

The use of EU funds in the Republic of Macedonia

Efficiency, impact and absorption capacity
Collection of studies

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The project

The Republic of Macedonia has been a beneficiary of EU funds since 1996, under the programmes PHARE and CARDS. From 2007, with the introduction of the Instrument for Pre-accession Assistance, as a candidate country, Macedonia became eligible for all five components of this programme, as well as for community programmes.

In order to promote parliamentary involvement in monitoring the use of EU funds, the European Policy Institute initiated the multi-annual programme "IPA Monitor", the purpose of which is through evidence based research to encourage public debate and provide concrete recommendations towards increased efficiency of the use of EU funds.

Within this programme, in cooperation with Friedrich Ebert–Skopje, the European Policy Institute, Skopje conducted research on the use of EU funds in the country. The aim of the study was to determine the effectiveness of the use of pre-accession funds in Macedonia (IPA), its impact, and assess the absorption capacity of the Republic of Macedonia.

In order to produce a quality study, an open call for proposals was published for all interested researchers in Macedonia with relevant research experience to submit a proposal for a paper addressing a specific issue within a component of the five IPA components (I. Transitional Assistance and Institution Building; II. Cross-Border Cooperation; III. Regional development; IV. Human Resources Development; and V. Rural Development), or to analyse the absorption capacity of the country.

In total, twelve proposals were submitted, out of which six were selected according to predefined selection criteria and the relevance of the proposal.

During the preparation, mentorship was provided by two international experts in this field, Professor Mojmir Mrak from the University of Ljubljana, Republic of Slovenia and Martin Valentovic, a consultant from the Center for Economic and Social Analysis of Bratislava, Slovak Republic.

This publication is the result of the research and includes a general study on the absorption capacity of Macedonia for using European funds and five case studies on the five IPA components.

Vanco Uzunov: THE ABSORPTION CAPACITY OF THE REPUBLIC OF MACEDONIA FOR UTILIZATION OF IPA FUNDS – GENERAL ISSUES

Summary

This paper tackles the issue of the absorption capacity of the Republic of Macedonia for utilization of IPA funds. It first describes the theoretical concept of absorption capacity and the absorption capacity of the new EU member states, while in the second section turning to an analysis of the absorption capacity of the Republic of Macedonia. The analysis is structured as an assessment of macro-economic absorption capacity, financial absorption capacity, and administrative/institutional absorption capacity, in which case it separately scrutinizes the issues on the demand side (i.e. the capacity of the administration and the ability of project applicants to generate projects) and on the supply side (i.e. the ability of the country to manage the funds efficiently and effectively). The supply side is determined by design variables, comprising structure, human resources and the tools related to the actual EU requirements.

The analysis shows that, in the case of the Republic of Macedonia, the macro-economic and financial absorption capacities are not an obstacle for utilization of IPA funds. However, the situation regarding administrative/institutional capacity is quite different, and is in fact the main reason for the overall low capacity of the country for absorption of IPA funds. Moreover, within the administrative absorption capacity of Macedonia, despite certain improvements in recent years, all segments are still insufficiently developed and require huge efforts for their upgrading. This paper draws recommendations for improvements in all sections analysed.

Key words: *absorption capacity; IPA funds; absorption capacity of the Republic of Macedonia; macro-economic absorption capacity; financial absorption capacity; administrative/institutional absorption capacity*

Introduction

In terms of financial assistance, during the 1990s, the EU delivered substantial support to the Republic of Macedonia through various programmes, such as ECHO, Obnova, PHARE, the Emergency Response Programme and balance-of-payments support. From 2001 until 2006, the Republic of Macedonia has received from the EU financial assistance in the form of the CARDS programme. The main institution for the management of this assistance was the European Agency for Reconstruction (EAR). Since late 2005, the Republic of Macedonia has had the status of candidate country for EU accession. Notwithstanding objections based on the implementation of recommendations under the annual progress reports, the EU Commission recommended starting of accession negotiations in 2009. Yet due to political reasons, the country has not started this next phase of the EU accession process. Therefore, since 2007, the country has been a beneficiary of pre-accession assistance under the Instrument for Pre-Accession Assistance (IPA).

The notion of the absorption capacity of Macedonia for EU financial assistance was initially exposed in 2004¹, and it has subsequently been an area of political interest, as well as of institutional and administrative intervention and upgrading. Suffice it to say, at this point, since it was not a primary and sincere interest of the government², the results in the creation and upgrading of Macedonia's absorption capacity can be assessed at best as only moderate.

Within the context of EU public finances, absorption capacity is defined as the extent to which a (member or non-member) state is able to spend the allocated financial resources, and above that, in a way that generates considerable results (i.e. in an effective and efficient manner). EC experiences show that states have limited capacity for doing this, giving rise to the notion that upgrading of the absorption capacity for utilization of EU funds is per se an area for research and wide political action.

Taking this into account, this research has two broad aims:

First, to make a preliminary assessment of the capacities in the Republic of Macedonia for effective and efficient absorption of EU funds in its pre-accession period and to give some recommendations on how to strengthen those capacities.

Second, to raise awareness of Macedonian public institutions – parliament, government ministries, local authorities and other relevant institutions – about the EU funds that are either already available to the Republic of Macedonia, or are expected to become available in near

¹ The first edition on EU Funds for Economic and Social Development/Cohesion published in Macedonia was a booklet under the above title, which was published in 2004.

² There has been no change of government in the Republic of Macedonia since 2006.

future, and about the concept and problems that Macedonia faces regarding its absorption capacity for funds utilization.

From a methodological point of view, this research is performed solely as desk research. This comprised gathering of available relevant data and information and its assessment from the point of view of the elements that compose the absorption capacity of a country. In this context, it also has to be highlighted that there is huge lack of available data and information on Macedonia, especially from official (government) institutions. Reports and other written official documents are often missing (unobtainable) from web-sites, whereas there is no official (single) database for allocated, contracted and disbursed IPA funds. Further and more in-depth research should combine desk research with stakeholder consultations, surveys, and analyses of case studies.

The paper is organized as follows: apart from this introductory section, it has two sections; the first one has two sub-sections: it first tackles the theoretical concept of absorption capacity, and then presents the absorption capacity of the new EU member states. The second section also has two sub-sections: the first briefly tackles the period before the IPA instrument (prior to 2007), whereas the second tackles the period of the IPA instrument (since 2007).

1. Absorption capacity of a country for utilization of EU funds

This section has two main purposes: (i) to demonstrate the theoretical concept of absorption capacity to a wider audience in Macedonia; (ii) to present a background upon which the absorption capacity of Macedonia for utilization of EU funds will be assessed. It relies and draws heavily on previous work on the topic.³ The section has two sub-sections: in the first instance it tackles the theoretical concept of absorption capacity, and then presents the absorption capacity of the new EU member states.

The concept of absorption capacity

Within the context of EU public finances, absorption capacity is defined as the extent to which a member state or a candidate country is capable of spending allocated financial resources from the EU budget; above that, this should also be done in a way that would generate considerable results (i.e. in an effective and efficient manner). EC experiences show that states have limited capacity for doing this, hence originates the notion that upgrading of the absorption capacity for utilization of EU funds is per se an area for research and wide political action.

³ M. Mrak and V. Uzunov, 2004; M. Mrak and D. Tilev, 2008; and a presentation by G. van Bork, 2011.

The absorption capacity of a country for utilization of EU funds has three main parts: (i) macro-economic absorption capacity; (ii) co-financing absorption capacity; (iii) administrative/institutional absorption capacity. In this context:

Macro-economic absorption capacity is defined and measured in terms of GDP. Experiences show that EU member states have a limited macro-economic capacity to absorb external investment support effectively and efficiently. Therefore, during the existing medium-term financial perspective of the EU (2007-2013), the upper limit for EU cohesion purposes was set at 4 per cent of the GDP of the respective country. Hence, if a country has a very small GDP, it cannot receive large amounts of financial support from the EU budget.

Financial absorption capacity is defined as the ability to co-finance EU supported programmes and projects, to plan and guarantee these national contributions in multi-annual budgets, and to collect these contributions from the partners interested in a programme or project. Namely, EU structural assistance finances a part of the total costs of a programme or a project – the standard national co-financing rate being around 25 per cent. Hence, if the domestic budget of a country is insufficient and absorbed with “fixed” budget expenditures it will be a barrier for the utilization of EU funds.

Administrative/institutional capacity is defined as the ability and skill of central and local authorities to prepare suitable plans, programmes and projects in due time, to decide on programmes and projects, to arrange the co-ordination among principal partners, to cope with the administrative and reporting requirements and to finance and supervise implementation properly, avoiding irregularities as far as possible.

The administrative capacity of a country is actually composed of two sides (components):

The *demand side*, which is the capacity of the administration and the ability of project applicants to generate projects.

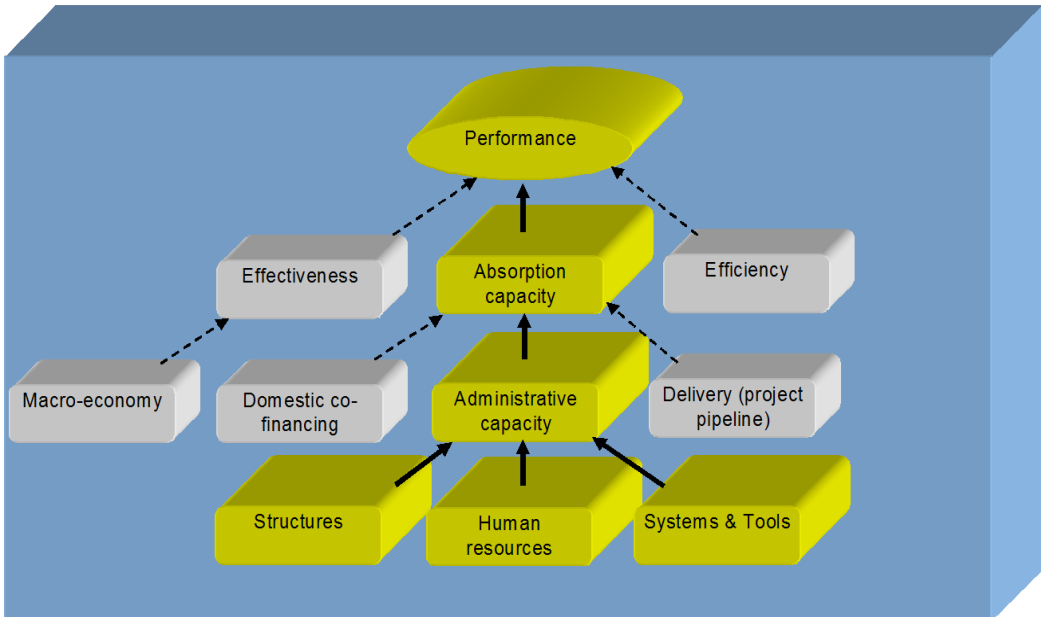
The *supply side*, which is the ability of the country to manage the funds efficiently and effectively. This is determined by *design variables*, comprising structure, human resources and tools related to the actual EU requirements.

Measuring the supply side of the administrative capacity comprises an analysis of the three *design variables*:

Structure, which relates to the way in which the responsibilities and tasks of institutions or of departments or units within these institutions are assigned; this has to be done in a clear and understandable manner.

Human resources, which relate to the ability for detailing tasks and responsibilities at the level of job description, to estimate the number and qualifications of staff, and to fulfil the recruitment needs.

Tools, which relate to the availability of various kinds of instruments, methods, guidelines, manuals, systems, procedures, etc. that enhance the effectiveness of the functioning of the administrative system.



The required structures, human resources and tools vary according to the various stages of the policy life cycle, which is composed of the following five phases: (i) management; (ii) programming; (iii) implementation; (iv) evaluation and monitoring; (v) financial management and control. The graph above⁴ depicts the relations between the listed issues in an easily observable way.

⁴ From: Gerbrand van Bork, Introduction to Cohesion Policies, IPA and Project Cycle Management, Technical Assistance on Institutional Building for the Implementation of RCOP in Turkey, IPA Funds Programme Management 12-19 Sept. 2011.

The absorption capacity of the new EU member states

Macro-economic absorption capacity

The 10 candidate countries that joined the EU in May 2004 have never been in a position to receive EU budget resources equivalent to about 4 per cent of their respective GDP, which is the ceiling for the member states according to the *acquis*. The largest recipients of EU funds expressed as a percentage of GDP among the candidate countries – the three Baltic countries – before the 2004 EU enlargement received an equivalent of around 0.8 per cent of their GDP. For Slovenia, EU pre-accession assistance was less than 0.2 per cent of the country's GDP in 2003. These figures clearly indicate that macro-economic absorption capacity was not a constraint for effective and efficient use of EU resources allocated to these countries in the form of pre-accession aid.

Financial absorption capacity

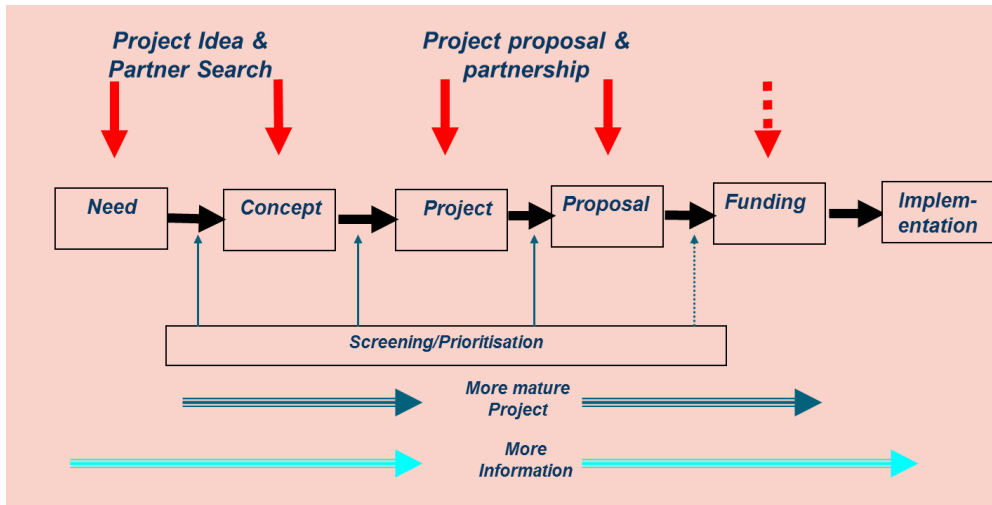
When the standard national co-financing rate of around 25 per cent is applied to the amounts of finances stated previously, the total amount required for national co-financing is estimated at a level equivalent to 0.07 per cent of Slovenia's GDP and 0.26 per cent of the Baltic states' GDP. Consequently, financial absorption capacity, i.e., the ability to provide national co-financing, was not a major concern for absorption of EU funds of the pre-accession countries in the years before they joined the EU.

The demand side of administrative/institutional absorption capacity – project pipeline development

The level of economic development in the EU candidate countries is very low in comparison to the member states. With the exception of a few smaller countries, the per capita GDP in PPP terms of the 10 candidate countries that joined the EU in May 2004 was around half of the EU average, and in some cases even lower. While the investment needs of these countries were very large, the number of well-prepared investment and institutional building projects ready for execution was small. Their experience during the pre-accession period show that the problem was particularly difficult at the regional level, where regional authorities were required to programme substantial volumes of resources through structures which had, in many cases, only been recently put in place.

EU candidate countries were typically faced with the challenge of preparing a number of mature, high quality projects sufficient to absorb the greatly increased volume of EU funds that would become available after accession. The scale of this challenge varies according to the size and the type of projects. Large projects typically require several years of preparation before project proposals can reach the point where they can be approved for EU assistance. Smaller and less complex projects, on the other hand, can be prepared in shorter periods of

time. There are also significant differences in project preparation for different types of projects. The preparation of infrastructure projects requires different inputs than the preparation of projects aimed at either increasing competitiveness or at improving human potential. The attached picture shows the overall project pipeline process with its components (source: G. van Bork, 2011).



In order to develop a good pipeline of potential projects, authorities have to be proactive. It is primarily a responsibility of the countries themselves to design a detailed programme of activities in this area, to provide adequate resources, especially financial resources, and sufficient trained personnel to ensure that the best use is made of the available funds.

Experiences show that not all acceding countries have fully appreciated the difficulty and complexity of developing a project pipeline to ensure that full use is made of available resources. This can be clearly confirmed by the fact that activities financed by the Commission aimed at strengthening project generating capacity in these countries often fall short of expectations. In some cases, the money available for project preparation purposes was simply not contracted.

The supply side of the administrative/institutional absorption capacity

The supply side of the EU-candidate countries' administrative absorption capacity is presented through the five phases of a policy life cycle: (i) management; (ii) programming; (iii) implementation; (iv) evaluation and monitoring; (iv) financial management and control.

(1) *Management* is a key issue when assessing the administrative capacity of a country for absorption of EU funds. Basically, management concerns the allocation of responsibilities and tasks, while key institutions are the management authorities (MAs). Experience shows that there is no standard model for MAs in the EU member states. Consequently, EU

candidate countries do not have a clearly specified model to follow. What has to be underlined is that the designation of MAs is an extremely important decision, a precondition, in fact, for further preparation, including staffing and training and development of the necessary systems and tools, both for the MAs and also for other bodies.

The first crucial issue is the organizational location of MAs in relation to governance structures. This has to be decided taking into account the specific circumstances in the country concerned, reflecting existing administrative structures, planning traditions, the distribution of power between different elements of the governance structures and the size of the country. The responsibilities of the MAs are in the fields of programming, implementation, monitoring and evaluation, as well as financial management and control. Although some of these responsibilities may be shared with other bodies, the MAs carry final responsibility.

EU candidate countries have sometimes focused on quantitative requirements in terms of the numbers of staff required for the efficient operation of MAs. Experience of old Member states, however, demonstrates that effective and efficient management of EU funds depends heavily on having highly qualified and motivated staff. Preparation of detailed organization schemes and job descriptions has also proved to be essential.

(2) EU funds can be channelled to eligible countries and regions on the basis of *multi-annual programmes*, which provide a conceptual framework for their financial interventions. According to appropriate regulation adopted for each medium-term financial perspective, such a programme should typically contain: (i) a statement of the strategy and priorities for joint Community and national action; (ii) a summary of the measures for the implementation of priorities, an indicative financing plan, and provisions for implementation.

In principle, there are two approaches to organizing the programming process in a country. One is the bottom-up approach, based on a partnership with regions and sectors, the main advantage of which is that it typically reflects well the real needs of these players. The other method is the top-down approach, which is typically better not only with respect to the overall consistency of the programme, but also in ensuring that its measures and priorities are aimed at achieving the programme's objectives.

Experience in pre-accession countries indicates that the programming process is a demanding exercise. It is not only a very labour intensive process, but it also requires significant inter-ministerial coordination. Due to difficulties in organizing an effective inter-ministerial co-ordination process, the strategic documents that had to be prepared by the new member states for the 2004 – 2006 period's National Development Programmes, Community Support Frameworks, and Single Programming Documents, often lacked a coherent strategic framework. This is also illustrated by the potentially overlapping and unfocused description of the priorities and measures. It is of crucial importance that the

financial and more specifically the budgetary aspects of programming are introduced into the process at a very early stage. If not, the documents may easily turn into a kind of “wish-list” that does not correspond with the actual financial capacity of the country.

The inter-ministerial coordination required in the programming process is closely connected to the issue of partnership, although the latter issue is much broader. It involves all stakeholders in the programming process, including the regions, sectors, and social partners. The minimum form of partnership is consultation, i.e., asking stakeholders for their opinion about the programming document, although consultation alone is not very likely to yield real ownership of the document.

It is a remarkable feature of the programming process in some EU candidate countries that this process has triggered a wider and ongoing debate on strategic issues and the future development of the country. Although this is a particular constraint at this stage, the next generation of programming documents will benefit from an emerging partnership culture. Ownership of the programming process seems to be of particular importance in the new member states.

The involvement of politicians from the very beginning of the programming process is also indispensable. They have to give the programming process political priority and status, and they have to support the allocation of resources, both financial and human, to ensure smooth functioning of the process. It is extremely important that a National Development Programme, prepared as a part of the EU programming process, becomes a document that is not considered to be a document prepared simply for “EU purposes” but a truly national programme, including nationally-funded measures.

The issue of developing reliable indicators for programming remains an important problem in the old member states, not to mention the new ones. In these countries there is often simply no data that could be used for setting reliable indicators for targeting the objectives in quantitative terms. The targets are therefore often formulated in qualitative terms.

In order to be successful in the programming process, the country needs specific skills. One group of skills is analytic, while the other is process-related and should be familiar with the programming process. In addition to skills, programming requires carefully designed tools for project implementation. At the beginning, a clear assignment of responsibilities should be made. Each participant in the programming processes should have a clear mandate from the entity it represents.

(3) The key issues in the phase of *implementation* involve the establishment of bodies – implementation agencies – that are responsible for implementation of the programmes. The administrative structure of the country involved is largely significant in deciding how to implement the programmes. In some countries, a centralized model has been applied, which

concentrates as many measures as possible into a limited number of key agencies. It has advantages in terms of administrative costs, but its main disadvantage is that in this model, the implementing agencies are often far away from the specific context of the individual measures. In other countries, a more dispersed approach has been used.

One problem which has been experienced in many EU-candidate countries is the lack of clear definition of the delegation of tasks and the reporting lines between the MAs and the implementing agencies. Another key problem faced by these agencies is related to procurement processes. The experience of some countries indicates that procurement presents a particularly high risk for these institutions. The problem has to be addressed by establishing appropriate structures and procedures, which will provide assurance regarding compliance with the applicable legislation and rules.

Implementation bodies are commonly in charge of defining the context of measures and of developing project pipelines. They are also responsible for tasks ranging from evaluation, selection, and monitoring of EU sponsored projects. The most important tools of implementing bodies are their pipelines of projects. The way project pipelines are organized depends largely on the type of projects. For infrastructure and environmental projects, which involve large investments, the project pipeline is typically top-down with the NDP as an umbrella document supported by national strategies for individual infrastructure sub-sectors. For these projects, the pipeline is in fact prepared at the time when strategy documents are being prepared. For smaller projects and programmes, however, the project pipeline is generated more on a bottom-up basis through tenders, where publicity and promotion actions are crucial.

Staff of these agencies has to be equipped with other tools for effective assessment and prioritization of project applications. Quite often, some guidelines for the selection of projects are already given in the programming documents, but they have to be complemented with tools to carry out economic and financial cost-benefit analyses, and to measure environmental impact. Analysing projects is a time consuming task that requires experienced staff. Experience shows that it is not the funding level, but the number of projects that is decisive in determining staffing requirements, as every project needs to be processed according to a similar format, irrespective of its size. In order to process submitted project proposals effectively, clear, simple and easy to understand application forms should be designed. Experience shows that in many new Member states, unclear tendering procedures accompanied by badly designed application forms are important reasons for delays in implementing EU supported projects and programmes.

(4) The *monitoring and evaluation* phase includes all the structures, human resources and tools that are required for the financial and physical monitoring of programmes. This phase of the cycle typically deals with (i) the organizational structure, mainly the monitoring

committees (MCs); (ii) the financial and physical reporting requirements from project beneficiaries; (iii) the system of evaluation.

Monitoring is typically composed of two groups of tools. The first group provides a detailed reporting system for final beneficiaries. The second group of monitoring tools includes IT-based monitoring information systems. These may be based either on a central model to be imposed from above (top-down approach), or on a bottom-up model starting from the operational level.

As far as evaluations are concerned, experience shows that they are typically contracted out to independent private entities. Ex-ante, medium-term and ex-post evaluations are being carried out based on terms of reference prepared by MCs, which set out the evaluation method to be used. The use of a standardized approach in evaluations is important in order to be able to make comparisons and to judge the overall impact of EU funded interventions.

(5) In the case of all old and new member states, the importance of *financial management and control* has increased significantly during recent years. The establishment of separate paying authorities (PAs) is one of the manifestations of this development. The functioning of PAs across the Member states is very similar and typically includes the following tasks: (i) managing the payment of Funds; (ii) submitting certified payment applications to the Commission; (iii) ensuring that final beneficiaries receive EU funds quickly; (iv) making available detailed records of payments. Increasing requirements in this field have resulted in a sharp rise in the demand for staff with accounting and auditing skills.

There have been three key issues for the EU candidate countries in the area of financial management and control: (1) timely designation of the PAs is extremely important, as there is much work to be done prior to the smooth implementation of the system; (2) provision of adequate expertise – in quantitative and qualitative terms – to carry out sound financial management and control; (3) the introduction of systems, procedures and other tools required for efficient financial management and control. Experience shows that, although these issues have typically been correctly envisaged, many countries have faced delays and deficiencies in implementation. A key challenge for the accession countries have therefore been to ensure that the systems required for financial management and control are implemented in a correct and timely manner.

2. The absorption capacity of the Republic of Macedonia for IPA funds

This section tackles the analysis of the absorption capacity of the Republic of Macedonia for effective and efficient utilization of EU funds. It has two sub-sections: firstly, it briefly addresses the period before the IPA instrument (prior to 2007). Following on, it considers the period of the IPA instrument (since 2007). This second sub-section follows the structure and points of analysis presented in the sub-section.

2.1. The period before IPA (prior to 2007)

The Republic of Macedonia has had contractual relations with the EC since 1996, when it signed an agreement for assistance from the EC PHARE programme. In 1997, Macedonia signed a Cooperation Agreement, in force until 2004, as well as Textile Agreements that were in force from 1998 to 2003. Following the conclusion of the negotiations at the Zagreb Summit of November 2000, a Stabilization and Association Agreement (SAA) was signed in Luxembourg in April 2001 (as first in the Region) and entered into force in April 2004.

In the period between 1996 until 2001, the EU has delivered substantial support to the Republic of Macedonia through various programmes, such as ECHO, Obnova, PHARE, the Emergency Response Programme, as well as balance-of-payments support. From 2001 until 2006, the Republic of Macedonia has received financial assistance from the EU through the CARDS programme.

The EU's main institution for managing assistance in Macedonia was the European Agency for Reconstruction (EAR). It was active in Macedonia from 2002 until 2008, but it first took over the responsibility for the programmes in 1997, and then took forward the implementation of CARDS. EAR has been relatively efficient in managing financial assistance. The EU assistance portfolio managed by EAR in the country amounts to around €326 million. By the end of 2006, more than 80 per cent of this total had been contracted, and more than 70 per cent disbursed (see graph below).⁵

⁵ M. Mrak & D. Tilev, 2008, p. 43.

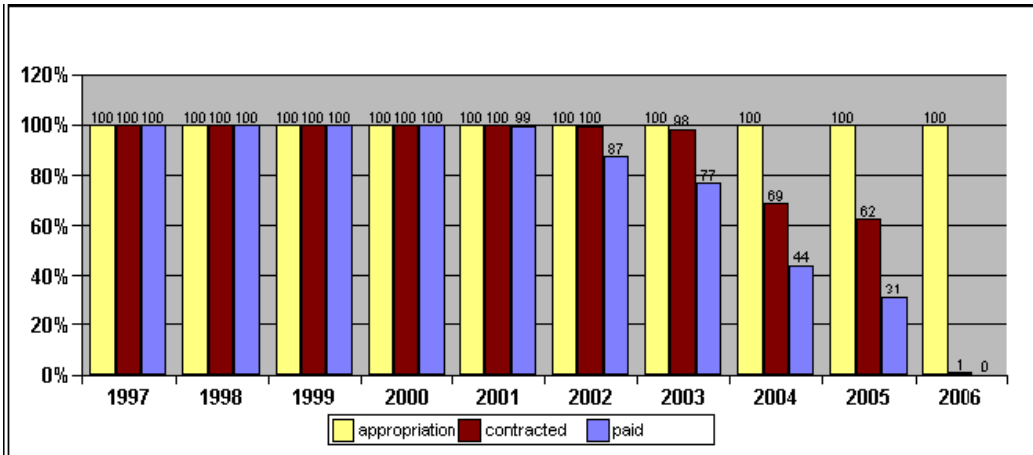


Figure 1: EU assistance portfolio managed by the EAR

The experience gained from programming and implementing EU funds in Macedonia in the period 2001-2006 points to the following lessons,⁶ (while further analysis shows whether they have really been learned):

Assistance implementation requires a level of flexibility regarding the standards of administration in the country. In particular, challenges were faced during the implementation of assistance with regards to the *absorption capacity*, since national institutions were endowed with inadequate staff, both in terms of quality and quantity. Thus, absorption capacity must be taken into account when programming assistance and targeted support for improving the capacities of public administrations is needed.

Limited *budgetary resources* to maintain material investments or to cover regular operational expenses, and insufficient working space to accommodate staff and equipment represent bottlenecks to efficient implementation of pre-accession assistance. Therefore, programming on the one hand has to consider scarce budgetary resources, and on the other hand, the country has to allocate sufficient resources to complement EU assistance.

The government experienced difficulties in fulfilling its commitments regarding staffing, budget resources and completion of legal approximation prior to project deployment. *Increased ownership* of EU assistance to the country is essential for effective programme implementation. It is necessary to take into account the country's own needs (as outlined in respective national documents). Co-financing requirements should also contribute to increased ownership, political will, and coherent decision-making on behalf of the beneficiary is essential in rectifying shortcomings and for ensuring sustainability in the implementation of

⁶ Ibid. , p. 44.

pre-accession assistance. These issues have to be addressed during programme planning and implementation, and have to be backed up by a regular dialogue between the relevant Commission services and the beneficiary.

Donor coordination is of great importance to avoid overlapping of assistance.

Harmonization of legal instruments across different sectors was not always an easy task. However, strong horizontal alignment (across sectors and stakeholders) could be achieved by *improving the coordination efforts among the ministries* and relevant departments.

Apart from these lessons, the following were the findings of the analysis within the newest MIPD (2011-2013):⁷

As regards pre-IPA assistance, an evaluation was carried out covering CARDS assistance to the Republic of Macedonia for the period 2000-2006, with a special focus on ... three sectors that received a substantial part of the overall CARDS budget. The evaluation concludes that relevance and impact of the assistance are satisfactory, while efficiency and effectiveness could be improved. Sustainability is the weakest aspect of the CARDS programmes in the country. Involvement of beneficiaries in the programming phase was frequently not sufficient, resulting in some cases in a lack of ownership, that also had an impact on the sustainability of the projects. No detailed analysis of needs and resources performed in the design phase often resulted in delays and non-replicable interventions at the implementation stage (MIPD 2011-2013).

2.2. The period after 2007

In terms of financial assistance, the period since January 2007 is a period under the Instrument for Pre-Accession Assistance (IPA). Since the rules for financial assistance, and hence absorption capacity issues, are equivalent to the rules set for other candidate countries, further analysis of Macedonian absorption capacity for utilization of EU funds is performed following the structure and points presented in the first sub-section of this paper.

⁷ Republic of Macedonia, Instrument for Pre-Accession Assistance (IPA), Multi-annual Indicative Planning Document (MIPD) 2011-2013, p. 6.

