EU support to the country in meeting the identified needs, and supporting the reform process. In order to track the results of reforms, to which the EU contributes either through policy dialogue or financial assistance, outcome/impact indicators will be used, as set in Annex 2.

2. Context for the planning of assistance

2.1. EU enlargement strategy

A Cooperation Agreement with the EU was signed in 1996 and the country was the first in the region to sign a Stabilisation and Association Agreement (SAA) in 2001, providing a duty-free access to the EU market and a political framework for its European integration process. The country formally applied for EU membership in March 2004 and was granted candidate status by the European Council in December 2005. Since 2009, the Commission has assessed that the country sufficiently meets the political criteria and recommended eight times, opening of EU accession negotiations. The Commission has also recommended, since 2009, to move to the second stage of the association, in line with the relevant provisions of the SAA. No decision has been taken by the Council in either case. The sustainability of EU financial assistance is linked to a credible EU perspective. The High Level Accession Dialogue (HLAD), launched in March 2012 between the government and the Commission, injected new dynamism into the EU-related reform process in few areas but cannot replace the accession negotiations.

A key lesson of previous enlargements is the importance of addressing early on the fundamental reform priorities identified by the Enlargement Strategy.

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

The global economic crisis has underlined the need for the country, which is not yet a functioning market economy, to strengthen its economic governance. The Government prepares an annual Economic Reform Programme, which is evaluated by the Commission. The EU also provides guidance on the reforms needed to achieve further progress towards

meeting the economic accession criteria. The country has adopted the EU macro-economic criteria, and is also invited to embark on a comprehensive and credible reform of its public financial management system, to enhance competitiveness of the local business and support job creation and employment.

Since 2014, the country participates in the Berlin Process initiative aimed at improving regional cooperation in the Western Balkans on the issues of infrastructural and economic development. Improved connectivity between the Western Balkan countries and between them and the EU is a key factor for growth and jobs in the Western Balkans. The country established a National Investment Committee and defined a single investment pipeline.

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

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

2.2. Relevant national/regional strategies

The Government has a four-year Programme (2014-2018), which sets out five strategic objectives:

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

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

To improve economic growth and employment, the Western Balkan countries have developed a common regional strategy for economic development in South East Europe (SEE 2020), supported by a set of pertinent policy objectives, implementation measures and monitoring mechanisms. The Government of the former Yugoslav Republic of Macedonia has set itself a number of ambitious targets for 2020.³

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

³ Cf. South East Europe 2020 Strategy (<http://www.rcc.int/pubs/0/20/south-east-europe-2020-strategy>).

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

2.3. Conditions for managing pre-accession assistance

In 2009, the Commission conferred IPA management powers to the national administration for IPA Component V without *ex ante* controls. In the same year, the Commission also conferred management powers with *ex ante* control for IPA Components III and IV, and, in 2010, for IPA Component I. Management of funds is being ensured by the so-called Decentralised Implementation System (DIS), based on accredited operating structures employing around 400 staff. Under IPA II, DIS/indirect management with beneficiary country, is primarily envisaged as a main implementation mode for the sectors classical for the Structural funds, notably in the implementation of the operational programmes on environment and transport, agriculture and partially for the sector of education, employment and social protection.

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

In general under IPA II, the implementation modalities will be used more selectively with a view to improve the effectiveness and the efficiency of the EU funds. In this respect IPA II support may also be delivered through direct management by the Commission or through sector budget support programmes upon meeting the eligibility criteria⁴.

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

In this respect, the country has established eight sector working groups (SWG) covering all sectors and composed of representatives of all relevant national institutions responsible for policy making, implementation and monitoring in their respective sectors. The SWG developed sector roadmaps, outlining the necessary actions and steps needed to meet the sector approach criteria. Sector strategies are being developed in all sectors. The establishment of a medium-term expenditure framework to support the sector budgeting has been launched. An integrated monitoring and performance assessment framework will be

⁴ : a stable macro-economic framework; a credible and relevant programme to improve public financial management; transparency and oversight of budget; and credible and relevant sector strategies that are consistent with the EU accession strategy

developed by 2018. Functional and institutional analysis are being envisaged as a part of the public administration reform or sector approach to clarify the needs of re-organisation and shift of resources with the public administration. It is expected that by 2019 the sector approach is applied in all defined sectors.

2.4. Donor coordination, complementarity with other EU assistance

Donor assistance to the country has decreased over the last years. The EU remains by far the largest donor. EU Member State donors include France, Germany, Italy, the Netherlands and the United Kingdom. Other large bilateral donors include Switzerland and the United States. Multilateral donors include the Council of Europe, the Organization for Security and Co-operation in Europe (OSCE) and the United Nations. The main lenders are the Council of Europe Development Bank (CEB), the European Bank for Reconstruction and Development (EBRD), the European Investment Bank (EIB), the International Monetary Fund (IMF) and the World Bank (WB).

Donor coordination is ensured by the National IPA Coordinator (NIPAC), supported by the Secretariat for European Affairs (SEA) in its role of a NIPAC Secretariat. NIPAC guides the work of the established eight SWG, which are also acting as a forum for consultation with the civil society and development partners. Regular donor coordination meetings take place in the context of the annual/multi-annual IPA programming exercise, as well as ad hoc and involves EU Member States, international organisations, other donor organisations, civil society and other relevant stakeholders.

2.5. Consistency with EU policies

Financial assistance in the priority areas identified in this Strategy Paper will be granted in line with and in support of the EU's enlargement strategy, consistent with relevant EU policies, in particular with the Europe 2020 strategy and applicable macro-regional strategies, flagship initiatives of the EU to boost growth and jobs, as well as climate policy objectives. The objectives set for 2020 reflect *today's* level of economic development and the country's stage in the accession process.

The country specific reform objectives of the SEE 2020 Strategy are important reform goals and IPA II will be used to support meeting these goals.

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

In view of the priorities of the latest Enlargement Strategy, the Country Reports and the Government programme, IPA II assistance will focus on the key strategic priorities set out below.

Democracy and rule of law

Good governance and public administration reform (PAR) are key elements in the accession process and priorities under the High Level Accession Dialogue (HLAD). IPA II will support efforts aimed at establishing a more professional, impartial, effective and accountable public administration and improving public financial management. The country will furthermore need to continue and process of aligning its legislation with the EU *acquis*, intensify the

efforts and develop administrative capacity to ensure its proper and full implementation. Dialogue and cooperation between the Government and non-state actors will be supported throughout all sectors.

Continued reforms in the fields of rule of law and fundamental rights are of key importance to the overall development of the country. The sector's prominence is also reflected in the priorities of the High Level Accession Dialogue (HLAD) and the Commission's "new approach" in this area. Further progress in this sector will ensure the country's stable and democratic future and also benefit its socio-economic development, including through increased inward investment.

One of the key priorities under IPA II will be the completion of the country's judicial and police reforms. Assistance will be provided for activities safeguarding the independence and professionalism of the judiciary, effectively combating corruption and organised crime, addressing problems with freedom of expression, strengthening capacities for the protection of fundamental rights and tackling new challenges emerging in the fields of migration and asylum, as well as improving the effective management of external borders and the implementation of visa, migration and asylum policies, in line with the EU *acquis*.

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

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

Civil society organisations (CSOs) play an important role both in the sector dialogue and in the implementation of sector reform activities. Their inclusion will be encouraged and supported with EU funds thus ensuring that the community perspective is always considered.

Competitiveness and growth

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

Assistance under IPA II will be used for improving the business environment and the support systems for business, particularly small and medium-sized enterprises (SMEs). Another axis of support will cover strengthening of the educational system and aligning the national employment programmes with the labour market requirements, as well as linking research and development institutions to the business and employment sector.

As a landlocked country, the former Yugoslav Republic of Macedonia is particularly dependent on a well-developed and inter-connected land transport network for its economic and social development. Therefore, IPA II will help to develop the national and international trade and transport routes along the SEETO comprehensive network.

