



# The use of EU funds in Macedonia

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Efficiency, impact and absorption  
capacity и

*Collection of studies*  
Working version

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# Emilija Taseva: IPA COMPONENT I FOR EUROPEAN INSTITUTIONS GUARANTEEING DEMOCRACY, RULE OF LAW, HUMAN RIGHTS, PROTECTION OF MINORITIES IN REPUBLIC OF MACEDONIA

## Introduction

*The accession towards EU is a cumbersome process. It requires fulfillment of EU political, economic criteria and ability to assume obligations from membership implying broad reforms in all spheres of the society: political, economic, social, cultural. The previous enlargements showed that fulfillment of the Copenhagen political criteria that require reforms of the institutions guaranteeing democracy, rule of law and human rights, protection of minorities are most challenging ones and as such have absolute priority. EU provides political and financial support, the EU Instrument for Pre-accession Assistance which was introduced, efficiently targets the interventions which concerned the attainment of political criteria. However, granting of assistance by EU is only the first step, a lot remains to the national institutions and ensuring ownership, absorption capacity are key for successful utilization of the funds thus 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<sup>1</sup>. It is a conditionality instrument that provides for considerable support to the countries applicants for EU membership in the costly reforms for alignment with European *acquis*, policies and standards. Over the past decades, the EU has delivered assistance to Republic of Macedonia through various programmes such as ECHO, Obnova, PHARE, Emergency Response Programme and CARDS the total estimate of funds in the period from 1992 to 2006 amounted to more than 800 million euro<sup>2</sup>. By introducing the Instrument for Pre-accession assistance (IPA) only for the period from 2007 to 2013 around 622 million euro are allocated. How this assistance is used in Republic of Macedonia must be praised.

By observing the previous EU enlargements, it can be concluded that key condition for advancing in the pre-accession process is the alignment with the Copenhagen Political

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<sup>1</sup> Grabbe Heather, “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.

<sup>2</sup> Commission Decision C(2007) 1853 of 30/04/2007 on Multiannual Indicative Programming Document (MIPD) 2007-2009 for the Republic of Macedonia.

criteria<sup>3</sup>. 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, minorities. This analyses aims to explore whether the assistance provided through IPA Component I concentrates efficiently on interventions that address the accession priorities, in particular those concerning the political criteria and ensures that these are well targeted so as to achieve impacts and absorption. Considering the early stage of implementation of IPA in Republic 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 exists, the literature on pre-accession assistance is scarce. Consequently, the analyses is a result of desk research of the legal framework for establishing and implementation of IPA such as Council regulations, Commission regulations, multiannual indicative planning documents (MIPDs), national programs for IPA Component I TAIB, Commission annual IPA reports, evaluation reports, project fiches, Commission annual progress reports, well as national strategic documents such as National program for adoption of EU acquis. Important insight into the implementation of the 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 analyses is limited to the projects from the National TAIB annual programs 2007 and 2008 which were recently finalized or which are in final stage of implementation and as such could be observed. Most of the projects from the National TAIB annual program 2009 have not been contracted yet and they were taken in consideration only to the extent relevant to the topic.

Composed of four parts, the analyses will proceed as follows: overview on the key priorities of the EU Enlargement policy and the pre-accession assistance instruments, the Copenhagen criteria, including the political criteria will be given in the first part; in the second part, the focus will shift on pre-accession assistance in Republic of Macedonia, IPA and Component I Transition Assistance and Institution Building and how it support the political criteria and the national institutions for guaranteeing democracy, rule of law, human rights, protection of minorities; in the third part, the initial experiences from the

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<sup>3</sup> 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.

implementation are explored, the prospects for efficiency, absorption and impact; finally the fourth part provides for the conclusions.

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

The Instrument for pre-accession assistance has been introduced as part of the reform of the EU aid framework for 2007-2013 for the external policies in an effort to support the EU enlargement policy and the countries aspiring for EU membership more efficiently. 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 EU that helped in transition of the countries in modern, functional democracies while ensuring peace, stability, prosperity, democracy, human rights and rule of law on the territory of European continent. In view of the democratization process in Central and East European Europe, the EU encountered number of countries from the region applying for EU membership. These countries were challenged with broad reforms tackling all spheres of the society: political, social, economic, cultural. The reforms included consolidation of market institutions, open market economies but most difficult ones have been democratization of the institutions, strengthening of rule of law and human rights. Organised crime and corruption, deeply rooted in the societies, were problems which posed a risk of spillover over to neighboring states in the context of an enlarged Union if not addressed adequately. The EU guidance was indispensable. Henceforth, the Council of the European Union with its conclusions from Copenhagen in 1993, conditioned the Union membership with the fulfillment of the political and economic criteria and ability to assume the obligations from the membership<sup>4</sup>. Out of the broad areas of EU acquis, standards and policies which the Copenhagen criteria included, alignment with the Political requirements had absolute priority<sup>5</sup>. They 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<sup>6</sup>. Behind this construction, EU required free and fair elections, functioning of the legislature, functioning of the executive including public administration, functioning of the judiciary, fight against corruption, respect of human rights including civil and political, economic and social, respect of and protection of minorities and cultural rights. Later on, the same focus on Political criteria has been maintained in the accession of Romania,

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4 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".

5 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.