Furthermore, overall financial assistance under IPA is channelled through five components: (i) Transition Assistance and Institution Building; (ii) Cross-border Cooperation; (iii) Regional Development; (iv) Human Resources Development; (v) Rural Development. However, since according to the project's ToR this paper is envisaged as an analysis of the general issues concerning the absorption capacity of Macedonia, and hence as a part of a series of papers that will perform in-depth analysis of each of those five components, this analysis will not specifically tackle the issues under each component. The same is true for the analysis of the amounts of appropriated, contracted and disbursed amounts of IPA funds until now, which is done via the analyses of each of the mentioned five components.

Macroeconomic absorption capacity

It has already been mentioned that in the existing medium-term financial perspective, the upper limit for EU cohesion purposes was set at 4 per cent of the GDP of the respective country. EU candidate countries have never been in a situation to receive from the EU a financial resources equivalent close to 4 per cent of their GDP.

The same is true for the Republic of Macedonia. Data presented in the table below indicates that the amount of IPA funds available to Macedonia have an increasing trend from 2007 until 2013 at a rate which is higher than the rate of growth of the domestic GDP. The share of those funds in Macedonian GDP is increasing, but it is far from the 4 per cent ceiling. By this parameter, Macedonia could have received almost four times higher the amount of Pre-Accession Assistance.

Table: Share of IPA Funds in Macedonian GDP

	2007	2008	2009	2010	2011	2012	2013
Available IPA funds (mill €)	58	70	82	92	98	105	117
GDP (mill €)	5965	6720	6703	7057	7308	7737	n.a.
Share of IPA Funds in GDP (in %)	0.97	1.04	1.22	1.30	1.34	1.36	

Sources: for IPA funds: G. van Bork, 2011; for Macedonian GDP: www.finance.gov.mk

Financial absorption capacity

The standard national co-financing rate for pre-accession funds is around 25 per cent. Keeping this in mind, data presented in the following table shows that even in a case where the entire annual amount of pre-accession funds for Macedonia is utilized in the same year when available (without considering the n+2 or n+3 rule), the funds required from the budget

of Macedonia for co-financing of projects should not be a real obstacle. This conclusion can be drawn even without a thorough analysis of the relationship between “fixed” and “flexible” portions of public sector expenditures.

Table: Required funds for co-financing

	2007	2008	2009	2010	2011	2012	2013
Required funds for cofinancing IPA projects (mill €)	14.5	17.5	20.5	23	24.5	26.25	n.a.
RM Budget (mill €)	1995	2227	2097	2148	2230	n.a.	n.a.
Share of max required funds for co-financing IPA projects in budget	0.73	0.79	0.98	1.07	1.10		

Legislative framework

The aligning of the domestic legislative framework of the Republic of Macedonia to the EU *acquis* is a condition for EU membership per se; however, it is also a fact that utilization of EU funds is subject to full transposition of EU legislation.⁸ Hence, the legislative framework becomes one of the constituent parts of country’s capacities for absorption of EU funds.

In the context of creating capacities for absorption of EU funds in the Republic of Macedonia, it is therefore important to be aware that the transposition of the *acquis* in segments that have influence on the use of EU funds is necessary, but not a sufficient condition for absorption of these funds. *Adoption of the appropriate legislation has to be accompanied with its implementation.* The important parts of a national legislation that are of particular importance for absorption of EU funds are in the following areas: (i) public procurement; (ii) state aids; (iii) competition; (iv) financial control and management; (v) environment; (vii) equal opportunities.⁹

Public procurement legislation in Macedonia has been amended to comply with the *acquis*, but there are still significant problems with its implementation. The Public Procurement Bureau (PPB) continues to be equipped with staff and it has recently established separate IT and accounting units. The Bureau coordinates and monitors the implementation of the strategy for the development of the public procurement system. However, one of the biggest obstacles for improving the implementation of public procurement legislation is the fact that

⁸ European Commission: On the Implementation of Commitments Undertaken by the Acceding Countries in the Context of Accession Negotiations on Chapter 21 – Regional Policy and Coordination of Structural Instruments, Commission Staff Working Paper, Annex to the Communication from the Commission to the European Parliament and the Council, COM (2003) 433 final, Brussels, 16.07.2003, p.2.

⁹ Ibid., p.2-3.

the PPB has no executive power over entities – public and/or private – which does not comply with the legal procedures and requirements. It is therefore often a case that tendering procedures are cancelled or postponed, which causes delays and inefficiencies. Furthermore, apart from the work of the PPB, numerous public institutions face huge problems in two fields: (i) preparation and implementation of the tendering procedures (specification of calls for bids, length of tendering periods, etc.); (ii) in the annual and multi-year financial planning and programming by public institutions (many institutions do not have specific plans for public procurement needs in due time, planning of revenues is uncertain, etc.). The most recent EC Progress Report for the Republic of Macedonia draws the conclusion that:

Progress was made in the area of public procurement. The legislation on concessions and public-private partnerships still remains to be aligned with the acquis. Procurement procedures have been made more transparent and enforcement was stepped up, but the administrative capacity of the contracting authorities is still weak. The legal environment for the enforcement of remedies was improved. The administrative capacity in the field of remedies and concessions remains weak.¹⁰

In the areas of legislation on *competition and state aid*, the situation is not very different. Legislation has recently been amended to comply with EU *acquis*, but its implementation is now becoming an issue of concern. The last EC Progress Report found that some progress had been made in the area of competition, while in the field of mergers and state aid, the enforcement record has improved in quantitative terms, but remains low in the field of cartels. The quality of the decisions in the area of State aid needs to be further improved. The CPC does not have adequate budgetary resources. The number of staff is adequate to cover state aid matters, but insufficient in the area of anti-trust and mergers.¹¹

In the area of *financial control*, broadly speaking, the situation is the following: the State Audit Office prepares sound audits, however, its reports are very often, and especially when they determine misdemeanours in public institutions, avoided by parliament and the government. This is also the conclusion of the 2011 EC Progress Report:

¹⁰ 2011 EC Progress Report, p. 36.

¹¹ *Ibid.*, p.39.

Developments in the area of public internal financial control (PIFC) were related mainly to legislative alignment. Efforts are needed in order to ensure its implementation, especially in relation to the establishment of Financial Management and Control systems. The State Audit Office (SAO) administrative capacity has been further strengthened; however, the independence of the SAO has yet to be anchored in the Constitution. Cooperation with the Parliament remains a concern.¹²

As far as *environment protection legislature* is concerned, as in many other areas, there has been progress in transposing the EU *acquis* into national legislation and in ratifying multilateral environmental agreements, but significant efforts are nonetheless needed in the implementation of this legislation. The administrative capacity is still very weak at both central and local levels across all sectors. Investments need to be significantly increased, especially in the waste and water sectors.

Overall, considering the legislative framework for better utilization of EU funds, it is also important to have in mind the following conclusion within the last EC Progress Report, which clearly shows that progress in this area has recently almost been halted:

*Regarding the **legislative framework**, no progress has been noted in this area. Additional efforts are needed in order to ensure implementation of the Cohesion Policy in line with the EU rules and policies, in particular in the environment sector. Multi-annual programming and budget flexibility remains insufficient. Preparations in this area are moderately advanced.*¹³

Recommendations: In order to make the legislative framework more conducive for effective use of EU funds, the country should: (i) complete the transposition of the EU *acquis*; (ii) strengthen the administrative capacities required for implementation of the new legislation through education of the officials in different areas; (iii) strengthen capacities of the judiciary, so as to be able to enforce the legislation in the respective fields.

¹² Ibid., p.77.

¹³ Ibid., p.56.

Administrative/institutional capacities for absorption of EU funds

In complete contrast to the macro-economic and financial absorption capacities, the administrative/institutional capacity of the Republic of Macedonia is very low and is actually *the* reason for the overall low capacity of the country for absorption of IPA funds. This ex ante conclusion/statement is justified by the findings of the 2011 EC Progress Report¹⁴:

Limited progress was noted in relation to the **institutional framework**. In line with audit recommendations, some changes were made to the management and control system within the Operational Structures for IPA Components III and IV, including self-assessment and risk management as well as procedures for reporting irregularities. Roadmaps for the establishment of a decentralized implementation system without 'ex-ante' controls were prepared and submitted to the Commission. Further significant improvements are needed in order to enhance the efficiency of the operating structures of the IPA regional development and the human resources development programmes. This includes overcoming the lack of inter-ministerial coordination within these programmes. Preparations in this area are moderately advanced.

Some limited progress was made in the area of **administrative capacity**. Workload Analyses and recruitment plans for 2011 were prepared by the relevant IPA institutions, such as the National Fund, the CFCD, and all line ministries/beneficiary institutions that are part of the operating structures. Training was conducted on the basis of the Training Plan for 2010 and 2011. Limited availability of appropriate experts hampered procurement process in several programmes; the relevant ministries still need to demonstrate that they have the full ownership of the implementation of the programmes. Further substantial strengthening of administrative capacity in all institutions is needed by deriving full benefit from the training events and experience learning by doing experience under the relevant IPA Components. The country's administrative capacity in the area remains insufficient.

The report further entails a more detailed assessment on these issues.

¹⁴ Ibid., p.56.

Demand side – project generation capacity

The demand side of the country's administrative/institutional absorption capacity for utilization of EU funds is determined by the capacity to create a good pipeline of projects that would consist of a sufficient number of well-designed and formulated project proposals. Establishing an adequate pipeline of projects is important, yet it is nonetheless only a part of the early stage of the project's life cycle.

The capacities in Macedonia to prepare comprehensive project proposals, and therefore to create a strong pipeline of projects that would be available for financing are rather low. This is the case for both public and private institutions. As with numerous other issues in recent years, the issue of low project generation capacity is not publicly debated; however, the tacit and almost unanimous consent is that the bottlenecks in project generation capacities are a problem that greatly hinders the ability of the country to absorb not only EU funds, but also funds from other sources.

Several reasons account for the unfavourable situation in the country with respect to project pipeline preparation capacity:

The use of public, and even/or private funds, in many cases is not conditioned by the existence of well-prepared project proposals. Consequently, there is significant lack of pressure on project sponsors and their ability for creating incentives with respect to project preparation and project justification.

Civil servants and other public officials in Macedonia are seldom required to prepare projects within their everyday scope of activities. Instead, the justification of soundness and importance of public policy proposals is often done on the basis of vague political criteria. In recent years, the situation in this context has become even more bizarre, considering the fact that the pre-election (political) programmes of one of the (two) political parties that have held the government cabinet since 2006 – and which after the elections become official national/governmental development programmes – are based on hundreds of projects.¹⁵ However, these projects are neither part of coherent programming documents (which actually do not exist), nor are they required to be realistically justified, well designed, and soundly formulated. They are based/justified solely on the basis of vague political criteria and cannot at all be considered as a pipeline for development projects.

No public institution in the Republic of Macedonia has project generation activity as its sole, or as main area of activity. Establishment of private (consultant-type) ventures, whose

¹⁵ In the political parlance in the country, this is often referred to as "project-type of public management".

professional occupation is project preparation, has a history going back 10 to 15 years, but in an environment/market that completely lacks established standards of performance; hence, apart from very few domestic and foreign-owned ventures, it will still take some time before their expertise mature to a level of international standards.

Despite the numerous institutions, even at university level, that have recently been established in the country, the necessary skills for project preparation are often acquired through learning-by-doing, or vocational experience.

Recommendations: It is of utmost importance for the Republic of Macedonia to start systematically tackling the project generation capacity problem in the country. A first step is to completely avoid the existing abuse of the idea of “projects” and “project generation” as justification for political nomination. Another issue is to completely avoid political criteria and interference as a basis for justification of projects. The country should start building a comprehensive pipeline of projects through two streams: (i) major investment projects should be prepared centrally at national level, as their preparation needs more time and resources; (ii) smaller projects and schemes should be prepared using a bottom-up approach basis by interested entities at a local level. In order to put in place the project pipeline, it is necessary to strengthen professional capacities in the country that are capable of drafting specific project proposals through training and specialized education. The EU has provided significant technical assistance to EU candidate countries, aimed at increasing their capacity for generating projects. In the longer run, domestic training capacities in this area should be created.

Supply side – project implementation capacity

This part of the administrative absorption capacity of the Republic of Macedonia will be assessed through the five phases of the policy life cycle, these being: (i) management; (ii) programming; (iii) implementation; (iv) monitoring & evaluation; (v) financial management and control.

1. Management

The management aspect of absorption capacity for the EU funds addresses the issue of the institutional structure for effective use of these funds, which means organization of MAs and intermediate bodies, their staffing, and arrangement of the delegation of tasks. As a candidate country since 2005, Macedonia has had access to all five IPA components since its inception in 2007. In the period since then, the government has been engaged in designation of competent bodies and authorities for the structural components of IPA in order to create a Decentralized Implementation System (DIS). Until now, Macedonia has decentralized management of IPA funds under all components except component II.

This process of accreditation was not implemented smoothly, however.¹⁶ In order to meet the conditions for conferral of management powers by the EC, the Republic of Macedonia designated the following bodies and authorities: (i) National IPA Co-ordinator (NIPAC); (ii) Competent Accrediting Officer (CAO); (iii) National Authorising Officer (NAO); (iv) National Fund (NF); (v) Programme Authorising Officers (PAO); (vi) Central Finance Contracting Department (CFCD); (vii) Strategic Co-ordinator; (viii) Senior Programming Officers (SPOs); (ix) Operating Structures; (x) Sectoral Monitoring Committees (SMCs); (xi) Audit Authority. The attached chart depicts the overall IPA implementation system.

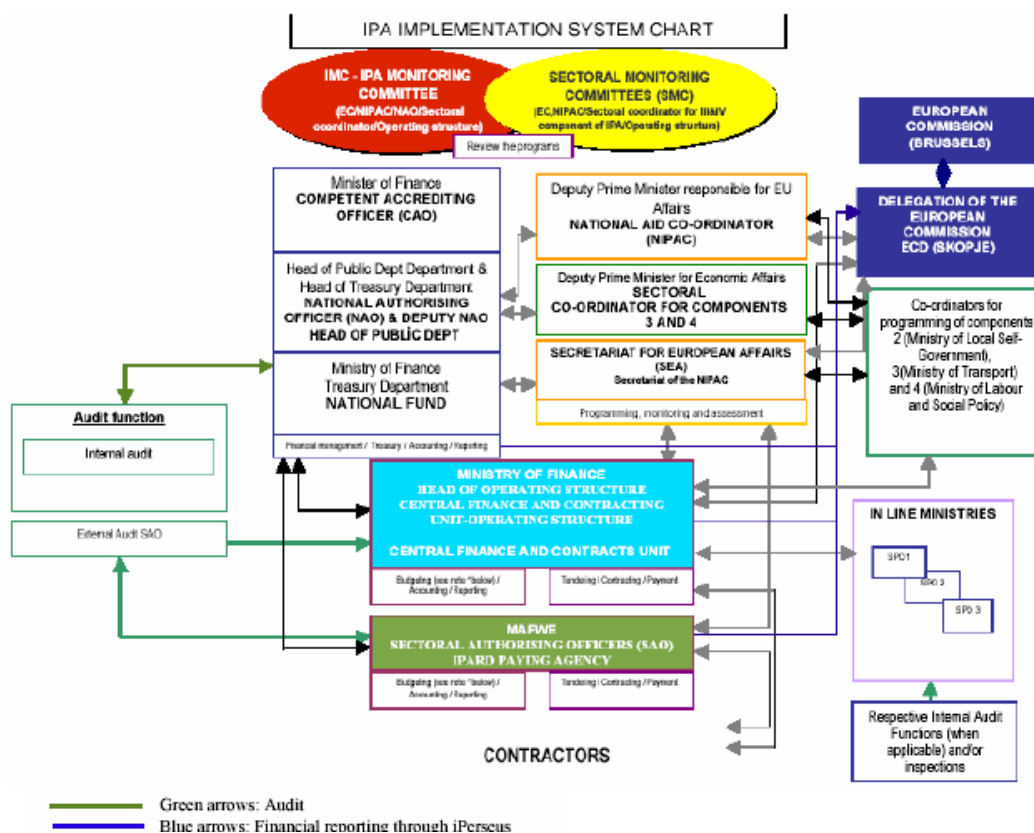


Figure 2 IPA Implementation System Chart

Source: M. Mrak, D. Tilev, 2008, p. 48

¹⁶ This analysis does not enter into detailed discussion of the institutional structure under each component, since it is accompanied by separate analysis for each of them.

Apart from the creation of new institutions and designation of authorities, the context of management in relation to the absorption capacity for EU funds is even more dependent on the quality and mode of upgrading the quality of public administration. An assessment of the human resources working in public institutions of the Republic of Macedonia indicates significant weaknesses in many respects:

Recruitment practices in public administration have been inadequate; as a rule, top management levels are filled by candidates with a political background, or party activists without proper management skills. The same is often true for the staffing and recruitment of other personnel; this is also due to the positive discrimination policy in favour of minorities, applied as an obligation stemming from the Ohrid Framework Agreement.

As a result, it has been a regular practice in recent years for “old” and “politically inadequate” yet experienced public servants, who have already received various and sometimes substantial training, to leave their posts due to pressures and mistreatment. However, such practices, instead of resulting in downsizing, instead resulted in an increased number of public employees, as vacant posts were being filled with more new employees than was needed; it is often (non-publicly) debated that civil servants are being hired who do not even go to work regularly.

As a rule, promotion practices follow improper favouring strings of relationships and friendships, membership in political parties, etc. There is also relatively little training and continuous education of public employees.

The analysis within the newest MIPD (2011-2013) and the 2011 EC Progress Report for Macedonia emphasize the following issues concerning the public administration reform (itself a key priority under the Accession Partnership) in the country:

The managerial and operational responsibility for the overall PA was transferred to the “new” Ministry of Information Society and Administration (MISA), while the Civil Servants Agency was transformed into an Administrative Agency, maintaining oversight responsibilities; overall, the new institutional set-up provides a good starting point for driving the PA reforms forward, although the budgetary, spatial, and administrative capacity of the MISA is not sufficient.

The Law on civil servants was amended to introduce new elements in selection and promotion rules; however, these amendments fall short of providing strategic solutions to all the existing challenges. The legal framework in the area of civil servants and public employees remains fragmented, allowing certain institutions to be regulated differently, including in the area of salary-related provisions. Major shortcomings remain, in particular regarding the rules on recruitment, appraisal and promotion, appointment of senior managers, and termination of employment. Further improvements to the key laws are

necessary in order to ensure that the principles of transparent, apolitical, merit-based recruitments and promotions are embedded in the legal framework.

Although the government took steps to address the excessive use of temporary staff, a number of questions remain unanswered. A large quantity of temporary positions were converted into permanent positions during the reporting period, while many posts remain temporary; however, despite requests, no official figures on the existing or transferred positions have been made available by the authorities. A lack of consistency in applying requirements regarding education or experience was observed in a number of cases; some requirements appeared to be tailor-made for particular candidates. Similarly, hiring of new temporary staff in many instances did not comply with the procedures laid down by law. The accumulation of such examples raises serious concerns that the principle of merit-based and apolitical recruitment has not been satisfactorily followed.

The payroll system in the PA remained fragmented, affecting the unity and mobility of civil and public service. The practice of paying ad hoc allowances to public servants for assuming certain types of tasks pertaining to their job duties continues to lack transparency and proper justification.

About 1,600 civil servants from the non-majority communities have been assigned to the civil service since February 2011 to comply with the principle of equitable representation. However, the trend of recruiting employees from these communities on a quantitative basis without regard for the real needs of the institutions continues. The practice shows an insufficient level of co-ordination on equitable representation between MISA and the Secretariat for implementation of the Ohrid Framework Agreement. The recruitment procedure remains vulnerable to undue political influence.

2. Programming (capacity to create strategic medium and long-term development plans)

The ability of a country to generate comprehensive and detailed medium and long-term development plans is crucial for its overall development; within this context, absorption of EU funds is crucial. As previously stated, EU funding is channelled on the basis of *programming documents*.

In the Republic of Macedonia, medium-term programming has a short history. Previously, policy-making in the country was not based on medium and long-term strategic plans and documents, but rather on ad hoc measures. Consequently, there was a lack of demand for programming, and due to the prolonged nature of such practice substantial skills for sound programming have not been developed in the country. On the other hand, however, at the start of the previous decade, it was expected that there would a growing demand for objective and coherent economic policy advice in the Republic of Macedonia for at least two

reasons. Firstly, the country was heading toward making a move to a stage where stabilization efforts had to be complemented with consistent policy measures required to consolidate economic stability and enhance economic growth. Secondly, the country was expected to move ahead into EU accession; hence, the importance of programming for absorption of EU funds should have increased.

However, events in recent years prove that these expectations have been unrealistic. Presently, the Republic of Macedonia practically has no National Development Plan (NDP); officially, it has one such document, which is outdated. The first NDP was drafted in the first half of 2006, but with the political party change in the government cabinet in September of that year, since it did not encompass its pre-election promises, it was decided that that document had to be rejected, and that a new one should be prepared. The new NDP, titled "Macedonia – National Development Plan 2008-2013 (draft version)", was prepared and uploaded to the government's website until the beginning of 2010, when it was removed; it has not been replaced until now. This document still serves as formal NDP, but the assessment within the newest MIPD (2011-2013) points out that "a new NDP would be needed in order to have an overall development strategy, allowing for proper utilization of the sector strategies (National Strategy for SMEs Development, Industrial Policy Strategy, National Programme for market surveillance, National strategy on research and innovation, etc.) that may be considered suitable as a country-owned policy framework, to start moving to a better targeted EU support to the sector".¹⁷

The next very important programming document for utilization of EU funds is the Multi-Annual Indicative Programming Document (MIPD). Until now, the EC has adopted 4 MIPDs for the Republic of Macedonia, covering the periods 2007-2009, 2008-2010, 2009-2011 and 2011-2013. In addition to these, there are numerous other programming (strategic) documents in the country, such as: The National Programme for the Adoption of the Acquis (NPAA), serving as the national key document for reflecting the main priorities of the EU integration process; the Public Administration reform Strategy (2010-15); Strategy of the Reform of Criminal Legislation (2007-11); National Action Plan for implementation of the Penitentiary system reforms (2009-14); the revised National Employment Strategy, National Transport Strategy (2007-17); National Strategy for Agriculture and Rural Development (2007-2013); the National Strategy for Sustainable Development (2008-30), as well as the National Strategy for Poverty reduction and Social Inclusion (2010-20), the National Strategy for SMEs development (2011-13), and the National Strategy for Environmental Investments (2009-13).

¹⁷ Republic of Macedonia, Instrument for Pre-Accession Assistance (IPA), Multi-annual Indicative Planning Document (MIPD) 2011-2013.

The very number of national strategies and programming documents might point to the conclusion that the area of programming is well developed and filled; however, the analysis within the MIPD (2011-2013) points out that:

[regarding] the intervention logic of assistance, the conclusion is that *objectives in strategic programming documents are not clearly prioritized and supported by measurable impact indicators*. Furthermore, the project selection process is not always supported by an objective mechanism to determine the most relevant and cost-effective project proposals. In general, the interventions used were appropriate to deliver the planned outputs and their contribution to the programming objectives was found to be broadly positive and adequately sequenced but not sufficiently prioritized.¹⁸

And furthermore,

... support for a better and more coordinated planning and programming of EU assistance was needed. In particular, it was made clear that the sector approach, despite all its complexities, would enhance the quality of EU financial assistance and increase its impact within the country.

Given the high number of areas that remain to be addressed under the NPAA and Accession Partnership, this MIPD still covers a wide range of areas. However, an effort has been made to make priorities more specific and focused and to only include areas where concrete support projects are likely to materialize in the coming years, moving away from an approach of listing all potential reform needs.¹⁹

A considerable part of the programming processes relates to the capacity for involving partnerships in the process. However, the preparation of programming documents in the Republic of Macedonia did not involve different stakeholders with an interest in the subject. This inevitably leads to a lack of ownership of the programmes, which is a very common feature in the Republic of Macedonia. The concept of partnership (partnering) among distinct (public, private, civil) sectors of society is not well known in the country, hence it is seldom applied, both at central and local levels, and especially on a formal basis. Therefore,

¹⁸ Ibid, p. 6.

¹⁹ MIPD 2011-2013, p. 7.

To promote an active role of civil society in the decision making process, is a key objective identified in the Accession Partnership. Even though involvement of Civil Society Organizations in policy making and in legislative drafting progressed in the country to a moderate extent, there is still a considerable space for furthering the implementation of the Government's strategy and action plan for cooperation with Civil Society Organizations in the coming years.²⁰

The next important element of programming is inter-ministerial co-ordination, the responsibility of which is levied to the Government. Yet the existence of complete and overwhelming inter-ministerial co-ordination, even more so, of proper inter-ministerial communication, is often debated in the Republic of Macedonia as one of the main missing links (or pressing needs) within a government context.

Recommendations: There is an urgent need in the Republic of Macedonia to start systematically addressing problems of medium-term economic programming as a part of the policy analysis. Experiences of EU candidate countries also indicate that a lack of appropriate capacities in this area, or their inadequacies, presented important obstacles not only for absorbing the EU funds, but also for managing these countries' economic and social development.

There are several options for creating capacities that would be capable of generating strategic medium and long-term development plans. In the short-run, a combination of foreign expertise with domestic capacities, strengthened through targeted education and training of a selected group of younger professionals could be an option. In the long-run, however, a more stable institutional framework should be established to carry out this task. Employing a feasibility study, an assessment should be made regarding whether this framework could be based in one (or more) of the existing public institution(s) that would be upgraded in a manner to perform the programming role effectively and efficiently, or whether there is a need for an entirely new institution to carry out this task.

An extremely important part of the overall economic programming process is financial programming. It is of the utmost importance that medium-term fiscal planning, and within this context implications for national co-financing of EU sponsored projects, be an integral part of the overall economic planning from the start of the process. If not, programmes and projects are being prepared without a clear understanding of the financial capacity of the country. Recent reforms in the area of public expenditure management are in line with the introduction of a performance budgeting system which, among other issues, requires

²⁰ Ibid., p.16.

knowledge about programming. Hence, the process of reforms will create pressures on public servants to acquire the skills needed for programming. Programmes for training and education of medium-level managers in public (governmental) institutions exist, but they have to be given greater impetus and practiced on a wider population of civil servants. Other training and education possibilities have to be created as well.

The next issue within the programming context is the use of partnerships in the process. Considerable efforts should be made to begin creating a culture of partnership between different entities at national, regional, and local levels. Partnership is required for securing ownership over projects to be executed. Therefore, raising awareness is needed among public institutions on the one hand, and the private and civil sector on the other about various kinds of partnerships that is especially important in the programming phase.

The third part related to programming is inter-ministerial co-ordination. In this context there are two issues to be tackled: (i) establishment of structures, which ensures inter-ministerial co-ordination; (ii) raising the awareness of public institutions managers and civil servants in general about the need for this kind of co-ordination.

3. Implementation

The experiences in EU pre-accession countries have shown that implementation of projects after their approval has in the past proven weak, and will therefore require special attention from national authorities.

In contrast to management and programming of EU funds where the role of Macedonian entities is currently rather limited, in the implementation of these funds, local entities have a much stronger role. Local institutions involved in project implementation are not exclusively public institutions, both at central and local levels, but also private firms and NGOs, among others.

Implementation of projects, and in that sense also of the government's standard operational duties in the Republic of Macedonia, is delegated to subordinated bodies and public (seldom private) intermediate bodies. In a broad context, ministries are policy-making authorities, while various agencies and other types of intermediate institutions are policy-implementing authorities. The subordination relation managing and implementing authorities is clear, yet this remains not by itself a guarantee of successful implementation of EU funded projects.

As far as the quality of human resources in the public implementing (intermediate) bodies of the Republic of Macedonia is concerned, more or less the same characteristics apply as those presented above (in the section of the text referring to project management).

A real concern in the public administration hierarchy in the Republic of Macedonia is the quality of administrative systems and tools applied in the implementation of projects. Various types of guidelines, manuals, established systems of operation, written procedures, forms and other such devices that enhance the effectiveness of the functioning of the administrative system are very often entirely missing. This makes both the managing and intermediate institutions in the Republic of Macedonia highly vulnerable to changes or lay-offs of skilled personnel and exposed to possibilities of malfunctioning due to unexpected occurrences.

Recommendations: There is wide variety of undertakings to be made in the Republic of Macedonia in order to improve project implementation capacities through strengthening the existing institutions and/or creation of new ones. Strengthening of implementation capacities basically consists of two key segments. The first involves recruitment of qualified and experienced staff when possible and/or training of the existing staff in all relevant bodies to bring the administrative capacity up to the standard required. The second segment involves creation of high quality administrative systems and tools, including new instruments, methods, guidelines, manuals, written work procedures, forms, etc. aimed at enhancing the effectiveness of the functioning of the administrative system.

4. Monitoring and evaluation

Monitoring and evaluation of project implementation as part of the policy life cycle, or as part of the implementation of the regular public institutions' duties in Macedonia, should also be implemented at the very beginning. Monitoring and evaluation is currently almost not practiced at all, and the lack of availability of sound monitoring information systems is evident. An assessment points out that:

As underlined by the Accession Partnership, institutional structures and administrative capacity in the areas of programming, project preparation, monitoring, evaluation and financial management and control need to be improved. This will enhance the ministries' capacity to implement EU pre-accession programmes and to prepare the implementation of the Union's cohesion policy.²¹

Recommendations: In the context of its preparations for decentralized management of EU funds, the Government of the Republic of Macedonia will have to make the necessary arrangements in the area of monitoring and evaluation. It would be useful for the country to begin designing its monitoring and evaluation arrangement, including a computerized monitoring system for gathering all financial and physical data. The setup of a functioning

²¹ Ibid, p.14.

monitoring system implies (i) definition of data and indicators to be collected; (ii) training of users.

5. Financial management and control

Considering the quality and availability of domestic human resources with financial management and auditing skills, it is evident that the situation has improved in recent years. However, the overall pool of financial management and control experts remains insufficient, and in some cases their skills are still not entirely comparable to international standards. Therefore,

Regarding financial management, managerial accountability has yet to be linked to public internal financial control. The reports of the State Audit Office continue to highlight a number of shortcomings with regard to the application of internal financial control standards, procurement rules and human resources policy. The quality of strategic planning within central and local institutions is insufficient, and is still confined to budgetary planning. The General Secretariat of the government does not perform an effective administrative governance role. Regulatory impact assessment is not applied systematically.²²

Recommendations: Financial management and control is another area of activity that the Republic of Macedonia has to upgrade substantially. As stated above, it would be useful to begin preparing a financial management and control system in close coordination with the preparation of institutional arrangements in other project cycle areas.

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Introduction

Accession to the EU is a cumbersome process. It requires fulfilment of EU political and economic criteria and the ability to assume obligations from membership implying broad reforms in all spheres of society: political, economic, social, and cultural. The previous enlargements showed that fulfilment of the Copenhagen political criteria, which require reforms of the institutions guaranteeing democracy, rule of law, human rights, and protection of minorities, to be the most challenging ones, and as such have absolute priority. The EU provides political and financial support, through the EU Instrument for Pre-accession Assistance, which efficiently targets the interventions that concern the attainment of political criteria. However, granting of assistance by the EU is only the first step; other significant factors remain that need to be addressed by the national institutions. Ensuring ownership and absorption capacity are paramount for the successful utilization of funds, thereby reaching the desired effects and benefits for the society.