Since grant funding for investments and the national budget are limited, the country can use the Western Balkans Investment Framework (WBIF), a unique facility for blending loans and

grants, which also provides a mechanism for coordinating priority investments in national and regional projects.

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

Reforms related to the environment and climate action are of key importance for the EU accession process and should lead to a cleaner environment and improved quality of life. This will also contribute to the implementation of the Europe 2020 Strategy, helping to ensure sustainable growth and a low carbon, climate resilient and resource-efficient economy. IPA II will help to transpose and implement the *acquis* in key areas, by capacity and investment-related assistance. Climate relevant expenditure will be tracked across the range of IPA II interventions in line with the OECD-DAC's statistical markers on climate change mitigation and adaptation.

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

As an additional cross cutting-issue, IPA II may support measures to ensure the equality of the genders and better access of women to the political, social and economic life, in line with the Gender Action plan 2016-2020. The EU assistance will apply the gender mainstreaming approach throughout all phases of the programme cycle. IPA assistance shall include an assessment of the different situations and needs for women and men and translate this assessment into indicators, activities and results covering all actions in all defined sectors.

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

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

PART IV: EU ASSISTANCE DURING THE PERIOD 2014-2020

1. Democracy and governance

1.1. Needs and capacities in the sector

Good governance and **public administration reform** (PAR) are key elements in the accession process. While certain improvements of the quality of the public services, the quality of policy formulation and implementation, and the credibility of the government's commitment have been achieved until 2014⁵, the lasting political instability slowed down the reform process. Stronger and continuous efforts will be needed to ensure high standards in

⁵ World Bank Government effectiveness index

organisation, transparency, accountability, professionalism and performance of the administration. Full implementation of the principles of merit, and equitable representation still has to be ensured along with a common assessment framework for the performance of state officials. The delegation of responsibilities and obligations needs to be enhanced to improve the accountability, efficiency and effectiveness. The flow of information on the PAR to public needs to be significantly increased, notably on achieving the targets of the PAR Strategy.

The commitment of the country to address the Principles of Public Administration and the Better Regulation agenda needs to be strengthened along with the implementation of the new legislation on administrative procedures, administrative disputes and appeal procedures, guaranteeing the protection of citizens rights and interests.

The quality of the services to citizens and businesses is a key challenges to be addressed. The interoperability needs to be ensured in order to further enhance e-Government and to enlarge the so far modest in number and type e-services. Equal access to public services and public informations needs to be ensured. .

The development of **democratic institutions**, including through the development of trust in the democratic process, also needs to continue, particularly in the view of the need to restore the political stability. The main challenge remains the opening of the decision-making and law-making process for citizens participation.

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

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

The country's **economic governance** should be strengthened. Challenges related to macroeconomic stability and a functioning market economy will be dealt with through the national Economic Reform Programme, which together with the policy guidance jointly adopted by the EU and the Western Balkans and Turkey annually, are the EU's main instruments for economic policy dialogue with the country. The policy guidance is sufficiently limited and focused to be implementable within a year, while the ERPs include reform measures that span up to three years. The measures and policy guidance span nine areas, including: public finance management; infrastructure; sectoral developments (agriculture, industry, services); business environment and reduction of the informal economy; research and innovation; external trade and investment facilitation; education and skills; employment and labour markets; and social inclusion, poverty reduction and equal opportunities. Assistance under IPA II shall take these reform efforts into account and where possible support the implementation of both the reform plans included in the ERP and the policy guidance which leads to country-specific recommendations. Implementation of these recommendations will be subject to an annual cycle of stock-taking, which will identify the steps to be taken towards meeting the economic accession criteria. Based on these

recommendations, annual follow-up actions will be prepared in cooperation with relevant partners.

There is a need to modernise **public financial management** (PFM) based on a well-designed, comprehensive reform programme, covering the needs in the relevant public finance sub-systems, including revenue collection, budget preparation and execution, public procurement, assets, cash and debt management, granting of concessions and state aid, public internal financial control and external audit. The preparation of mid-term budgetary framework and improved budget classification needs to be enhanced. Key challenge will be to increase the transparency of the PFM and ensure public information on the full budget cycle. The modernisation of the IT tools and the optimisation of the business processes remain a priority along with achieving interconnectivity and interoperability of the customs and tax IT systems with the EU systems and ensuring business continuity and disaster recovery facilities. The developed in 2016 new PFM Reform programme⁶ streamlines the reforms in the sector. Its implementation will require serious mobilisation of resources and additional financial support. In addition, priority issues such as assets and debt management, granting of concessions and state aid will remain out of the scope of this PFM Programme and will be tackled separately or at a later stage. There is also need to continue supporting the national structures that have been established to manage EU funds with the perspective of preparing for the Structural and Cohesion Funds upon accession. Greater political commitment and operational improvements are needed to facilitate the inter-institutional cooperation, implement the established procedures, and ensure timely implementation of the programmes.

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

An empowered **civil society** is a crucial component of any democratic system, contributing to a more transparent, accountable, effective and legitimate governance, greater social cohesion and more open societies. In this aspect, the implementation of the government Strategy for Cooperation with Civil Society has to be ensured. The challenge will be to achieve a higher level of constructive interaction of government with civil society on all government policies; particular focus is needed in the areas of social reform, gender equality, and with regard to vulnerable groups, including the LGBTI (lesbian, gay, bisexual, transgender and intersex) community and minorities. The Roma community merits particular attention in all respects. The integrity, transparency and accountability of the civil society organisations need to be strengthened along with the capacity for self-regulation, representation and coordination. Particular efforts are required to optimise the funding flows and improve the financial sustainability in the CSO sector, as well as encouraging the corporate social responsibility. The participation of civil society in the programming and monitoring of the EU funds will be ensured.

⁶ Development in process, adoption is expected by the new government formed after the elections on 11 December 2016

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

Donor coordination at sector level was largely efficient and geared towards gradually meeting EU accession requirements. France, the Netherlands and the United Kingdom, as well as World Bank and IMF have been among the most active stakeholders and donors in this area. Further efforts will be needed to strengthen coordination and coherence amongst the key stakeholders and donors to ensure an efficient framework for sector support needed for a combined sector.

Reforms in the sector have been based on PAR Strategy, as well as some specific strategies, i.e. for public procurement, public internal financial control, development of the national statistical office, development of the state audit, Strategy for Cooperation with Civil Society (2012-2017). Recent developments include a new comprehensive public financial management reform programme. Finally the country has embarked on developing a new PAR Strategy (2017-2020). These last two strategies being comprehensive and well-coordinated demonstrate progress in implementing the sector approach, which needs further to be encouraged. The coordination in the sector needs to be enhanced.

1.2. Objectives, results, actions and indicators

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

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

The **results** to be achieved include:

- Strengthened, accountable, professional and depoliticised public administration
- Improved administrative capacity to deliver reforms and ensure progress
- Fiscal and macroeconomic policies in line with the EU macro-economic (debt and deficit) criteria and a robust framework for the management of financial crises is established
- Statistical methods and tools compliant with the requirements of the European Statistical System by 2020
- Enhanced quality and availability of statistics
- Improved alignment with the EU *acquis*
- Interconnectivity and interoperability with the relevant EU systems achieved
- Improved functioning of democratic institutions and the independent regulatory and supervisory bodies

- Improved quality of public services at all levels of government
- Improved legal predictability and enforcement of laws and court decisions
- Strengthened financial sustainability and autonomy of the municipalities
- Improved compliance of the public financial management with the international/EU standards
- Efficient and transparent management of EU funds by the national authorities
- Stronger and more independent civil society

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

IPA II assistance will especially ensure the Better Regulation approach, whereby policies and legislation in all sectors are prepared on the basis of best available evidence (impact assessments) in an inclusive approach involving both internal and external stakeholders.