6 Ibid.

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 organised 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 the past experiences, with respect to the countries from the Western Balkan Region, the strategic interest of the European Union has been installment 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 the political guidance, the EU has supported the candidate countries with number of financing instruments, PHARE, SAPARD, ISPA, Phare Cross-Border Cooperation (CBC) and Coordination, available to the 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 the 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<sup>7</sup> aiming at simplification of the framework for channeling assistance. It replaced the previous instruments and it envisaged distribution of the assistance through five components: 1) Transition assistance and institution building; 2) Cross border cooperation; 3) Regional Development; 4) Human Resources Development and 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”. 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 the respect for the principles of democracy, the rule of law and for 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 manner,

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<sup>7</sup> 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).



not only that the focus was 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 protection of minorities in Republic of Macedonia**

In order to assess how IPA and Component I contribute in the pre-accession process and attainment of Political criteria in Republic of Macedonia, it is necessary to understand how the funds are planned, programmed (designed) and implemented. It is not the first time, this priority in Republic of Macedonia to be supported by EU. From 2002-2006 only with CARDS around 56,6 million euros have 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 euros or in total around 51% of the total CARDS assistance provided<sup>8</sup>. Within the framework of IPA, these allocations have significantly increased based on the intensified EU integration activities for adoption of EU *acquis* which 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, Republic of Macedonia had obtained a status of country candidate and as such accessed all five components of IPA. The allocations of IPA for the period 2007-2013 amount to around 622 million euros. From the distribution of funds in components (Table 1) it is evident that biggest share of the total IPA amount allocated, around 243 million euros or 39% falls into Component I which points to the importance of the component and the priorities its supports. From Component I, around 30-45% is allocated to Political criteria annually.

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<sup>8</sup> 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
<b>Total</b>	<b>58,500,000</b>	<b>70,200,000</b>	<b>81,782,001</b>	<b>91,684,594</b>	<b>98,028,286</b>	<b>105,070,852</b>	<b>117,212,269</b>	<b>622,478,002</b>

Data source: [www.sep.gov.mk](http://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, that reflects the priorities of the Stabilisation 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 Program for Adoption of the EU acquis. The programming is initiated with the preparation of the multi-annual indicative planning documents (MIPDs) that follow a three year perspective. For the first years of assistance for 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 MIFF<sup>9</sup> (Table 1), a document proposed by the Commission. Based on the MIPD, the Government submits a proposal to the European Commission for the national programs for Component I Technical Assistance and Institution Building consisted of the separate project fiches (proposals). When the program is approved, a financing agreement between EU and 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

<sup>9</sup> 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.

country to have decentralized management system (DIS)<sup>10</sup> in place. However, Republic of Macedonia, unlike Croatia and Turkey, was not DIS accredited under the pre-IPA instruments, the EU assistance was managed by the European Agency for Reconstruction (EAR). The process of establishing the decentralized management system for all IPA components has been initiated in 2005<sup>11</sup>, however drawing from the experiences of the other countries, it was likely that the process of preparing and accreditation of the decentralized implementation system will take time. Henceforth, it was decided the implementation of Component I to be carried out on a centralised basis by the European Commission until the relevant national authorities obtain the relevant IPA accreditations. As a continuation of the previous practice with the CARDS assistance, the programming and management of IPA was carried out by the European Agency for Reconstruction (EAR) with technical inputs from the ministries, future beneficiaries of aid.

The priorities which have been identified for support are fully compliant with the EU accession priorities. At the time of planning of the first IPA programs, the country faced numerous challenges in the areas relevant for alignment with the Political criteria. Public administration was weak and inefficient. Improving the independence and the efficiency of the judiciary was seen as a major challenge. Progress was limited in the areas of fight against organised crime and the fight against drugs. External borders and Schengen, implementation of the integrated border management strategy were priorities which required substantial investment. Corruption was a widespread problem. With respect to human rights in particular civil and political rights, improvement of 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 situation of the Roma community. In such context<sup>12</sup>, the first IPA programs and projects have been conceived.

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<sup>10</sup> 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.

<sup>11</sup> 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 Authorising 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-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 on-going 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.

<sup>12</sup> 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.

Based on the analyses of strategic priorities and 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 % was allocated of the total IPA Component I assistance. Due to the urgent need to continue the support to the police reform which 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 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 decentralised management of EU funds. With revision of the MIPD for years 2008-2010, the number of priorities of the political criteria has increased, apart from the priorities public administration, police, judiciary previously identified as priorities with the previous program, additional areas that were granted support were human rights and protection of minorities, civil society. The allocation in support of Political criteria increased to 30 % - 45 % pointing to the increased demand for assistance for this strategic area. The assistance was effectuated through seven project proposals in the national TAIB 2007 and 2008 programs: 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 the participation of the civil sector in decision making process and in providing social services. The projects effectuated 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, civil society. The total amount of assistance allocated to the areas concerning political criteria from programs 2007 and 2008 amount to 23.250.000 euros. Considering financial amounts allocated, the themes addressed, the number of institutions targeted, it is evident that the National IPA Component I programs for 2007 and 2008 are highly relevant for the pre-accession process. The assistance presents a significant and an important mean of support which at a time of overall economic crises which the national legislature, government, public administration, judiciary, law enforcement bodies, human rights institutions can rely on in the challenging reforms.

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

Upon approval of the multiannual and annual programs the more complex phase of contracting and implementation took place in a time of instability of the institutional set up in the country. Implementation of the first funds started slowly. In 2007 no IPA funds were contracted nor payments were executed and limited number of tenders were launched<sup>13</sup>. Delivery of the 2007 TAIB programme and the start-up of IPA 2008 was delayed at least one-year compared to delivery planned 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 IPA TAIB 2007 program 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 Reports<sup>14</sup>

If efficiency of assistance stands for how well the inputs are transformed into outputs and outcomes including the due time in which they were delivered<sup>15</sup>, in terms of IPA component I contracting, efficiency has been initially undermined by the slow procurement of the interventions<sup>16</sup>. 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 been sometimes characterized with slow pace, often due to lack of capacity and ownership on the beneficiaries of aid. Ownership is an important factor which influences the efficiency of the assistance as suggested by EU evaluations<sup>17</sup>. In order to ensure the 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 moreover important, in the technical assistance projects in the field of public administration and judiciary reform, that are dependent on cooperation of wide range of stakeholders and their commitment and ownership is key. In addition, the administrative capacity is influenced by lack of human resources and adequate skills, overburdening with work responsibilities, insufficient inter-agency

<sup>13</sup> European Commission Mid-term Meta Evaluation of IPA Assistance, Evaluation Report, 20.02.1011.