Aid and technical assistance belong to the “mechanisms of Europeanization” that the EU uses in transferring to the applicant countries its principles, norms, and rules, as well as in shaping their institutional and administrative structures.²³ It is a conditionality instrument that provides to the applicant countries for EU membership considerable support in the costly reforms for alignment with European *acquis*, policies, and standards. By observing the previous EU enlargements, it can be concluded that a key condition for advancing in the pre-accession process is alignment with the Copenhagen Political Criteria.²⁴ Given the importance of this area, the Instruments for Pre-accession Assistance through Component I Transition Assistance and Institution Building (TAIB) supports the strengthening of the national institutions that guarantee democracy, rule of law, human rights, and protection of minorities. This analysis aims to explore whether the assistance provided through IPA Component I concentrates efficiently on interventions that address the accession priorities, in

²³ Heather Grabbe, “Europeanisation Goes East: Power and Uncertainty in the EU Accession Process”, in Kevin Featherstone and Claudio M. Radaelli (eds.), *The Politics of Europeanisation* (2003) Oxford: Oxford University Press.

²⁴ Dimitry Kochenov, “Behind the Copenhagen façade. The meaning and the structure of the Copenhagen Political criterion of democracy and the rule of law” (2004) 8 *European Integration Online Papers* 10.

particular those concerning the political criteria, and whether it ensures that these are well targeted so as to achieve impacts and absorption. Considering the early stage of implementation of IPA in the Republic of Macedonia, extensive evaluation of the assistance could not be made, given the need to allow sufficient time to lapse from project completion and the positive or negative effects of the projects to become visible. However, based on the initial experiences from the implementation, the analyses will focus on priorities that the instrument supports, their relevance for EU accession, as well as the factors that have influenced the efficiency, impact and absorption capacities.

Given the short time period in which IPA has existed, the literature on pre-accession assistance is scarce. Consequently, the analysis is a result of desk research concerning the legal framework for establishing and implementation of IPA such as Council regulations, Commission regulations, multiannual indicative planning documents (MIPDs), national programmes for IPA Component I TAIB, Commission annual IPA reports, evaluation reports, project fiches, Commission annual progress reports, well as national strategic documents such as the National programme for adoption of EU *acquis*. Important insight into the implementation of funds was obtained through field research and interviews with the relevant representatives of the EU Delegation in Skopje, ministries, project beneficiaries, and project implementation teams. The scope of the analysis is limited to the projects from the National TAIB annual programmes 2007 and 2008, which were recently finalized or that are in the final stages of implementation, and as such, could be observed. Most of the projects from the National TAIB annual programme 2009 have not been contracted yet and were taken in consideration only when relevant to the topic.

Composed of four parts, the analyses will proceed as follows: overview of the key priorities of the EU Enlargement policy and the pre-accession assistance instruments, and the Copenhagen criteria (including political criteria) will be given in the first part; in the second part, the focus will shift to pre-accession assistance in the Republic of Macedonia, IPA, and Component I Transition Assistance and Institution Building and how it supports the political criteria and the national institutions for guaranteeing democracy, rule of law, human rights and protection of minorities; in the third part, the initial experiences from the implementation are explored, as well as the prospects for efficiency, absorption and impact. Finally, the fourth part provides conclusions.

Enlargement Policy and Pre-accession Assistance: Copenhagen Political Criteria in

Focus

The Instrument for pre-accession assistance was introduced as part of the EU aid framework reform for 2007-2013 for external policies, in an effort to more efficiently support the EU enlargement policy and those countries seeking EU membership. The experiences drawn from the enlargement of the Central and East European Countries (CEEC) that successfully past the transition demonstrated that the carefully managed process of enlargement is one of the most powerful tools of the EU, and which helped in the transition of countries into modern, functional democracies while ensuring peace, stability, prosperity, democracy, human rights, and rule of law on the territory of the European continent.

In view of the democratization process in Central and East European Europe, the EU encountered a number of countries from the region applying for EU membership. These countries were challenged with broad reforms tackling all spheres of society: political, social, economic, and cultural. The reforms included consolidation of market institutions, and open market economies; however, the most difficult of the reforms have been the democratization of institutions, the strengthening of rule of law, and of human rights. Organized crime and corruption, deeply rooted in the societies, were problems which posed a risk of spillover into to neighbouring states in the context of an enlarged Union, if not adequately addressed. In this instance the EU guidance was indispensable. Henceforth, the Council of the European Union with its conclusions from Copenhagen in 1993, conditioned Union membership with the fulfilment of political and economic criteria, as well as the ability to assume the obligations from the membership.²⁵

Out of the broad areas of EU *acquis*, standards and policies encompassed by the Copenhagen criteria included that alignment with the political requirements had absolute priority.²⁶ These concern the political system and require from the country to have stable political institutions guaranteeing democracy, the rule of law, human rights, and respect for and protection of minorities.²⁷ Behind this construction, the EU required free and fair elections, functioning of the legislature, functioning of the executive, including public administration, functioning of the judiciary, fighting against corruption, respecting, human rights, including civil and political rights, economic and social rights, and respect of and protection of minorities and cultural rights. Later on, the same focus on political criteria was

²⁵ Presidency Conclusions, Copenhagen European Council 1993, 7.A.iii: "Membership requires that candidate country has achieved stability of institutions guaranteeing democracy, the rule of law, human rights, respect for and protection of minorities, the existence of a functioning market economy as well as the capacity to cope with competitive pressure and market forces within the Union. Membership presupposes the candidate's ability to take on the obligations of membership including adherence to the aims of political, economic and monetary union".

²⁶ Dimitry Kochenov, "Behind the Copenhagen façade. The meaning and the structure of the Copenhagen Political criterion of democracy and the rule of law" (2004) 8 European Integration Online Papers 10.

²⁷ Ibid.

maintained in the accession of Romania and Bulgaria. In their case, the EU went even further: a special mechanism, the cooperation and verification mechanism was created for monitoring the progress in the fields of fight against organized crime and corruption and functioning of the judiciary, and for guiding the two countries in their reforms until their membership and upon accession. Learning from past experiences, with respect to the countries from the Western Balkan Region, the strategic interest of the European Union has been the instalment of democracy, security and stability due to insecurity and violence that affected the countries in the past. By using the same approach, in the enlargement policy towards the Western Balkan countries, stable political institutions as prerequisites for peace and democracy are considered as key for advancing towards the EU. At an early stage in the relations, the EU supported the region in alignment with EU standards through appropriate administrative, judicial, and law enforcement structures.

Apart from political guidance, the EU has supported candidate countries with a number of financing instruments, including PHARE, SAPARD, ISPA, PHARE Cross-Border Cooperation (CBC), and Coordination, available to countries from Central and Eastern Europe, some of which were also available to the Balkan region (CARDS and PHARE). However, with the last enlargement wave, it was evident that pre-accession assistance should provide for more flexible response to the needs of the countries aspiring for EU membership. The Instrument for pre-accession assistance was introduced in 2006, and aimed at simplifying the framework for channelling assistance. It replaced the previous instruments and envisaged distribution of assistance through five components: (1) Transition assistance and institution building; (2) Cross border cooperation; (3) Regional Development; (4) Human Resources Development; (5) Rural Development. The objective of the instrument as expressed in Regulation 1085/2006 was to assist the candidate and potential candidate countries “in their progressive alignment with the standards and policies of the EU, including where appropriate the *acquis communautaire*, with a view to membership”.²⁸ The instrument directly addresses the compliance of beneficiaries with the Copenhagen criteria: political accession criteria, economic accession criteria, and fulfilling the obligations as a (future) Member State. Among the five components, the IPA Component I Transition Assistance and Institution Building (TAIB) support the political criteria. In addition, the IPA regulation conditioned the granting of funds with respect to principles of democracy, the rule of law, and human rights and minority rights. Article 21 of the IPA Regulation provided for suspension of the assistance in case of failure to respect these principles and commitments. In such a manner, not only with the

²⁸ Council Regulation (EC) No 1085/2006 of 17 July 2006 establishing an Instrument for Pre-Accession Assistance (IPA), Commission Regulation (EC) No 718/2007 of 12 June 2007 implementing Council Regulation (EC) No 1085/2006 establishing an instrument for pre-accession assistance (IPA), Commission Regulation (EU) No 80/2010 of 28 January 2010 amending Regulation (EC) No 718/2007 implementing Council Regulation (EC) No 1085/2006 establishing an instrument for pre-accession assistance (IPA).

focus put on attaining the political criteria at an early stage of accession, but by using the conditionality, progress in this area was essential for application and granting of pre-accession funds.

IPA strengthening democracy, rule of law, human rights and the protection of minorities in the Republic of Macedonia

In order to assess how IPA and Component I contribute in the pre-accession process and attainment of then political criteria in the Republic of Macedonia, it is necessary to understand how the funds are planned, programmed (designed), and implemented. It is not the first time for this priority to be supported by the EU in the Republic of Macedonia. From 2002-2006, only with CARDS, around €56.6 million had been allocated to democracy and rule of law, and for justice and home affairs, an area intertwined with the political criteria, assistance amounted to around €60.6 million, in total, around 51% of the total CARDS assistance provided.²⁹

Within the framework of IPA, these allocations have significantly increased based on the intensified EU integration activities for adoption of EU *acquis*, which the Republic of Macedonia as a candidate country was required to undertake. At the time of negotiation and adoption of the new pre-accession assistance framework, the Republic of Macedonia had obtained the status of country candidate, and as such, could access all five components of IPA. The allocations of IPA for the period 2007-2013 amounted to around €622 million. From the distribution of funds in components (Table 1), it is evident that the biggest share of the total IPA amount allocated, around €243 million (or 39%) can be attributed to Component I, which points to the importance of the component and prioritises its support. From Component I, around 30-45% is allocated to political criteria annually.

²⁹ Commission Decision C (2007) 1853 of 30/04/2007 on Multiannual Indicative Programming Document (MIPD) 2007-2009 for the Republic of Macedonia.

Table 1: Revised Multiannual indicative financial framework of IPA (MIFF), allocations by years and components (in Euro mn).

IPA Component	2007	2008	2009	2010	2011	2012	2013	Total
I	41.641.613	41.122.001	39.310.500	36.917.068	28.803.410	28.207.479	27.941.228	243.943.299
II	4.158.387	4.077.999	4.371.501	4.467.526	5.124.876	5.183.373	5.243.041	32.626.703
III	7.400.000	12.300.000	20.800.000	29.400.000	39.300.000	42.300.000	51.800.000	203.300.000
IV	3.200.000	6.000.000	7.100.000	8.400.000	8.800.000	10.380.000	11.200.000	55.080.000
V	2.100.000	6.700.000	10.200.000	12.500.000	16.000.000	19.000.000	21.028.000	87.528.000
Total	58.500.000	70.200.000	81.782.001	91.684.594	98.028.286	105.070.852	117.212.269	622.478.002

Data source: www.sep.gov.mk

Utilization of IPA is governed by EU rules and procedures. The planning of the assistance is based on the Commission's Enlargement Strategy, which reflects the priorities of the Stabilization and Association Process, as well as the strategic priorities of the pre-accession process such as the EU Accession Partnership, the national strategies, and most importantly, the National Programme for Adoption of the EU *acquis*. The programming is initiated with the preparation of multi-annual indicative planning documents (MIPDs) that follow a three year perspective. For the first years of assistance (2007 and 2008), these documents were prepared by the European Commission in close consultation with the national authorities. The MIPDs contain the financial allocations for the main priorities to be supported, taking into account the indicative breakdown proposed in the multi-annual indicative financial framework MIFF³⁰ (Table 1), a document proposed by the Commission. Based on the MIPD, the Government submits a proposal to the European Commission for the national programmes for Component I Technical Assistance and Institution Building, which consists of the separate project fiches (proposals). When the programme is approved,

³⁰ Communication of 6.11.2007 from the Commission to the Council and the European Parliament Instrument for Pre-accession Assistance (IPA) Multi-annual Indicative Financial Framework 2009-2011, COM(2007) 689 final.

a financing agreement between the EU and the Republic of Macedonia is concluded and the necessary activities for procurement of the projects can start.

For implementing the assistance, it is essential for the beneficiary country to have a decentralized management system (DIS)³¹ in place. However, the Republic of Macedonia, unlike Croatia and Turkey, was not DIS accredited under the pre-IPA instruments, and the EU assistance was managed by the European Agency for Reconstruction (EAR). The process of establishing the decentralized management system for all IPA components was initiated in 2005³², however drawing from the experiences of other countries, it was likely that the process of preparing and accreditation of the decentralized implementation system would take time. Henceforth, it was decided that implementation of Component I should be carried out on a centralized basis by the European Commission until the relevant national authorities obtain the relevant IPA accreditations. As a continuation of the previous practice with CARDS assistance, the programming and management of IPA was carried out by the European Agency for Reconstruction (EAR), with technical inputs from the ministries and future aid beneficiaries.

The priorities that have been identified for support are fully compliant with EU accession priorities. At the time of planning the first IPA programmes, the Republic of Macedonia faced numerous challenges in areas relevant for alignment with the political criteria. Public administration had been weak and inefficient. Improving the independence and efficiency of the judiciary was seen as a major challenge. Progress was limited in the areas of fighting against organized crime and the combating drug-related problems. External borders and Schengen – *implementation of the integrated border management strategy* – were priorities that required substantial investment. Corruption was a widespread problem. With respect to human rights, particularly civil and political rights, improvement of the legal framework and effective implementation was required. The development of the NGOs' activities was hampered by a lack of resources. There were little developments for improving the worrying

³¹ Decentralized management system implies that the European Commission confers the management of certain actions on the beneficiary country, while retaining overall final responsibility for general budget execution.

³² The establishment of the management and control systems for DIS was decided by the Government in October 2005; the Operating Structure for managing IPA Component I: the National Fund (NF) and the Central Financing and Contracting Department (CFCD) were established and the Programme Authorizing Officer (PAO), the Competent Accrediting Officer (CAO) and the Senior Programme Officers (SPOs) nominated in 2006. In the first half of 2007, a Gap Assessment to comply with the new IPA Implementing Regulation was carried out and the National Authorities submitted a Gap Assessment report to the Commission. In a subsequent step, gap plugging was done during the second half of 2007 to the beginning of 2008. Following a compliance assessment and the accreditation of the system, the Minister of Finance (CAO) submitted the application to the Commission for conferral of management of Component I in January 2009. In parallel to the already granted conferrals of management powers for Components III, IV and V (approved during the second half of 2009), a number of actions were ongoing for mitigating the risks identified by the auditors for IPA component I. The final verification mission took place in February 2010, after which the conferral of management powers was granted in December 2010.

situation of the Roma community. As a result of these circumstances³³, the first IPA programmes and projects were conceived.

Based on the analyses of strategic priorities and a long list of competing needs, the first MIPD (2007 – 2009) was prepared. For support of political criteria through enhancing good governance and rule of law, around 25% - 40% of the total IPA Component I assistance funds was allocated. Due to the urgent need for continuing support to the police reform that had started under the CARDS programme, it was decided to divide the 2007 Component I national programme into two parts. The first part contained projects linked to the police reform. The relevant Financing Agreement was signed in October 2007. The second part of the national programme was adopted by the Commission in November 2007, while the signing of the Financing Agreement took place at the end of May 2008. The second part aimed at supporting the implementation of the public administration reform strategy, the judicial reform, as well as capacity building for decentralized management of EU funds. With revision of the MIPD for years 2008 - 2010, the number of priorities for political criteria has increased. In addition to the priorities of public administration, police, and the judiciary, previously identified as priorities in the preceding programme were additional areas that were granted support; these were human rights and the protection of minorities and civil society.

The allocation in support of political criteria increased to 30% - 45%, highlighting the increased demand for assistance for this strategic area. The assistance was effected through seven project proposals in the national TAIB 2007 and 2008 programmes: support to the implementation of the Police Reform Strategy; support to the implementation of the Public Administration Reform; support to more efficient, effective and modern operation and functioning of the Administrative Court; further strengthening of the judiciary; Integrated Border Management; Democracy and Fundamental Rights; support to the participation of the civil sector in decision making processes and in providing social services.

The projects, effected through 38 contracts, targeted the Ministry of Internal Affairs and the police, Administrative court, Academy for training of judges and prosecutors, General Secretariat, Civil Servants Agency, Secretariat for implementation of Ohrid Framework Agreement, Parliament, Directorate for Personal Data Protection, Ombudsman, juvenile justice institutions, Roma and civil society. The total amount of assistance allocated to the areas concerning political criteria from programmes 2007 and 2008 amounted to €23.250.000. Considering the financial amounts allocated, the themes addressed, and the number of institutions targeted, it is evident that the National IPA Component I programmes

³³ European Commission Staff Working Document of 08.11.2006, COM (2006) 649 final and European Commission Staff Working Document of 6.11.2007 accompanying the Communication from the European Commission to the European Parliament and the Council Enlargement Strategy and Main Challenges 2007-2008 COM(2007) 663 final.

for 2007 and 2008 were highly relevant to the pre-accession process. The assistance presented a significant and important means of support to the national institutions at a time of overall economic crises and availability of limited resources.

Implementation of IPA Component I: initial experiences and prospects for efficiency, absorption and impact

Upon approval of the multiannual and annual programmes, the more complex phase of contracting and implementation took place during a time of instability in the institutional setup in the country. Implementation of the first funds started slowly. In 2007, no IPA funds were contracted; no payments were executed and a limited number of tenders were launched.³⁴ Delivery of the 2007 TAIB programme and the start-up of IPA 2008 were delayed at least one-year compared to the planned delivery in the project fiches (public administration, reform of judiciary, civil society). The disbursement rates at the end of 2009, the final year for contracting of projects from the IPA TAIB 2007 programme was low.

Table 2: IPA TA-IB 2007 and 2008 Funds Contracted/Disbursed by end of 2009.

IPA TAIB	Contracted (%)	Disbursed (%)
2007	24.8	8.3
2008	0.3	0.1

Data source: 2008 and 2009 Annual IPA Reports³⁵

If the efficiency of assistance represents how well the inputs were transformed into outputs and outcomes, including the due time in which they were delivered,³⁶ in terms of IPA component I contracting, efficiency has initially been undermined by the slow procurement of the interventions³⁷. At the time of procurement of the first projects, EAR was in a process of transitioning its operations to the EU Delegation, which influenced the contracting of funds. In addition, the institutions were not sufficiently prepared for the upcoming projects. Absorption of funds has sometimes been characterized by a slow pace, often due to lack of capacity and

³⁴ European Commission Mid-term Meta Evaluation of IPA Assistance, Evaluation Report, 20.02.1011.

³⁵ Commission Staff Working Document, technical annexes to the report from the Commission to the Council, the European Parliament and the European Economic and Social Committee 2007 Annual IPA Report COM (2008) 850 final and Report from the Commission to the Council, the European Parliament and the European Economic and Social Committee 2008 Annual Report on the implementation of the Instrument for Pre-accession Assistance (IPA) COM (2009)699 final.

³⁶ The DAC Principles for the Evaluation of Development Assistance, OECD (1991).

³⁷ European Commission Mid-term Meta Evaluation of IPA Assistance, Evaluation Report, 20.02.1011.

ownership of aid on the part of beneficiaries. Ownership is an important factor, which influences the efficiency of the assistance, as suggested by EU evaluations.³⁸ In order to ensure ownership, the beneficiaries have been consulted in the process of programming of funds; however, active involvement in the phase of implementation of project activities is also necessary. This is important in technical assistance projects in the field of public administration and judiciary reform, which are dependent on the cooperation of a wide range of stakeholders, whose commitment and ownership is key. In addition, administrative capacity is influenced by lack of human resources and adequate skills, overburdening with work responsibilities, and insufficient inter-agency cooperation. Such factors affect absorption, as demonstrated by the rate of disbursement of the funds. This is particularly evident with the IPA TAIB 2008 programme; by June 2012, 63% of the funds had been disbursed.

Table 3: IPA TAIB annual programme for 2007 and 2008. Funds allocated, contracted and disbursed by June 2012 (in Euro mn).

Component/year	Allocated	Contracted	%	Paid	%
TAIB 2007	34.041.613,00	31.970.152,10	94%	28.559.332,23	89%
TAIB 2008	37.122.001,00	34.253.720,84	92%	21.488.120,28	63%

*Data source: EU Delegation in Skopje

Table 4: Political criteria, IPA TAIB annual programme for 2007 and 2008. Funds allocated, contracted and disbursed by June 2012 per project (in Euro mn).

TAIB 2007					
Project	Allocated	Contracted	%	Paid	%
Police reform Strategy	9.000.000,00	8.908.346,95	98	8.719.563,72	97
Public Administration Reform	2.000.000,00	1.938.080,00	96	1.767.414,33	91
Judiciary Reform	1.100.000,00	1.083.500,00	98	806.614,19	74
TAIB 2008					
Integrated Border Management	5.950.000,00	5.724.548,47	96	3.754.743,68	65
Further Strengthening of the Judiciary	1.600.000,00	1.553.000,00	97	1.262.804,44	81
Democracy and fundamental rights	2.400.000,00	2.394.949,95	99	1.503.569,10	62
Civil society	1.200.000,00	1.176.958,97	98	798.993,02	67

*Data source: EU Delegation in Skopje

³⁸ Ibid. Court of Auditors, Special Report No 5/2007 on the Commission's Management of the CARDS programme, OJ C 285, Luxembourg, 27/11/2007.

Due to the recent finalization of the projects, the impact of the assistance remains to be seen. However, the initial experiences can still be observed. This includes exploring whether the assistance contributed to the general objectives of IPA to support country progress in EU accession, and judging if, from the recommendation of the European Commission in 2009 for the Republic of Macedonia to open accession negotiations, there has been progress in attaining the political criteria. It should also be noted that through this advancement and improving of the institutions for democracy, rule of law, and human rights, IPA has only been one factor contributing to the change. Additional factors include other EU “Europeanisation” mechanisms such as the Stabilization and Association process, the recently launched European Commission High Level Accession Dialogue,³⁹ and the completed visa liberalization process in 2009, which has proven to be a powerful drive for reform. In terms of the contribution of assistance in improving the capacities of the institutions - beneficiaries receiving the assistance, according to the EU Delegation, the assistance has triggered positive changes with the project beneficiaries and project implementation teams, despite some shortcomings.

On the question of whether the projects fulfilled their objectives and assisted the institutions in their reforms, the responses have been affirmative. Project beneficiaries consider the capacity of the institutions that benefited from the National TAIB programmes in 2007 and 2008 to have improved compared to previous years. However, room for improvement still exists, as noted in the EC progress reports, as well as the reports on democracy, rule of law, human rights of SIGMA, Freedom House, and Amnesty International. The process of strengthening national institutions for guaranteeing democracy, rule of law, and human rights continues.

³⁹ The High Level Dialogue was launched on 29.03.2012.

Conclusion

The Instrument for Pre-accession Assistance provides significant support to the Republic of Macedonia in the pre-accession process. The key priority for advancing towards EU membership as seen from the previous enlargements, and attainment of the Copenhagen Political Criteria, has been efficiently supported with funds allocated by the IPA Component I, Technical Assistance and Institution Building. Experiences from the implementation of the first national TAIB programmes in 2007 and 2008 show that assistance efficiently targeted the institutions in the Republic of Macedonia, guaranteeing democracy, rule of law, and human rights; however, particular challenges occur in the implementation of programmes that influence efficiency, absorption, and the impact of the assistance. The progress in reforms that were enhanced through the various activities in the pre-accession process, and that were supported with IPA, depends on the administrative capacity and ownership of beneficiaries.

The upcoming IPA TAIB 2009 programme is yet to be implemented. It will be the first programme implemented with a decentralized management system and managed by national institutions. Whether it will be marked by delays, slow absorption, and/or mixed effects remains to be seen. However, lessons learned from the previous programmes should be taken in consideration and potential risks for such outcomes should be mitigated. The focus on capacity building should be further enhanced; thus, skilled human resources, fully exploiting training activities, and strengthened participation are inevitable. After all, the assistance aims only to support reforms that should be driven by the institutions themselves. Without adequate absorption capacity, ownership of reforms and the scope of influence from outside the country are limited.

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Drilon Iseni: IPA - “INCENTIVE FOR PROSPEROUS ACTIONS”, CASE STUDY: CROSS-BORDER COOPERATION IPA PROGRAMME MACEDONIA - ALBANIA 2007-2013

Resume

This paper was intended, primarily to assess the efficiency and effectiveness of using IPA funds and the impact of projects implemented in Macedonia. IPA CBC Programme Macedonia – Albania 2007-2013 has been selected as case study. Due the lack of relevant official information, especially project reports and project impact assessments, we ended up assessing the administrative capacity of the country in using IPA funds through this programme. We tried to come up with a creative solution in assessing projects' impact, by exploring perceptions of project target groups through an online survey and interviews.

The first chapter briefly describes the literature review of IPA, using some papers as indicative literature to explain what has been studied in the past. The second chapter describes in detail the research methodology used in this paper. The third chapter describes the concept of absorption capacity in EU public finances, with specific focus on administrative/institutional absorption capacity, including some aspects of Macedonia's administrative capacity. It excludes extensive explanations about the concept, and only mentions core issues. In concrete terms, the researcher's idea was to reach the point without saying what has been said so far. By providing general information, the next part of the chapter briefly describes the introduction of IPA in Macedonia and the Cross-Border Cooperation as a specific component of IPA. Chapter four is devoted to IPA CBC Programme Macedonia 2007-2013, selected as the case study programme. It includes programme institutional structure and an overview of projects implemented through the first call of proposals. Additionally, the chapter explains the status of project implementation and projects' impact. Finally, the chapter five presents the main conclusions of the research.

Literature review

IPA as a new instrument provided by the EU is a burning issue in South East Europe. Five years after the introduction of this instrument, we might conclude that the level of awareness about this instrument remains low; exemptions make officials dealing with IPA *ex officio* and to some extent potential beneficiaries.

No academic publications referring to IPA was at hand for the researcher. Several libraries in the country were consulted but no books were found. We did not exclude the option to have such books, but these were not accessible due to libraries' catalogues or the categorization of literature.

From available publications, we can conclude that in general, they deal with issues relating to Public Finances and in a limited number with EU Public Finances, whereby Structural and Cohesion funds of EU pre-accession instruments (ISPA, PHARE, SAPARD, CARDS, etc.) are elaborated on in detail. IPA as a new instrument is not extensively addressed in an academic context.

While searching for IPA literature, two categories of information became clear. The first and more reliable concerns official documents of the European Commission and its institutions, such as evaluations, reports, guidelines, recommendations, etc. The second category consists of research papers, policy reports, comments from diverse institutions, think-tanks, etc.

Dozens of papers linked to other member states' experiences are available, too. If we compare the table of contents of all papers we can see that they are very similar; they might differ in terms of focus, argumentation and commenting variables. Usually, papers provide information about the IPA legal basis, scope, financial aspects, the importance of this instrument, challenges to be faced, lessons learned, absorption capacity of states, etc. Furthermore, some papers provide practical experiences from other countries that underwent the same or a similar path. These papers can be categorized into: the group of (descriptive) papers that illustrate IPA and contains the abovementioned information, and the group of papers that explain the experiences of other countries that have undertaken the same path, albeit with different instruments, i.e. specific aspects related to administrative absorption capacities in the Czech Republic, Estonia, Hungary, Slovakia, Slovenia (Andrej Horvat and Gunther Maier, 2005); analysis of the absorption capacity of EU funds in Romania (European Institute of Romania); a study on Bulgaria and Romania: What lessons can be learned for future enlargements? (European Parliament, Directorate General for Internal Policies Policy Department D: Budgetary Affairs); Cross Border Cooperation as instrument and EU cohesion

policy: case of Croatia (Master's thesis by Kristijan Lezaicis).⁴⁰ It should be stressed that not all of the available literature is worth analysing, neither was all of it used for the purpose of our research.

Almost all authors had very similar if not the same definitions for the concept of absorption capacity. They had the same opinion on the importance of IPA funds, as well as for the importance of establishing an administrative infrastructure with qualified and professional staff as a fundamental factor for currently absorbing IPA funds, and for absorbing EU structural funds in the future.

Research methodology

For the purpose of this paper, the absorption capacity of IPA funds should be seen from the perspective of its impact in the real lives of citizens, and of reaching the IPA CBC Programme's global aims and specific objectives. This was our main focus; at the same time, through interviews conducted with various stakeholders, we have gained insight into the state of play of the administrative capacities of Operative Structure (OS) and beneficiaries.

The initial part of the research was desk based. Information was obtained from various online resources. The results showed that theoretical literature in the field of IPA CBC was scant. There were some analyses and papers examining Structural and Cohesion funds, some of them more specifically IPA programmes. There was not available literature in the libraries of the universities in Macedonia, which made us conclude that IPA funds are a significant issue in Macedonia. Where the literature was scant, or non-existing, official documents of the EC were the main documents from which we could check ideas of our research. In brief, research on IPA CBC programmes that Macedonia was partnered on with neighbouring countries was conducted. An additional aspect of the research was detailed analysis of projects contracted and implemented throughout IPA CBC Macedonia – Albania for 2007-2013.

For the purpose of the research, interviews were also conducted. A list of the relevant stakeholders was compiled. Initially, three categories were identified: (1) the operating structure; (2) municipalities from the eligible area; (3) project beneficiaries. Representatives of the prior and second group were interviewed face-to-face with more general, open-ended and un-structured questions about administrative capacities and their views about the programme. The later interviewees were consulted via telephone and completed an online survey in which they emphasised their perceptions about the impact of the projects. The idea was to gain from diverse perspectives a picture of the state of affairs, difficulties during the

⁴⁰ These papers are taken only as examples.

implementation of projects, lessons learned, what can be changed in the future, and the impact of the projects in their allocated context from various perspectives.

Additionally, we decided to conduct a survey that would highlight results of IPA funds, and how the target group felt about said results. The survey target group consisted of organizers (representatives of the organizations) and participants of the projects implemented under the IPA CBC programme Macedonia-Albania 2007-2013.

The idea was to gain a first-hand impression and perceptions of the target groups of various projects. The researcher compiled three types of surveys. The first part of the survey consisted of 10 questions that were the same for all three groups and had general questions; the second part focused on priority one and specific objectives, i.e. surveys for tourism projects were distinct from those targeting social cohesion and development, or sustainability of environmental protection. The survey was conducted online with a programme designed with Google tools.

Using the survey, we tried to investigate: target group observation about the impact of the project in terms of reaching specific objectives of the programme; established communication with counterparts from partnering countries; if there were joint initiatives after the project had been implemented.

Administrative capacities of Macedonia

IPA is a much discussed topic in Macedonia, especially prior to acquiring candidate country status for EU membership. The country was told that it would have a huge amount of non-refundable financial means to spend in order to be prepared for joining the European Union. It was also informed that it would have difficulties in getting these funds, due to limited absorption capacities of the institutions meant to receive the funds.

Not only Macedonia has struggled with this process. Most countries that have gone through the process have had difficulties in absorbing similar funds. IPA is an option, but a tremendous effort is needed to get it, because IPA is not granted *by default*, and potential beneficiaries need to know how to absorb funds, which largely depends on administrative capacities.⁴¹ So the question is, how much of these funds can be absorbed? Can one country use these funds in an efficient and effective way? The experiences differ throughout countries; some have had more success than others. What is the case in Macedonia? Is the country's administrative capacity strong enough to efficiently and effectively absorb funds

⁴¹ Administrative/institutional capacity is the third determinant of the absorption capacity of EU funds (for further reading refer to: Mrak & Uzunov, EU Development Funds and the Republic of Macedonia, May 2005).

from this instrument? In assessing the current situation, we do not intend to perceive things in a black and white manner, but rather to show the entire picture. Has there been any progress in strengthening the administrative capacities of Macedonia? We will try to answer these questions, too; however, the main goal of the paper is to assess the impact of projects granted and implemented under the IPA CBC programme Macedonia Albania 2007-2013 as part of the first call of proposals.