Further on, aligning with the **EU acquis** will be supported including for upgrading of IT systems for operational efficiency and interconnectivity with the respective EU systems (f.e. tax and customs-related ones). The efficient implementation of the EU *acquis* requires significant resources and capacities, not only for harmonisation process but most important – to ensure the implementation of the *acquis*. In this aspect support will be provided for the supervisory and regulatory bodies along with numerous implementing bodies and authorities in various areas. Support will also be extended **democratic institutions**, particularly the Parliament, the Ombudsman, the Supreme Audit Office as well as other independent bodies and agencies. Assistance will finally be used for the programming, identification, formulation, monitoring and evaluation of EU assistance, as well as for co-financing entry-tickets to relevant Union programmes

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

In the field of **economic governance**, assistance will be given for the implementation of the country-specific policy guidance of the annual National Economic Reform Programme. Along with improved capacities for macro-economic planning IPA will also invest in establishing a robust framework for the management of economic changes and financial crisis. Support will also be provided for the preparation and implementation of a comprehensive public financial management reform programme. Specific focus will be put on improving the revenue administration and collection (customs/tax) and strengthening the

operational and institutional capacities including the IT interconnectivity and interoperability of customs and tax administrations with EU systems. A key priority will be the improvements in the medium term budget planning and introduction of a solid programme-based budgeting. At the same time IPA funds will also be invested in optimising the budget preparation, budget execution and cash management, including introduction of the integrated PFM IT System, covering all key PFM sub-system.. Assistance will be allocated for ensuring the efficiency and effectiveness of the public procurement system. Strengthening the public internal financial control and the external audit remains among the key priorities of the sector as well.

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

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

Indicators (for details see Annex 2, table 2):

- Progress made towards meeting accession criteria, EU key principles and standards (European Commission)
- Composite indicator Government Effectiveness (WB), Burden of Government Regulation (WEF) and Regulatory Quality (WB)
- Statistical compliance (Eurostat)

1.3. Types of financing

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

1.4. Risks

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

The lack of commitment to a medium-term expenditure framework, and the insufficient allocation of resources, affecting the capacity and independence of institutions, can be mitigated through supporting a comprehensive reform of the public financial management,

intended to optimise the use of the state resources. The IPA assistance, complemented by intensive policy dialogue on PFM, is expected to ensure a stable mid-term fiscal and budget planning to anchor the annual budgets in accordance with the costs of the sector reforms.

The lack of an enabling environment for civil society participation can be mitigated by supporting more participatory decision-making processes at country and local level, by putting the participation of civil society on the EU-country political agenda and by building the advocacy and participation capacities of the CSOs.

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

2. Rule of law and fundamental rights

2.1. Needs and capacities in the sector

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

The country's **justice** sector underwent major legislative and structural reforms between 2004 and 2016, but important improvements are still needed to ensure the independence, transparency and efficiency of judiciary. The adoption and implementation of a comprehensive, modern and publicly supported Justice strategy is a priority. Focus needs to be put on shortening the duration of court proceedings and strengthening the system of appointments in the judiciary. The independence of the Judicial Council needs to be strengthened and the Judicial Council's systems of evaluation, discipline and dismissal - improved. The country will need to introduce a harmonised performance management system based on qualitative as well as quantitative standards as a basis for all career decisions. Support is needed to introduce e-Justice and further enhance the capacities, infrastructure and IT systems of the judicial institutions, including the Public Prosecution Offices, as well as those of the Academy for Judges and Prosecutors. The codification of civil law needs to continue, and should contribute to harmonisation with EU legislation in various fields, as well as improving the efficiency of civil and commercial court proceedings. Administrative justice reforms as well as the legislative framework governing misdemeanours need to be completed. Further steps are still needed to improve transparency and access to justice for citizens, including greater use of legal aid and alternative dispute resolution. The quality of justice would benefit from improvements to the tools of the judicial professions (access to legislation and legal commentaries, harmonisation of jurisprudence and familiarisation with international and EU law). Strategic planning and human and budgetary resource management within the judiciary and prosecution service still need to be improved considerably.

On the fight against **corruption**, the capacities of the relevant institutions, in particular the Special Prosecution Office, the Ministry of Interior, Public Prosecution Offices, State Commission for the Prevention of Corruption, Agency for the management of Confiscated Assets and State Audit Office, need to be stepped-up and inter-agency cooperation has to be improved. The existing track record of investigations, prosecutions and final convictions needs to be improved, and in particular the capacity of courts to deal effectively with corruption cases should be enhanced. The existing legislative regimes for the declaration of assets, interests and political party financing need to be enforced fully and improved where

necessary. More attention still needs to be paid to prevention of corruption in the public finance management (particular in the areas of public procurement, concessions, state aid) and in the field of public administration in general. Enhanced use of e-tools along with increase in the quality and quantity of public information on the use of state funds will increase the transparency and accountability and will allow civil society monitor the work of judiciary and public administration. Systematic monitoring and follow-up of cases which are referred to the public prosecutor by supervisory bodies has not yet been developed.

Increased efforts are needed in the overall promotion and protection of **fundamental rights** of vulnerable groups, including children, women victims of violence, the LGBTI community, persons with disabilities, including mental health conditions, and persons belonging to minorities. The social and economic integration of the Roma will require particular attention. Implementation of the national Roma Inclusion Strategy will need to be kept well on track. Continued support for social inclusion of all vulnerable groups is needed. Implementation of policies in this field needs to be strengthened, notably through building capacity and coordination among the institutions involved. There is a need for more proactive implementation of the relevant policies, including the Roma Inclusion Strategy at national and local level, as well as ensuring the full implementation of the Ohrid Framework Agreement. Continued prison reform should focus in particular on long-term strategic planning and improved managerial capacity, efficient and safe management of penitentiary and correctional educational institutions. The procedural rights of detainees, in particular of juvenile offenders, need to be safeguarded in a more systematic manner. Further efforts are necessary to ensure that freedom of expression and the media is respected in practice through reforms, technical assistance and confidence building measures.

On **home affairs**, asylum, visa and migration policies are in place but human and material capacity need to be strengthened, in particular to deal with increasing pressure from the influx and transit of irregular migrants, as well as increasing demands on the asylum system. Support should be targeted towards the capacity to detect irregular migration; voluntary and non-voluntary return; identifying victims of trafficking; improving reception and accommodation capacities and the provision of assistance to asylum seekers, vulnerable irregular migrants and victims of human trafficking and the capacity of the administrative justice system to deal with asylum cases. The Ministry of Interior needs to continue to reform the police as there is a need for further professionalisation and de-politicisation of the police, as well as for enhancing the effectiveness and transparency of special investigative measures, more pro-active investigation of **organised crime** including financial investigations and the establishment of a national intelligence model. The country has launched a comprehensive reform of the criminal justice system, adopting a new Law on Criminal Procedure. The implementation of this reform, entailing significant organisational and legislative changes, remains a major challenge for all the actors within the criminal justice system. The human and material capacity of the border police to maintain national security against trans-national crime, irregular migration, trafficking in drugs, goods and people as well as terrorist-related threats, should be further strengthened in accordance with the Schengen *acquis*.

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

including construction and refurbishment of prisons, support to the Office of the Ombudsman, respect for human rights in the treatment of prisoners and detainees, implementation of the Roma Strategy and protection of personal data. Further assistance has been programmed in the areas of freedom of expression and anti-discrimination.

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

IPA II assistance will be based on the Government's key sector strategies, including the Justice Reform Strategy, Strategy for the Development of the Penitentiary system, Strategy for Development of the Probation Service, Strategy for Fight against Corruption, the Roma Inclusion Strategy, strategies for Gender Equality and the Rights of Persons with Disabilities, the National Strategy for Development of the Established System of Integrated Border Management. The adopted in 2016 Strategy for Police Reform provides a more comprehensive strategic vision as regards Home Affairs sub-sector. A new strategy for reform of the judicial system (2016-2020) will shape the efforts of the country to ensure a judiciary system compliant with the EU requirements and performance standards. The coordination in the sector, although significantly improved in the last 2 years, deserves continuous attention.