<sup>14</sup> 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.

<sup>15</sup> The DAC Principles for the Evaluation of Development Assistance, OECD (1991).

<sup>16</sup> European Commission Mid-term Meta Evaluation of IPA Assistance, Evaluation Report, 20.02.1011.

<sup>17</sup> 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.

cooperation. Such factors affect the absorption as demonstrate the rate of disbursement of the funds. This is particularly evident with IPA TAIB 2008 program, by June 2012, 63% of the funds have been disbursed.

**Table 3: IPA TAIB annual program 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 program for 2007 and 2008. Funds allocated, contracted and disbursed by June 2012 by projects (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

Due to the recent finalization of the projects, the impact of the assistance is yet to be seen. However, the initial experiences can still be observed. Namely, in exploring whether the assistance contributed in the general objectives of IPA, to support country progress in the

EU accession, if judging from the recommendation of the European Commission in 2009 for Republic of Macedonia to open accession negotiations, there has been progress in attaining the political criteria. Nevertheless, it has to be also noted that in this progress and improving the institutions for democracy, rule of law, human rights, IPA has been only one factor contributing to the change, while additional factors have been also other EU “Europeanisation” mechanisms such as the Stabilization and Association process, the recently launched European Commission High Level Accession Dialogue<sup>18</sup>, the completed visa liberalization process in 2009 which has proved as powerful drive for reform. In terms of the contribution of the assistance in improving the capacities of the institutions beneficiaries of the assistance, according to the EU Delegation, the project beneficiaries, project implementation teams, despite some shortcomings, the assistance triggered positive changes. On the question, 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 which benefited from the National TAIB programs 2007 and 2008 has improved compared to the 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, Amnesty International. The process of strengthening national institutions for guaranteeing democracy, rule of law, human rights continues.

## **Conclusions**

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

The upcoming IPA TAIB 2009 program is yet to be implemented. It will be the first program implemented with decentralized management system, managed by the national institutions. Will it be marked by delays, slow absorption, mixed effects, remains to be seen.

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<sup>18</sup> The High Level Dialogue was launched on 29.03.2012.

However, lessons learned from the previous programs 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, strengthened participation are inevitable. As after all, the assistance aims only to support the reforms which should be driven by the institutions themselves. Without adequate absorption capacity, ownership of reforms, the scope of influence from outside the country is limited.

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

## **Abstract**

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 for a case study. Due the lack of relevant official information, especially project reports, 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 projects’ target groups through an on-line 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, in details describes the research methodology used in this paper. The third chapter describes absorption capacity concept in EU public finances aspect, with specific focus on administrative/institutional absorption capacity, including some aspects of Macedonia’s administrative capacity. It excludes extensive explanation about the concept, it only mentions core issues. In concrete, the researcher’s idea was to get to the point without saying what has been said so far. The next part of the chapter describes briefly the introduction of the IPA in Macedonia and the Cross-Border Cooperation as a specific component of IPA by providing general information. Fourth chapter is devoted to IPA CBC Programme Macedonia 2007-2013 selected as a case-study programme. It includes programme institutional structure, overview of projects implemented through the first call of proposals. Additionally, it explains the state of affairs and projects impact. Finally, the fifth chapter brings the main conclusions of the research.

## Literature review<sup>19</sup>

IPA as a new instrument provided by 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 and no books found. We do not exclude the option, to have such books but were not accessible due to libraries' catalogues or categorisation 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 in details. IPA as a new instrument is not tackled extensively in an academic aspect.

While searching for IPA literature you may find two categories of information. The first and more reliable are 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 is 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, lessons learned, etc. Furthermore, some of them provide practical experiences from other countries that went through the same or similar path. If we can divide these papers, they can be categorised into: the group of (descriptive) papers that illustrate IPA containing abovementioned information and the group of papers that explain experiences of other countries that have undergone through the same path, albeit with different instruments i.e. specific aspects on administrative absorption capacities in Czech Republic, Estonia, Hungary, Slovakia, Slovenia (Andrej Horvat and Gunther Maier); analysis of absorption capacity of the EU funds in Romania, (European Institute of Romania); A study on for Bulgaria and Romania: What lessons can be learned for future enlargements? (European Parliament, Directorate General for Internal Policies Policy Department D: Budgetary Affairs), etc., Cross Border Cooperation as instrument or EU cohesion policy: case of Croatian, (master) thesis by

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<sup>19</sup> We use the term "literature" to describe any publication printed or electronic version, various documents, reports, guidelines, papers, studies, strategy, etc!

Kristijan Lezaicis<sup>20</sup>. It should be emphasized, that not all of the available literature is worthy to be analysed or used for the purpose of our research.

Almost all authors, if not the same, have very similar definition about the concept of absorption capacity. They indeed, have the same opinion upon the importance of IPA funds, as well as for the importance of establishing administrative infrastructure with qualified and professional staff as a fundamental factor to absorb IPA funds today and EU structural funds tomorrow.

## **Research methodology**

The absorption capacity of IPA funds for the purpose of this paper should be seen from a perspective of its impact in real life of citizens and of reaching IPA CBC Programme global aim and specific objectives. This was our main focus. At the same time, with interviews conducted with various stakeholders we have gained an insight about the state of play of administrative capacities of OS and beneficiaries.