Creating an efficient and effective public administration is a must for candidate countries on the path toward becoming part of the European Union. It requires the political commitment of the country's leadership. This support should be understood as a willingness of the political leadership to put professionalism before the political affiliations of the staff, planning the employments and investment for professional development of the staff in required positions, and ensuring long-term engagement and commitment of the staff involved in the process.⁴² This was confirmed by a study supported by the European Parliament, suggesting that the development of administrative capacity requires long-term, high-level political commitment from Candidate Countries.⁴³

Is Macedonia efficient and effective in using IPA funds? To answer this question, several aspects should be analysed. How much of the agreed funds for the programme has been contracted with beneficiaries? Are implemented projects having a real impact in improving people's lives in cross-border regions? For the IPA CBC Programme Macedonia – Albania 2007-2013, an analysis of the projects' impact can be done, as all projects from the first call have been implemented.

There might have been progress in strengthening the administrative capacities of stakeholders, because OS and some potential beneficiaries, since the beginning, have engaged different experts to assist in drafting the projects, and have assisted implementation, thereby reaching to some extent a skill improvement. Others may have "learned by doing it".⁴⁴

Cross-border cooperation - CBC

Cross-Border Cooperation (CBC) is the second component of IPA. It supports cross-border activities among beneficiary countries, and between beneficiary countries and Member

⁴² The Republic of Macedonia has huge institutional gap. On one hand, it has one of the biggest administrations in the region; on the other hand, several departments, sectors and units within an institution either lack staff or have unqualified employees, and/or lack skilled professionals.

⁴³ Pre-accession financing for Bulgaria and Romania: What lessons can be learned for future enlargement? European Parliament, Directorate-General for Internal Policies, Policy Department D, Budgetary Affairs Study, 2011, pp.52.

⁴⁴ A positive case can be considered the Chamber of Commerce of North-West Macedonia, which declares that it has the capacity to draft and implement projects under IPA programmes. This organization was granted an IPA project from the first call of IPA CBC Macedonia – Albania.

States. It also covers the participation of IPA beneficiaries in ERDF trans-national co-operation programmes and in ENPI sea-basin programmes.⁴⁵ CBC concentrates on creating closer links between border regions, supporting joint environmental protection activities and improving the potentials for tourism.⁴⁶ In sum, it intends to develop the cross-border regions of neighbouring countries.

Based on distinctions made by the IPA Council Regulation, in terms of availability to beneficiary countries for IPA, Macedonia is involved in 4 IPA CBC programmes with neighbouring countries; two of these are with Member States (Republic of Bulgaria and Republic of Greece) with five components available, while another two are with potential membership countries (Republic of Albania and Republic of Kosovo), with components I and II. For the moment, in terms of neighbouring countries, only with Serbia does Macedonia lack an IPA CBC programme, due to the disagreement between the two countries regarding the borderline between them.⁴⁷

Case study: IPA CBC programme Republic of Macedonia - Republic of Albania

IPA CBC Programme Republic of Macedonia - Republic of Albania 2007-2013 is the subject of this research. Through this programme, we will attempt to assess the absorption capacity of Macedonia in effectively and efficiently using IPA funds.

The objective of the programme is to promote good neighbouring relations and to encourage stability, security, and prosperity as mutual interests of both countries, and encourage their harmonious, balanced and sustainable development.

According to the programme, prior to IPA CBC, previous projects were focused on environment protection issues, which are reflected in the priorities defined by the national and regional institutions. These provide a good framework for the development of civil society and NGO partnerships across borders. The limited call for proposals for cross-border actions already launched showed a low capacity in the project preparation of most of the final beneficiaries. This could impede the implementation of the programme, particularly in the northern part where almost no initiative has been implemented so far (with the exception of the axis Debar-Peshkopia).

A few municipalities, mainly located in the south, have had a leading role in the past and current cross-border initiatives. These municipalities were expected to have a key role when implementing the programme (transfer of know-how, etc.). Once implementation of the programme began, this conclusion proved to be incorrect. According to official data, only the

⁴⁵ Instrument for Pre-Accession Assistance (IPA), Revised Multi-Annual Indicative Financial Framework For 2012-2013, pp.4.

⁴⁶ Mate Gjorgjievski, the Instrument for Pre-Accession Assistance: The path to a successful start, Using IPA and other EU funds to accelerate convergence and integration in the Western-Balkans, Budapest 2008, pp.69.

⁴⁷ Serbia does not recognize the borderline between the Republic of Macedonia and the Republic of Kosovo.

Municipality of Bitola has been granted a project from the first call for proposals of IPA CBC Macedonia – Albania 2007-2009. During the second call for proposals (for 2008), no municipality was granted a project. Data for the ongoing third call is not available at present. Other municipalities have also applied for all calls but have not managed to receive finances from this programme. They emphasized the complex application procedures for IPA, the lack of know-how in drafting and implementing projects, and the lack of financial means to engage external experts.

According to the programme, expected challenges for this CBC programme are: establishing cross-border partnerships for the final beneficiaries; supporting and facilitating communication and the establishment of partnerships; motivating local institutions and people to use the opportunities offered by IPA component II and giving them the capacity to use these options.

Programme institutional structure

In the Republic of Macedonia, the Ministry of Local-Self-governance is an IPA-Component II Coordinator, whereas in Albania, the IPA-Component II Coordinator role has been assigned to the Directorate for Institutional Support and Integration Process, the Unit for Regional Cooperation, within the Ministry of European Integration. The IPA-Component II Coordinator acts as the main contact point between each beneficiary country and the Commission in all issues relating to the programme.

Operating Structure

The implementation of the CBC programme operates through an Operating Structure(s) in each country. The Operating Structure within the context of this programme is the Ministry of Local Self Government in Macedonia, and the Ministry of European Integration in Albania. In addition, they will cooperate closely in the programming and implementation of the relevant cross-border programmes, establishing common co-ordination mechanisms.

Joint Monitoring Committee

The decision-making authority for the CBC programme is the Joint Monitoring Committee, which consists of representatives of national, regional and local beneficiaries in countries, and OS and socio-economic stakeholders from the eligible area. In an advisory capacity, the European Commission participates in the work of the JMC. The JMC meets at least twice a year at the initiative of the participating countries or of the Commission. It is chaired by a representative of one of the participating countries on a rotating basis.

Joint Technical Secretariat

The Operating Structures sets up a Joint Technical Secretariat (JTS) to assist the JMC and the Operating Structures in carrying out their responsibilities.⁴⁸ The JTS is the administrative body of the programme responsible for its day-to-day management and for its administrative arrangements. It consists of employees from both sides of the border, thus providing different language skills and specific/targeted background knowledge.

The JTS is jointly managed by both Operating Structures; it is located in Struga, in the Republic of Macedonia, whereas the antenna is located in Elbasan, Albania.

Contracting authorities

In both countries, the European Commission will be the Contracting Authority. According to IPA Implementing Regulations, the European Commission retains overall responsibility for ex ante evaluation of calls for proposals, awarding grants, tendering, contracting, and payment functions.

Financial aspects of the programme

According to the programme, the financial allocation for this CBC for the period of 2007-2009 reached the amount of approx. €8.1 million.⁴⁹ The table below shows the financial amount foreseen for each priority for three years, based on priorities for Macedonia and Albania.⁵⁰

⁴⁸ Article 139(4) of the IPA Implementing Regulation.

⁴⁹ The foreseen amount of money has been revised several times.

⁵⁰ For each year, the Republic of Macedonia signs a Financial Agreement whereby financial allocations of funds are decided. Financial Agreements are not available to the public.

Table Allocation per priorities IPA CBC Macedonia - Albania

2007								
Priority	former Yugoslav Republic of Macedonia				Albania			
	Community funding (a)	National funding (b)	Total funding (c) = (a)+(b)	Rate of Community contribution (d) = (a)/(c)	Community funding (a)	National funding (b)	Total funding (c) = (a)+(b)	Rate of Community contribution (d) = (a)/(c)
Priority Axis 1: Fostering cross-border economic, environmental and social development	1.980.000	350.000	2.330.000	85%	990.000	180.000	1.170.000	85%
Priority Axis 2: Technical Assistance	220.000	40.000	260.000	85%	110.000	20.000	130.000	85%
TOTAL	2.200.000	390.000	2.590.000	85%	1.100.000	200.000	1.300.000	85%

2008								
Priority	former Yugoslav Republic of Macedonia				Albania			
	Community funding (a)	National funding (b)	Total funding (c) = (a)+(b)	Rate of Community contribution (d) = (a)/(c)	Community funding (a)	National funding (b)	Total funding (c) = (a)+(b)	Rate of Community contribution (d) = (a)/(c)
Priority Axis 1: Fostering cross-border economic, environmental and social development	900.000	159.000	1.059.000	85%	675.000	119.150	794.150	85%
Priority Axis 2: Technical Assistance	100.000	18.000	118.000	85%	75.000	13.250	88.250	85%
TOTAL	1.000.000	177.000	1.177.000	85%	750.000	132.400	882.400	85%

2009								
Priority	former Yugoslav Republic of Macedonia				Albania			
	Community funding (a)	National funding (b)	Total funding (c) = (a)+(b)	Rate of Community contribution (d) = (a)/(c)	Community funding (a)	National funding (b)	Total funding (c) = (a)+(b)	Rate of Community contribution (d) = (a)/(c)
Priority Axis 1: Fostering cross-border economic, environmental and social development	900.000	159.000	1.059.000	85%	765.000	135.000	900.000	85%
Priority Axis 2: Technical Assistance	100.000	18.000	118.000	85%	85.000	15.000	100.000	85%
TOTAL	1.000.000	177.000	1.177.000	85%	850.000	150.000	1.000.000	85%

Source: Cross-border Programme 2007-2013, IPA CBC Republic of Macedonia – Republic of Albania

Within the framework of the CBC programme Macedonia – Albania 2007-2013, all contracted projects from the first call reaching the amount of €571.270 have been implemented. For the second call for proposals, 8 projects reaching the amount of €662.447 were contracted 3 months previously. For the third call, which included three cumulative years 2009, 2010 and 2011, the amount of financial means to be absorbed reached €2.700.000. The evaluation process for the third call is expected to start in September 2012.

The evaluation process of the projects for the first call took a very long time.⁵¹ There was progress with the projects for the second call, which was halved over a period of 9 months. JTS explains that the long delay of the first call was a result of some practical difficulties. It was the first time announcing the call for proposals; the Joint Steering Committee was

⁵¹ According to our interlocutors the process took around 18 months to complete the evaluation, which is unacceptable timing for beneficiaries.

established after the deadline for submitting proposals, which was against the rules. Accordingly, JSC was supposed to be established before the deadline of the call for proposals. JTS expect that the last call for proposals will be evaluated very quickly, as JTS staff will assist in the process.

Incentive for prosperous actions – IPA

Is IPA an Incentive for Prosperous Actions? In answering this seemingly easy question, we need to provide a complex answer. The instrument *per se* is intended to serve as an incentive, but real effort is needed to achieve this. This hypothesis was tested through a survey prepared for target groups of the projects and for beneficiary organizations. In addition, several interviews with relevant stakeholders were conducted in order to gain a clearer picture about the current administrative structures dealing with Cross-Border Cooperation within the programme eligible area, their experiences, and their perspectives about the programme.

CBC represents a significant challenge and opportunity for neighbouring countries. Firstly, ideas, initiatives, projects, and strategies should be seen from a perspective of partnering countries. Secondly, finding a cross-border partner is intrinsically challenging due to the lack of communication, different traditions, cultures, interests, and visions of people living in the cross-border area. Thirdly, intensive communication between cross-border partners should occur in defining, drafting, and implementing initiatives. Fourthly, the inter-dependence of the world requires a global approach and involvement of cross-border stakeholders. In sum, increased awareness and permanent communication between cross-border citizens can transform this challenge into a great opportunity for sustainable economic development, protection of the environment, and social cohesion.

The Republic of Macedonia and the Republic of Albania never had a chance to implement a cross-border programme. IPA was the first challenge and opportunity for both countries. The Republic of Macedonia, as a lead country in this programme, has the responsibility to guide the process by implementing the programme and transferring know-how to the Republic of Albania. Both countries, though they have different status in terms of accession into the EU, have the ambition and goal to become fully-fledged members of the EU. Good neighbouring relations, in political terms, are a must for the integration process; however, in practical terms, IPA is an instrument for improving citizens' lives. With regard to the political relationship between two countries, there are no open questions between these two states, leaving CBC as an opportunity for supporting the process of preparing countries to become member states by improving their economies and eliminating disparities within their regions.

State of affairs

IPA CBC programme Macedonia – Albania 2007-2013 has constantly been on the agenda of stakeholders. It was the first programme from the IPA CBC component that began to be implemented in Macedonia; in addition, it was the first time Macedonia had a leading role in such a programme. Furthermore, this is the first instance of a joint CBC programme between Macedonia and Albania.⁵² The programme has reached a third call for proposals for projects to be implemented under this programme. However, since the beginning of the implementation phase, problems have emerged. The EUD decided to allocate €123 000 EUR from the CARDS programme to support the establishment of JTS in Struga, but these funds were never used.

The Ministry of Local Self-government as an OS in Macedonia, according to various beneficiaries, is not coordinating the process well; at least, this is the case for the IPA CBC programme Macedonia – Albania 2007-2013. MLS has weakened institutional structure in dealing with IPA. *De facto*, there are two officials following more than one programme at the same time; this issue represents confusion to beneficiaries when needing to contact MLS officials. At the outset, there were more employees in the EU sector, however some of them decided to change to a different sector because were unable to execute their duties. This issue questions the employment policy of the ministry, and if the systematization of their staff is done in a proper way. This institutional set up of the ministry as an Operating Structure to some extent jeopardises the functionality of the JTS.

OS's are established and responsible for guiding the work of JTS.⁵³ From the beginning, JTS had difficulty in terms of functionality. MLS was supposed to assist and ensure smooth work on behalf of JTS in terms of establishing the structure and technical supplies needed; however, since the beginning, JTS failed managing to “absorb” the allocated €123.000 from the previous CARDS programme.

Another problem that affects the efficiency of JTS is the centralized management and lack of management skills of OS officials. MLS holds all competencies over the JTS; the latter cannot undertake any initiative without prior approval of the ministry. MLS does bookkeeping and financial aspects for the programme, with no person specifically in charge of the finances for the JTS. MLS is reluctant to delegate competencies to the JTS. When we consider the limited number of staff, it becomes clear that this factor has a negative impact on approving the actions/activities of the JTS; for example, when an official is on a business trip, no duties

⁵² The difficulties that emerged, according to JTS officials, can be attributed to the lack of experience, because this programme (in essence the first call) can be considered as a pilot-project.

⁵³ Article 139.4 of IPA Implementing Regulation.

are delegated to other colleagues within the sector of the ministry. as a result, JTS needs to wait weeks for instructions before being able to undertake certain actions.

According to the MLS and EUD in Skopje, technical obstacles have been overcome. Nowadays, JTS management no longer has issues with salaries as was the case in 2009-2010; however, it still has problems with the foreseen per diems for members of various committees. This has been the case for the past 18 months.

Few municipalities have no contact with MLS. Two municipalities cannot establish official communication and the third one considers that there is no need to have communication with MLS because JTS is the organ to be contacted. Municipalities complain about the institutional leadership of the ministry because they either do not organise or do not inform the municipality representatives about the training and development in the programme. They also complain that they had received only general training regarding the IPA, and no training for drafting the projects. Representatives of the EUD and JTS indicated that in the past, potential beneficiaries were trained through CBIB, and that training had also been supported by EUD, GIZ (the former GTZ), etc. According to JTS, prior to every call for proposals, they organise training for potential beneficiaries, who are invited to attend via public call. Calls are open to all interested parties. JTS is not allowed to prepare specific invitations for representatives of municipalities, because that would infer preferential treatment vis-à-vis other potential beneficiaries, which is a violation of the IPA rules. JTS considers that municipalities are aware of the developments in the programme because they participate in the Joint Steering Committee, and cannot explain why municipalities have not applied for projects under this programme.

Overview of calls for proposals

First call for proposals – 2007

According to the JTS, for the first call of the programme, the available amount for grants reached a total of €1.020.000. For activities in Macedonia, an amount of €680.000 was foreseen by this call and 340.000 EUR for implementation of activities in Albania. From the contracted (14) projects by the EUD in Skopje, the value of supported projects reached €571.270, leaving 108.729 EUR unused.⁵⁴ The total amount of unused funds from the Financial Agreement with Macedonia for 2007 was €1.408.729, 54.

⁵⁴ IPA CBC programme functions based on partnership principle. The amount of money provided as grants to beneficiaries equals the same for both project partners. Macedonia as leading country usually has a larger amount of money foreseen for the programme; this difference can be used by beneficiaries from Macedonia that have no partners on the other side of the border. The problem is that during the evaluation process, the programme officials do not process those applications further on an evaluation procedure, thus leaving these amounts of money unused. This was experienced in both calls.

Range of the project costs for partners of Macedonia for the first call was from €25,000 to €49,000. For the second call, the amount increased up to €160,000; the range should increase for the third call and other upcoming ones, which is normal and expected.

The table below describes how much money has been absorbed from the first call.

Table: Absorption - first call

Country	Allocated funds in EUR	Absorbed	Difference	Percentage
Albania	340.000			
Macedonia	680.000	571.270	108.729	84%
Total	1.020.000			

Second call for proposals – for 2008

“Unabsorbed funds” planned for the period of 2007 reaching approx. €1.300.000 for the Republic of Macedonia, and €650.000 for the Republic of Albania, were re-allocated for the second call, thus, leaving €3.525.000 in total to be used by both countries for the second call. Due to delays in the evaluation process of applications for the second call, €1.300.000 for Macedonia and €650.000 for Albania were not absorbed. In concrete terms it means that from the outset, 45% of the means were lost. Therefore, the available amount for the second call was only €1.575.000. Additionally, from this amount, only €1.286.510 was absorbed by both countries, which is 82% of the total amount. The Republic of Macedonia used €662.447 out of €900.000, which represents 69% of the foreseen amount.

Table: Absorption - second call

Country	Allocated funds in EUR	Absorbed	Difference	Percentage
Albania	675.000	624.063	50.937	93%
Macedonia	900.000	662.447	237.553	69 %
Total	1.575.000	1.286.510	288.490	82 %

The financial means for 2009, 2010 and 2011 were cumulatively allocated for the third call. It reached the amount of approx. €2.700.000. In total, 123 applications were received for the call. The evaluation process will take place in September 2012.

As a result of difficulties emerged during the implementation of this programme, the Commission decided to have previously allocated funds for the 2012-2013 period be cut off. The positive aspect of this decision is that these funds will be used for CBC purpose through a different IPA component. Consequently, this will have a direct impact on future projects, meaning potential beneficiaries will have to absorb less money.

Programme impact

Efficiency in using funds should be understood as a way of absorbing allocated money on time and in a proper manner, and with a positive impact by ensuring sustainability of the projects realized. Therefore, even if the money is secured, it is being spent should be tested.

Assessing the *impact* of the programme with the "absorbed" €571, 270 from the first call is not a strong indicator for analysing the broader impact of the programme, but it is an indicator nonetheless. From the awarded (14) projects for 2007, 5 projects relate to economic development, 3 projects relate to sustainable environment development, and 6 projects relate to social cohesion and cultural exchange.

Assessing the real impact of projects in terms of numbers is hard. For instance, we wanted to check whether there was increased bilateral trade in general, or specifically in tourism between these countries. However, due to a lack of reliable data we had to forego this aspect. Assessing the impact on environmental issues was hard as well, because though the programme was aimed at moving to the next level of the identified situation in environmental issues, the operations foreseen by the programme aimed at establishing a solid ground for future cooperation and partnership. Social cohesion and cultural exchange was the third specific objective of the programme, and by analysing the impressions of the targeted groups we were able to gain insight about the impact of the projects, and thereby try to assess the hypothesis: Is IPA an incentive for prosperous actions?

As a success story from this programme, the example can be given of a project called "Women crossing borders for change", implemented by the "Local Development Agency", Struga in Macedonia, and "Un, Gruaja", Pogradec, in Albania. Representatives of these NGOs initiated their partnership during the CBIB training in Struga. They jointly applied for the IPA's 1st call for proposals and their application was accepted; consequently, the project was financed by this programme. Apart from social cohesion and cultural heritage promotion, with this project, family tourism was promoted as having significant potential for economic development in the region. Transfer of know-how from Macedonian citizens having had experience in family tourism to Albanian potential tourism entrepreneurs occurred. With this project, marginalized women from the cross-border region were included. Finally, this partnership continued after IPA. Both NGOs have secured two projects, one relating to Rural Tourism, which is in some ways a follow up to the first project supported by IPA. The positive impressions from this project were reflected in the survey we conducted for this research. Therefore, this project can be considered an example of a success.

Conclusion

Absorption capacity of Macedonia in using IPA funds is low. For two calls for proposals, for the contracting years 2007 and 2008, for beneficiaries from Macedonia an amount of €4.289.000 was potentially available. From this amount, approx. €1.580.000 were programmed for both calls for proposals for 2007 and 2008; however, only €1.233.718 were contracted. In sum, from financial agreements between Macedonia and the EC for 2007 and 2008 for this programme, the Republic of Macedonia could not manage to absorb approx. €2.709.000.⁵⁵ In terms of percentage, only 28.8% of available funds were absorbed.

The **Ministry of Local Self-Government**, which for the IPA CBC is Coordinator and Operating Structure, is understaffed at present. According to the Act of organization and systematization, within the Sector of the EU, which has 3 units (including the IPA unit), the number of employees should be approximately 13; for the moment, only 4 civil servants are employed in a full capacity. The same persons are contact points for different IPA CBC programmes.

A **Joint Technical Secretariat** has been established in Struga, and the establishment *per se* can be considered as an important step in implementing the programme. However, it has real problems in terms of its functionality. Project beneficiaries have thus far had no complaints about the JTS and the cooperation that has been established.

Municipalities have shown low levels of administrative capacity in dealing with IPA funds. First of all, they are understaffed. Second, they have no specific unit or team dealing with IPA funds. Third, they have financial constraints for engaging IPA consultants for writing and implementing projects. Only the Municipality of Bitola was granted an IPA project for the first call.

NGOs have shown great interest and success both in finding cross-border partners and in absorbing IPA funds. For both calls, out of 22 projects granted in 21 projects, NGOs were involved as implementing organizations or project partners.

Social communication has been established between citizens of the neighbouring countries. Based on answers provided by respondents, there is an established communication between citizens especially in terms of social cohesion and cultural exchange. The social impact has been tangible according to our respondents.

⁵⁵ Data provided by JTS Struga; financial agreements between Macedonia and the EC are not published on official websites.

Example of success: “Women crossing borders for change” represents a success story, because as a result of the IPA project implemented through CBC Programme Macedonia – Albania 2007 – 2013, both NGOs have created a solid partnership.

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**Mate Gjorgjievski, Mila Stankovik: IPA FUNDS IN THE REPUBLIC OF MACEDONIA:
POTENTIAL AND CONSTRAINTS FOR REGIONAL DEVELOPMENT***Introduction*

The purpose of the paper is to try to assess and provide for a critical overview of the extent to which Macedonia is effectively using EU assistance for regional development, for general economic development, and for improving its administrative capacity in policymaking and policy delivery. The assessment is stringently limited, since no real quantitative indicators are available due to the fact that, apart from the Technical Assistance axis, concrete utilization of IPA funds for projects under Transport and Environment priority axes has not yet entirely taken place.

Thus in absence of the mere absorption figures for IPA funding under the Operational Programme for Regional Development (OPRD), qualitative assessment is instead at the focus of the paper. This is applied in the context of administrative and policy impact on the process of using and managing EU funds. The effectiveness of IPA funds for regional development cannot at the moment be assessed by their impact on general socio-economic development, but rather through an examination of the operational strategies and specific objectives defined in the Operational Programme for each priority axis, as well as by scrutinizing the entire operational set-up in the context of the general political, economic, and institutional environment for absorption of these funds.

The added value of the EU pre-accession strategy and IPA pre-accession assistance – the latter being a predecessor of the EU Cohesion Policy – lies mainly in the policy logic behind the EU pre-accession funds. The pre-accession policy rationale is to create a significant effect of cohesion among a wide scope of administrative, social, and economic communities, and to establish all-inclusive cooperation with clear responsibilities and a synergy between the sheer funds and the quality of the (EU driven) policy transformations, which must be diligently conducted under strong and unambiguous political ownership and commitment.

Notwithstanding the exceptional importance of the OPRD in the creation of the whole edifice and the main principles of an entirely new system for planning and programming, implementation, monitoring and evaluation of EU funds (for which, despite progress, a learning curve remains), the paper will also underline the need to complement this overriding aim with a more far-fetched one, that is, to seek to enhance the value of public investment in general as leverage for socio-economic development, and enhancing the competitiveness of the Macedonian economy.

1. Operational Programme for Regional Development: a tool for strengthening administrative capacities or something more?

1.1 General background

Without elaborating on the entire complex process of setting up the appropriate legislative and institutional framework within which IPA funds for Component III-Regional Development can be utilized, an outline of the chronological milestones in the relationship between the Macedonian authorities and the EU with regards to the IPA pre-accession instrument (Component III) is presented below:

- Ratification of the Framework Agreement between the Government of the Republic of Macedonia and the European Commission concerning financial assistance in the Framework of the implementation of the assistance under the Instrument for Pre-Accession Assistance → February 2008
- Conferral of management powers for IPA Regional Development component by EU to the national authorities → July 2009
- Signing the Financing Agreement concerning the Multiannual Operational Programme for Regional Development 2007-2009 (OPRD), under IPA Component III → September 2009
- Agreement modifying the Financing Agreement in respect of the Multiannual OPRD for Community assistance from IPA (OPRD 2010-2011) → January 2011

The Operational Programme for Regional Development (OPRD) is the basic programming document for allocation of IPA funds and sets forth a definition of the conditions for granting the support in the fields of Transport and Environmental infrastructure, developed as a predecessor and following the logics of EU Structural funds and the Cohesion Fund.

The **strategic objective of the OP** is to support the conditions for sustainable development through the improvement of transport and environment infrastructure by focusing on:

- Improved access and safety of connections with neighboring countries by upgrading and modernization of the transport infrastructure along the Trans National Axes (Corridors VIII and X).
- To support regional development by providing the environmental conditions necessary to ensure quality of life and economic development, achieving compliance with applicable legislation through infrastructure investments.

OPRD is based on the findings put down in the Strategic Coherence Framework 2007-2013 (SCF) as a basic strategy document matching the priorities of the Republic of Macedonia with those of the EU. OPRD spells out

priorities for funding and selection criteria regarding two distinct sectors – Transport and Environment – hence adhering to a combined approach in tackling two key strategies in “one take”.

OPRD has four Priority Axes, further broken down into measures and eligible actions that represent the foundation of the tangible operations set down in the so-called Operation Identification Sheets⁵⁶ (OIS). OIS have been developed and agreed upon in close cooperation between the Operating Structure and the EU Commission, and represent the legal basis of concrete projects and contracts to be financed with OPRD funds.

The priority axes and measures are shown in the table below:

Table 2-1: OPRD 2007-2009 priority axes

<p>Priority Axis 1. Corridor X Motorway Completion; - Measure 1.1 –Upgrading remaining link along the Corridor X to the level of motorway</p>
<p>Priority Axis 2. Upgrading and Modernization of the Transport Infrastructure; - Measure 2.1 Improving the Rail infrastructure along the South East Europe Core Regional Network - Measure 2.2 Improving the Road infrastructure along the South East Europe Core Regional Network</p>
<p>· Priority Axis 3. Improvement of Environmental Infrastructure; - Measure 3.1 Establishing wastewater collection and treatment infrastructure meeting the EU requirements - Measure 3.2 Establishing of an integrated and financially self-sustainable waste management system</p>
<p>· Priority Axis 4. Technical Assistance (TA) - Measure 4.1 Administration of the Operational Programme implementation - Measure 4.2 Preparation of investment projects and programmes</p>

Source: OPRD 2007-2009

As previously mentioned, the initial OPRD 2007-2009 was revised in order to add up additional financial allocations for the budget years of 2010-2011; the total financial envelope of the Programme at present is around €128 million. It is a rather limited amount, taking into

⁵⁶ All information related to concrete OISs and projects were obtained by means of interviews with officers of the Operating Structure, who preferred to remain anonymous.

consideration the sectors supported and the overall strategy to support the conditions for sustainable development. The remaining balance of roughly €100 million public expenditure, which amounts to the financial allocations for the 2012 and 2013 budget years, is yet to be allocated and programmed.

The financial envelope from IPA Component III allocated by the OPRD 2007-2009, and modified further by OPRD 2010-2011 is presented as follows:

Table 2-2: financial allocation by OPRD 2007-2009 and 2010-2011

Years 2007-2011	Total Public Expenditure (€) (1)=(2)+(3)	Public Expenditure (€)		IPA co- financing rate (%) (4)=(2)/(1)
		Community Contribution (IPA) (€) (2)	National Public Contribution* (€) (3)	
Priority Axis 1	52.941.180	45.000.000	7.941.180	85%
Measure 1.1	52.941.180	45.000.000	7.941.180	85%
Priority Axis 2	25.383.062	21.575.600	3.807.462	85%
Measure 2.1	25.383.062	21.575.600	3.807.462	85%
Measure 2.2	0	0	0	
Priority Axis 3	43.918.124	37.330.400	6.587.724	85%
Measure 3.1	38.626.591	32.832.600	5.793.991	85%
Measure 3.2	5.291.533	4.497.800	793.733	85%
Priority Axis 4	6.228.240	5.294.000	934.240	85%
Measure 4.1	1.870.002	1.589.500	280.502	85%
Measure 4.2	4.358.237	3.704.500	653.737	85%
Total Year 2007-2011	128.470.606	109.200.000	19.270.606	85%

Source: Commission Decision of 04/11/2010 amending the Decision C(2007)5721 adopting the multi-annual operational programme "Regional Development" for Community assistance from the Instrument of Pre- Accession Assistance for the Regional Development component in the Republic of Macedonia

The largest investment arising from the programme is allocated in the transport sector, where almost 61% of the total assistance is concentrated. The distribution ratio between the Transport and Environment priority axis, excluding Technical Assistance, is 64:36. The measures in the Transport axis are focused on upgrading and modernization of roads and

railways, whereby the implementation of one major road construction project along corridor X is considered, to be constructed in the Demir Kapija-Smokvica section.

The priority of the environment sector is to support the building of infrastructure for wastewater collection and treatment and for waste disposal activities. The aim is to build infrastructure that is in compliance with the criteria defined by the legislation of the European Union. One major wastewater project (Wastewater Treatment Plant in Prilep) has been considered for implementation within this programming period.