2.2. Objectives, results, actions and indicators

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

- To support the country in completing the judicial and police reforms,
- To improve the effectiveness of the fight against corruption, organised crime and terrorism,
- To ensure full respect for the fundamental rights of its citizens and freedom of expression,
- To improve the effective management of its external borders and ensure the implementation of visa, migration and asylum policies, in line with the EU *acquis*.

The **results** to be achieved include:

- Enhanced strategic planning, administrative and judicial capacity and inter-agency cooperation in all areas of justice, home affairs and fundamental rights
- Legislation further aligned with the EU *acquis* in the relevant areas
- Improved independence, efficiency, professionalism and effectiveness of the justice system
- Reduced duration of proceedings, more coherent and consistent jurisprudence, and a more timely and correct enforcement of judicial rulings
- E-justice introduced and quality and quantity of the public information on the functioning of the justice in the country improved
- Notable decrease in corruption, demonstrated by a solid track record of prevention and suppression, and a solid track record in the fight against organised crime
- Compliance with the case law of the European Court of Human Rights and conformity with European standards and international best practices on human rights and fundamental freedoms

- Decreased number of violations of and awareness raised on human rights
- Detention conditions, rehabilitation and re-socialisation improved
- Improved legal, regulatory and policy environment nourishing freedom of expression and media integrity and strengthened media and journalists' independence
- Strengthened implementation capacities in the area of home affairs (border management, visa, migration, asylum) founded on legislation which is fully aligned with the EU *acquis*
- A more effective, professional and independent police and enhanced capacities and inter-agency cooperation in the fight against organised crime

On the **judiciary**, support will be provided for the development and implementation of the Justice reform strategy including the required legislative and organisational changes and strengthening of the capacities of the Judicial council, the Prosecution office and the remaining key actors. The independence of the judiciary will be strengthened through stepping-up merit-based recruitment and promotion of the judiciary, prosecution service and court staff, enhancing the principle of equitable representation, and supporting improvements to systems of evaluation, discipline and dismissal. Further assistance will support the pre-service and in-service training of judges, prosecutors and court staff. The development of reliable data to monitor the overall duration of proceedings, the enhancement of the civil and commercial justice systems, including through procedural reforms, improving the efficiency of administrative justice and the misdemeanour system and completing the criminal justice reform will also be in the focus along with better access to justice for citizens (including promotion of existing systems of alternative dispute resolution (ADR) and free legal aid). EU funds will be targeted to enhance the physical and technical conditions in relevant institutions, further promote the use of e-justice by courts and related institutions and increase of the quality and quantity of public information on the functioning of the judiciary system. Support will also be granted to actors promoting the rule of law, including associations of legal professionals and academic institutions.

On the fight against **corruption**, assistance will be provided to improving the track-record of investigations, prosecutions and convictions, as well as the effectiveness of penalties imposed; further developing the integrity concept and supporting the implementation of mechanisms for whistle-blower protection. Special focus will be put on supporting the Special prosecutor and the State Commission for Prevention of Corruption. Assistance will help to strengthen the transparency and accountability mechanisms within the public and private sector, as well as political parties; strengthen the checks and balances within the judiciary and law enforcement agencies; improve cooperation between the various bodies involved in the fight against and prevention of corruption and involve the non-governmental sector and citizens in the implementation of anti-corruption policy, improving policy-making, monitoring and evaluation capacities of relevant state and non-state institutions..

On **fundamental rights**, assistance will help in the implementation of the European Convention on Human Rights (ECHR) and the case law of the European Court of Human Rights (ECtHR), including protection against discrimination, guaranteeing freedom of expression and safeguarding procedural rights of detained persons. Assistance will further support the implementation of effective policies, protecting vulnerable groups including persons with disabilities, children, Roma and other minorities, as well as strengthening of community-based services for vulnerable groups, especially with regard to social inclusion, health and economic wellbeing. As regards Roma, EU support will be focused on fighting discrimination by improving the access of Roma to education, employment, housing, health care and public services. Support will also be provided to prevent ill-treatment of detainees and prisoners, combat impunity of perpetrators and strengthen institutional prevention

mechanisms, support the creation and implementation of formal and vocational education systems for juveniles deprived of their liberty, improve the conditions in, and the strategic planning and the management of, prisons and strengthen the capacities of the Office of the Ombudsman, including for mainstreaming gender equality. Assistance will also aim at strengthening personal data protection, increasing participation and involvement of non-state actors in promoting respect for fundamental rights and strengthening inter-institutional cooperation and coordination in these areas. With respect to freedom of expression and the media, assistance will support building up technical capacity and provide training and expertise to the relevant media bodies and institutions in order to develop investigative journalism, improve professional journalistic standards and develop a system of self-regulation. Support in this respect will be based on, among other things, the "Guidelines for EU support to media freedom and media integrity in enlargement countries, 2014-2020". Support will also be extended to the strengthening of inter-community relations.

The measures to ensure the equality of the genders and better access of women to the political, social and economic life have been set-up in the Gender Action plan. The EU assistance will apply the gender mainstreaming approach throughout all phases of the programme cycle. IPA assistance shall include an assessment of the different situations and needs for women and men and translate this assessment into indicators, activities and results covering all actions in all defined sectors.

Keeping in mind the external dimension of EU's migration policy (the policy framework of which is set by the Global Approach to Migration and Mobility and the European Agenda on Migration), IPA II supports legal migration, mobility, including through maximising the development impacts of migration, the development of functioning asylum systems, the improvement of integrated border management, and better management of irregular migration through both focused actions and technical assistance. The EU assistance should aim to develop efficient national systems of migration management by formulating actions that balance out the support given to the specific areas of migration and that mainstream migration in the implementation of the bilateral and regional cooperation frameworks. Focus will be put on improving the management and implementation of all aspects of asylum policy, including improved capacity of the Asylum Unit of the Ministry of Interior, the Administrative Court and reception and accommodation facilities; strengthening the material and human capacity to detect and prevent irregular migration, as well as assistance to asylum seekers and victims of trafficking; improving the surveillance and detection capacity of the border police regarding all forms of cross-border crime; setting up a basis for the future Schengen Information System and strengthening the inter-institutional, cross-border and international cooperation in these areas.

On **home affairs**, assistance will be given to improving the efficiency and professionalism of the police and other law enforcement agencies; strengthening internal and external oversight of the Ministry of Interior; strengthening the material and human capacity for prevention and repression of crime including organized crime, various forms of trafficking, terrorism, economic and cyber-crime; improving the institutional capacities for effective seizure and confiscation of assets; enhancing the efficiency and transparency of special investigative measures; increasing the use of financial investigations; supporting the establishment of a national intelligence model. In relation with the increasing threat of terrorism, attention will be paid on prevention of radicalisation and involvement of the local communities and religious groups.

Indicators (for details see Annex 2, table 2):

- Progress made towards meeting accession criteria (European Commission)

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

2.3. Types of financing

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

2.4. Risks

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

3. Environment and climate action

3.1. Needs and capacities in the sector

Reforms in the sector of environment and climate action are of key importance for the country's accession process and should lead to a cleaner and safer environment and improved quality of life, as foreseen by the Europe 2020 Strategy. Further on, the Paris Agreement requires a more enhanced role of the states in curbing global warming and reducing the climate change impacts.

The country is largely exposed to climate change and its consequences. The frequency and intensity of floods in the country **has dramatically increased** in the last years and caused many casualties, damages to water and transport infrastructure, to private properties, business and agricultural activities. While considerable support has been allocated by the EU to deal with the consequences of floods, **preventive measures should be prioritized**. **In this respect the capacity of the country needs to be significantly strengthened to analyse, prevent and reduce the risks of disaster**. The transposition and implementation of the relevant EU *acquis* needs to be considered as a priority.