### **Desk research**

The initial part of the research was desk based. Information was obtained from various online resources. The result showed that theoretical literature in the field of IPA CBC is scant. There were some analysis and papers analysing 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 makes us conclude that IPA funds are a “burning issue” in Macedonia. When literature is scant or non-existing official documents of EC were the main document from where we could ideas in our research. In brief, a research on IPA CBC programmes that Macedonia is partner with neighbouring countries was done. Another aspect of the research was, detailed analysis on projects contracted and implemented throughout IPA CBC Macedonia – Albania for 2007-2013.

### **Interviews**

A list of the relevant stakeholders was compiled. Initially, there were identified three categories. First the operating structure, second municipalities from the eligible area and third project beneficiaries. Representatives of the prior and second group were interviewed face-to-face with more general open-ended, un-structured questions about the administrative capacities, their view on the programme. The later ones were consulted via telephone and fulfilled an online survey whereby emphasising their perceptions about the impact of the projects. The idea was, from diverse perspectives to get a picture of the state

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<sup>20</sup> These papers are taken only as examples

of affairs, difficulties during the implementation of the projects, lessons learned, what can be changed in future, the impact of the projects in their business from various perspectives.

## Survey

We decided to conduct a survey for a simple reason, to see end results of the IPA funds. How target group felt. Survey target group consisted of organisers (representatives of the organisations) and participants of the projects implemented under IPA CBC programme Macedonia-Albania 2007-2013.

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

With 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 counter parts from partnering countries; if there were joint initiatives after the project was implemented.

### **3. Administrative capacities of macedonia**

IPA is a topic that has been discussed a lot in Macedonia, especially prior to acquiring candidate country status for EU membership. It was told that the country will have huge amount of non-refundable financial means to spend in order to be prepared for joining the European Union. It was told as well, that the country will have difficulties in getting these funds due to limited absorption capacities of the institutions. It was not only Macedonia that had to struggle. Most of the countries that went through the process 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* but potential beneficiaries need to know how to absorb funds, which largely depends on administrative capacities<sup>21</sup>. 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 in various countries; some have shown more successes some less. What is the case in Macedonia? Is the administrative capacity strengthened enough to efficiently and effectively absorb funds from this instrument? In assessing the current situation we don't intend to perceive things black and white but to

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<sup>21</sup> 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)

show the whole mosaic. Is there any progress in strengthening administrative capacities of Macedonia? We will try to answer these questions too, but the main goal of the paper remains to assess the impact of projects granted and implemented under IPA CBC programme Macedonia Albania 2007-2013 from the first call of proposals.

Creating an efficient and effective public administration is a must for candidate countries in the path towards the European Union. It indeed, requires political commitment of the leadership. This support should be understood as a willingness of the political leadership to put professionalism before political affiliation of the staff, planning the employments and investment for professional development of the staff in required positions, ensuring long-term engagement and commitment of the staff involved in the process<sup>22</sup>. This was confirmed by a study supported by European Parliament, suggesting that the development of administrative capacity requires long-term, high-level political commitment from Candidate Countries<sup>23</sup>.

Strengthening administrative absorption capacities for EU funds is a big challenge for countries aspiring EU membership. Firstly, they are challenged to transform their administration into a smaller, efficient and effective in terms of their functionality. Secondly, the “obligation” to deal with new and more complex (i.e. IPA) procedures is another challenge to prepare one country for even more complicated, strict and short-deadline procedures. Therefore, this process of transformation is a burden but at the same time an opportunity for long term benefits, especially for absorbing EU structural funds once becoming Member State.

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 giving real impact in improving people’s life in cross-border region? For the IPA CBC Programme Macedonia - Albania an analysis on the projects’ impact can be done because all projects from the first call have been implemented.

There might be a progress on strengthening administrative capacities of stakeholders because OS and some potential beneficiaries, since the beginning, have engaged different

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<sup>22</sup> 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 have lack of staff or unqualified and/or skilled professionals.

<sup>23</sup>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

experts to assist in drafting the projects and assisted the implementation whereby reaching to some extent a skill improvement, others might have “learned by doing it”<sup>24</sup>.

## ABSORPTION CAPACITY CONCEPT

Before assessing absorption capacity of Macedonia in effectively and efficiently using IPA funds it is worthy to explain what absorption capacity means? This concept in EU public policy aspect is defined as the extent to which a state (member or non-member) is able to spend the allocated financial resources full in an effective and efficient way<sup>25</sup>. For cohesion purposes, the absorption capacity of an EU member or an EU – candidate state can be affected by three main factors: the macro-economic situation; the co-financing situation and the administrative capacity<sup>26</sup>. With the experiences gathered over time, the European Commission has arrived at the conclusion that states have a limited capacity to absorb external investment support effectively and efficiently. Furthermore, Mrak & Uzunov suggest: “once an aspiring country for EU membership gets formally candidate country for membership, macro-economic situation and co-financing situation are somehow safeguarded...” thus leaving the third determinant the administrative/institutional capacity as a crucial one. Having in mind the fact that the Republic of Macedonia is a candidate country for EU membership, the third factor will be analysed as the most important one. In long-term, the administrative/institutional capacity will be reflected on the Macedonia’s ability to absorb structural funds of EU as a member state in future.