OPRD foresees only two major infrastructure projects, one in each field of intervention:

- ***TRANSPORT: Corridor X Motorway Completion-section Demir Kapija-Smokvica***
- ***ENVIRONMENT: Construction of the Waste Water Collection and Treatment System in Prilep***

The identification of only two major infrastructure projects under OPRD is occasioned by different realities in the areas of transport and environment. The Corridor X project can be considered a proper continuation of current and past investments whose EU added value lies foremost in the need for improving infrastructure links and cohesion between EU Member States and their regional neighbours. On the other hand, the environmental priority identifies as major a project of smaller scale (Construction of a WWT Plant in Prilep). This is due to the actual lack of mature infrastructure projects in the environmental sector, which resulted in a rather lower proportion of funds being allocated to the environmental priority, where only 20% of total Programme funds are allocated to environmental projects. In the case of the environment, being traditionally an area with national and municipal budget underinvestment, the lack of financial capacity, especially of the local municipalities, was also an important reason for having only one major environmental project.

Therefore, attention has also been given to the preparation of new projects that will form a pipeline of eligible interventions in the transport and environment sectors' infrastructure development. The created pipeline will then form a sound basis for the implementation of priorities in the forthcoming programming periods, which should also be executed in parallel with proper national financial planning.

A striking observation is that a Regional Competitiveness axis, which would have the particular aim to enhance the competitiveness of the overall Macedonian economy and the growth of SMEs, has been left out of the OPRD from the entire programming period 2007-

2011. Without prejudice to the crucial need for advancing a dynamic infrastructure in Macedonia (transportation or environmental) as a basic prerequisite for economic development, still omitting the regional competitiveness could be seen as a disadvantage for the OPRD's strategic aims, and as an initial set-back for the business community in Macedonia. The official stand taken by the European Commission and national authorities at the start of the programming process should nevertheless be revised in light of the new programming exercise, and should aim especially at higher absorption capacity, which is to a certain extent easier to achieve in projects concerning regional competitiveness than in large infrastructure projects.

Despite the enormous efforts needed for establishing the Operational Structure, which would have had even greater challenges if the sub-component Regional Competitiveness was to be introduced, as well as the prevailing opinion that the Macedonian administration is not prepared to embrace another priority axis, the authors feel that a golden opportunity has been missed to endorse, or at least seriously discuss during the OP modification.

Given the knowledge learned from the programming exercises thus far, one can conclude that the elapsed time and unavailable funds for technical preparations, education of eligible end-beneficiaries, and creating the general conditions for the use of the Regional competitiveness axis, could likely have the unfavourable effect of delaying the next programme from 2013 onwards, where this axis is expected to be included.⁵⁷

1.2 Institutional set-up – System versus Results

IPA funds for Regional Development in the Republic of Macedonia are implemented under the so-called Decentralized Implementation System (DIS),⁵⁸ with ex-ante controls established upon granting Conferral of Management Powers by the EU to national authorities.⁵⁹ The legal foundations of this system are laid down in the Framework Agreement between the

⁵⁷ For a simple comparative illustration, Croatia has a separate Regional Competitiveness Operational Programme from the beginning of IPA assistance, which sets the following two priorities with the corresponding measures with an allocation of nearly €64 million:

Improvement development potential for lagging behind regions, which supports setting-up and expanding small enterprises by providing quality business infrastructure in the less developed regions of the country.

Enhancing the competitiveness of the Croatian economy, which target measures for improvement of business climate (assuring that quality business advisory services are more accessible to SMEs, encouraging cooperation between businesses through development of clusters, developing e-business) and Technology transfer and support services for knowledge-based start-ups (supports cooperation of business and education and research centres).

⁵⁸ In accordance with the Accreditation Criteria set up in the Annex to the IPA Implementing Regulation (IPA IR), Commission Regulation (EC) No718/2007.

⁵⁹ Conferral of Management Powers for IPA Regional Development Component by EU to national authorities was granted in July 2009.

Government of the country and the European Commission⁶⁰, which has the power of an international treaty, and hence supremacy over national laws.

A DIS (national implementation system) is governed by an established network of national bodies and structures responsible for sound financial management of EU funds in the country,⁶¹ and in particular:

- National IPA Coordinator (NIPAC)
- Strategic Coordinator for IPA components III and IV (SC)
- Competent Accrediting Officer (CAO)
- National Authorizing Officer (NAO)
- National Fund
- Operating Structure for Regional Development
- Audit Authority

The responsibilities of the first four bodies⁶² on the list are performed by individual governmental representatives designated to the specific function. While NIPAC has the mandate to ensure political commitment and overall coherence between the country's EU accession strategy and use of EU funds, the SC is responsible for preparation of a Strategic Coherence Framework,⁶³ and for ensuring coordination among Regional Development and Human Resources Development Components of IPA. NAO is accredited by CAO to perform its function of having overall responsibility for financial management of EU funds and legality and regularity of related transactions. NAO is also the head of the National Fund⁶⁴, which performs the function of Certifying Authority for IPA Regional Development funds. The Audit Authority is an independent audit body liable for verifying the effective and sound functioning of the entire system. All of the above bodies and structures have significant roles in the control and management system of IPA Regional Development funds; however, the Operating Structure carries out most of the field work.

The Operating Structure for Regional Development⁶⁵ is a collection of bodies that manage the Operational Programme for Regional Development. The Central Financing and

⁶⁰ Framework Agreement on the Rules for Co-Operation Concerning EC-Financial Assistance to the Republic of Macedonia within the Framework of the Implementation of the Assistance under the Instrument for Pre-Accession Assistance (IPA), signed on 30 October 2007, ("Official Gazette" No 18/2008, as of 5 February 2008).

⁶¹ For a detailed overview please refer to the Decree on Determining Mutual Relations between the Bodies and the Structures of Decentralized Management of the First Four Components under the EU Instrument for Pre-Accession Assistance (IPA) ("Official Gazette of the Republic of Macedonia" No 132, as of 21 October 2008).

⁶² Commission Regulation (EC) No718/2007 (IPA IR), Articles 22-25.

⁶³ Available at: <http://www.sep.gov.mk/content/Dokumenti/MK/SCF%20f.draft%2031.07.2007.pdf>

⁶⁴ Article 26 of Commission Regulation (EC) No718/2007 (IPA IR).

⁶⁵ Article 28 of Commission Regulation (EC) No718/2007 (IPA IR).

Contracting Department⁶⁶ (CFCD), together with the IPA units in the Ministry of Transport and Communications and the Ministry of Environment and Physical Planning comprise the Operating structure. CFCD is at the same time Head of the Operating Structure and Contracting Authority for IPA funds for Regional Development, and as such has sole responsibility for tendering, contracting, and payments of EU funded projects. In addition, CFCD is in charge of the overall implementation of IPA funded projects in the country. It has horizontal involvement in the process of EU funds implementation and is responsible for all IPA components implemented under DIS.

At present, CFCD has twenty four (24) employees in total and is responsible for management of three Operational Programmes, including the Operating Programme for Regional Development . The respective ministries are responsible for programming of funds for Regional Development and every-day implementation and monitoring of the projects in their fields. The Ministry of Transport and Communications has allocated eight (8) officers, and the Ministry of Environment and Physical Planning eight (8)⁶⁷ officers to the Operating Structure. The officers responsible for management of the Programme, both in CFCD and in the Ministries, are considerably young and enthusiastic individuals new to the world of management of external assistance funds. Having said that, it is obvious that the Programme bodies suffer from severe "lack of staff" diagnoses, since a group of not more than 40 people are managing a Programme of around €130 million.

In addition, one cannot ignore the "red tape" dimension of DIS. All of the above bodies and structures are interrelated by a vast number of interdepartmental agreements regulating various aspects of their interaction and cooperation within the System. For instance, NAO has laid down its relationship with the Operating Structure in the so-called Implementing Agreement, while the CFCD, as head of the Operating Structure, has used the Operational Agreements as a tool to delegate some tasks to the Ministries. When we add to this the large volume of Internal Manuals of Procedures, separate for each actor in the story, it is relatively easy to understand why things are moving rather slow. On top of everything, we have the "ex ante" control performed by the Delegation of the EU in Skopje in accordance with Annex II of the Decision for Conferral of Management Powers. Accordingly, the entire procurement and contracting process at each stage undergoes a procedure of approval by the Delegation of the EU, which sometimes adds up to 3-4 months to the process.

⁶⁶ <http://cfcd.finance.gov.mk/>

⁶⁷ These numbers are valid for the period of paper preparation and were kindly provided by an OS officer who was interviewed for the purpose of this Paper.

1.3 Strategy and Rationale

1.3.1 Transport

The Operational Programme Regional Development 2007-2011 was the first modest step towards utilization of IPA III funds for improving the Transport infrastructure along the main transport arteries crossing Macedonian territory. This includes in particular the Pan-European Corridors X and VIII, defined by the High Level Group for extension of the major Trans-European transport axes to the neighbouring countries and regions, and by the REBIS Study (Regional Balkan Infrastructure Study). Both corridors form an integral part of the SEETO Comprehensive Network,⁶⁸ which is included in the revised TEN-T Guidelines⁶⁹.

In general terms, as far as the transport sector is concerned, the OP strategy is properly formulated, as it targets the development of the two corridors in Macedonia, which are of highest national strategic importance. In addition, they also represent priorities of regional,⁷⁰ and consequently of European importance. Following national and EU priorities, the scope of the OP for the transport sector is focused on developing the interconnection and interoperability between the national and regional/TEN-T networks, as well as improving railway parameters such as speed and safety.

In this respect, and taking into account the limited funds available, the OP rightly put the major focus on the completion of the Corridor X motorway, which has already been brought to highway standards to about 84%. In order to implement the strategic objective for a better cohesion with the EU member states and neighbouring countries in the region, the second priority axis is devoted to the upgrading and modernization of the transport infrastructure. However, unlike the first OPRD 2007-2009, which envisaged infrastructure development of road Corridor VIII as well as railway corridors X and VIII, the modified OP for the period 2010-2011 focused solely on the latter, thereby excluding all funds for road Corridor VIII.

This is understandable to a certain degree, keeping in mind that the latest EU transport policy trends and its visions encompassed in the EU White Paper for Transport 2011⁷¹, points to a major shift towards environmentally friendly transport modes, and particular

⁶⁸ South East Europe Core Regional Transport Network according to the MoU for development of the South East Europe Core Regional Transport Network signed in 2004 is nowadays referred to as "SEETO Comprehensive Network".

⁶⁹ EC Proposal for a Regulation on Union Guidelines for the development of the TEN-T, where the SEETO Comprehensive Network is included in the TEN-T maps as indicative of the TEN-T Comprehensive Network in South East Europe.

⁷⁰ The development of the Corridors VIII and X, as part of the defined SEETO Comprehensive transport network, is closely monitored by the South East Europe Transport Observatory (SEETO), created in 2005 with a regional office in Belgrade, the mission and aim of which it to facilitate the implementation of the Memorandum of Understanding provisions, foreseen to improve and modernize the Network for social and economic development, to promote cooperation in the development of the main and ancillary infrastructure on the multimodal Network and to promote and enhance local capacity for the implementation of investment programmes, management, and data collection and analysis.

⁷¹ Roadmap to a Single European Transport Area – Towards a competitive and resource efficient transport system, COM(2011) 144 final.

attention is given to the development of an interoperable railway system in Europe. In addition, none of the TEN-T priority projects fall under the road infrastructure; moreover, Croatian OP for Transport also supports only railway and inland waterway projects. However, the real conditions of the road network in Macedonia substantially differ from the European and TEN-T standards. Therefore, the strategy and policy actions should be appropriately adjusted, without major deviations from the European mainstream. This said, it should be clear that roads are by far the biggest provider of transport services, and will unquestionably continue to play a major role in the national economy. Therefore, a satisfactory level of conditions on all major road transport axes in Macedonia, primarily international, is deemed extremely important in order to remain attractive for the international transport hauliers, and to increase overall competitiveness.

The never-ending debate of roads vs. railways might again be invigorated, since the government's plan to grant concessions for construction of motorway sections on Corridor VIII recently failed. Thus, in order to fill in the investment gap, the government may try recourse to the IPA in the next programming period. The plausibility of this to be included in the next OP depends on the level of preparedness of road projects, and to a certain degree, on the different actors involved on behalf of the European Commission, who tended to incline to one or the other option at different stages within the concluded programming periods.⁷² However, this will depend to a great extent on the clear intentions and visions of the government, which in the previous project identification exercises had shown hesitation on the priorities in the transport sector, and regarding the instruments and sources of financing public projects.⁷³

Without prejudice to other transport modes, interventions in the railway sector and intermodal transport are absolutely needed and well justified for increasing the demand for, and the share of these modes of transport, particularly where some important infrastructure links and multimodal nodes are missing. In the meantime, the potential of the existing infrastructure is used to a minimal extent and the quality of services is severely limited. The development of railways, which has historically suffered from under-investments,⁷⁴ is a high priority in the National Transport Strategy, which makes the OP strategy fully compliant. There is also consistency when the intermodal and multi-modal transport is considered. In fact, the National Transport Strategy identifies it at a very insufficient development level (lack of terminals, other physical equipment and lack of incentives that can otherwise trigger its growth). The first step by IPA to address this issue is by providing assistance under the IPA

⁷² Interviews with Macedonian administrative and EC officials and with EU Delegation in Skopje.

⁷³ On several meetings between Macedonian officials and DG Regional Development, concerns were expressed by the EU on the rather flexible and changing priorities of the Macedonian Government in relation to IPA (Source: internal reports and minutes of meetings of the Stabilization and Association Subcommittee on Transport, Energy, Environment and Regional Development).

⁷⁴ The result of which, for instance, is severely restricted services and missing infrastructure links towards Albania and Bulgaria.

TA project “Preparation of studies for development of strategic multimodal transport nodes”, which is due to be contracted, and on the basis of which future potential investment projects could be developed.

In addition to the evaluation findings for the OP being consistent and in line with the national priorities in transport and with the Strategic Coherence Framework, it is also coherent with the relevant European strategic documents:

the Community strategic guidelines on economic, social and territorial cohesion, 2007-2013, puts as a first priority “improving the attractiveness (of Member States, regions and cities) by improving accessibility, ensuring adequate quality and level of services, and preserving the environment”;

the objectives of the Lisbon Strategy include “Macroeconomic resilience and financing” and “a greener economy” and

the EC White paper 2011 stresses that “no major change in transport will be possible without the support of an adequate network and more intelligence in using it”.

1.3.2 Environment

The Environmental priority of OPRD is depicted in two measures:

Establishing Wastewater Collection and Treatment Infrastructure Meeting the EC Requirements, and

Establishing of an Integrated and Financially Self-sustainable Waste Management System.

Measure 3.1 aims to increase the number of inhabitants connected to an efficient and reliable sewerage system and a wastewater treatment system in line with EU requirements, by funding the construction of a Waste Water Treatment Plant (WWTP) and the extension of the sewerage network in Prilep. Measure 3.2 strives to encourage organized and high quality communal waste collection and disposal services in line with EU Directives, by supporting a project that will produce the Regional Waste Management Plans and Strategic Environmental Assessment for East and Northeast regions of the country.

The above priorities and objectives were developed on the bases of observations made in 2007, when the OPRD was first issued, and were later revised in 2010 for the OP modification; however, the situation on the ground has not changed swiftly in the interim. Real environmental needs still demonstrate more or less the same challenges rightfully identified in the OP, such as a lack of infrastructure, lack of professional management,

inappropriate public service, an unsatisfactory tariff system, etc. When it comes to legal novelties, one cannot overlook the latest amendments to the Law on Environment⁷⁵ and Law on Waters⁷⁶, which represent milestones in the plethora of new legislative acts in the area of environment, emerging from the EU requirements and done with support by and the technical assistance of the EU. Both laws are complemented by accompanying by-laws that are compliant with EU requirements in both fields. While the Law on environment modernized strategic environmental assessment, the long awaited modification to the Law on Waters introduced a holistic approach, by designating the MoEPP as a single authority responsible for the water sector in the country.⁷⁷ Furthermore, the Second National Environmental Action Plan has been adopted, followed by the Waste Strategy of the Country 2008-2020 and the Medium Term National Waste Management Plan 2009-2015,⁷⁸ all in line with EU legislation and tendencies.

The OP, on the basis of a thorough and elaborative analysis, identifies the wastewater and waste sectors as the most urgent areas of intervention in the environmental sector and allocated approx. €44 million in total for appropriate remedial arrangements. The programmed OP assistance primarily concentrates on Technical Assistance actions, while keeping infrastructure investments for better times. Nevertheless, the authors believe that, putting aside its financial constraints, the OP on the whole reasonably mirrors the environmental reality in the country, and proposes interventions that are adequate and justified, while the underlying OP strategy reflects national and EU trends.

2. Real life of Projects – Rate of absorption and effectiveness of implementation

It is very difficult to assess the effectiveness of IPA funds for regional development by their impact on socio-economic progress in the country, since no real implementation has thus far taken place. The slow pace of absorption of transport and environmental priorities is a major problem in the realization of OPRD. The delays in the implementation are caused mostly by the complexity of the heavy administrative machinery behind pre-accession funds. First of all, the conferral of management powers and accreditation of DIS structures came rather late, in July 2009, whereas the funds had been available as of budgetary year 2007. Secondly, the procedure of procurement and contracting of projects financed under IPA is an administratively burdensome and time consuming process. In order to illustrate this complexity, the authors will try to simulate a contracting process for a project that is presumably a service (technical assistance) contract financed under OPRD. The project idea is created with the beneficiary department, a department at the Ministry of Transport, or

⁷⁵ "Official Gazette" No 51/2011, as of 13 April 2011.

⁷⁶ "Official Gazette" No 51/2011, as of 13 April 2011 and No 44/12, as of 30 March 2012.

⁷⁷ Accordingly, the Water Department at the Administration for Environment took over certain competences from the Ministry of Agriculture and Ministry of Transport, and became exclusively responsible for all aspects of water policy.

⁷⁸ The documents are available at www.moep.gov.mk

alternatively, the Ministry of Environment which will directly benefit from the project. This department drafts the Terms of Reference for the project and forward them to the IPA Unit of the ministry that makes sure the tender documents are in line with IPA requirements. After having checked this, the IPA unit submits these documents to the Contracting Authority (CFCD), who double checks them and sends them to the EU Delegation in Skopje for final approval. After being approved, the tender is launched. It's only then that the legal deadlines according to PRAG⁷⁹ take effect. Hence, a single procedure of procurement and contracting of a tender financed under OPRD usually lasts around a year, if everything goes smooth and without comments or rejections. When we couple this with the constant lack of manpower moving this mechanism, it is clear why things move slowly. Still, time is running out, and we are gradually approaching the threat of automatic de-commitment of funds in accordance with the notorious N+3 rule.

The N+3 rule is rooted in the Financing Agreement, which sets the final deadlines by which yearly allocations of IPA must be absorbed. The IPA contribution to OPRD is split in yearly commitments; the following table provides an overview of the yearly allocations (2007-2011).

Table 3-1: OPRD financial allocations per year (2007-2011)

Year	Total IPA allocations (EUR)
2007	7.400.000
2008	12.300.000
2009	20.800.000
2010	29.400.000
2011	39.300.000
Total OPRD (2007 – 2011)	109.200.000

Source: Annual Report on Implementation of the Operational Programme for Regional Development of the Republic of Macedonia, June 2012

The N+3 rule states that the Commission shall automatically de-commit any portion of a budget commitment in the case where December of the third year following year *n* being the one in which the budget commitment was made under the following conditions: it has not been used for the purpose of pre-financing; it has not been used for making intermediate payments; no declaration of expenditure has been presented in relation to it.⁸⁰ To put it bluntly, this means that the funds allocated for the budgetary year 2007 should be absorbed until 31 December 2010 at the latest. Luckily, the allocations of the first year are secured by

⁷⁹ Practical Guide to Contract Procedures for EU External Actions available at: <http://ec.europa.eu/europeaid/prag/document.do>

⁸⁰ Financing Agreement concerning the Multiannual Operational Programme for Regional Development 2007-2009 (OPRD), Article 13.

the pre-financing payment in the amount of 30% of the IPA contribution for the first three years of the Programme,⁸¹ which was paid out by the European Commission to the national authorities after conferral of management powers. Nevertheless, the threat of potential de-commitment becomes more realistic as time goes by.

Finally, and on a somewhat brighter note, one has to acknowledge that a small proportion of Programme funds originating from the Technical Assistance Priority of OPRD have been committed. Up to now, 6 technical assistance projects were contracted to a total amount of €751.224. Nevertheless, the committed funds are not only limited in size,⁸² but also in scope of intervention, since their target group is solely the Operating Structure. The low absorption rate is also due to the fact that the two major projects currently underway absorbed approximately 55% of the total available funds. Still, in terms of measuring the effect of implementation, we are left with the anticipation of the potential effect of programmed projects, and to that aim, the authors will scrutinize in detail the progress of different project interventions per Programme Priority.

Transport

One of the major impediments to smooth implementation of the OPRD and absorption of funds is the lack of technical documentation,⁸³ which in the case of transport infrastructure projects is extremely long and time-consuming, as well as the general inexperience of the entire complex technology of project generation. This reflects the small share of physical investment in projects in hard infrastructure compared to projects pursuing document preparations and/or supply of equipment.

There is only one transport project for the overall programming period 2007-2011 that entails construction work (new motorway section Demir Kapija-Smokvica), and an additional one for reconstruction (railway section Bitola-Kremenica). Apart from the major project, which is a road project, all remaining projects are rail projects. The following list represents a full overview of all projects for which IPA money has been allocated under the present OPRD and their status of implementation by the end of 2011,⁸⁴ with the exception of the major project, which is presented separately.

⁸¹ Ibid, Article 64.

⁸² Amounting to app. 0,46 % of total Programme funds.

⁸³ Technical documentation is consisted of, though not limited to: Terms of Reference, Pre-feasibility study, Feasibility Study, Cost-Benefit Analysis, Environmental Impact Assessment, Preliminary Design, Main/Detailed Design, Tendering (Public Procurement) Documentation, Financial Agreement (Documentation), etc.

⁸⁴ Annual Report on Implementation of the Operational Programme for Regional Development of the Republic of Macedonia, Operating Structure for implementation of OPRD, June 2012.

Table 3-2 Projects to be financed under IPA III - Transport	Amount (EUR)		Status- end of 2011
	IPA	Budget	
Renewal with reconstruction of the railway section Bitola- Kremenica (part of Corridor Xd)	7.650.000	1.350.000	Work contract to be signed in first half 2013
Rehabilitation, Upgrading and Reconstruction of Railway Stations along Pan European Corridor X including Branch Xd, according to EU Best Practices	5.100.000	900.000	Work contract to be signed in second half 2013
Supply and Installation of Equipment for Global System for Mobile Communications-Railway along Corridor X (Tabanovce – Gevgelija)	2.550.000	450.000	Implementation to start second half 2012
Supply and Installation of Equipment for European Train Control System (ETCS level 1) along the Corridor X (Tabanovce – Gevgelija)	2.550.000	450.000	Implementation to start second half 2012
Preparation of Detailed Design for Construction of New Railway Section Kicevo- Border with Republic of Albania, as part of Corridor VIII	2.550.000	450.000	Service contract to be signed-end 2012
Preparation of project studies and Design Documentation for the railway sections along Corridor X, including branch Xd	1.275.000	425.000	Service contract to start first half 2012
Rehabilitation and upgrading of the Railway Station Skopje according to the best EU practices	2.465.000	435.000	Work contract to be signed in first half 2013
Total	24.140.000	4.460.000	
		28.600.000	

Source: Final Interim Evaluation Report of the Operational Programme for Regional Development, April 2012

In spite the fact that the amount of all approved programme operations in Transport is 100% of the total financial allocations for the period 2007-2011, the contracted and paid amount is considerably low (7% of the operations are tendered, 0.46% contracted and 0.23% payments are done by the Contracting Authority).⁸⁵ This is mainly due to the fact that the Major Project in Transport that absorbs the biggest proportion of funds of the OPRD (2007-2011) was in a tendering phase during 2011. Once the contracts for this project are signed, the absorption under this OP will grow rapidly.

⁸⁵ Annual Report on Implementation of the Operational Programme for Regional Development of the Republic of Macedonia, Operating Structure for implementation of OPRD, June 2012.

If any bias and uncertainty for the priority projects to be generated and selected for IPA financing existed during the project identification process, this should be minimized in the next rounds of programming, upon the completion of the TA projects for “Support in identification, assessment and selection of eligible projects for IPA Regional Development parts Transport/Environment” in 2011. On the basis of a Multi-criteria analysis, it provided sound and sustainable project pipelines in the road, railway, and environment sectors according to their compliance, maturity and impact indicators. With regards to the Transport priority, the total estimated investment needs for projects that require rehabilitation, new construction or documents preparation are given in the table below:

Table 3-3 Estimated value of investment needs in transport sector		
Type of intervention	Estimated costs (EUR)	Estimated time frame (years)
Road constructions	100.000.000	2
Road rehabilitations	87.000.000	4
Studies and design documentations in road sector	7.000.000	4
Railway rehabilitations and constructions	1.871.900.000	11
Project documentation in rail sector	16.500.000	4

Source: Final Report “Support in identification, assessment and selection of eligible projects for IPA Regional Development- part Transport, June 2011

Major project – Construction of the new motorway section Demir Kapija-Smokvica as part of the Pan- European Corridor X

The project construction of the new motorway section Demir Kapija-Smokvica is the genuinely first major IPA project to be implemented by the national authorities in Macedonia under the Decentralized Implementation System, and the heaviest project of all IPA projects in terms of total amount of cost, complexity of financial construction, amount of approved IPA funds, and resources invested in the entire project cycle.

This, together with the fact that the project should complete the remaining missing part of Corridor X, gives immense political weight to the project. In addition to the regular benefits that will be accrued, the following will be additional features gained by the project: better connection to the TEN-T and regional transport network; vehicle operating cost reduction; travel and time savings and accidents reduction. It is the biggest and most complex of all IPA projects handled by the Macedonian administration, amounting to an overall expenditure of €319 million, with €45 million from the IPA, thereby absorbing the highest percentage of around 41.2% of the total allocated funds from IPA III. The construction costs of the project amount to €245 million; given the length of the motorway section at 28 km, the unit costs of

this project are €8.7 million. The financial construction and the current state of execution are given in the following table:

Table 3-4 Financial Construction of the Project New motorway section Demir Kapija-Smokvica		
Source of funding	Amount (EUR)	Status of approval
European Commission-IPA Regional Development	45.000.000	Approved- bilateral agreement signed between EC and Government of the Republic of Macedonia
EIB	130.000.000	Finance agreement signed on 17 October 2011 for the first portion of the loan in amount of 65.000.000 EUR
EBRD	90.000.000	Loan Agreement signed on 20 September 2011
Non-eligible costs (to be covered by the National budget)	54.033.238	
Total	319.033.238	

Source: Final Interim Evaluation Report of the Operational Programme for Regional Development, April 2012

The project has been in tendering phase since August 2011 and two contracts are expected to be signed in due time: a Works contract (with a construction period of 4 years) and a Service contract for the supervision of construction.

It should be pointed out that the project had been identified long before the IPA had become an operational instrument for pre-accession countries. The extremely long process of preparation can be attributed to many factors, which largely fall into the following categories:

Political – the factors related to the decision-making and negotiations with EC and IFIs with regards to the scope of the project and implementing arrangements.

Financial – the project entails four different financiers with different financial requirements and types of financial assistance: IPA grant, EBRD and EIB loans, and national budget contribution.

Technical and environmental – related to technical parameters and the new shorter alignment (5km), as well as the long process of conducting EIA, including the shortcomings experienced during the process.

Procedural – related to the submission and re-submission of IPA application due to the incurred additional costs, loan agreements, weakly prepared tender documentation, etc.

The experience gained from every step exerted in the preparation cycle of this project has been enormous. The bottom-line lesson learned is that commitment of all relevant

stakeholders should be extremely high in order to overcome all impediments presented during the process.

Environment

As the OP fairly puts forward, IPA allocation for environmental projects in the initial programming phase is primarily restricted to technical assistance measures, due to the limited amount of available funds and lack of mature environmental projects. This initial programming ratio has been pulled into the new financial allocations for OP modification (2010-2011), which only adds to the existing interventions without introducing new ones.

The projects under the Environmental Priority have been designed to support the improvement of the environmental infrastructure, with a focus on wastewater and solid waste areas. They include one Major Project (the second one in scope and importance under this OP) and several Technical Assistance projects in the field of environmental protection. However, none of these projects is in implementation, therefore we could not assess their tangible impact on the environmental policy and reality in the country.

The major environmental project is construction of a Waste-water Treatment Plant (WWTP), accompanied by upgrading and extension of the sewerage network in Prilep to the total value of €19.6 million. The project is still in preparatory, i.e. tendering phase, and no infrastructure work has commenced yet. The reason for this delay is primarily the lengthy and heavy administrative procedure for Major Projects and the lack of administrative capacity to assume it. Only the phase of preparation and approval of Project Application (Application form, Feasibility Study and Cost-Benefit Analysis) lasted two years and was finalised by signing of the Bilateral Agreement concerning the co-financing of the major project on 9 December 2011. The Municipality of Prilep as the final owner of the WWTP contributed to project sustainability by designating the Public Utility for Waterworks and Sewerage of Prilep, to be responsible for operation and maintenance of the WWTP, once built.

Another important project under the environmental priority is supporting the planning process for establishing an integrated and financially sustainable waste management system in east and north-east regions of Macedonia, through preparation of regional waste management plans and strategic environmental assessment. End recipients of this Operation are the recently established Inter-Municipal Public Enterprises for Waste Management. Unfortunately, this operation is suspended at present, as analyses have shown that these enterprises are not yet operational, which hinders the successful implementation of the project.

2.1 Technical assistance

As mentioned earlier, the only Programme Priority that shows more palpable signs of life is the Technical Assistance Axis. Until the end of 2011, the contracted amount for TA was €0.64 million, which represents 10.3% of the total allocations under the Priority Axis. The reason for this relatively faster progress is the fact that the contracted projects were of low value and therefore easier to procure and contract; these TA operations involved only insider groups of stakeholders, because they benefit only OS representatives and no external department is involved.

The TA Priority is mainly concerned with producing a pipeline of projects and providing assistance to the Operating Structure in Programme implementation. Accordingly, it finances operations related to the Interim Evaluation and Communication Action Plan of the Programme, organizing Sectoral Monitoring Committee meetings, capacity building of the Operating Structure, etc. With regards to future programming plans, there is a possibility for financing the introduction of Regional Competitiveness as a third Programme Priority. However, this option was postponed until the next programming period (2012-2013).

Conclusions and recommendations

The first general conclusion that can be drawn from the analysis, empirical experience and comparative scrutiny, is that the Operational Programme for Regional Development in the Republic of Macedonia is designed primarily to address the gaps in administrative capacities and the lack of project documentation, as well as to create the positive conditions and climate for further attracting larger investments, being it from IPA, or from other financial sources.

Given the small size of the OP, the interventions are unlikely to have a noticeable macro effect on the sectors or the target groups, since only a small proportion of the real investment needs identified within the national transport/environment/regional development plans and strategies are targeted. The absence of a Regional Competitiveness axis also adds to this point, and its inclusion must take place as soon as possible in order to make up for lost time, but also to enable the business community to sense direct and immediate benefits from IPA financing, as direct grant schemes will be made available to them.