The transposition of the climate action legislation needs also to be enhanced. The alignment with the EU environmental and climate *acquis* requires not only legislative measures but most of all substantial financial resources and investment in environmental infrastructure and technology, in particular in the waste and water sectors. The estimated cost of compliance with relevant legislation is EUR 2.3 billion⁷ (over EUR 1,000 per capita and around 37% of

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

annual GDP), yet the annual budget of the Ministry of Environment and Physical Planning for 2013 is only EUR 15 million (0.34% of the state budget). A single sector pipeline was established in 2016 identifying priority projects in the environmental area for over EUR 510 million. The pipeline focus primarily on water and waste management. The implementation of these projects would require enhanced donor coordination and smart use of state resources. The country need also to consider the introduction of market-based instruments, promote eco-industries and encourage the development of the green economy as a cost effective way to address environmental challenges. State and private investment in sustainable agriculture and tourism represents another opportunity for the country having both environmental and development impact.

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

Major environmental issues such as nature protection and air pollution also need to be addressed as cleaner environment is closely linked to every citizen's health and quality of life. Air-pollution has been outlined as a serious issue in the bigger towns and measures need to be taken as a matter of urgency. The protection and preservation of species and habitats needs to be ensured and the infrastructure policy needs to be adjusted to ensure Natura 2000 network is implemented in the country.

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

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

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

3.2. Objectives, results, actions and indicators

The overall **objective** of IPA II assistance in this sector is to prepare the country for EU accession and to support reforms in areas of environment and climate action, which should

lead to a cleaner environment and improved quality of life. This will contribute to ensuring sustainable growth and the shift to a low-carbon, climate-resilient and resource-efficient economy.

The **results** to be achieved include:

- Environment and climate action legislation aligned with EU *acquis*
- Environment legislation implemented and administrative capacity strengthened
- Water and waste management improved, including the infrastructure, in line with EU requirements
- Air quality plans for all or most agglomerations developed and under implementation, including emergency response plans based on effective traffic solutions
- Natura 2000 sites identified and selected, based on sound scientific data
- Sustainable development and climate mitigation and adaptation measures introduced
- Resilience to climate change impacts and capacity for disaster risk reduction enhanced
- Improved environment policy-making based on raised transparency and accountability and enhanced participation of stakeholders in policy-making

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

In the area of **water quality**, support will be provided for the preparation of river basin management plans; for improving the quality of surface, ground waters and drinking water; and for the establishment of systems for drinking water quality control and for flood management.

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

As regards **waste management**, assistance will be provided to support the implementation and enforcement of waste management legislation, in particular the Waste Framework Directive; to support investments in wastewater collection and treatment for large agglomerations (10,000 inhabitants and more) in sensitive areas and in compliance with the UWWTD 91/271/EEC; and to support investments in integrated waste management systems on regional level, compliant with the Waste framework Directive 2008/98/EC.

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

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

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

Indicator (for details see Annex 2, table 2):

- Progress made towards meeting accession criteria (European Commission)
- Increased investments in environmental sector
- Improved environmental indicators (air/water/field pollution)
- Increased % of population benefiting from cleaner environment

3.3. Types of financing

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

3.4. Risks

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

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

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

4. Transport

4.1. Needs and capacities in the sector

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

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

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

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

The Ministry of Transport and Communications is in charge of elaborating and implementing the national transport policy, national strategies and action plans. The Railway Safety Directorate and the Captaincy-Ohrid, within the Ministry, as well as the State Transport Inspectorate, are responsible for supervising the implementation of relevant laws and rules. Railway infrastructure and transportation are managed by two state-owned public enterprises⁹ and the national road network is managed by the Public Enterprise for State Roads. **Further business segmentation in the national railway operator is under implementation**

The National Transport Strategy, 2007-2017, foresees the implementation of necessary reforms in the sector in accordance with the National Programme for the Adoption of the *Acquis*. The strategy defines the main investment priorities in the sector, focusing on construction, reconstruction, rehabilitation and modernisation of the road and railway

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

⁹ **where the infrastructure manager is a public enterprise and railway operator is a joint stock company**

infrastructure along the **indicative extension of the TEN-T Comprehensive/Core Network to the Western Balkans**. The new challenges in the transport sector are being assessed in the framework of ongoing assessment of the current transport strategy and the identification of the new strategic priorities until 2030.

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

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

4.2. Objectives, results, actions and indicators

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

The **results** to be achieved include:

- Improved alignment with and implementation of the EU transport *acquis*;
- Strengthened administrative capacity for making and implementation of transport policy
- Increased mobility of persons, freight and services and improved contribution of transport to GDP
- Improved rail and road infrastructure systems along the **Indicative extension of the TEN-T Comprehensive/Core Network to the Western Balkans**
- Increased cooperation with neighbouring countries on transport issues
- Reduced CO₂ emissions from transport, reduced air and noise pollution from transport systems
- Improved road safety

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

In the area of **road infrastructure**, assistance will be provided for the construction and/or reconstruction, rehabilitation and modernisation of road infrastructure, with a special emphasis on improvement of road safety, while ensuring all possible synergies through a roll-out of intelligent transport systems in the road sector (cost reduction). Support will also be provided for co-operation between all countries involved in the development of the main

corridors, especially concerning cross-border freight transport. Support will also be extended to the development of adequate operations and maintenance plans for the existing and newly-built road network for all road categories

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

Indicators (for details see Annex 2, table 2):

- Progress made towards meeting accession criteria (European Commission)
- Logistics performance indicator, score (WB)
- Transport statistics (road safety/ freight and passengers volume/contribution to GDP)

4.3. Types of financing

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

4.4. Risks

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

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

5. Competitiveness and innovation

5.1. Needs and capacities in the sector

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

The country's own strategic efforts should be seen in the context of the EU's enhanced economic governance approach as of 2014. Economic Reform Programme for the former Yugoslav Republic of Macedonia contains measures for improving economic policy-making with a view to foster competitiveness, innovation and employment. All Western Balkan countries will furthermore produce country "action plans" for the implementation of SEE 2020 strategy, which will be updated and monitored on an annual basis. EU support is needed for improving the economic policy-making and translating the competitiveness, innovation and employment related objectives into efficient and effective measures.

With regard to the **legal and institutional environment**, some success has been achieved in attracting foreign direct investment, a noticeable improvements have been made in the regulatory environment for starting and operating businesses. Some progress has been made on free movement of goods, labour, services and capital. The country ranks high in 2016 *Doing Business* Index (12 out of 189 economies and best on the Balkans). Yet, key challenges remain, notably as regards registration of properties, access to energy and infrastructure, contract enforcement and protection of property rights, etc. The bankruptcy procedure needs to be improved. The effectiveness of the judicial system and public administration continue to be crucial for enhancing legal certainty for economic operators, attracting foreign direct investment and business development. The investments in the public administration and judiciary reforms have therefore to back-up the competitiveness-related efforts and investments. Transparency needs to be improved in the areas of state aid, concessions and public procurement to ensure level-playing field for businesses.

There is a need to ensure further harmonisation with the EU *acquis* and implementation of the legislation in the fields of quality infrastructure, market surveillance, customs control and consumer protection, protection of intellectual property rights, enforcing competition at the markets and ensuring compliant state aid, supervision of financial markets. The administrative capacity of the authorities, agencies and regulatory bodies, charged with specific responsibilities, in these areas need to be strengthened as well.

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

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

external equity financing¹⁰ should be envisaged. SME guarantee funds could be created or reinforced to further private sector investments.

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

The country is categorised as a “modest innovator” in the European Commission's Innovation Union Scoreboard. The share of R&D expenditure in GDP is rather low at 0.22% (2010). However, innovation is seen as one of the key drivers of competitiveness and requires additional support. The government has taken the first steps by adopting the National Innovation Strategy in 2013, followed by a Law on Innovation and an innovation fund. The Government is supporting research and development activities to achieve innovation, and in order to be competitive in the export markets. The innovative capacities of SMEs are being supported through the Fund for Innovations and Technological Development. However, more efforts are needed in order to achieve a greater impact on SMEs` innovation capacities and activities. Public-private consultation fora and partnerships should be developed and strengthened. The implementation of the regional R&D for Innovation Strategy is an opportunity for prioritising investments in this area.