## INSTITUTIONAL ABSORPTION CAPACITY

Administrative/institutional absorption capacity can be defined as the ability and skill of the central and local authorities to prepare suitable plans, programs and projects in time, to select programmes and projects, to arrange the co-ordination among principal partners, to meet the administrative and reporting requirement, and to finance and supervise implementation properly, avoiding irregularities as far as possible<sup>27</sup>. The absorption capacity stands for the degree in which a country is able to effectively and efficiently spend the financial resources from the Structural Funds. If we consider that, in order to do this, it is necessary, on the one hand, to have a absorption capacity from the institutional system created by the particular state in order to manage the funds at issue and, on the other hand, a absorption capacity from the beneficiaries whom these funds address – then, we could speak of two distinct characteristics, namely the absorption capacity on the supply side (of funds) and absorption capacity on the demand

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<sup>24</sup> As a positive case can be considered Chamber of Commerce of North-WEST Macedonia, which declares that has the capacity to draft and implement projects under IPA programmes. This organisation was granted with a IPA project from the first call of IPA CBC Macedonia - Albania

<sup>25</sup> Mrak, M & Uzunov, V, *EU Development Funds and the Republic of Macedonia*, May 2005, pp.61

<sup>26</sup> *ibid*

<sup>27</sup> *ibid*



side<sup>28</sup>. In sum, absorption capacity is a “two-ways street” it depends on operating structures capacity and the capacity of potential beneficiaries. Therefore, IPA aims as well at providing technical assistance to the operating structures and potential beneficiaries. The ability of operating structures and potential beneficiaries to stop the fluctuation of the trained staff from their organisations and ensure institutional sustainability in terms of administrative structure is another issue.

Further, the importance of absorption problems depends mostly on institutional factors, both at the EU and national levels<sup>29</sup>. Horvat and Gunther, further emphasise “...Institutional factors at the national level are related to the real structure of the economy, wage-setting institutions, administrative capacity and capability, organisation of the political system (federal vs. central) and economic policies. Consequently, where a similar amount of transfers is involved absorption problems are likely to vary in importance from country to country”. As in every decision made by the leading coalitions in the EU integration process the “political will” is crucial factor for the absorption capacity of EU funds. In practice, the lack of institutional leadership has impact on both the absorption capacities of allocated funds and on efficiency and effectiveness on using these financial means.

### c) IPA IN MACEDONIA

Since 1 January 2007, pre-accession assistance has been provided on basis of the new Instrument for Pre-accession, which replaced the range of former instruments (Phare, ISPA, Sapard, CARDS, and assistance to Turkey). The instrument addresses the need for a flexible approach in order to accommodate new priorities quickly. It covers Institution Building, Regional and Cross-border Cooperation, Regional Development, Rural Development and Human Resources Development.<sup>30</sup> IPA offers assistance to countries engaged in the accession process to the EU for the period 2007-2013. The aim of the IPA is to enhance the efficiency and coherence of aid by means of a single framework in order to strengthen institutional capacity, cross-border cooperation, economic and social development and rural development<sup>31</sup>.

IPA aims are multi-dimensional. Firstly, in general terms, it aims at preparing countries for accession by reaching alignment with EU *acquis*. Secondly, to foster sustainable economic development by eliminating regional economic disparities in the cross-border areas, thus improving citizens’ life. Thirdly, IPA goal is to strengthening administrative capacities in

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<sup>28</sup> European Institute of Romania – Pre-accession impact studies III, Study no. 1, Analysis of Absorption Capacity of the EU Funds in Romania pp.9

<sup>29</sup> Horvat Andrej & Maier Gunther, Regional development, Absorption problems and the EU Structural Funds; Some aspects regarding administrative absorption capacity in the Czech Republic, Estonia, Hungary, Slovakia and Slovenia, pp.7

<sup>30</sup> European Union Public Finance, Fourth Edition, European Commission, ©European Communities, 2008, pp.270

<sup>31</sup> [http://europa.eu/legislation\\_summaries/agriculture/enlargement/e50020\\_en.htm](http://europa.eu/legislation_summaries/agriculture/enlargement/e50020_en.htm)

absorbing these funds. Especially, IPA is intended for the development of the beneficiaries' local capacities in order to help them fulfil the criteria for obtaining an EU membership<sup>32</sup>.

According to Council Regulation establishing an Instrument for Pre-Accession Assistance there is differentiation of beneficiary countries depending on their status on integration process: candidates in the process of accession and potential candidates under the Stabilisation and Association Process. The prior ones are eligible for the full implementation of the EU *acquis* at the time of accession, whereas the later ones are left to progressively align their legislation to the EU *acquis*, particularly focusing on developing their administrative capacities.

#### d) 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 States; it also covers the participation of IPA beneficiaries in ERDF trans-national cooperation programmes and in ENPI sea-basin programmes<sup>33</sup>. CBC concentrates on creating closer links between border regions, supporting joint environmental protection activities and improving the potentials for tourism<sup>34</sup>. In sum, it intends to develop the cross-border region of neighbouring countries.

Based on distinction made by IPA Council Regulation, in terms of availability to beneficiary countries for IPA, Macedonia is involved in 4 IPA CBC programmes with neighbouring countries, two with Member States (Republic of Bulgaria and Republic of Greece) with five components available and two with potential countries for membership (Republic of Albania and Republic of Kosovo) with components I and II. For the moment, from neighbouring countries, only with Serbia, Macedonia lacks IPA CBC programme due to the disagreement between countries about the borderline between these countries<sup>35</sup>.

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<sup>32</sup> 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.49

<sup>33</sup> Instrument for Pre-Accession Assistance (IPA), Revised Multi-Annual Indicative Financial Framework For 2012-2013, pp.4

<sup>34</sup> Gjorgjievski Mate, 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

<sup>35</sup> Serbia doesn't recognize the borderline between the Republic of Macedonia and the Republic of Kosovo.