Nevertheless, being the first Operational Programme to be implemented under a genuinely different system that entails drastic transformation of the institutional approach (at a central and local level) in planning, programming, budgeting, contracting, etc., the OP is of unprecedented significance to Macedonian society. If used smartly, this investment in knowledge and experience would certainly pay-off later by improving the absorption of capital investments.

It could be argued that the number and size of projects in the OP should better reflect the real need for more capital investments rather than for technical assistance projects. The latter has certainly played its part in the learning process, but in the forthcoming period, it is absolutely necessary that the state mobilise all national resources, and resort to foreign expertise only when national ones have been exhausted. On the other hand, it should be made clear to the EU counterparts that Macedonia is craving real investment projects, which will leverage the economy as a whole and improve the credibility of the EU and its benefits in general.

An appropriate communication strategy also needs to be developed in order better to explain why, at this stage, the assistance from IPA is clearly more “technical” than investment-oriented, and that the initial slow pace in absorption of funds will grow sharply once the major projects are going to be contracted. After all, some fears and myths should be overcome: it is not so much about “how much money is going to be absorbed, but how appropriately it will be used”, and that IPA funds “are not given, but need to be earned”.

Another positive argument in favour of more allocation to “real” projects and better programming in this area is the “seedcorn” effect of IPA investments, i.e. their credibility, the basis of which appear to affect their ability to attract funds from other sources, too. Despite the experience with the Corridor X motorway project, where multiple funding resulted in the delay of project commencement, it is inevitable that large-scale infrastructure projects will have to coordinate amongst several financing providers, and will find themselves needing to gain the commitment of larger international and regional communities. For projects in the environment in particular, local communities, where the impact of the project is the most tangible, should also be well prepared for co-financing projects.

If major concerns in the programming phase were related to the lack of project pipelines, this should be alleviated by the outcomes of the TA projects for “Support in identification, assessment and selection of eligible projects for IPA Regional Development”, in the case of both transport and environment. Therefore, in accordance with the opinion of the authors, any further discussions on preparation of a General Transport Master Plan⁸⁶ are simply redundant for future IPA programming; the entire focus should instead be placed on concrete projects for which the TA can provide solid prioritization.

Finally, the OP strategy should be put in the context of the overall national transport and environment policy, which should provide a market oriented legal and institutional framework

⁸⁶ The General Transport Master Plan is an indisputably useful tool for sustainable transport planning in future, but recourse to other financial means than IPA should be considered for its preparation.

aligned with the EU *acquis communautaire*, and measures that will complement and bring added value to infrastructure development. Infrastructure investment can certainly incentivise the sector-related reforms, and vice versa. Therefore, it should be clear that physical investments in the environment cannot be fully maximized without sound management of public utilities. No new motorway can optimize the benefits if no accompanying measures for border-crossing facilitation, performance-based management, and maintenance and road safety are taken into account. Nor can a railway link serve passengers and businesses if the railway transport is not performed in a liberalized way that allows for competition, quality of services, and equal conditions for different modes of transport. These complex reforms being undertaken in the transport and environment sector is a reciprocal process, which offer great return on investments and can be speeded up if infrastructure investments are tangible and directed at concrete and visible projects.

The extent to which Macedonian authorities and other national stakeholders perceive the wider challenges and prospects inherent in EU pre-accession assistance indicates the extent to which much more significant (future) funding – both, structural and domestic – will be placed in the service of regional development and competitiveness, and how successful.

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Biljana Stojanoska: CONTRIBUTION OF IPA FUNDS TO THE HUMAN CAPITAL DEVELOPMENT IN THE REPUBLIC OF MACEDONIA

Introduction

Out of the €622 million from IPA for the period 2007-2013, €55.8 million have been allocated for Component IV – Human Resources Development. The main strategic objective of the Human Resources Development component is “to foster the development of human resources, in particular by improving the quantity and quality of human capital, leading to more and better jobs, higher growth and development and the increased national competitiveness at international level”.⁸⁷

Even though, from the perspective of available assets, this component is significantly smaller than the other components (about 8 per cent of the total IPA funds intended for Macedonia in the period from 2007-2013) it is particularly important, taking into consideration the fact that human resources development is one of the key socio-economic problems in the country, with particular reference to the high unemployment rate. In addition, this Component is intended for “the country to develop and enhance the administrative capacity for management, implementation, monitoring and control of European Social Fund”.⁸⁸ Therefore, its appropriate and efficient utilization is of particular importance, since it contributes to efficient absorption not only of pre-accession but also of post-accession funds in this area.

Thus far, of the total amount of the entire IPA Component for the period 2007-2013 amounting to €55.8 million, or of the €19.17 million envisaged in the 2007-2009 financial package, only €12.5 million were implemented in Macedonia, including the project's ongoing realization and the assets determined for technical assistance. Insufficient utilization of the assets is partly due to the delay of accreditation (September, 2009) for centralized management of IPA 4 Funds, although major parts of the projects have commenced.

This study is aimed at an analysis of the efficient utilization of the component assets in achieving the priorities determined by the Operational Programme for Human Resources Development, and to define the key weaknesses and impediments preventing their more efficient utilization.

⁸⁷ Operational Programme for Human Resources Development (2007–2013), p. 6.

⁸⁸ Ibid.

Methodology

The analysis of efficient utilization of the funds of Human Resources Development Component was carried out through the use of primary and secondary sources, as well as performing several interviews with representatives from relevant institutions. The Operational Programme for Human Resources Development was taken as grounds for analysis for achieving the objectives, which is essential documentation for planning and allocating the funds of the IPA IV Component. The data relating to projects, planned and realized activities and results achieved, were collected from different sources that were frequently dispersed; for certain projects, some information was not easily obtainable or not available at all. Data was available on the following websites: the Central Database of Foreign Assistance of the Government of the Republic of Macedonia; the Central Finance and Contracting Unit within the Ministry of Finance; data and official statements on the website of the Secretariat for European Affairs; websites of relevant ministries; the Employment Agency; the Delegation of the European Commission in Macedonia. Several interviews were conducted; however, a major part of the institutions were not willing to share information or failed to respond.

Qualitative analysis was made as it relates to the efficiency this Component based on the data delivered on certain projects, compared to the objectives envisaged in the Operational Programme, comments from the Republic of Macedonia Progress Report, as well as other relevant researches and studies.

Operational Programme for Human Resources Development

Accreditation for management of the fourth component was obtained by Macedonia in September 2009, when it was granted access to these funds. The 2007-2013 Operational Programme for Human Resources Development (OP HRD) is an essential document for planning and allocating the funds of IPA IV Component. The Programme was adopted in December 2007 with a framework determined for financing of the first three years (2007-2009) totalling €19,176,497.00 The following are components for managing the Operational Programme for Human Resources Development:

- IPA Structure within the Ministry of Labour and Social Policy (MLSP)
- IPA Structure in the Ministry of Education and Science (MES)
- Ministry of Finance – Central Finance and Contracting Unit (CFCU)

Priority objectives and Programme are defined based on the socio-economic analysis in the field of human capital development, which determine the key weaknesses. These are defined in the following four priority axes, divided in measures:

Table: Priority Axes and Measures

Priority Axis	Measure 1	Measure 2	Measure 3	Measure 4
1. Employment Attracting and retaining more people in the labour market	1.1: Further development of the Employment Agency and approving employment conditions	1.2: Support to the implementation of Employment Strategy and Joint Assessment of Employment Policies	1.3: Tackling unemployment of young people, women and long-term unemployed in the labour market	1.4: From informal to formal employment
2. Education and science Investment in human capital through better education and skills	2.1: Modernization of the education and training systems	2.2: Ensuring access to quality education to ethnic communities	2.3: Development of adult education and lifelong learning	
3. Social inclusion Promotion of inclusive labour market	3.1: Fostering social inclusion of disadvantaged people and regions	3.2: Integration of ethnic communities	3.3: Authorization of relevant participants	
4. Technical assistance	4.1: Support to the implementation of 2007-2013 Operational Programme for Human Resources			

Table: Allocation of funds by priority axes of the 2007-2009 financial framework

	IPA	National contribution	Total	% of total budget
Priority Axis 1	6.846.000	1.208.130	8.054.130	42%
Priority Axis 2	4.890.000	862.946	5.752.946	30%
Priority Axis 3	3.260.000	575.301	3.835.301	20%
Technical Assistance	1.304.000	230.120	1.534.120	8%
Total	16.300.000	2.876.497	19.176.497	100%

Source: 2007-2013 Operational Programme for Human Resources Development

Table: Total amount of funds allocated by single measure of 2007-2009 financial framework in EUR

Priority Axis	Measure 1			Measure 2			Measure 3			Measure 4			Total		
	Envisaged funds	Realized (including current projects)	Unused	Envisaged funds	Realized (including current projects)	Unused	Envisaged funds	Realized (including current projects)	Unused	Envisaged funds	Realized (including current projects)	Unused	Envisaged funds	Realized (including current projects)	Unused
1. Employment	1.006.000	1.375.500 ⁸⁹	-369.500	1.500.000	1.806.294	-306.294	5.340.000	1.300.000	3.364.206	660.000	0	660.000	8.506.000	4.481.794	3.348.412
2. Education and training	2.886.000	2.075.243	810.757	1.154.000	1.085.296	68.704	1.732.000	1.728.235	3.765				5.772.000	4.888.774	883.226
3. Social Inclusion	1.534.000	1.500.000	34.000	1.725.882	0	1.725.882	575.296	149.759	425.537				3.835.296	1.649.759	2.185.419
4. Technical Assistance	1.534.000	1.462.950	71.050										1.534.000	1.462.950	71.050
													19.647.26	12.483.277	6.488.107

Source: 2007-2013 Operational Programme for Human Resources Development

⁸⁹The amount of realized funds in Measure 1.1 and 1.2 is higher than the envisaged funds according to the Operational Programme. However, according to Regulation 718/2007 of the European Commission these funds may be reallocated from another measure within the same priority axis, by prior approval of the Sectoral Monitoring Committee. Taking into consideration that the total sum of allocated funds for this component and for the Priority Axis is left unchanged, the assumption that the funds were reallocated from Measure 1.3 is valid, in which €4,040,000 were left unused, or €3,364,206 after such reallocation.

Priority Axis 1: Employment

The high unemployment rate in the Republic of Macedonia is a serious long-term problem in the country. Restructuring and transition to a market economy gave rise to significant reduction in the labour market demand, and the slow economic growth even failed to foster the creation of sufficient work posts. As a result, the unemployment rate stagnated and high unemployment, although recording a slight decline in recent years, has not yet dropped under 30%.

Even though numerous analyses indicate that official data is not a real indicator, due to the large informal economy and the huge number of unregistered workers, numerous reports and studies indicate that unemployment is one of the main problems for the Macedonian economy and society.⁸⁹⁹⁰⁹¹ In particular, the high rate of long-term unemployed as well as the high level of unemployed young people, women, and members of ethnic communities is a serious problem.

Consequently, according to the Operational Programme, unemployment is first of the three main priority areas. The main objective is that the projects envisaged by this Priority Axis foster a reduction in unemployment and retain more people in the labour market through modernization and enhancement of the services provided by the Employment Agency of the Republic of Macedonia, as well as through development and implementation of new and improved active policies and measures, as defined in the National Employment Strategy and National Action Plan for Employment. Four priority measures are determined as follows:

1. Further strengthening of the Employment Agency capacity
2. Support to the National Employment Policy
3. Support to the employment of young people, long-term unemployed, and women in the labour market
4. Activities and measures for support of the transfer from informal to formal employment

⁸⁹ Republic of Macedonia 2011 Progress Report, European Commission, 2011.

⁹⁰ The Corruption in Macedonia: Bribery as experienced by the population, United Nations Office on Drugs and Crime, 2011 available at: http://www.unodc.org/documents/data-and-analysis/statistics/corruption/Corruption_report_fYR_Macedonia_FINAL_web.pdf.

⁹¹ Brada, J. (Team Leader), Convergence to the European Union: Challenges and Opportunities, Ministry of Finance of the Republic of Macedonia, 2011.

Measure 1.1 Further Strengthening of the Employment Agency Capacity

This measure is intended to improve the service quality, efficiency and effect of the Employment Agency, and is focused on reducing unemployment and retaining the employed. The amount of total envisaged funds by the Operational Programme is €1,006 million, €855,000 of which is provided by IPA.

Within the framework of this measure, as of January 2012 the Project “Further Modernization of the Employment Agency of RM” has been implemented for a period of 18 months. The Project value amounts to €1,375,500.00. Although the amount of the funds allocated is higher than the envisaged, additional funds were secured by another measure within this Priority Axis.

The main objective of the Project is to ensure improved quality, effectiveness and efficiency of the services provided by the Employment Agency of RM for the job seekers and employers. It is a matter of institutional support; the activities are focused on establishing required changes, reforms and modernization of the Agency procedures and operation, for the purpose of ensuring improved services to its clients and for support of the abovementioned legal amendments aimed at better records of unemployed people.

The Project includes two components:

Component 1. Development of Organizational Management Processes

Component 2. Implementation of the Changes in the Organizational Management for support of EARM relating to implementation of active measures for the labour market

This Project is directly connected to the objectives set by the IPA Component for Human Resources Development. Modernization and improvement of the services provided by the Employment Agency is one of the essential predispositions for implementation of new and improved active policies and measures that are to contribute to reducing unemployment and retaining more people in the labour market. The envisaged activities are aimed at improving organizational functioning and capacity building.

According to employees in the Secretariat for European Affairs responsible for monitoring, the Project implementation is in an advanced stage, and the activities implemented have already had a significantly positive effect. Since the main objective of this Project is to foster the improvement of efficiency and service quality in the organization, in the further extension of the Project, it is recommended that the Joint Assessment Framework takes into consideration aspects such as the quality management system. This instrument is widely used in different organizations of public administration throughout the European Union, and has proven to be particularly efficient in organizations focused on clients.

Measure 1.2 – Support to the National Employment Policy

This measure is focused on strengthening the capacity of the bodies, institutions and social partners in the area of creating and managing employment policies for implementation, and for the monitoring of the Employment Strategy. According to the Operational Programme, a total of €1.05 million has been envisaged for these aims, €890,000.00 of which is provided by IPA. Within this measure, in September 2011, the Twinning project of the Ministry of Labour and Social Policy, “Support to the National Employment Policy” commenced, by inclusion of the Employment Agency. The Project extends for 18 months, and totals €1,806,294.00 (The additional funds for this Project are also transferred from Measure 1.3). This Project is aimed at support for establishing a long-term forecasting system of the labour market and capacity improvement in the Ministry of Labour and Social Policy, as well as in all other relevant institutions and social partners for long-term projection of the labour market, and monitoring, evaluating and reporting on the employment policies.

The Project includes two components:

1. Development of long-term forecasting of the labour market
2. Improvement of the capacities and skills of the authorities, institutions, and social partners related to marketing and evaluation of the employment policies and programmes

In the absence of other measurable indicators, Project achievement may be also assessed by the Republic of Macedonia Progress Reports of the European Commission for the past two years. The 2011 Progress Report points out that the Employment Agency still lacks a detailed monitoring and evaluation approach,⁹² although it effects analyses of the existing active measures of the labour market; the 2012 Progress Report notes that “monitoring and evaluation of active labour market programme are weak as they are based almost exclusively on a basic quantitative analytical approach”.⁹³ Accordingly it may be concluded that even though a monitoring and evaluation system has been developed, it is not good enough. It remains to be seen whether in the remaining 6 months of the Project the monitoring and evaluation approach will be modified and improved, taking into consideration that this is an essential precondition for obtaining relevant findings, and for the development of long-term planning concerning the labour market.

⁹² Republic of Macedonia 2011 Progress Report, European Commission, 2011, p. 50.

⁹³ Republic of Macedonia 2012 Progress Report, European Commission, 2012, p. 59.

Measure 1.3 – Support to the Employment of Young People, Long-term Unemployed and Women in the Labour Market

This measure is focused on supporting the integration of young people into the labour market, reducing and preventing long-term unemployment (over 4 years), and for additionally influencing the growth of the employment rate among women. The total amount envisaged is €5.43 million, €4,539 million of which is provided by IPA.

Within this measure, the Project “Support to the Employment of Young People, Long-term Unemployed and Women – Internship and Training Programmes” was implemented by the Employment Agency of the Republic of Macedonia as an arrangement for direct grants, totalling €1.3 million and extending for 20 months (24.11.2010 - 24.07.2012). The Project was focused on three components for achieving three separate objectives: integration of young people into the labour market; reduction and prevention of long-term unemployment; growth in the female employment rate. According to the Report of the Government on the Status of the Road Map Implementation to June 2012, a total of 5,372 unemployed persons were included through the Project, 2,150 of which (40%) were young people up to the age of 27.⁹⁴

Due to certain savings within the component, extension of the Project was initiated. In addition, it is indicated that “based on the experience so far and lessons learned in the implementation of the first direct grant, additional adjustment and additional specification of the existing measures are being made relating to the targeting criteria of unemployed persons and to the manner of implementation of the measures within the framework of a second direct grant. It is expected that the Project will last for at least 28 months.⁹⁵ The objectives of individual Project components and results expected are as follows:

⁹⁴ Report of the Government of the Republic of Macedonia to the European Commission on the realization status of the activities of the Roadmap for implementation of the Priority Activities adopted of the High Level accession dialogue , 2012.

⁹⁵ Ibid.

Table Status of the Project “Support to the Employment of Young People, Long-term Unemployed and Women – Internship and Training Programmes”

Component	Results expected	Realization status (14.06.2012)
1. Internship as support for first employment of young people to the age of 27	Improved perspectives of 512 young graduates	Total of 436 included
2. Training on general skills to assist in improving their competitiveness in the labour market.	Total of 6600 unemployed people to acquire skills: 3,000 with language skills; 3,000 with computer skills; 250 to be trained in entrepreneurship; 350 on communication skills.	Total of 4,430 persons included (of which 1,601 (36.1%) are young to the age of 27)
3. Training on skills deficient in the labour market	820 long-term unemployed persons to acquire professional skills in the labour market 88 electrical fitters and assemblers; 19 for mechatronic systems; 36 mechanical systems for light vehicles; 379 for accounting; 69 for catering services; 60 welders; 36 building workers; 133 for computer programs	Total of 506 persons included (of which 113 (22.3%) are young to the age of 27)

Source: Report of the Government of the Republic of Macedonia to the European Commission on the Activity Realization Status of the Road Map for Implementation of the Priority Activities adopted of the High Level Accession Dialogue, July 2012

€4,040 million has been left unused from this measure. Approx. €675,000 from this measure was reallocated to the previous two measures within this Component. The extension is expected to ensure better utilization of the remaining funds.

According to an interview carried out with the Secretariat for European Affairs, the Projects have been evaluated as successful, and planning of its second stage is ongoing. The Project is directly focused on achieving the objectives of this Priority Axis and is entirely harmonized with the main objective of this Component to foster human resources development; it is also harmonized with and replenished the Operational Plan of the Government for active employment programmes and measures. However, the question arises about how much the Project contributed to achieving the objective of this measure, i.e. integration of young people in the labour market; reduction and prevention of long-term unemployment; and growth in the employment rate of women. According to the available documents (Report on the realization

of the operational milestone, Statement of the Minister⁹⁶), the result of the Project has been measured by the number of persons included in the training; however, according to OPHRD⁹⁷, the results of the Project are to be measured by the percentage of persons that are employed. To be precise, 6 months upon successful realization of the programmes (objective 50%), that run successful business two years upon the realization of the training (30%), or employed women (30%).

In addition, the Project fails to provide measurability of the training quality. No data exist on follow-up procedures, or on how many people who completed training or internship actually found employment, although such information is available in the system. To that end, although the Project envisaged inclusion of 7932 persons, in the activities realized, according to the available data, a total of 5372 persons have been included. Since we were not able to obtain an official response by the institutions, we speculate that a possible reason for partial fulfilment of the envisaged quotas might be an insufficient number of registered participants, considering the fact that significantly few people registered in similar retraining and additional training previously realized by the Government (a total of 867 persons enrolled for three years).⁹⁸ As an extension of the Project was requested, it might be that another cycle of training will follow, thus fulfilling the figures envisaged.

We were not able to supply data on how much such training really affected and contributed to growth of the employment rate among women. If statistical data on the conditions in the labour market are compared, in the last period (data of the second quarter of 2011 compared with the data of the second quarter of 2012), the unemployment rate was not significantly reduced (31.3% to 31.2%). Interestingly, during the period from the second quarter of 2011 to the second quarter of 2012, the unemployment rate of less educated people declined from 39% to 36%, and there was a bigger reduction in the unemployment rate among women (from 23.3% to 19.1%). Even though these figures may not be connected with the possible impact of the Project, the reduction in unemployment among women may be taken as a positive indicator, taking into consideration that this was one of the main objectives of the Project.

⁹⁶ <http://www.mtsp.gov.mk/?ItemID=9263BC5DD4B53942AD3DC9D8E8668FD8>.

⁹⁷ 2007-2013 Operational Programme for Human Resources Development, p. 69.

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http://www.kapital.mk/MK/dneven_vesnik/80304/nitu_rabotat_nitu_sakaat_da_se_dokvalifikuvaat_za_da_najdat_rabota.aspx?ild=2600

Measure 1.4 – Activities and Measures for Support of the Transfer from Informal to Formal Employment

This measure is aimed at reducing the number of persons included in a grey economy, and is focused on increasing the employment rate in the formal sector and in total economic development. A total of €660,000.00 has been envisaged for this measure, €560,000.00 of which is provided by IPA funds; however, no project has been initiated.

According to the description in the Operational Programme, the activities funded within this measure are focused on enhancing the records of employed persons and elimination of the high rate of unregistered employed persons in a grey economy. The problem related to the high percentage of unregistered employees, which makes it impossible to obtain a real picture of the unemployment situation in Macedonia, is noted in several study analyses⁹⁹¹⁰⁰ as well as in the RM Progress Report prepared by EC;¹⁰¹ the measures addressing this problem were included in the Operational Roadmap of the Government of RM within the High Level Accession Dialogue.¹⁰² Considering the fact that the Operational Programme notes the weakness of the State Labour Inspectorate, which is a responsible supervision body, as it relates to sufficient staffing and lack of funds for efficient realization of its operation,¹⁰³ it is expected that a project within this measure is directly focused on improving the capacity of the State Labour Inspectorate, as well as the cooperation among the enforcement bodies. This lack of efficient cooperation and coordination among the enforcement bodies was subsequently noted in the 2011 and 2012 Progress Report, which stresses that the State Labour Inspectorate has implemented some initiatives at central level related to raising awareness about tackling unregistered work, but that a lack of efficient cooperation and coordination among the enforcement bodies remains to be improved.¹⁰⁴¹⁰⁵ Taking into account the complexity of the problem and the importance of its solution, it is incomprehensible why the available €1 million envisaged for dealing with this problem is yet to be implemented. Moreover, the State Labour Inspectorate has developed a draft project with complete project documentation; however, the Finance and Contracting Unit, which is a body responsible for contracting, decided to withdraw the grant.¹⁰⁶

⁹⁹ Brada, J. (Team Leader), *Convergence to the European Union: Challenges and Opportunities*, Ministry of Finance of the Republic of Macedonia, 2011, p. 80.

¹⁰⁰ V. Garvanlieva, V. Andonov, M. Nikolov, *Shadow Economy in Macedonia*, Center for Economic Analyses, 2012, available at: http://www.cea.org.mk/documents/studii/CEA%20SHADOW%20ECONOMY%20IN%20MACEDONIA%20FINAL_4.pdf.

¹⁰¹ Republic of Macedonia 2011 Progress Report, European Commission, 2011, p. 53.

¹⁰² Report of the Government of RM to the European Commission on the activity realization status of the Roadmap for implementation of the Priority Activities adopted of the High Level accession dialogue 2012, p. 20.

¹⁰³ 2007-2013 Operational Programme for Human Resources Development, p. 28.

¹⁰⁴ Republic of Macedonia 2011 Progress Report, European Commission, 2011, p. 59.

¹⁰⁵ Republic of Macedonia 2012 Progress Report, European Commission, 2012, p. 50.

¹⁰⁶ Anonymous source

To be efficient, any project within the framework of this Component should consider the above discussion, and include tailor made activities that embrace an inclusive approach to the building of Inspectorate capacity, raising public awareness, and improving coordination among all bodies responsible for implementation of the policy in this area.

Priority Axis 2: Education and Training – Investment in Human Capital through better Education and Skills

In spite of the continuing commitments in the Republic of Macedonia, the country's education level is still relatively low. The literacy level is high due to the high rate of enrolment in primary education, but attendance level in secondary education remains relatively low, and insufficient investment during the past two decades has had a negative impact on education quality and value in general. There are considerable differences in the education level of ethnic groups, and in particular among the Roma, who very often leave school early. Despite the continuous improvement (from 22.2% in 2006 to 15.5% in 2010¹⁰⁷), the rate of persons leaving school earlier remains high. The high unemployment rate in the country adds to the need for more quality and vocational education, and the major part of the unemployed is individuals with a low education level. The employment rate in persons having completed pre-school and primary education is only 33.4%.¹⁰⁸ There is significant incompatibility between educational programmes, acquired skills and qualifications, and the needs of the labour market. International assessments of the students' capabilities at different levels, e.g. PISA and the Global Competitiveness Report, indicate relatively low efficiency of the education system. There is a need for enhancing skills and adult education, which is currently insufficiently developed. The difficulties in the labour market have resulted in an increase in the number of students, and emigration of persons having completed higher education. As a result, the Priority Axis Education and Training is focused on activity related to the modernization of the educational and training system, aimed at enhancing the adjustment of the labour market needs and promoting lifelong learning. Furthermore, this priority aims to provide equal access to quality education for all, irrespective of ethnic background.

Three priority measures have been determined within this priority area:

2.1: Modernization of education and training systems

2.2: Ensuring access to quality education to ethnic communities

¹⁰⁷ State Statistical Office

¹⁰⁸ State Statistical Office

2.3: Development of adult education and lifelong learning

Measure 2.1: Modernization of education and training systems

This measure aims at providing support for modernization of the educational and training systems, and three-and-two-year vocational education, as well as support to the bridging process between vocational and training schools and business partners. For this measure a total of €2,886,000.00 is envisaged, €2,453,000 of which is provided by IPA funds.

Within this measure, in September 2011, the Project “Support to the Modernization of Educational and Training Systems” commenced, extending for 2 years.

The Project is aimed at modernization of the education system in two-and-three-year vocational education, in line with labour market needs and European standards.

The Project value amounts to €2,075,243.00 and is focused on preparing vocational qualification standards, reform of curricula in line with labour market needs, and vocational training for trainers.

The planned activities are divided in two components:

Component 1: Development of vocational qualification standards and reform of curricula for two-and-three-year vocational education, in which establishing work groups is envisaged, as well as the development of vocational qualification standards for two-and-three-year vocational education.

Component 2: vocational training for trainers through development of analysis for the needs of training, development of training strategy, and action plans for training.

The Project is aimed at achieving the following results:

- 25 vocational qualification standards developed for two-and-three-year vocational education
- 12 curricula reformed for two-and-three-year vocational education
- Trainers trained for two-and-three-year vocational education

Even though strategic priority of the Government is fostering a level of higher education, the necessity for such a project arises from the need of Macedonia to create conditions for development of persons with secondary vocational education, to prevent the over-saturation of the market with persons having completed higher education on the one hand, and a lack of persons with vocational education on the other hand.

The obsolescence of vocational education programmes and the need for motivating students to enrol in two-and-three-year vocational education is dictated by the labour market. The idea

that the final result of the Project is reformation of the vocational education programmes is welcomed; however, the Project lacks one component that will include activities intended for motivating students to enrol in vocational schools, which among others, was announced as one of the objectives of the Project by the Ministry of Education.¹⁰⁹ In addition, activities lack focus on realizing the second objective of this measure, or the support the process needs in bridging vocational schools and business partners. Such activities are particularly important and would directly contribute not only to enhancing the interest and popularity of such programmes, which are currently lacking, but also to further developing and better utilizing national capacities. Considering the fact that €810,757.00 remains unrealized in this measure, there is a possibility that such measures can be developed within the framework of an additional project of this measure, if prepared.

Considering the fact that one full year of its implementation remains, it is still too early to measure the project's efficiency. However, it is necessary to mention that it is erroneous to measure the results of the Project only through the number of reformed curricula. On the contrary, the key to the success of the Project is the quality of new programmes, flexibility to the needs of the Macedonian labour market, the interest for enrolment in the programmes, the number of graduated students, as well as the number of persons who have found jobs with such a vocational qualification.

Measure 2.2: Ensuring Access to Quality Education to Ethnic Communities

This measure is aimed at supporting the integration of ethnic communities in the educational system, with particular focus on the Roma population, as well as other ethnic groups, including Albanians. The total amount envisaged for this measure is €1,154,000, €981,000 of which is provided by IPA. The commencement of the Project within this measure was announced recently, and the Project "Support to the Integration of Ethnic communities in the Education System" commenced implementation on 1 July 2012, extending for one year.

The main objective of the project is to ensure equal access to quality education of all students from all ethnic communities, and to contribute to further promotion of the integration of ethnic communities in the society. The activities will be implemented in close cooperation between the Agency for European Integration and Economic Development, and the Directorate for Development and Promotion of Education in Languages of the Communities. The value of the project totals €1,085,296.

Project activities will be divided in two components:

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http://www.kapital.mk/mk/dneven_vesnik.aspx/75679/uchenicite_kje_se_motiviraat_struchno_da_se_obrazuvaat.aspx?ild=2432

1. Inclusion of intercultural aspects in the education system

2. Strengthening the capacities for support of the integration of ethnic communities

It is envisaged that transfer of knowledge through the Twinning Programme is ensured in terms of workshops, training sessions, and discussions. The planned activities are aimed at introducing innovative programmes, updating programmes, and for training educational staff.

Although the available information of the project activities was extremely limited, it is important to indicate several apparent inconsistencies. In terms of the Operational Programme, the activities of this measure are particularly focused on “raising the awareness of literacy of the Roma population, introduction of innovative programmes for Roma children, ethnic training for the teachers and school principals and upgrading of training centres for the Roma population, particularly focusing on the Roma population with an unfavourable educational structure”.¹¹⁰ The Project, however, according to the available information, fails to envisage inclusion of the Roma population, which by itself is to be a separate component. The two components envisaged within the Project are (1) inclusion of intercultural aspects in the education system; (2) strengthening the capacity for support of the integration of ethnic communities. However, these are too narrowly defined and may include only a part of the activities presented in the Operational Programme as “initiatives for applying intercultural education, principles of tolerance and solidarity among students in the process of education and training from different ethnic groups and etc.” A range of activities envisaged in the programme cannot find their place in such defined objectives. These include raising the literacy of persons from ethnic communities and reducing the illiteracy of persons speaking a native language other than Macedonian. In addition, addressing the particularly important problem relating to the frequent occurrence of leaving schools at an early age among Roma pupils are completely undermined.¹¹¹ The 2011 Progress Report indicates that “the need to provide structured training for teachers is yet to be tackled”.