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

Under IPA I, around EUR 23 million have been programmed for this sector. IPA II assistance to this sector will increase sharply and be programmed in line with the key national sector strategies, including the Industrial Policy Strategy 2009-2020, the National Strategy for Innovation (2012-2020), the National Strategy for Sustainable Development (2008-2030), the National Programme for Improvement of Competitiveness, the National Strategy for Tourism Development (2011-2015), the Strategy for Rural Tourism Development 2012-2017 and the National Programme for Scientific Research and Development (2013-2017), as well as the Regional R&D Strategy for Innovation. A new SME development strategy will be developed in 2014, to present the key activities related to SME support and development, as well as a strategy for development of tourism. Involvement of non-state actors and the citizens needs to be ensured through systematic social dialogue and public-private partnerships. The overall institutional sector framework, however, will require further strengthening, to implement the sector approach. It is necessary to consolidate and make coherent use of the various strategies in this sector. Overall, the sector is at an early stage of readiness for the sector approach.

10 Cf. SME Policy INDEX, December 2012.

5.2. Objectives, results, actions and indicators

The overall **objective** of IPA II assistance in this sector is to achieve competitive economy based on knowledge and innovation and real convergence with the EU.

The **results** to be achieved include:

- Improved legal and institutional framework for business creation and operations
- Strengthened evidence-based participatory decision-making
- Enhanced harmonisation with the EU acquis and strong implementation record in the area of internal market, customs and market surveillance, consumer protection, competition and state aid
- Better access to finance and business services and improved business-related infrastructure, including at local level
- Improved business performance and competitiveness at local, national and international markets
- Enhanced research and innovation capacities and improved cooperation among universities, industry and government and effective models of public-private partnerships in the area of research and innovation

Support will be provided for strengthening the country's **economic governance**. Challenges related to macroeconomic stability and a functioning market economy will be dealt with through the Economic Reform Programme, which leads to country-specific recommendations. Implementation of these recommendations will be subject to an annual cycle of stock-taking, which will identify the steps to be taken towards meeting the first economic accession criterion. Based on these recommendations, annual follow-up actions will be prepared in cooperation with relevant partners, in particular with the IMF.

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

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

The **competitiveness of the private sector** will be developed through improving the business support services such as business networking and clustering, consultancy, trainings, technical assistance for companies to improve their management, performance, products and services,

etc. Particular focus will be put on improving the access to finance of businesses and particularly the SMEs, where joint measures with the country and IFIs are envisaged.

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

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

Indicators (for details see Annex 2, table 2):

- Progress made towards meeting accession criteria (European Commission)
- Distance to frontier, Doing Business – score (WB) and Global Competitiveness Score (WEF)
- Improved macroeconomic indicators – GDP, exports etc

5.3. Types of financing

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

5.4. Risks

Governmental commitment to proper functioning of the markets is crucial, particularly in specific areas of internal market and competition policy, which can be addressed through giving these areas prominence in the political dialogue.

Favouring FDIs can slow down the development of local indigenous economies, which still remain the backbone of the country's competitiveness and wealth creation. Hence the EU assistance should focus on developing SMEs and local competitiveness.

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

6. Education, employment and social policies

6.1. Description of the needs and capacities in the sector

The **labour market** is characterised by persistently low rates of economic activity – 64.3% compared to the EU28 of 72.5%. Unemployment has remained for years among the highest in the region and well above the EU average of 9.7%¹¹, although a positive trend is present indicating steady, yet insufficient, decrease in the number of unemployed people from 29% in 2013 to 25.7% in 2016. The low job creation rate and the static labour market result in high long-term unemployment (81.6% of the unemployed persons in 2015). Youth and women are particularly affected. Youth unemployment remains predominantly a long-term phenomenon with young people facing a difficult transition from education to the labour market. The participation of women, namely young women, women in rural areas and unqualified women, in the labour market remains particularly low. The skills mismatch and the gender gap in educational attainment, along with household responsibilities, lack of flexible work arrangements and limited access to relevant networks, remain the most important reasons for high womens inactivity. Gender stereotypes existing in the society perpetuates a structural gender gap in economic, political and social areas.

Combined systemic and visionary efforts from all actors are needed to foster employment and support social and economic inclusion, including of minorities and vulnerable groups. The structural weaknesses of the labour market need to be addressed through crafting of adequate policies and active labour market measures, improving the quality of education and the education-labour market match, prolonging active employment, modernising the social security system and introducing more modern family policies. In addition, the social dialogue needs to be strengthened along with the administrative capacity and implementation of the labour laws. These priorities are reflected in the new Employment Strategy 2016-2020 which focuses on increasing the efficiency and effectiveness of the employment policy with particular support to vulnerable categories of people, improving job creation capacities of the private sector and an education system that produces knowledge matching the needs of the employers.

Since quality **education** is at the heart of economic growth and development, the most pressing challenges are to improve the quality of the education and to address the needs of the private sector of qualified and prepared labour force. The new Comprehensive Education Strategy and Action Plan of the country for 2016-2020 sets down a vision of comprehensive and inclusive education, with a focus on the learner, the quality and effectiveness of education process and an education and training system which is labour market relevant. Delivering the right skills for employment and increasing the efficiency and inclusiveness of the education and training system remain priority. In 2016 serious progress was achieved in referencing of the national Qualification Framework to the European Qualification Framework, the self-certification to the QF-EHEA and the creation of online register of existing qualifications. Focus needs to be put on promotion of the educational standards, reinforcing the use of learning outcomes in standard-setting, curricula developing and educational outcome assessment. The significant mismatch between demand and supply on the labour market needs to be addressed. Access to enterprise training is quite good, with a well-developed training network, operated by the employment authorities, but it is not clear to what extent this meets the specific needs of small businesses since the government lacks systematic information on the skills needs. Assessment of training needs of employed staff should

¹¹ Cf. Eurostat

become a regular practice and be carried out systematically. The link between training and employment should be further strengthened through promoting life-long learning, work-based learning, adult and continuing education. Further efforts are required for strengthening the vocational education and training (VET) and Adult Education system in close cooperation with the private sector and social partners.

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

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

Progress has been made in the last years in poverty reduction. The poverty rate (as a share of the total population) declined to 22.1% in 2014. However, 43.2% of the population is either at risk of poverty¹², or severely materially deprived or lives in a household with very low work intensity.

Roma people remain among the poorest and most vulnerable groups with 41% of them living under the absolute poverty line of US\$4.30¹³, unemployment rate of over 53% and no formal education at all for over 22% of Roma aged 25-64. The housing situation is dramatic with a high proportion of illegal settlements and/or inadequate, unhygienic environments. Roma continue to have poor access to health and social services. Despite numerous policies and initiatives in recent years to improve the situation of Roma people, such as the introduction of health mediators, pedagogical assistants and roma coordinators at local level, the range of social services and initiatives to promote their inclusion into society has still to be enlarged. While the gap between Roma and non-Roma in the fields of education, employment, health, housing and public services is addressed through anti-discrimination and strengthening human rights approaches, EU will also continue to invest in specific target measures focused on raising Roma employability and educational status and fostering their social inclusion.

Critical remains also the situation of the persons with disabilities confronted with discrimination and barriers in an educational, employment and social context. Over 13% of the households suffered from health problems that have limited or strongly limited their

¹² People at risk of poverty or social exclusion, (AROPE) headline indicator to monitor the EU 2020 strategy poverty target,

¹³ UNDP/WB/EC regional Roma survey 2011

home, work and leisure activities for at least 6 months¹⁴. The figure will rise in due course given the ageing of the population. Distrust of employers regarding their abilities, inadequate education, barriers to physical access, lack of adapted public transport aggravate the already difficult situation of the people with disabilities and particularly those living in rural areas.