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

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

The objective of the programme is to promote good neighbouring relations; to encourage stability, security and prosperity as a mutual interest 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. However, they provide a good frame for the development of civil society and NGOs partnerships across the border. The small calls for proposals for cross-border actions already launched showed a low capacity in 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, was expected to have a key role when implementing the programme (transfer of know-how, etc.). Once implementation of the programme started, this conclusion from the programme proved to be incorrect. From official data, only the Municipality of Bitola has been granted with a project from the first call for proposals of IPA CBC Macedonia – Albania 2007-2009. During the second call for proposal (for 2008) no municipality has been granted with a project. Data for the on-going third call is not available at the moment. Other municipalities have applied as well for all calls but didn't manage to get finances from this programme. They emphasized the complex application procedures for IPA; the lack of know-how in drafting and implementing projects; lack of financial means to engage external experts, etc.

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 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, Unit for Regional Cooperation, within the Ministry of European Integration. IPA – Component II Coordinator acts as main contact point between each beneficiary country and the Commission in the all issues relating to the programme.

### ***Operating Structure***

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

### ***Joint Monitoring Committee***

Decision - making authority for the CBC programme is Joint Monitoring Committee, which consists of representatives of national, regional and local beneficiaries in countries, 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<sup>36</sup>. JTS is the administrative body of the programme responsible for it's the day-to-day management and for administrative its 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, 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 Regulation, the European Commission retains overall responsibility for ex ante evaluation on calls for proposal, awarding grants, tendering, contracting and payment functions.

## **FINANCIAL ASPECT OF THE PROGRAMME**

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<sup>36</sup> Article 139(4) of the IPA Implementing Regulation

According to the programme, the financial allocation for this CBC for the period of 2007-2009 reaches the amount of approx. 8, 1 million EUR<sup>37</sup>. The table below describes the financial amount foreseen for each priority for three years based on priorities for Macedonia and Albania<sup>38</sup>.

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%
<b>TOTAL</b>	<b>2.200.000</b>	<b>390.000</b>	<b>2.590.000</b>	<b>85%</b>	<b>1.100.000</b>	<b>200.000</b>	<b>1.300.000</b>	<b>85%</b>

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%
<b>TOTAL</b>	<b>1.000.000</b>	<b>177.000</b>	<b>1.177.000</b>	<b>85%</b>	<b>750.000</b>	<b>132.400</b>	<b>882.400</b>	<b>85%</b>

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%
<b>TOTAL</b>	<b>1.000.000</b>	<b>177.000</b>	<b>1.177.000</b>	<b>85%</b>	<b>850.000</b>	<b>150.000</b>	<b>1.000.000</b>	<b>85%</b>

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

Within the framework of CBC programme Macedonia – Albania, all contracted projects from the first call reaching the amount of 571.270 EUR have been implemented. For the second call for proposals 8 projects reaching the amount of 662.447 EUR have been contracted 3 months ago. For the third call, which includes three cumulative years 2009, 2010 and 2011 the amount of financial means to be absorbed reaches 2.700.000 EUR. 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 very long<sup>39</sup>. There was progress with the projects for the second call, it took twice time less for 9 months. JTS explains that the long delay about the first call was as a result of some practical difficulties. It was the first time to announce the call for proposals; the Joint Steering Committee was established

<sup>37</sup> The amount of foreseen amount of money has been revised several times

<sup>38</sup> For each year the Republic of Macedonia signs Financial Agreement whereby financial allocations of funds are decided. Financial Agreements are not available to public.

<sup>39</sup> According to our interlocutors the process took around 18 months to do the evaluation which is unacceptable timing for beneficiaries.

after the deadline for submitting proposal 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 proposal will be evaluated very quickly because JTS staff will assist the process.

## INCENTIVE FOR PROSPEROUS ACTIONS – IPA

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

CBC represents a great challenge and opportunity for neighbouring countries. Firstly, ideas, initiatives, projects, strategies should be seen from a perspective of partnering countries. Secondly, finding a cross-border partner is challenge *per se* due to lack of communication, different traditions, cultures, interest and vision of peoples living in the cross-border area. Thirdly, an intensive communication between cross border partners should occur in defining, drafting and implementing initiatives. Fourthly, the inter-dependence of the world requires 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 environment and social cohesion.

Republic of Macedonia and the Republic of Albania never had a chance to implement cross-border programme. IPA is the first challenge and opportunity for both countries. Republic of Macedonia as a lead country in this programme has the responsibility to guide the process in implementing the programme and transfer the know-how to the Republic of Albania. Both countries, even though have different status in terms of accession into EU, their ambition and goal is to become fully-fledged members of EU. Good neighbouring relations are a must in political terms in integration aspect, but in practical terms, IPA is an instrument to improve citizens' life. As regards political relationship between two countries there are no open questions between these states, leaving CBC as an opportunity to support the process of preparing countries to become member states by improving the economy and eliminating disparities of their regions.

## STATE OF AFFAIRS

IPA CBC programme Macedonia – Albania 2007-2013 has constantly been on the agenda of the stakeholders. It was the first programme from IPA CBC component that started to be

implemented in Macedonia; in addition it was the first time where Macedonia had the leading role. Furthermore, this is the first experience in joint CBC programme between Macedonia and Albania<sup>40</sup>. The programme has reached the third call for proposals for projects to be implemented under this programme. Actually, from the beginning of implementation phase problems emerged. EUD decided to allocate 123.000 EUR from CARDS programme to support the establishment of JTS in Struga but these funds were never used.

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 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 need to contact MLS officials. At the beginning there were more employees in the EU sector but some of them decided to change the sector because couldn't deal with their duties. This issue questions the employment policy of the ministry, if the systematisation of their staff is done in proper way. This institutional set up of the ministry as an Operating Structure in some extent jeopardises the functionality of the JTS.