The recommendations of the team of experts at the Convergence Study relating to obtaining equal access to the educational system is to provide “subsidized childcare, meals, textbooks and etc. as an important element of equity and efficiency in education. If budget limitations are an issue, there should be a targeted approach toward socially deprived minorities, such as the Roma”.¹¹² This should be taken into consideration when planning future activities within this measure.

¹¹⁰ 2007-2013 Operational Programme for Human Resources Development

¹¹¹ Republic of Macedonia 2011 Progress Report, European Commission, p. 50.

¹¹² Brada, J. (Team leader), Convergence to the European Union: Challenges and Opportunities, Ministry of Finance of the Republic of Macedonia, 2011, p.16.

Measure 2.3: Development of Adult Education and Lifelong Learning

As defined in the Operational Programme, this measure is aimed at achieving a systematic approach for adult education and coordination of activities at national level, by setting up a coordinating body for activities related to adult education. In addition, this measure is aimed at the development of adult education and promotion of programmes for literacy and fulfilment of elementary education for excluded persons.

The total value envisaged for this measure is €1.732 million, €1,472 million of which is provided by IPA.

Within this measure, the Project “Support for Strengthening the Capacity of the Centre for Adult Education and Development of Programmes for Adult Education and Literacy and Completion of Primary Education of Excluded Persons” has been implemented. The total amount of envisaged funds is €1.728.235,00, €1.469.000,00 of which is provided by IPA. The Project, extending for 22 months, commenced in October 2011, and will last until July 2013. Thirty experts from France and Spain will participate in the Project, and who are continuously included in national and international activities for development of skills related to access to qualifications and employment. Within these 22 months, the following components will be covered:

- Strengthening the capacity and functioning of the Centre for Adult Education
- Development and testing of programmes for adult education
- Development and testing of programmes for literacy and completion of primary education of excluded persons

Numerous activities can be noted as carried out by the Centre for Education on its website. According to the information announced, several study visits have been made to Austria, Germany, and France, for the purpose of introducing to the Centre employees their system for adult education. Additionally, activities have been implemented for the development of programmes for adult education. The Centre for Adult Education has already implemented several programmes for adult education, and diplomas have been granted to adults for completion of secondary vocational education. These activities are not included within the Project; however, the experiences gained may be used for its advancement. The efficiency of the Project cannot be determined at this stage.

Within the framework of the IPA IV Component, the third revision of the Multi-Annual Operational Programme “Human Resources Development” for the Republic of Macedonia 2007-2013, which is to be adopted in autumn 2012, includes the Measure 2.1: Provision of Harmony and Links between Education and Labour Market Needs with cluster: “Support to

modernisation of the systems for vocational education and training and adult education, in the perspective of lifelong learning”. The total planned budget for the activities within Measure 2.1 is €6.3 million. At the same time, within the framework of Measure 2.2 “Enabling quality inclusive education for all”, the cluster “Strengthening preschool education” is planned. The total planned budget for the activities within Measure 2.2 is €2.7 million.

Priority Axis 3: Social Inclusion – Promoting an Inclusive Labour Market

With the transition process, since its independence in 1991, the Republic of Macedonia has gone through a range of complex political and economic processes affecting its citizens’ living standards and their general social welfare. Due to the structural changes in economy, accompanied by a range of political changes, poverty and social exclusion emerged as new social problems in the country. Since then, poverty has been one of the key problems for Macedonian society; the fact that the poverty percentage was 30.4%¹¹³ in 2011 indicates the seriousness of the situation. This Priority Axis is aimed at supporting social inclusion, and focused on the integration of disadvantaged persons in the labour market through professional training and volunteers for social inclusion, enhancing the links among all partners and strengthening the capacity of civil society for the purpose of ensuring (quality) social support.

The priorities within this axis are distributed in three priority axes:

3.1: Fostering social inclusion of disadvantaged people and regions

3.2: Integration of ethnic communities

3.3: Strengthening the capacity of all organizations active in the field of social inclusion

Measure 3.1: Fostering social inclusion of disadvantaged people and regions

This measure aims at supporting the integration of disadvantaged persons in the labour market and presenting specific services for employment through ensuring training and conditions tailored to the individual needs of the most vulnerable groups in the labour market. The activities within this measure aims at contributing to the enhancement of the efficiency and effectiveness of social services focused on enabling a better approach to the labour market. The total envisaged amount for this measure is €1,534 million, €1,304 million of which is provided by IPA.

¹¹³ State Statistical Office

Within this measure, in January 2012, the Project “Fostering social inclusion and inclusive labour market” commenced, extending for 20 months, and having a total value of €1.5 million.

The main objective of the Project is building institutional capacities for improving social inclusion policies. This will be done by strengthening the capacities and skills of the relevant concerned parties and promoting intersectoral and interinstitutional cooperation, as well as improving the efficiency and quality of the social services relating to ensuring access, and facilitating the integration process of vulnerable groups in the labour market. Specifically, the Project is aimed at improving the efficiency of social services for the purpose of promoting the social inclusion of vulnerable groups, and strengthening the cooperation among key concerned parties, social work centres, and employment centres. The Project also envisages inclusion of nongovernmental organizations, associations, and disabled persons.

The Project includes 3 components:

Component 1 – Enhancing vocational knowledge and skills of persons working in the field of inclusion of marginalized groups in the labour market

Component 2 – Integration of disabled persons

Component 3 – Development for creating a shared database

Building institutional capacities as well as the concerned parties’ capacities is extraordinarily significant for implementation of active social inclusion policies, as was pointed out in the general comments in the recent progress reports for the Republic of Macedonia in this area. In this regard, the activities envisaged are in compliance with the needs for “ensuring appropriate institutional and financial resources in order to efficiently implement the policies and strategic plans already adopted”. Although it is still too early to measure the efficiency of the Project, it is evident that it lacks one specific component, as it fails to envisage activities that would contribute to the realization of the objective established in this measure: strengthening the capacity of civil society by focussing on ensuring (quality) social support. In addition, it is not clear whether the activities envisaged by the second component – integration of disabled persons – will finally contribute to the implementation of the national strategy on equal rights for people with disabilities (2010-2018), which the two last reports note has not progressed.¹¹⁴

¹¹⁴ Republic of Macedonia 2012 Progress Report, European Commission, 2012, p. 59.

Measure 3.2: Integration of ethnic communities

This measure will facilitate the integration of the members of ethnic communities in the Republic of Macedonia in the labour market, with particular focus on Roma and assistance to women from other ethnic groups, in particular Albanian women. According to the Operational Programme a total of €1,725,882 million are envisaged for the measure, €1,467 of which is provided by IPA Funds.

Within the framework of this measure, a call for proposals was published for a grant scheme in June 2010 for improving the employment potential of women from ethnic communities in the labour market. The call is open to civil organizations, and the Ministry of Labour and Social Policy is the beneficiary. So far, however, there have been no results for approved projects. The main objective of the call for proposals is to contribute to the integration of women from ethnic communities in the labour market by enhancing their employment potential.

Specific objectives of the call are:

- Enhancing key capabilities (knowledge, behaviour, skills) of ethnic communities
- Developing and establishing specific services and training tailored to individual needs and conditions for women from ethnic communities
- Strengthening the capacity of professionals and volunteers working with women from ethnic communities

According to the interview carried out with the Secretariat for European Affairs, there have been to date no results related to the call, as the evaluation process remains ongoing. Extended implementation is due to the fact that this is first grant scheme and a time-consuming process for establishing evaluation criteria; however, the process itself is slow due to the compulsory communication needed between the Central Finance and Contracting Unit within the Ministry of Finance of the Republic of Macedonia and the Delegation of the European Union, which is responsible for performing *ex ante* control. These consultation procedures are compulsory and envisaged in IPA Regulation for decentralized management of IPA Component IV, according to which the European Commission still has to perform *ex ante* control in the process of public procurements and contracting.

Measure 3.3: Strengthening the capacity of all active organizations in the area of social inclusion

This measure aims at improving authorization of all stakeholders engaged in the provision of social services, via capacity-strengthening of all experts, professionals and volunteers, work with vulnerable groups in the government, and the local self-government and non-government organizations. Inter-ministerial and inter-institutional cooperation, as well as

across the board training, have been envisaged as part of this measure in order to not only improve the quality of the services provided, but also to facilitate the integration of vulnerable groups in the labour market. The total budget envisaged amounts to €575,296, €489,000 of which is contributed by IPA.

The implementation of the project "Empowering relevant actors for social inclusion at local level" commenced at the end of November 2011. The duration of the project is 12 months and it shall be implemented by the consulting company "Cambridge Education". The Project beneficiary is the Ministry of Labour and Social Policy. The overall budget of the project €149,759.

The global objective of the project is to enhance the capacities of non-governmental organizations and local self-government units in the country in the implementation of social inclusion policies. The project has envisaged delivery of training to improve both the knowledge and the skills of the target group (non-governmental organizations and local self-government units) in terms of drafting and actual implementation of social inclusion projects in line with EU regulations on project implementation and financial management.

The project consists of 3 components:

Component 1 - Identification of project participants and training needs analysis

Component 2 - Development of training plan and learning and training materials, as well as training methodology adjusted for the training needs identified earlier on

Component 3 - Implementation of the training plan for all target key parties

An open call for citizens associations engaged in provision of services/training in social issues was announced in February 2012. The call itself stated that the target group shall comprise of around 60 persons, sourced from as many citizens associations as possible.

The training involved 5 topics:

- Introduction to Project Cycle Management - Project Financial Management (3 days)
- What makes a successful project? Case studies on advanced PCM (2 days)
- Introduction to the basics of drafting a social inclusion project (1 day)
- Employment projects for disadvantaged groups (1 day)
- Community networking and development - providing funds (2 days)

According to the data,¹¹⁵ the training has engaged 150 persons, broken down into five groups of 30 persons, and were held in the following five towns: Skopje, Gostivar, Bitola, Kumanovo, and Shtip. The call itself stated that "The selected applicants shall be required to take part in the assessment process designed to identify the training needs before the actual delivery of the training".¹¹⁶ Consequently, due to the great interest expressed and well discerned training needs, activities have been revised and the nine days training was turned into five-days training (five weeks, one day weekly)

1. Social inclusion projects - 1 day
2. Introduction to Project Cycle Management (PCM) - Project Financial Management - 3 days
3. Projects for employability of disabled persons - 1 day

According to the project activities implemented thus far, as well as unofficial observations, the project is expected to exert a substantial positive influence and assist in the capacity-building process of non-governmental organizations, which on the other hand can contribute to improved provision of services and facilitate the integration of vulnerable groups in the labour market. Nevertheless, this raises the question of why the project amounts to only one-fifth of the funds included, while the greatest portion of the funds foreseen for this measure (€425,573) remains unused.

Priority Axis 4: Technical assistance

One of the essential objectives of the IPA Human Resources Development Component is to prepare the country for efficient implementation and management of the European Social Fund.

Hence, the overall objective of this priority axis is "to achieve efficient implementation, monitoring, evaluation, administration and communication of the Operational Programme in terms of the future management of the European Structural Funds (European Social Fund)".

¹¹⁷

Measure 4.1 Support to the implementation of OPHRD

The overall objective of this priority axis is to achieve efficient implementation, monitoring, evaluation, administration and communication of the Operational Programme in terms of the future management of the European Structural Funds (European Social Fund). The total budget envisaged amounts to €1,534,000, €1,300,000 of which shall be an IPA contribution.

¹¹⁵ http://www.berovo.gov.mk/index.php?option=com_content&view=article&id=682:2012-06-08-13-27-55&catid=40:vesti-berovo&Itemid=62

¹¹⁶ <http://www.skopje.gov.mk/images/Image/OglasDnevnik.pdf>

¹¹⁷ 2007-2013 Operational Programme for Human Resources Development, p. 110.

This measure includes the implementation of the Twinning Project "EU Support for the preparation of the country to manage the European Social Fund through implementation of the Human Resources Development Component of IPA Instrument (MK/2007/IB/SO/01)". The project is a joint cooperation between Finland, represented by the Regional Development Department, the Ministry of Employment and Economy on one side, and the Ministry of Labour and Social Policy on the other. The implementation period of the project was from 10 January 2011 to 10 January 2012, and the total budget amounted to €1,462,950.

The main objective of the project was to contribute to the efficient implementation, monitoring and evaluation of the Operational Programme "Human Resources Development" 2007-2013, and thus to contribute to the administrative capacity building of the Operational Structure (IPA Structures personnel of the Central Financing and Contracting Department - Ministry of Finance, Ministry of Labour and Social Policy and Ministry of Education) in the Republic of Macedonia, for the effective and efficient project implementation in the areas of employment, social inclusion, education and training. The project was focused on capacity-building in terms of the project management cycle, including programming, tendering and contracting, monitoring at Project and Programme level, evaluation at Programme level, information and communication, etc.

The project consists of the following components:

- Development of training programme
- Programming, tendering and selection of projects
- Projects and Programmes Management and monitoring
- Efficient use of the information system
- Implementation and evaluation
- Study visits to Finland and Lithuania

In the interview with the representatives of the Foreign Aid Coordination Department, it was underlined that the training within the twinning project was of exceptional importance, particularly with regard to the planning and programming of the projects. The training designed to discern the expected results and success indicators was highlighted as particularly helpful.

On the other hand, the 2012 Progress Report for the Republic of Macedonia noted "little progress" in the segment concerning the preparations for participation in the European Social Fund; additionally, it has underlined that "the weak administrative capacity is having an adverse impact on the quality of project and programme management".¹¹⁸

¹¹⁸ Republic of Macedonia 2012 Progress Report, European Commission, 2012, p. 59.

Participation of civil society in the monitoring of the Component

The participation of civil society in the monitoring of this component has been foreseen by the IPA Regulation of the European Commission 718/2007, according to which, upon receiving the accreditation for decentralized management of a respective component, the beneficiary country is obliged to establish a monitoring committee to monitor the quality of the programme implementation.

The positive effect resulting from the inclusion of the civil sector, according to an interview with a member of the monitoring committee, is mainly seen in the possibility (however limited) for giving certain suggestions during the planning process. The effect of such inclusion is mainly seen through the substantially improved perception of the members themselves concerning both the administrative capacities of the competent institutions to implement the programme and their operation.

On the other hand, the possibility for more substantial progress of the civil society towards programme improvement is somehow limited, due to a number of factors.

An example of such factors is the case where, although it is foreseen that action plans are to be submitted to all monitoring committee members, members who are not representatives of any of the ministries or other relevant institutions (as in the case with the representatives of the civil organizations), and are thus not directly included in the implementation of the programme or separate projects, may possess only partial information. This issue restricts them from providing meaningful contributions, or from intervening in terms of improvement of the programme or of certain projects. The formality of the monitoring committee can also be seen in the fact that the committee meetings, as laid down in the Regulation, are held on an annual basis, with a possibility for convening additional meetings if based on a concrete topic. Furthermore, except for the inclusion of a representative from a civil organization, more active participation of the remaining stakeholders from civil society is impossible because of the binding confidentiality agreement of the committee members, which prohibits documents or information sharing. Such provisions prevent the participation of the relevant external stakeholders and preclude the programme from being enhanced further.

Conclusion

Although the considerable delay of the accreditation granting for management of the IPA Human Resources Development Component has caused interruption in the commencement of the projects, the majority of the envisaged measures have initiated projects, and some of these have already been concluded. The majority of the projects are intended to provide institutional support or capacity-building support to the relevant institutions responsible for the implementation of their respective policies. To date, out of the foreseen amount of

€19,647,26,00 for the financial framework for 2007-2009, the funds of which should be used by 31 December 2012, only €12,483,277 have been realized.

Following the analysis of specific projects in respect of its planned objectives as set out in the operational documents for this component (the Operational Programme on Human Resources Development 2007-2013), several conclusions can be drawn:

Out of the ten priority measures broken down to three priority axes, and not taking into consideration the priority axis on Technical Assistance, active projects have not been initiated in two priority measures:

- measure 1.4: From Informal to Formal employment within the priority axis Employment,
- measure 3.2: Integration of the ethnic communities within priority axis 3, Social inclusion

Measure 1.4 is directed at activities that will contribute to the improvement of the employed persons as well as recording and elimination of the high rate of unrecorded employees engaged in the grey economy. Although the State Labour Inspectorate has submitted project documentation for this measure, there is still no data that indicates the start-up of such a project. Consequently, there is a possibility that the funds foreseen for this measure could remain unused. In respect of measure 3.2, despite the arguments stating that the extended duration is due to the complex and elongated procedures for consultation between the competent institutions (the Central Financing and Contracting Department and the Delegation of the European Commission), no reasons can be observed to justify the delayed initiation of the projects. In particular, there is no excuse for the uncompleted evaluation concerning the grant scheme announced in September 2010.

Comprehensive analyses of several separate projects within each measure indicate that the majority of these projects are ear-marked and well-designed, and that most of them are moving in the right direction toward achieving the objectives set out in the Operational Programme. However, in part of the projects, there are inconsistencies between the envisaged activities and the objectives that need to be achieved. For instance, the case where one of the project objectives within measure 2.1, modernization of the education and training system, is to provide support in the school networking process for vocational education and training with business partners. However, activities to ensure that this occurs are completely lacking. Instead, the project's activities are solely directed at preparation of standards for professional qualifications, reformation of the curricula for 2 and 3 years' vocational education, and train-the-trainer sessions.

Moreover, the project within measure 2.2 aimed at providing support for the integration of ethnic communities in the educational system, with a special emphasis on the Roma

population, as well as other ethnicities including Albanians, comprises two components: (1) inclusion of intercultural aspects in the education system; (2) strengthening of the capacities for supporting the integration of ethnic communities. However, the Roma population is not a target group in any of these two components.

Furthermore, inadequately defined success indicators and evaluation can be noticed in the project that has been realized within the frameworks of the project "Support to the employment of young people, long-term unemployed and women in the labour market". Given that the objective of this measure is to foster the integration of young people in the labour market, to decrease and prevent long-term unemployment and to further influence the increasing of the employment rate of women, it's logical to measure the success of the project not by the number of people that have attended training or completed practical work, but rather by the number of people who have found jobs as a result of their participation in the project. However, this is not the case, given the available data.

Keeping in mind that this is not a first cycle of implementation for these kinds of projects, weak administrative capacity and lack of experience where these types of projects are concerned is one of the main reasons for the shortcomings of projects' quality and the management of programmes. Given this fact, it is justifiable to some extent that part of the funds within this measure be designated specifically for strengthening of the institutional capacities of the institutions responsible for implementation of active measures in the three priority axes of the IPA Component IV (increased employment, invest in human capital through improved education, and promotion of an inclusive labour market). Having well-developed administrative and institutional capacities is a precondition for successful implementation and quality programme management not only in the current programmes, but also for preparing Macedonia to participate in the European Social Fund, which is one of the main objectives of the component.

Nevertheless, this inevitably gives rise to the question of whether such allocation, exclusively for institutional development and development of the administrative capacities, is the "best purpose" for the funds designated to this component. Whatever happens, the objective of this component is not to build institutional capacities, but rather to foster human resources development by improving both the quantity and quality of human capital, leading to more and better jobs, higher growth and development, as well as increased national competitiveness at an international level. Furthermore, there is an entire IPA component intended for institutional development that has unparalleled available funds. Due to this fact, in future project planning, it is recommended that the funds of this component are used for support to the implementation of active measures and policies that can directly contribute to human resources development (as is already the case in Montenegro and Croatia), and at the same time include a greater number of grants.

Due to the fact that projects involving entities outside the state institutions are deemed to face the greatest difficulties in terms of initiation and implementation, it is inevitable to conclude that this IPA Component does not yet provide partnership and synergy among the stakeholders and prospective partners in building-up human capital in Macedonia. It is our opinion that this is a pressing problem which, if not properly addressed, will cause serious issues regarding the achievement of objectives of this component, and of EU funds as a whole.

Finally, the participation of the civil sector in the monitoring committee has proven to have had a positive effect, which can be observed in civil society perception of public administration having improved significantly. It is recommended to foster the participation of civil society for better use of the potential and available resources to improve the quality of separate projects and the entire programme.

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Natasha Daniloska, Snezana Milosheska-Kostadinoska: CALCULATION OF GROSS VALUE ADDED (GVA), NET VALUE ADDED (NVA) AND LABOR PRODUCTIVITY OF IPART BENEFICIARIES IN REPUBLIC OF MACEDONIA

Resume

Value added indicator is a key to understanding the contribution of primary inputs, economy of scale, and technical change in the production process. Historical and contemporary changes in productivity of a sector or an industry can be analysed by observing value added data. Value added is the difference between the value of output and the costs of intermediate inputs or intermediate consumption. Value added data can be used in monitoring and evaluating the performance of agricultural holdings, farms and enterprises, and provides a yardstick for measuring their economic contribution to the national economy. This indicator is useful for assessing the productivity of different inputs and hence for improving their efficiency. When aggregated over all sectors and industries in a certain national economy, value added is equal to gross national product, and therefore equal to gross national expenditure.

In the Republic of Macedonia, agriculture (including hunting, forestry and fishery) is an important economic sector and the third largest sector after services and industry. In the 2006-2011 periods, the share of the agricultural sector in the overall GDP has remained relatively stable around 12% (compared to the 1.6% in the EU-25). If agro-processing is included, the percentage increases to 16%. In addition, Macedonian agriculture has served as a shock absorber for the socio-economic and structural changes in industry and other sectors of the economy. Officially, the sector provides income and employment to approximately one fifth of the national workforce, but the real contribution probably exceeds this percentage, as 36% of the labour force and 44%¹¹⁹ of the poor live in rural areas, and population in rural areas rely basically on farming as a major form of economic activity, forestry, craftsmanship, and rural tourism. Therefore, IPARD funds are very important, as they can visibly accelerate the development of Macedonian agriculture.

The main intention of this research is quantification of results of supported investment with IPARD funds in the Republic of Macedonia. Many Macedonian farmers are now evaluating ways to add value to their commodities to capture some of the value that is being added

¹¹⁹ Macedonia: Growth and Poverty, 2002-2004, Western Balkans Programmatic Poverty Assessment (World Bank).

beyond the farm gate. Value may be added to agricultural commodities through processing, packaging and marketing. At the farm level, value can be added by retaining ownership of an item beyond the commodity stage, thereby increasing the value of the item by further processing, packaging or marketing all activities supported by IPARD funds. Value-added agriculture may convert items into products of greater value, increase the economic value of a commodity, or increase the consumer appeal of agricultural products. Adding value is doing more to the preparation of a product/commodity for the consumer than was done before. The idea of this research is to calculate the change in GVA, NVA, and labour productivity, and estimate the overall increase of all three indicators in terms of result and impact at IPARD beneficiary level in order to trace positive change, if any exists.

Due to the lack of an operational FADN system in the Republic of Macedonia, or any other adequate data collection system at farm level, the prediction of changes in GVA, NVA, and labour productivity can currently only be based on empirical case studies. In this context, for this research, specialized concrete questionnaires (Annex 2 and Annex 3) were prepared for two case studies. In direct contact with two IPARD beneficiaries, data was collected for revenues as well as for all costs related to their business before supported investment. The collected data was then used as inputs in a specially developed methodology for assessing the impact of IPARD funds. Calculations revealed positive changes in both case studies. The first case study showed an increment in production and sales, and arrived at 8.67% change of GVA, 41.78% change of NVA, and a 1.73% increment in labour productivity. The indicators for the second case study were 8.8% change in GVA, 9.66% change in NVA, and labour productivity was slightly increased at 0.29%.

Literature review and research results

'Value added' is a term frequently mentioned when discussing the future profitability of agriculture. Its popularity rose substantially during the 1990s and in the economic literature, agricultural value-added initiatives have been identified as a means for helping producers absorb the shocks brought on by globalization (Coltrain, Barton and Boland, 2000).¹²⁰ In the era of globalization, with considerably increased competition in agricultural sectors and the rapid commoditization of its products, pursuit of agricultural value-added initiatives may therefore be seen as a strategic response to these circumstances. Of course, these trends themselves have been enhanced by various trade liberalization agreements involving the United States, such as the Canada-US Trade Agreement, NAFTA, and the WTO (Amanor-Boadu, 2000).¹²¹ Other factors influencing this situation include increasing consumer demand for convenient, ready-to-eat/cook safe and nutritious food products, and consumer

¹²⁰ D. Coltrain, D. Barton and M. Boland: Value-Added: Opportunities and Strategies; Arthur Capper Cooperative Center, Department of Agricultural Economics, Cooperative Extension Service, Kansas State University, 2000.

¹²¹ V. Amanor-Boadu: Trade Liberalization and the WTO Negotiations after Seattle, Guelph: George Morris Centre, March 2000.

willingness to pay premiums for such service-embedded products (Wolfe, 1999).¹²² Although interest in value-added agriculture has been increasing, it is a concept that is poorly understood by many producers and policy makers. The concept has in recent years been used as a means for justifying improvements in almost anything, starting from value-added accounting (Calhoun, Oliverio and Wolitzer, 1999)¹²³ to value-added public relations (Harris, 1998).¹²⁴ Thus, value-added branding, for example, is conceived to be superior to "plain" branding (Nilson, 1998).¹²⁵ Yet it must be outlined that the argument of how much better the notion of "value-added" makes any activity it qualifies has not been profoundly discussed in the literature. Thus, value-added agriculture is considered a superior form of agriculture, but there exists no precise framework or measure for this implied superiority.

Today's agri-food system extends well beyond the farm gate to include manufacturers of farm inputs (such as fertilizer and tractors), food processors, transporters, wholesalers and retailers of food, and other farm products. The producers' share of total agri-food economic activity has fallen over the years due to continued industrialization, new technology, and consumer demands for more varied and convenient products. The agri-food system as a whole, however, remains a significant force in the economy.

As the complexity of the agri-food system has grown, agricultural producers, agribusiness firms and policymakers have turned to the concept of value added to assess the role of agriculture in a modern economy. Value added provides a yardstick for measuring economic contribution, and value added data can be used in monitoring and evaluating the performance of companies or industries, and hence for improving their efficiency. Value added is similarly useful for assessing the productivity of different inputs.

At the level of entire economies, value added can be an important policymaking tool. It can aid in the allocation of resources among user groups when determining the appropriate level of economic development, debating issues on the promotion of export products, or evaluating the impact of different options to expand a primary sector. But there is often confusion, and sometimes misunderstanding about what "value added" really means.

Value added is an economic accounting concept which traces the final value of goods and services purchased by consumers back through the economy to the points where the value was created. Thus, the value-added approach can identify sources of economic well-being,

¹²² Kent Wolfe: Getting A Food Product to Retail, The University of Tennessee Agricultural Development Center, ADC Info. No. 40, July 1999.

¹²³ C.H. Calhoun, M.E. Oliverio and P. Wolitzer: *Ethics and the CPA: building trust and value-added service*; New York : John Wiley, 1999.

¹²⁴ T. Harris: *Value-Added Public Relations: The Secret Weapon of Integrated Marketing*; Lincolnwood, IL: NTC Business Books, 1998.

¹²⁵ T.H. Nilson: *Competitive Branding: Winning in the Marketplace with Value-Added Brands*; New York: John Wiley & Sons, 1998.

and account for sources of income by tracing payments for final goods and services. Value added places the cost of producing goods and services in perspective by comparing the cost to what is received for that cost.

In a productive activity, value is ultimately created using primary inputs, also called factors of production. These are commonly grouped into four categories (Holland and Wolfe, 2010):¹²⁶

- land and other natural resources such as water
- labour of workers
- capital, such as machinery and buildings
- management and entrepreneurship

Land, labour, capital, and management are the fundamental sources of economic value.

Primary industries such as agriculture and mining create value from natural resources. In a few instances, the primary products created are sold directly to final consumers as primary products, or to another industry as raw materials. The second industry uses factors of production plus other purchased inputs to add value to the raw materials. This creates a final product for consumers, or an intermediate product for a third industry. There may be several more intermediaries before the product reaches the final consumer. Each increases value by combining factors of production with intermediate products or raw materials. The relationships between an industry and its suppliers (usually purchases by the industry) are called backward linkages. Relationships with buyers (usually industry sales) are forward linkages.

Thus, in a modern economy, a typical product passes through several value-adding activities before reaching the final consumer. There are five general ways by which value may be added. Value is added by physically changing the form of raw materials or intermediate products. Butchering beef and milling wheat into flour are examples. Location and time values are added by transporting and storing goods so that they will be conveniently available for consumer purchase. Possession value is added by wholesalers, retailers, and others who facilitate trade. Activities here include credit, insurance, and the transfer of ownership rights. Finally, value is added by providing information about products. Advertising and promotion, grades and standards, trademarks, and labels are typical examples.

The value added to the economy by the agri-food system can be measured in many different ways, but the two basic measures are gross value added and net value added.

¹²⁶ Rob Holland and Kent Wolfe: Considerations for a Value-Added Agribusiness; Agricultural Extension Service, the University of Tennessee, 2010, p.21.

Gross value added recognizes that each step adds value as agri-food products move forward through the marketing chain. The cost of agri-food (raw or intermediate) products is subtracted from sales to avoid double-counting the value added earlier by other agri-food businesses.

An agricultural producer or an agri-food business must usually use inputs from industries that are not part of the system. Fuel, packaging, electricity, office supplies, and legal services are some examples. Since the cost of these goods and services was not subtracted, a portion of agri-food gross value added is actually contributed by other sectors of the economy. This outside value added can be deducted to receive net value added in the agri-food system.

Since net value added deducts the cost of all purchased inputs except an industry's own factors of production, it represents the total returns to all factors employed by the industry. Net value added should not be confused with producer profits, which deduct the cost of factors of production. Net value added is a legitimate and, from an economist perspective, the preferred measure of an industry's contribution to the economy. Net value added is comparable to the figures given in national domestic product and income accounts.

The value added by the agri-food system can be estimated for different: (Wood, 2000) ¹²⁷

- products or product groupings
- firms, industries, groups of industries, or the entire economy
- numbers of intermediaries or levels separating agriculture from the final consumer

Such comparisons can be made over time, or the value added by one entity can be compared to others as a gauge of relative importance over the same time period.

Gross and net value added can be computed for all goods produced and sold by an industry, or they can be computed on a per unit basis (Chopra and Meindl, 2004) .¹²⁸ On-farm value added can be found by calculating farm cost of production data. Off-farm measurements usually emphasize forward linkages after the farm gate. Off-farm figures can then be broken down according to marketing function, such as processing, transportation and wholesaling. Other common breakdowns are gross value added by input cost category, and the shares of net value added contributed by different factors of production.

¹²⁷ Wood, E.G.: Added Value: The Key to Prosperity (3rd ed.). Essex: Business Books Ltd., 2000, p. 16.

¹²⁸ S. Chopra and P. Meindl: Supply Chain Management: Strategy, Planning, and Operation. (2nd ed.). Upper New Jersey: Pearson Prentice Hall, 2004, p. 24.