Along with targeted measures focused on employment and social inclusion, there is a clear need for better implementation of the legal provisions in the sector, improving the effectiveness of the state funding, deinstitutionalisation and decentralisation of the social services. Change of attitudes, perceptions and working methods need to be promoted in order to ensure higher efficiency of the social protection system. Prioritising the social aid to people in need rather than everybody, linking better employment and social protection, decreasing the costs of the social services while increasing their effectiveness remain high priorities.

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

IPA II assistance will be programmed along the key national sectorial strategies, including the National Employment Strategy (2016-2020), Comprehensive Education Strategy (2016-2020), the VET strategy 2013-2020, and the National Strategy for Alleviation of Poverty and Social Exclusion (2010-2020). The Employment and Social Reform Programme¹⁵ is designed to prioritise a limited number of policy reforms and measures covering three areas: labour market and employment policies, human capital and skills development policies and social protection and social inclusion.

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

6.2. Objectives, results, actions and indicators

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

The **results** to be achieved include:

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

¹⁴ Survey on income and living conditions in 2014

¹⁵ To be finalised in 2017

In the **employment** subsector, EU funds will be allocated for the implementation of the employment policy at national and local level including design and implementation of active employment-promotion approaches, flexible systems, influencing the productivity of the workforce labour market measures, particularly for young people and women, stimulating self-employment, social entrepreneurship and promotion of entrepreneurship. Focus will be given to funding measures decreasing the informal labour market and supporting transformation of informal or undeclared work into regular employment. EU funds will also be allocated to improve working conditions, labour standards and observance of health and safety at work.

Support to youth and **education policies** shall be sustained and mainstreamed through IPA II. This will be in line with the major EU policies in the area, in particular the Education and training 2020 and the Bruges - Copenhagen Process for Vocational Education and Training. Investments will be made in improving the quality of education and facilitating access to education for all, promotion of lifelong and entrepreneurial learning, improving the mobility and support services. digital training, etc.. VET and adult education systems will be strengthened and modernised. Focus will be put on enhancing the cooperation between educational institutions, social partners and the private sector.

Social policy will be strengthened through supporting reforms for the modernisation of social protection and health care systems; through supporting better access to quality social and care service, including health care services, in particular for vulnerable groups, such as Roma. Improving the access of young people and women to the labour market and thus to social protection mechanisms is expected to raise their participation in the labour market and optimise the cost of the social protection mechanisms. The access to affordable early childhood education and care services along with strengthening policies to support parents' access to the labour market will additionally stimulate the parents' access to the labour market. Particular attention will be given to the access of the vulnerable groups, such as Roma and persons with disabilities to employment, education and social services. Focus will also be put on building the capacity for monitoring and evaluating the social inclusion and wellbeing of the young people, women and vulnerable groups and elaborating of effective modern social policies.

.On a **horizontal level**,. Emphasis will be put on supporting equal opportunities and non-discrimination, mainstreaming gender equality; strengthening inter-community relations through inter-community dialogue and interaction, and cultural, social and economic co-operation. EU funds will also be allocated for supporting the social dialogue and strengthening the capacities of the social partners.

On a **horizontal level**, the efforts will be focused on strengthening the administrative capacity for crafting effective employment, education and social policies and monitoring their implementation. Priority will be given to extending the quality and scope of statistical indicators in all areas, monitoring and evaluating their dynamics. Assistance will be also provided for enhancing inter-institutional cooperation at central and local level and interaction between public sector, business and the social partners. Reforming the legislative framework in support of equal opportunities approach and non-discrimination, with an emphasis on mainstreaming gender equality will remain a priority.

Indicators (for details see Annex 2, table 2):

- Progress made towards meeting accession criteria (European Commission)
- Employment / Unemployment rate 15-64 years, total % and as per groups, age, social status, education (Eurostat)

- Social statistics & data – at-risk-of-poverty statistics, costs/beneficiaries of the social protection systems, etc

6.3. Types of financing

Reforms will be supported through Twinning, service, supply, works, and grant contracts, implemented under direct and/or indirect management. TAIEX can be used for ad hoc and short-term technical assistance. The use of sector budget support can be considered, once the conditions have been met.

6.4. Risks

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

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

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

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

7. Agriculture and rural development

7.1 Needs and capacities in the sector

Agriculture has traditionally been one of the most significant branches of the country's economy, with its share in the GDP of about 10%. 44% of the country's area is agricultural land (1.12 million hectare), of which 46% is cultivated and the rest is permanent pastures. 44% of the total population lives in rural areas and 18% of the workforce is engaged in agriculture. Agricultural products represent 4.95%¹⁶ of the country's exports, and 2.4% of total imports. The share of agro-food and fishery products exported to the EU in total exports to EU is about 8%¹⁷ (EUR 265 million), while the share of imports from the EU in total agro-food and fishery products in 2015 was 8.67% (EUR 357 million). Although around 20% of the country's arable land is under irrigation facilities, only 5% is irrigated.

These figures make agriculture and rural development, along with hunting, forestry and fisheries, the third largest sector of the economy after industry and services. However, the

¹⁶ Statistical classification of products by activity, State Statistical office

¹⁷ Trade flows by SITC product grouping 2011-2015, Eurostat

agricultural sector faces serious challenges. Subsistence and semi-subsistence farming, dominated by small and highly fragmented family farms, low technology production systems and lack of irrigation hinder primary production. The lack of collection, distribution and management systems for fresh products, and the lack of infrastructure for processing, labelling, packaging and marketing are affecting the quality and safety of food products. As a consequence, only a few agri-food enterprises are authorised to export to the EU. The capacity to benefit from the free trade agreements is therefore low.

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

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

Under IPA I around EUR 110 million have been programmed for this sector to support the implementation of the National Strategy for Agriculture and Rural Development (2007-2013). Implementing legislation was adopted on quality of food, organic farming, local action groups and on agricultural cooperatives. Food safety standards and animal health and welfare requirements have been set up. A functional integrated system for administration and controlling of the agricultural and rural development support policies (IACS) was established along with a land parcel identification system, sustainable agricultural information system and Farm Accountancy Data Network. Investments have also been supported under three IPARD measures, focusing on agricultural holdings and physical assets for processing and marketing of agricultural products in sub-sectors, which are the main contributors to Gross Agricultural Output, namely fruits, vegetables, livestock, livestock products and wine. Rural development challenges of lack of employment opportunity and services in rural areas were targeted under IPARD through investments support for establishing micro and small enterprises in rural areas and rural tourism. Yet, the absorption of the allocated funds for rural development, both from the national budget and IPARD, was insufficient.

IPA II will further extend the efforts to improve the agricultural policy in the country. The new 2014-2020 National Strategy for Agriculture and Rural Development (NARDS) will frame the reforms to overcome the structural deficiencies and improve the competitiveness in the sector.

7.2. Objectives, results, actions and indicators

The overall **objective** of IPA II support in this sector is to ensure sustainable development of the agri-food sectors and of the rural areas in line with the EU acquis and policies and ensure food-safety

EU support will continue to be channelled through the national management and control systems which correspond to the standards and the principles of modern and efficient public administration, and resemble the same structures with functions of a similar nature in EU Member States.

The **results** to be achieved include:

- Agriculture and rural development policy and legislation aligned with EU CAP and related EU *acquis*
- Strengthened administrative capacities at all levels of the administration and public bodies to implement agricultural reforms and policies
- Improved competitiveness of the agricultural sector and contribution to GDP and job creation
- Improved safety of human beings and animal health
- Improved rural infrastructure
- Improved quality of life in rural communities
- Improved resilience to adverse effects of climate change

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

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

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

Indicators (for details see Annex 2, table 2):

- Progress made towards meeting accession criteria (European Commission)
- Total investment generated via IPA in agri-food sector and rural development (DG AGRI)

- Contribution of Agriculture to GDP and job creation
- Economic indicators for rural areas development - GDP per capita (PPP) in rural areas, employment rate

7.3. Types of financing

Reforms will continue to be supported through the implementation of a seven-year rural development programme (IPARD Programme), containing a set of specific measures. In addition, Twinning and service contracts can be used to address the EU *acquis*-related assistance. TAIEX can be employed for ad hoc and short-term technical assistance. Other reforms and investments can be supported through service, supply, works and grants contracts.