OS's established and are responsible to guide the work of JTS<sup>41</sup>. Since the beginning JTS had difficulty in terms of functionality. MLS was supposed to assist and ensure smooth work of JTS in terms of establishing the structure and technical supplies needed, but since the beginning didn't manage to "absorb" allocated 123.000 EUR from previous CARDS programme.

Another problem that affects the efficiency of JTS is the centralised management and lack of management skills of OS officials. MLS has all competences over the JTS; the later one 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 for the finances for the JTS. MLS is reluctant on delegating competencies to the JTS. When we have in mind the limited number of staff, this has negative impact on approving the actions/activities of the JTS for example when an official is in a business trip no duties are delegated to other colleagues within the sector of the ministry. On the other hand JTS needs to wait for weeks for instructions before undertaking actions.

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

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<sup>40</sup> The difficulties that emerged, according to JTS officials, can be attributed to the lack of experience, because this programme (in concrete the first call) can be considered as a pilot-project.

<sup>41</sup> Article 139.4 of IPA Implementing Regulation

This is the case for 1, 5 years now. Few municipalities have no contact with MLS. Two of them 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 don't organise or don't inform the municipality representatives about the trainings and developments in the programme. They as well, complain that they had only general trainings about the IPA not trainings for drafting the projects. Representatives of EUD and JTS indicated that in past potential beneficiaries were trained through CBIB, there were as well trainings supported by EUD, GIZ – former GTZ, etc. According to JTS, prior to every call for proposal, they organise trainings for potential beneficiaries, which 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 mean giving preferential treatment vis-à-vis other potential beneficiaries and thus violating 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 don't apply for the projects under this programme.

## OVERVIEW OF CALL'S FOR PROPOSALS

### **First call for proposals – for 2007**

According to the JTS, for the first call of the programme, available amount for grants reached a total of 1.020.000 EUR. For activities in Macedonia an amount of 680.000 EUR was foreseen by this call and 340.000 EUR for implementation of activities in Albania. From the contracted (14) projects by EUD in Skopje, the value of supported projects reached 571.270 EUR leaving 108.729 EUR unused<sup>42</sup>. The total amount of unused funds from the Financial Agreement with Macedonia for 2007 is 1.408.729, 54 EUR.

**Range** of the projects cost for partners from Macedonia for the first call was from 25,000 to 49,000 EUR. For the second call, the amount has increase up to 160.000 EUR; the range should increase for the third call and the upcoming ones, which is normal and expected!

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

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<sup>42</sup> IPA CBC programme functions based on partnership principle. The amount of money provided as grants to beneficiaries equals same for both project partners. Macedonia as leading country usually has bigger 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 don't process those applications further on evaluation procedure. Thus, leaving this amounts of money unused. This experienced was for both calls.



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

## Second call for proposals – for 2008

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

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

The financial means for 2009, 2010 and 2011 cumulatively were allocated for the third call. It reaches the amount of apr.2.700.000 EUR. A number of 123 applications have been received for the call. The evaluation process will take place in September this year.

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

## PROGRAMME IMPACT

Efficiency in using funds should be understood as the way of absorbing allocated money on –time in proper way and with positive impact by ensuring sustainability of the projects realised. So, even if the money is secured it should be tested how they are spent.

Assessing the *impact* of the programme with the “absorbed” 571, 270 EUR from the first call is not a strong indicator to analyse the broader impact of the programme but still it is an indicator. From the awarder (14) projects for 2007, 5 projects relate to economic development, 3 projects relating to sustainable environment development and finally 6 projects relating 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 is increased bilateral trade in general or specifically in tourism between these countries; due to lack of reliable data we had to skip this aspect. Assessing the impact on environmental issues was hard too because the programme, even though aims at moving to next level of the identified situation in environmental issues, the operations foreseen by the programme aim at establishing a solid ground for future co-operation and partnership. Social cohesion and cultural exchange is the third specific objective of the programme and by analysing the impressions of the targeted groups we could get the insight about the impact of the projects thereby trying to assess the hypothesis: Is IPA an incentive for prosperous actions?

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

## CONCLUSIONS

Absorption capacity of Macedonia in using IPA funds is low. For two calls for proposals, of contracting years 2007 and 2008, for beneficiaries from Macedonia an amount of **4.289.000 EUR** was potentially available. From this amount approx. **1.580.000 EUR** were programmed for both calls for proposal for 2007 and 2007 but **1.233.718 EUR** were contracted. In sum, from financial agreements between Macedonia and EC for 2007 and

2008 for this programme, Republic of Macedonia couldn't manage to absorb approx. **2.709.000 EUR**<sup>43</sup>. In percentage, only **28.8%** of available funds were absorbed.

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

**Joint Technical Secretariat** in Struga has been established, and the establishment *per se* can be considered as an important step in implementing the programme but it has real problems in terms of its functionality. Project beneficiaries have no complains about the JTS and co-operation established.

**Municipalities** have shown low level of administrative capacity in dealing with IPA funds. First of all, they are understaffed with employees. Second, they have no specific unit or team dealing with IPA funds. Third, they have financial constrains to engage IPA consultants for writing and implementing projects. Only the Municipality of Bitola has been granted with IPA project for the first call.

**NGO's** have shown great interest and success both in finding cross border partners and in absorbing IPA funds. For both calls, from 22 projects granted in 21 projects NGO's are involved as implementing organisations 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.

**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 both NGO's have created a solid partnership.

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<sup>43</sup> Data provided by JTS Struga, financial agreement between Macedonia and EC are not published on official websites.