IPARD Institutional and Legal framework for the Republic of Macedonia

Regarding the institutional and legal framework for introducing IPARD in the Republic of Macedonia, the first official document was the National Programme for Agriculture and Rural Development 2007-2013,¹²⁹ the main purpose of which is to act as a planning document for implementing Council Regulation (EC) No 1085/2006 of 17 July 2006 establishing an Instrument for Pre-Accession Assistance (IPA) for the period 2007-2013. The document has been prepared by the Ministry of Agriculture, Forestry and Water Economy of the Republic of Macedonia (MAFWE), with technical support provided by the Structural and Legal Reforms Project funded by the EU, in close collaboration with the Commission, other relevant institutions, and the economic and social partners at various levels. This Programme has been prepared according to the provisions set in Commission Regulation (EC) No 718/2007 and based on Council Regulation (EC) No 1698/2005 of 20 September 2005 in support of rural development by the European Agricultural Fund for Rural Development (EAFRD), Council Decision of 20 February 2006 on Community strategic guidelines for rural development (programming period 2007 to 2013).

The drawing-up of the programme, its implementation and the follow-up mechanisms are in compliance with the Common provisions set in the Commission Regulation (EC) No 718/2007, and in particular with the Principles for Assistance (Article 3) and the provisions for IPA for Rural Development (Title IV), and thus facilitates the transition process of implementation of the *acquis communautaire*. The programme is subject to the Commission's approval referred to in Article 6 of the Commission Regulation (EC) No 718/2007.

The Ministry of Agriculture, Forestry and Water Economy of the Republic of Macedonia has overall responsibility for this programme.

In the first stage of elaboration, the principal priorities were identified in consultation with various agricultural sector stakeholders. Initially, independent in-depth studies were prepared for four agri-food sub-sectors (milk and dairy, meat and meat products, fruit and vegetables, and wine and grapes) to identify the major weaknesses to be addressed and potentials to be boosted. The four sub-sectors were selected based on their importance in the agricultural GDP and according to the process of adoption of the EU *acquis* according to the National Programme for Adoption of Acquis (NPAA). Self-governments, regional agricultural departments, regional offices of the National Extension Agency, the Farmers Federation,

¹²⁹ National Programme for Agriculture and Rural Development 2007-2013; Ministry of Agriculture, Forestry and Water Economy of the Republic of Macedonia, Skopje, 2009.

non-governmental organizations and sector advisory technical committees participated in the programme definition.

The drafting of the programme was based on the National Development Plan (NDP), the National Strategy for Agriculture and Rural Development (NARDS), and the National Programme for Adoption of the Acquis (NPAA), as well as the Multi-annual Indicative Planning Document (MIPD), the framework of available measures under Instrument for Pre-accession Assistance for Agriculture and Rural Development (IPARD) and the results of the independent sub-sector analysis.

Based on the results of consultations and discussions, the IPARD Programme was elaborated, including the assessment of the overall situation in the rural economy, development of agricultural and agriculture-related sectors, defining the main problems, and possible solutions on the basis of the priorities set forth. Analyses of the regional differences were also included in the Programme, as well as the differentiation and prioritization thereof.

The Republic of Macedonia is in the process of acquiring full membership to the European Union and is thus eligible for the pre-accession assistance in accordance with EC Regulation 1085/2006 of 17 July on establishing an Instrument for Pre-accession Assistance (IPA). Consequently, under the IPA fifth component for rural development (IPARD), the country is entitled to pre-accession financial aid for sustainable agriculture and rural development with a focus on preparation for the Common Agricultural Policy and related policies, for the European Agricultural Fund for Rural Development (EAFRD), and adjustment of the sector towards the Common Market.

Elaboration of the above mentioned National Programme for agriculture and rural development 2007-2013 is supervised by the IPARD working group. The group comprises of representatives from the Ministries of Agriculture, Forestry and Water Economy, Finance, Economy, Environmental Protection and Spatial Planning, Education and Science, the Secretariat for European Affairs, and the State Statistical Office. The overall objective of the group is implementation of the *acquis communautaire* concerning the Common Agricultural Policy and related policies for competitive and sustainable agriculture, strong, sustainable rural communities, and a diverse and sustainable rural environment.

The main general objective of the country's IPARD Programme is thus to:

“Improve the competitiveness of agricultural holdings and the food industry, developing them to comply with Community standards, while ensuring sustainable environmental and socio-

economic development of rural areas through increased economic activities and employment opportunities.”¹³⁰

This will be achieved through following specific objectives of the Programme:

- Improving the technological and market infrastructure of commercial agricultural holdings and the food processing industry, aimed at increased added value of agri-food products and achieved compliance with EU quality, health, food safety, and environmental standards
- Improved quality of life of rural population

For the Republic of Macedonia, two priorities were selected: (1) improving market efficiency and implementation of Community standards and Development of rural economy; (2) appropriate measures, with groups and sub-groups of investments having been included in the programme (Annex 1).

Research results

Regarding the IPARD beneficiaries, for the purpose of this research an economic model was applied consisting of all revenues and costs related to their businesses, while all necessary data was collected through primary research - field visits and interviews.

The agricultural and food sector in the Republic of Macedonia covers the activities of the growing of crops, fruits and vegetables, harvesting and threshing, growing of trees and logging, breeding and rearing of animals and poultry, production of milk and milk products, production of meat and meat products, eggs, manure, raw wool, etc. Traditionally, if typical agricultural and food products are used for direct consumption or as a raw material, it is considered a primary agricultural product. Accordingly, if the product goes through any type of further modification, it is referred to as a secondary agricultural product.

In this sense, for the purpose of this research, two case studies of typical IPARD beneficiaries under measure 101 are analysed. For these types of IPARD beneficiaries it is necessary, within the eligible groups and sub-groups of investments, to systematize all agricultural activities in Macedonian agriculture. For this purpose, a traditional approach is implemented and the sector is primarily divided into two major groups: primary agricultural products and processed (secondary) agricultural products.

Measure 101 focuses on the improvement of competitiveness in the agricultural sector through increasing the quality of production by using modern production means and technological improvement of production processes in compliance with the Community

¹³⁰ Ibid.

standards related to animal welfare, animal and plant health, and environmental standards. From the description of the type of eligible investments and eligibility criteria, it is obvious that the priority sector for measure 101 is primary agricultural production. This resulted in subdividing primary agricultural products into two sub-groups, namely primary agricultural products from plants, and primary agricultural products from dairy animals and fattening animals. In order to collect data for GVA, NVA, and labour productivity, calculations related to the business of IPARD beneficiaries under measure 101 and specific and suitable questionnaires were prepared (Annex 2 and Annex 3). Each questionnaire is composed of a part A for collecting general information of the beneficiary, and a part B for collecting data concerning the costs and revenues for particular agricultural activity, before and after the IPARD investment.

Case study 1

Measure 101: Investments in agricultural holdings to restructure and upgrade to Community standards

Group of investment 1014 – investments for milk production.

Sub-group 10142: purchase of specialized equipment for milking, cooling and storage.

Total IPARD investment made for purchasing specialized equipment for milking, cooling, and storage for the beneficiary in this case study was €15.000. Thanks to the new equipment, the beneficiary was able to add value to its production by increasing cheese production and sales, and arrived at an 8.67% change of GVA. Since there was no significant change in the annual depreciation rate, this beneficiary made significant change of NVA at 41.78%. New equipment has substituted human labour and workers were engaged in other activities, contributing to an increase in labour productivity of 1.73%.

Case study 2

Measure 101: Investments in agricultural holdings to restructure and upgrade to Community standards

Group of investment 1013 – investments for vegetable production.

Sub-group 10132: construction and reconstruction of existing glasshouse.

Total IPARD investment made for reconstruction of existing glasshouse for the beneficiary in this case study was €70.000. The beneficiary was able to add value to its production by increasing yield of tomatoes per square meter and consequently, by increasing the sales of tomatoes, arrived at an 8.8% change of GVA. Since it was a serious reconstruction investment, there was significant change in the annual depreciation rate, and thus this beneficiary made a modest change of NVA at 9.66%. The new glasshouse is in the same area as the old one, therefore labour productivity was slightly increased at 0.29%.

Case study 1.							
Measure 101: Investements in agricultural holdings to restructure and to upgrade to Community sandards							
10142: Purchase of specialised equipment for milking, cooling and storage							
650 sheep-befor IPARD investement				650 sheep-one year after IPARD investement			
Costs (denars)	MK denars	Euro		Costs (denars)	MK denars	Euro	
fodders	1081000,00	17721,31		fodders	1081000,00	17721,31	
cost of animals		0,00		cost of animals		0,00	
vet	47750,00	782,79		vet	47000,00	770,49	
Labour	648000,00	10622,95		Labour	648000,00	10622,95	
Energy	18000,00	295,08		Energy	22000,00	360,66	
Cost of water	12000,00	196,72		Cost of water	15000,00	245,90	
Cost of maintenance	29500,00	483,61		Cost of maintenance	32000,00	524,59	
Overhead expense	60000,00	983,61		Overhead expense	60000,00	983,61	
contractual workers	576000,00	9442,62		contractual workers	570000,00	9344,26	
Depreciation	40000,00	655,74		Depreciation	60000,00	983,61	
Total	2512250,00	41184,43		Total	2535000,00	41557,38	
Revenues				Revenues			
Sale of cheese	345000,00	5655,74		Sale of cheese	420000,00	6885,25	
sale of lambs	2112250,00	34627,05		sale of lambs	2112250,00	34627,05	
sale of whool	52800,00	865,57		sale of whool	52800,00	865,57	
sale of manure	75000,00	1229,51		sale of manure	75000,00	1229,51	
sale of milk		0,00		sale of milk		0,00	
Total	2585050,00	42377,87		Total	2660050,00	43607,38	
intermediate consumption	1824250,00	29905,74		intermediate consumption	1827000,00	29950,82	
GVA	760800,00	12472,13		GVA	833050,00	13656,56	
GVA/sheep	1170,46	19,19		GVA/sheep	1281,62	21,01	
		Change of GVA in euro	1184,43				
		Change of GVA in %	8,67				
NVA	72800,00	1193,44		NVA	125050,00	2050	
		Change of NVA in euro	856,56				
		Change of NVA in %	41,78				
Labour productivity	152160	2494,43		labour productivity	166610	2731,31	
		Change in labour productivity in euro	236,89				
		Change in labour productivity per worker in euro	47,38				
		Change in labour productivity per worker in %	1,73				

Case study 2.					
Measure 101: Investments in agricultural holdings to restructure and to upgrade to Comunity standards					
1013: Group of investments for Vegetable production					
10132: Construction and reconstruction of existin glasshouses					
150 000 m2, 300 000 kg. tomatoes-befor IPARD investement			150 000m2, 350 000 kg. tomatoes-one year after IPARD investement		
Costs (denars)	MK denars	Euro	Costs (denars)	MK denars	Euro
plot preparation	18000,00	295,08	plot preparation	18000,00	295,08
plants		0,00	plants		0,00
planting	650000,00	10655,74	planting	650000,00	10655,74
fertilizer	470000,00	7704,92	fertilizer	470000,00	7704,92
fungicide and insecticide	180000,00	2950,82	fungicide and insecticide	177000,00	2901,64
manure	200000,00	3278,69	manure	200000,00	3278,69
maintenance	41000,00	672,13	maintenance	41000,00	672,13
energy	265000,00	4344,26	energy	27000,00	442,62
irrigation	12000,00	196,72	irrigation	12000,00	196,72
fuel	2050000,00	33606,56	fuel	1902000,00	31180,33
contractual workers	2200000,00	36065,57	contractual workers	2200000,00	36065,57
labour	2400000,00	39344,26	labour	2200000,00	36065,57
other cost	50000,00	819,67	other cost	60000,00	983,61
depreciation	30000,00	491,80	depreciation	50000,00	819,67
Total	8566000,00	140426,23	Total	8007000,00	131262,30
Revenues			Revenues		
sale of tomatoes	10000000,00	163934,43	sale of tomatoes	10700000,00	175409,84
		0,00			0,00
		0,00			0,00
		0,00			0,00
Total	10000000,00	163934,43	Total	10700000,00	175409,84
intermediate consumption	6136000,00	100590,16	intermediate consumption	5757000,00	94377,05
GVA	3864000,00	63344,26	GVA	4943000,00	81032,79
GVA per kg.	12,88	0,21	GVA per kg.	14,12	0,23
GVA per ha.	2576000,00	42229,51	GVA per ha.	3295333,33	54021,86
		Change of GVA in euro			17688,52
		Change of GVA in %			8,80
NVA	3634000,00	59573,77	NVA	4693000,00	76934,43
NVA per kg.	12,11	0,20	NVA per kg.	13,41	0,22
		Change in NVA in euro			17360,66
		Change in NVA in %			9,66
Labour productivity	1717,33	28,15	labour productivity	1883,05	30,87
		Change in labour productivity in euro			2,72
		Change in labour productivity per worker in euro			0,09
		Change in labour productivity per worker in %			0,29

Table 1. Overview of the calculated indicators for IPARD beneficiaries

Case study	Sub-measure	Capacity/ Size	Total IPARD investment amount (€)	Change in GVA in EURO	Change in GVA in %	Change in NVA in EURO	Change in NVA in %	Change in FTE ¹³¹ (approx.)
1.	10142	650 diary sheep	15.000	1184,45	8,67	856,56	41,78	0,8
2.	10132	1, 5 ha. tomatoes	70.000	17.688,52	8,8	17.360,66	9,66	1

Methodology

In the Republic of Macedonia, the State Statistical Office collects data for the sources of value added and the cost structure of GDP, and calculates it using a product approach and according to current prices. On a national level, the Macedonian State Statistical Office calculates GVA in agriculture as the value of the sector's gross output of goods and services, less the value of its intermediate consumption of goods and services, while net value added is the value of gross output less the values of both intermediate capital consumption, fixed capital consumption, compensations to employees, and taxes on production. According to classification by NACE¹³² sections and subsections, calculations are made on the level of the whole economy, on the level of institutional sectors and subsectors, and according to the size of enterprises. Institutional sectors and subsectors are defined according to the recommendations in SNA93¹³³ and ESA95,¹³⁴ depending on their type of production and on their main activities and their function, which are indicators of their economic behaviour. The managing of the enterprise is also considered. As for agricultural and food products, the State Statistical Office incorporates GVA calculations within two sections (agriculture and hunting, forestry and manufacturing), as well as several subsections.

In this research, for consistency in preparation of an economic model for GVA, NVA, and labour productivity calculation, as well as for estimation of the overall increase of all three

131 *FTE=Full-time equivalent:

Ratio of total number of paid hours during a period of time (part time, full time, contracted) by the number of working hours in that period Mondays through Fridays. An FTE of 1.0 means that the person is equivalent to a full-time worker, while an FTE of 0.5 signals that the worker is only part-time. In this table, approximation only (no available and/or reliable data for total number of paid hours and the length of the period were obtained).

132 NACE - National Classification of activities.

133 SNA - System of National Accounts.

134 ESA - European System of Accounts.

indicators for potential applicants in IPARD programmes, the same methodological approach is adopted. All required inputs to calculate above mentioned indications are defined as follows:

Gross Value Added at basic prices is the basic category of GDP and it represents the balance between gross output and intermediate consumption.

Gross output is a value of goods and services produced in the course of one year, regardless of whether or not the whole quantity is sold or partially added to stocks. Keeping in mind the specifics of the production process in agriculture and the potential use of the produced goods, during the data collecting process, it is important to clarify that gross output consists of three kinds of output: market output, output for own final use, and non-market output.

Intermediate consumption is a value of products and market services that the producer uses as inputs in the production process, excluding fixed capital consumption (depreciation), in order to produce other products and services. This category includes consumption of current purchases, stock consumption, as well as consumption of own products and services in the production process. Therefore, intermediate consumption includes the use of raw materials, materials, energy, office-supplies, working cloths and spare parts, transport cost of employees, daily allowances, living separately from the family, contract payments, and other benefits received by employees that are connected with performing of regular economic activity.

Compensations of employees are defined as funds given to employees and workers for the work done during the year and paid out in cash or in kind. This category of funds includes wages and salaries, allowances added to salaries, social contributions, personal taxes, as well as all compensations for food, transport, accommodation, vacations, etc.

Net value added is a residual component of the value added, reduced for the amount of depreciation, compensations of employees, and taxes on production.

Net value added for individual agricultural holdings is obtained by subtracting net-indirect taxes and compensations of value added. As it is difficult to separate salaries of self-employed persons, individual agricultural producers and members of their families from the surplus achieved, this category contains the owners' salaries.

Depreciation-consumption of fixed capital during the accounting period is defined as a decrease of current value of producers' fixed assets due to their physical use, obsolescence, and/or accidental damages. For the purposes of this study, project depreciation value of legal entities will be calculated based on the data from their annual reports. For individual households and farms without annual reports, depreciation value will be calculated based on their estimations.

Employees and self-employed. Total employment in accordance with SNA93 and ESA95 methodologies covers all persons – both employees and self-employed – engaged in some productive activities that falls within the production boundary of the system.

Employees are defined as all persons who, by agreement, work for another resident institutional unit and receive remuneration.

In accordance with National Accounts concepts, the total number of employees covers the number of employees from annual financial reports, and an adjusted number of non-registered employees using Labour Force Survey data.

Self-employed individuals are defined as persons who are the sole owners, or joint owners, of the unincorporated enterprises where they work.

In accordance with National Accounts concepts, the total number of self-employed persons covers the adjusted number of self-employed from annual financial reports, the number of self-employed individuals obtained from the Tax Office, the number of individual agricultural producers that pay contributions to the Pension Fund, and an adjusted number of non-registered employees using Labour Force Survey data.

After collecting all necessary data, calculation of GVA, NVA, and labour productivity at IPARD beneficiary level was done using the following economic model:

$$\begin{aligned} \text{Gross Value Added (GVA)} &= \text{gross output} - \text{intermediate consumption} \\ \text{Net Value Added (NVA)} &= \\ &= \text{GVA} - (\text{depreciation} + \text{compensations of employees} + \text{taxes on production}) \end{aligned}$$

$$\text{Labour productivity} = \frac{\text{GVA}}{\text{number of employees}}$$

Situation before investment

$$\text{gross output} - \text{intermediate consumption} = \text{GVA}(\text{baseline})$$

Situation after investment

$$\text{gross output} - \text{intermediate consumption} = \text{GVA}(\text{target})$$

Result Indicator

Increase in Gross Value Added in IPAR beneficiaries:

$$\text{GVA}(\text{target}) - \text{GVA}(\text{baseline})$$

Conclusions

After the introduction of the EU Instrument for Pre-Accession Assistance and the first positive experiences of supported investment with IPARD funds in the Republic of Macedonia, Macedonian agri-food producers are now more open to considering new enterprises, activities, and procedures than ever before.

After conducting on-field visits and conducting interviews with selected IPARD beneficiaries, the basic conclusion that may be drawn is that IPARD investments contribute to increases in of GVA, NVA, and labour productivity.

According to the realized on-field visits, the collected data, and interviews conducted with IPARD beneficiaries, the following conclusions and recommendations can be given:

- Keeping in mind that the majority of Macedonian IPARD beneficiaries, especially those under Measure 101 are without financial annual reports, all collected data should be considered with caution. This precaution needs to be stressed regarding valuation of depreciation, stocks, labour costs and contractual workers, as well as the exact number of employees and contractual workers. These are the input data required for calculation of GVA, NVA, and labour productivity indicators. According to the knowledge gained during the on-field visits, the predictions have to be taken with caution as it relates to their reliability as provided by the agricultural holdings, farmers, and micro enterprises. This problem becomes more complex and less realistic when calculating these indicators at a national level.
- The currently existing impact indicator "change of GVA per annual work unit" is not easy to quantify, and it is difficult to set target levels for them in a reliable manner. This is due to the lack of any previous experience similar to IPARD, and the lack of statistical data on these types of indicators.
- When the primary goal is calculation of the change of GVA, NVA, and labour productivity, and estimating the overall increase of all three indicators at result and impact level of an IPARD beneficiary in the Republic of Macedonia, there is a need for much more reliable data from farmers/agriculture holdings/companies in the agriculture and food sector. Keeping in mind collected data from the case studies and the prepared questionnaire for collecting cost and revenue data, the recommendation is to prepare a concrete plan for direct contact with IPARD beneficiaries that contains revenues and all costs related to their business, both for before supported investment and after.

It needs to be stressed that the roles of processing, packaging, and marketing farm commodities are core elements of the IPARD Programme for the Republic of Macedonia that have traditionally not been tapped by Macedonian agri-food producers. Also, transition by agro-food producers into a value-added enterprise is not a straightforward process. In order

for more successful realization of IPARD funds by Macedonian agro-food producers, new regulations must be understood, new business contacts must be developed, new procedures must be implemented, and new marketing techniques must be explored. Evaluations of value-added agricultural enterprises require significant investigations into product development, market research, and economic feasibility.

However, with the right combination and balance of many concepts and criteria, Macedonian agro-food producers can take advantage of opportunities offered by IPARD funds.

Last, but not least, it must be pointed out that Macedonian agriculture has the ability to provide a relatively high proportion of worth to the notion of “value added”, which is not directly measurable, but which have positive effects on society overall, especially on:

- rural economies and the employment of low-skilled labour
- preserving the quality and fertility of land
- increasing food security
- conservation of environment, landscaping, health, etc.

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Annex 1. Priorities and measures with groups and sub-groups of investments that are included in the National Programme for agriculture and rural development 2007-2013

Priority 1: Improving market efficiency and implementation of Community standards

Measure 101: Investments in agricultural holdings to restructure and to upgrade to Community standards

Primary agricultural product from plants – grapes, fruits and vegetables – produced in greenhouses, glasshouses and in open fields. These products are covered by the following groups and sub-groups of investments:

1011 Group of investments for vineyards

10111 Reconstruction of vineyards

Size 0.5-20 ha. (or 0.5-50 for agricultural cooperatives, and legal entities dealing in agriculture, commercial companies entering into agriculture activities)

Replacing vineyards older than 10 years

Vineyards must be located in the vine regions in the vine growing areas as in (Annex, 15 p.381).

Prove to the rented agricultural land the right to use it for a minimum of 10 years (for investment)

1012 Group of investments for orchards

10121 Reconstruction of orchards

Size 0.5-15 ha. (or 0.5-50 for agricultural cooperatives, legal entities dealing in agriculture, and commercial companies entering into agriculture activities)

Replacing fruit trees older than 15 years (least of the fruit varieties (Annex 22, p.407)

Prove for the rented agricultural land the right to use it for a minimum of 10 years (for renovation, replacement, and irrigation improvement only)

1013 Group of investments for vegetable production

10131 Construction and reconstruction of fixed greenhouses (excluding plastic tunnels)

10132 Construction and reconstruction of existing glasshouses

10133 Construction and reconstruction of buildings for post-harvest activities of existing greenhouses (incl. glasshouses, excl. plastic tunnels)

10134 Modernization of open-field vegetable production

Size: greenhouses 0.3-3 ha.; glasshouses 0.1-2.5 ha.; open-field 0.5-15 ha.

Prove the right to use the land or have a concession contract for the building for a minimum of 10 years (for glasshouses and greenhouses only)

Primary agricultural products from dairy animals and fattening animals – milk from cattle, lactating sheep and goats, sows and pigs for fattening and poultry fattening (broilers). These products are covered by the following groups and sub-groups of investments:

1014 Group of investments for milk production

10141 Construction/reconstruction of farm buildings for dairy animals (cattle, sheep and lactating goats)

10142 Purchase of specialized equipment for milking, cooling and storage

Sable size for 5 dairy cows/m²; 1 sheep or goat in lactation/1.4 m²

Capacity of 10-100 milking cows; 50-500 milking goats; 300-3000 milking sheep

Prove the right to use the building for a minimum of 10 years

1015 Group of investments for meat production

10151 Construction/reconstruction of farm buildings for sows and pigs for fattening

10152 Setting up of new poultry production units for broilers and modernizing of existing ones

Sable size 1 sow/1.3 m²; 1 fattening pig/0.65 m²; 17 broilers/ m²

Capacity of 2000-8000 pigs for fattening; 40-100 sows; 5000-30000 broilers.

Prove the right to use the building for a minimum of 10 years.

Measure 103: Investments in processing and marketing agriculture products to restructure and to upgrade to Community standards

Processed (secondary) agricultural products from plants – grapes, fruits and vegetables. These products are covered by the following groups and sub-groups of investments:

1031 Group of investments for wine production

10311 Purchase of equipment for improvement of wine product quality

Medium sized winery company

Capacity of 1500-55000 hl/year

1032 Group of investments for fruits and vegetable processing

Construction/reconstruction of buildings for setting up and modernization of fruit and vegetable collection centres

Medium sized fruit and vegetable processing company

Capacity of collection centre 500-3000 t/year

Prove the right to use the building for a minimum of 10 years

Purchase of equipment for improving and modernization of production technologies in fruit and vegetable processing establishments

Capacity: Drying 40-500t/year; freezing 500-5000 t/year; preserving/canning 500-5000t/year.

Processed (secondary) agricultural products from animals. These products are covered by the following groups and sub-groups of investments:

1033 Group of investments for milk and dairy

10331 Setting up and modernization of milk collection centres

Medium sized milk processing company with collection centre/cooling and storing capacity of 1500-30000 l/day.

Prove the right to use the building for a minimum of 10 years

10332 Investments in modernization and technological upgrade of the dairy establishments with specialized production

Small sized milk processing company with dairy product processing capacity of 5000-100000 l/day.

1034 Group of investments for meat products

10341 Establishment of slaughter capacity for poultry

10342 Modernization and technological upgrading for the existing slaughter establishments for cattle, pigs, and poultry

10343 Investments for decreasing negative impact on the environment in meat processing establishments and slaughterhouses

Slaughtering capacity: poultry 5500-3000heads/day; cattle 15-150 heads/day; pig 20-300 heads/day; lamb 50-4000 heads/day

Meat processing capacities of 2000-25000t/year.

Priority 2: Development of rural economy

Measure 302: Diversification and development of rural economic activities

3021 Group of investments for support to micro enterprises in rural areas

30211 Establishment of on-farm and off-farm processing capacities

30212 Establishment and modernization of collection centres for mushrooms and medicinal/oil, herbs and spices, and facilities for mushroom cultivation

30213 Establishment of workshops for traditional handicraft activities and agriculture machinery repair workshops

3022 Group of investments for promoting rural tourism activities

30221 Reconstruction of on-farm houses for rural tourism purposes, complemented with recreational facilities

30222 Construction of catering premises, outdoor accommodation (camping sites) and recreational facilities

Annex 2. Questionnaire No. 1: for collecting data from IPARD beneficiaries using primary agricultural products from diary animals and fattening animals

Measure 101, sub-group of primary agricultural products from diary animals and fattening animals (group of investments 1014 1nd 1015 – milk and meat producers)

A: General Information

Agricultural holding/Enterprise:

Municipality:

Address:

Telephone and E-mail:

Activity:

Status: Individual

Private enterprise

Number of employees:

Size: micro small medium

Criteria for classification in one of the above mentioned categories:

- Number of employees
- Annual revenues (total turnover)
- Average value of total assets

Contact person:

Note: information regarding title/name of the agricultural holding/enterprise, the activity, number of employees and its size are not going to be an integral part of the report. They will only be used in conducting individual analysis of the revenues and all costs in order to prepare an economic model for GVA calculation, as needed for this project.

B 1.1: Financial data for real total costs and revenues for accounting period of one year before IPARD investment

	measure	quantity	Unit price	Total
COSTS				
Livestock and dogs' feeding				
Voluminous fodder - purchased				
Voluminous fodder - own				
Concentrated fodder				
Salt				
Dog food				
Dietary supplements				
Veterinary services				
Vaccines				
Parasite protection				
Water and drinking water				
Stocks and maintenance				
Energy				
Electricity				
Gas				
Fuel				
Other				
Gross wage for employees				
Shepherd/cattleman				
Sheepfold master				
Wage for contractual workers				
Depreciation				
Other costs				
Office (small) supply				
Milk and cheese container				
Sheep shearing				
Working cloths				
Transportation of the herd				
Transportation of milk/cheese				
Other				
TOTAL COSTS				
REVENUES				
Milk				
Lamb/calf/small pig/kid				
Cheese and other processed goods				
Wool, skin and other products				
Manure				
Supplemental services (activities)				
TOTAL REVENUES				

B 1.2: Financial data for projected total costs and revenues for accounting period of one year after IPARD investment

	measure	quantity	Unit price	Total
COSTS				
Livestock and dogs' feeding				
Voluminous fodder - purchased				
Voluminous fodder - own				
Concentrated fodder				
Salt				
Dog food				
Dietary supplements				
Veterinary services				
Vaccines				
Parasite protection				
Water and drinking water				
Stocks and maintenance				
Energy				
Electricity				
Gas				
Fuel				
Other				
Gross wage for employees				
Shepherd/cattleman				
Sheepfold master				
Wage for contractual workers				
Depreciation				
Other costs				
Office (small) supply				
Milk and cheese container				
Sheep shearing				
Working cloths				
Transportation of the herd				
Transportation of milk/cheese				
Other				
REVENUES				
Milk				
Lamb/calf/small pig/kid				
Cheese and other processed goods				
Wool, skin and other products				
Manure				
Supplemental services (activities)				
TOTAL REVENUES				

Annex 3. Questionnaire No. 2: for collecting data from IPARD beneficiaries with primary agricultural products from plants

Measure 101, sub-group off primary agricultural products from plants (group of investments 1011, 1012, 1013 – vineyards, orchards, open field vegetable production, green-and-glasshouses)

A: General Information

Agricultural holding/Enterprise:

Municipality:

Address:

Telephone and E-mail:

Activity:

Status: Individual

Private enterprise

Number of employees:

Size: micro small medium

Criteria for classification in one of the above mentioned categories:

- Number of employees
- Annual revenues (total turnover)
- Average value of total assets

Contact person:

Note: information regarding title/name of the agricultural holding/enterprise, the activity, number of employees and its size are not going to be an integral part of the report. They will only be used in conducting individual analysis of the revenues and all costs in order to prepare an economic model for GVA calculation, as needed for this project.

B 2.1: Financial data for real total costs and revenues for the accounting period of one year before IPARD investment

	Measure (unit)	quantity	Unit price	Total
COSTS				
Plot preparation				
Tillage				
Manure				
Nitrogen fertilizer				
Plants				
Planting				
Pesticide				
Insecticide				
Fungicide				
Maintenance (pruning, weeding, hoeing up ...)				
Picking				
Water-irrigation				
Stocks and maintenance				
Energy				
Electricity				
Gas				
Fuel				
Other				
Gross wage for employees				
Wage for contractual workers				
Depreciation				
Other costs				
Office (small) supplies				
Working cloth				
Transportation to and from the plot				
Other				
REVENUES				
	Primary activity		Supplemental activity (service)	
Scope of production				
Average production				
Price per unit (service)				
Revenue				
TOTAL REVENUES				

B 2.2: Financial data for projected total costs and revenues for an accounting period of one year after IPARD investment

	Measure (unit)	Quantity	Unit price	Total
COSTS				
Plot preparation				
Tillage				
Manure				
Nitrogen fertilizer				
Plants				
Planting				
Pesticide				
Insecticide				
Fungicide				
Maintenance (pruning, weeding, hoeing up ...)				
Picking				
Water-irrigation				
Stocks and maintenance				
Energy				
Electricity				
Gas				
Fuel				
Other				
Gross wage for employees				
Wage for contractual workers				
Depreciation				
Other costs				
Office (small) supplies				
Working cloth				
Transportation to and from the plot				
Other				
REVENUES				
	Primary activity			Supplemental activity (service)
Scope of production				
Average production				
Price per unit (service)				
Revenue				
TOTAL REVENUES				