7.4. Risks

Political commitment to agricultural reforms entail deep structural changes requiring clear long-term vision, societal consensus and significant financial resources. Hence the political dialogue can be expected to play a mitigation role. The involvement of the local communities is another tool to move the reform process forward.

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

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

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

8. Regional cooperation and territorial cooperation

8.1. Needs and capacities in the sector

National borders pose administrative, legal and physical obstacles – differences in political institutions, administrative systems and procedures, legal structures or technical and environmental standards make cooperation across borders a difficult and rarely spontaneous process. Hence, good cooperation between border areas is vital for good neighbourly relations, economic development, as well as preservation of cultural and natural heritage. It is also vital in emergency situations, such as natural disasters, disease outbreaks and epidemics, which do not recognise administrative borders.

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

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

Under IPA I, CBC has received around EUR 30 million. Based on the high interest, experience gained and existing joint programme structures, the IPA CBC with Member States (Greece and Bulgaria) has been continued under IPA II, as well as IPA CBC within the Western Balkans (with Albania and Kosovo). The possibility of launching territorial cooperation with Serbia is explored and currently the programming documents are under preparation. The country participates in the new transnational cooperation programme "Balkan-Mediterranean" under the European Regional Development Fund (ERDF) European Territorial Co-operation goal.

8.2. Objectives, results, actions and indicators

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

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

The CBC programmes with Albania, Kosovo and Bulgaria aim at encouraging tourism, culture and natural heritage; enhancing competitiveness, business, trade and investment; protecting environment, promoting climate change adaptation and mitigation, risk prevention and management. The CBC programme with Greece aims at promoting employment, labour mobility and social and cultural inclusion; promoting sustainable transport and improving public infrastructures; protecting the environment and promoting climate change adaptation and mitigation, risk prevention and management. The Balkan – Mediterranean Cooperation Programme will foster the programme area's entrepreneurship potential by encouraging SMEs' cooperation and networking, clusters and clusters policies, new business models' applications and in particular the ones promoting innovation, opens up new markets and support internationalisation. It will also provide support for natural and cultural heritage and resources' efficiency.

Indicator (for details see Annex 2, table 2):

- Numbers of involved municipalities (MIS), organisations and persons
- Improved growth in border regions - GDP per capita (PPP) in border areas

8.3. Types of financing

Assistance will primarily be implemented through grant contracts. Investment may be financed depending of the objectives of each programme. Technical assistance will be provided in order to improve the capacities of the institutions involved in the implementation of the programmes.

8.4. Risks

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

ANNEX 1: INDICATIVE ALLOCATIONS (million EUR)¹⁸ per policy areas and sectors

	2014	2015	2016	2017	2018-2020	Total 2014-2020	Of which climate change relevant (%)
a. Reforms in preparation for Union membership	39.7	17.9	35.6	26.9	85.8	205.9	
Democracy and governance	66.1				56.8	122.9	
Rule of law and fundamental rights	54.0				29.0	83.0	
b. Socio-economic and Regional development	41.0	38.7	38.0	46.0	135.1	298.8	
Environment and climate action	61.3				51.6	112.9	100%
Transport	56.4				56.5	112.9	60%
Competitiveness and innovation	46.0				27.0	73.0	
c. Employment, social policies, education, promotion of gender equality, and human resources development	0.0	14.0	13.0	0.0	26.2	53.2	
Education, employment and social policies	27.0				26.2	53.2	
d. Agriculture and rural development	5.0	18.3	5.0	22.0	56.0	106.3	
Agriculture and rural development	50.3				56.0	106.3	10%
TOTAL	85.7	88.9	91.6	94.9	303.1	664.2	

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

ANNEX 2: INDICATORS AND TARGETS

Table 1a: Context indicators

Indicator	Source	Baseline	Last value	
		2010	year	value
Public debt (% of GDP)	Eurostat:	24,24		
Real GDP growth rate (average last three years - %)	Eurostat:	2,9		
Unemployment Rate (%)	Eurostat:	32		
GDP per capita at current prices (EUR)	Eurostat:	3434		
FDI per capita €	Eurostat:	78		

Table 1 b: Outcome and impact indicators *

Sector	Indicator	Baseline	Last value		Milestone	Target
		2010	year	value	2017	2020
Composite indicator (average ranking provided by eight external sources)	Corruption Barometer, Control of Corruption, Freedom of Press, Press Freedom, Rule of Law, Government Effectiveness, Regulatory Quality, Voice and Accountability	55,6				
Progress made in reaching the political criteria provided	DG ELARG – Progress Report					
Progress made on implementation of acquis	DG ELARG – Progress Report					
Progress made in meeting economic criteria	DG ELARG – Progress Report					

* Targets will be provided at a later stage

Table 2: Sector Indicators *

Sector	Sub sector	Indicator	Source	Baseline	Last value		Milestone	Target
				2010	year	value	2017	2020
Governance and Democracy	Governance and PAR	Progress made towards meeting accession criteria	DG ELARG – Progress Report					
		Composite indicator (average of Government Effectiveness, Burden of Government Regulation and Regulatory Quality) - 1 (Worst) - 100 (Best)	World Bank, World Economic Forum	50,78				
	Public Financial Management	Progress made towards meeting accession criteria	DG ELARG – Progress Report					
	Statistics	Progress made towards meeting accession criteria	DG ELARG – Progress Report					
		Statistical compliance - % 0 (Worst) - 100 (Best)	Eurostat:	21%-27% (2013)				
Rule of law and fundamental rights	Judicial reform	Progress made towards meeting accession criteria	DG ELARG – Progress Report					
		Composite indicator (average of Access to Justice and Judicial independence)	World Justice Project, World Economic Forum	54,50				
	Fight against corruption and organised crime	Progress made towards meeting accession criteria	DG ELARG – Progress Report					
		Composite indicator (average of Global Corruption and Control of Corruption) 1 (Worst) - 100 (Best)	Transparency International, World Bank	47,83				
	Fundamental Rights	Progress made towards meeting accession criteria	DG ELARG – Progress Report					
		Composite indicator (average of Freedom of Press and Press Freedom) 1 (Best) - 100 (Worst)	Freedom House, Reporters Without Borders	33,20				
	Refugees and Border management	Progress made towards meeting accession criteria	DG ELARG – Progress Report					

Sector	Sub sector	Indicator	Source	Baseline	Last value		Milestone	Target
				2010	year	value	2017	2020
Environment		Progress made towards meeting accession criteria	DG ELARG – Progress Report					
Transport		Progress made towards meeting accession criteria	DG ELARG – Progress Report					
		Logistics performance indicator (score) 1 (Worst) - 5 (Best)	World Bank:	2,56 (2012)				
Competitiveness and Innovation		Progress made towards meeting accession criteria	DG ELARG – Progress report					
		Doing Business - Distance to frontier (score) 1 (Best) - 100 (Worst)	World Bank - Doing Business:	65,53				
Education, employment and social policies		Progress made towards meeting accession criteria	DG ELARG – Progress report					
		Employment rate (15-64 years), total - %	Eurostat:	43,52				
Agriculture		Progress made towards meeting accession criteria	DG ELARG – Progress report					
		Total investment generated via IPA in agri-food sector and rural development (EUR)	DG AGRI					
Territorial cooperation and regional cooperation		Numbers of involved municipalities	European Commission Management Information System					

* Targets will be provided at a later stage.