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

## **Introduction**

The purpose of the paper is to try to assess and provide for critical overview the extent to which Macedonia is effectively using the EU assistance for regional development for general economic development and to improve 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 utilisation 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 the IPA funding under the Operational Programme for Regional Development (OPRD), rather qualitative assessment is at the focus of the paper, i.e. on administrative and policy impact of the process of using and managing EU funds. Namely, the effectiveness of IPA funds for regional development at the moment cannot be assessed by their impact on the general socio-economic development, but through 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 general political, economic and institutional environment for absorption of these funds.

After all, 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 rational is to create a significant effect of cohesion among wide administrative, social and economic community and to establish an all-inclusive cooperation with clear responsibilities, as well 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 creation of the whole edifice and main principles of an entirely new system for planning and programming, implementation, monitoring and evaluation of EU funds, for which despite the progress, there is still a learning curve, the paper will also underline the need to complement this overriding aim with a more far-fetched one- to seek to enhance the value of public investment in general, as a leverage for the socio-economic development and enhancing the competitiveness of Macedonian economy.

## 2. Operational Programme for Regional Development: a tool for strengthening administrative capacities or more?

### 2.1 General background

Without intention to elaborate the whole complex process of setting up the appropriate legislative and institutional framework within which the IPA funds for the component III-Regional Development can be utilised, an outline of the chronological milestones in the relation between the Macedonian authorities and EU with regards to the IPA pre-accession instrument (component III) is presented bellow:

- Ratification of the Framework Agreement between the Government of the Republic of Macedonia and the European Commission concerning the 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 definition of the conditions for granting the

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 environmental conditions necessary to ensure quality of life and economic development, achieving

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.

OPRD is based on the findings put down in the Strategic Coherence Framework 2007-2013 (SCF) as a basic strategy document matching 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”.

It has four Priority Axes, further broken down in measures and eligible actions which represent the foundation of the tangible operations set down in the so-called Operation Identification Sheets<sup>44</sup> (OIS). OIS have been developed and agreed in close cooperation between the Operating Structure and the EU Commission and represent the legal base 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**

<b>Priority Axis 1. Corridor X Motorway Completion;</b> - Measure 1.1 –Upgrading remaining link along the Corridor X to the level of motorway
<b>Priority Axis 2. Upgrading and Modernisation of the Transport Infrastructure;</b> - 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
<b>· Priority Axis 3. Improvement of Environmental Infrastructure;</b> - 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
<b>· Priority Axis 4. Technical Assistance (TA)</b> - Measure 4.1 Administration of the Operational Programme implementation - Measure 4.2 Preparation of investment projects and programmes

*Source: OPRD 2007-2009*

As mentioned before, the initial OPRD 2007-2009 was revised in order to add up additional financial allocations for the budget years of 2010-2011 and the total financial envelope of the Programme at time being is around 128 MEUR. It is a rather limited amount taking into consideration the sectors supported and the overall strategy to support the conditions for sustainable development. The remaining balance of roughly 100 MEUR public expenditure which amounts to the financial allocations of 2012 and 2013 budget years is yet to be allocated and programmed.

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<sup>44</sup> All information related to concrete OISs and projects were obtained by the means of interviews with officers of the Operating Structure who preferred to remain anonymous.



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)	
<b>Priority Axis 1</b>	52.941.180	45.000.000	7.941.180	85%
<b>Measure 1.1</b>	52.941.180	45.000.000	7.941.180	85%
<b>Priority Axis 2</b>	25.383.062	21.575.600	3.807.462	85%
<b>Measure 2.1</b>	25.383.062	21.575.600	3.807.462	85%
<b>Measure 2.2</b>	0	0	0	
<b>Priority Axis 3</b>	43.918.124	37.330.400	6.587.724	85%
<b>Measure 3.1</b>	38.626.591	32.832.600	5.793.991	85%
<b>Measure 3.2</b>	5.291.533	4.497.800	793.733	85%
<b>Priority Axis 4</b>	6.228.240	5.294.000	934.240	85%
<b>Measure 4.1</b>	1.870.002	1.589.500	280.502	85%
<b>Measure 4.2</b>	4.358.237	3.704.500	653.737	85%
<b>Total Year 2007-2011</b>	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 the Technical assistance is 64:36. The measures in Transport axis are focused on upgrading and modernisation of roads and railways, whereby the implementation of one major road construction project along corridor X is considered- construction of the section Demir Kapija-Smokvica.

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 entailed by different realities in the areas of transport and environment. Corridor X project can be considered as a proper continuation of current and past investments whose EU added value lies foremost in the need to improve 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 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 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 the priorities in the forthcoming programming periods, which should also go in parallel with proper national financial planning.

A striking observation is that a Regional Competitiveness axis, which would have a particular aim to enhance the competitiveness of the overall Macedonian economy and the growth of the SMEs, is left out from the OPRD from the entire programming period 2007-2011. Without prejudice to the crucial need to advance the vital infrastructure in Macedonia (being transport or environmental) as a basic prerequisite for economic development, still omitting the regional competitiveness could be seen as a disadvantage for the OPRD strategic aims and as an initial set-back for the business community in Macedonia. The official stand the European Commission and national authorities took at the start of the programming process should be nevertheless revised in the light of the new

programming exercise, and especially aiming 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 fact that the enormous efforts needed to be done for establishing the Operational Structure, which would have had even greater challenge if the sub-component Regional Competitiveness was going to be introduced, as well as the prevailing opinion that Macedonian administration is not prepared to embrace another priority axis, the authors reckon a golden opportunity have been missed to endorse, or at least seriously to discuss during the OP modification.

Given the experience learned from the programming exercises thus far, one can conclude that the elapsed time and unavailable funds for technical preparations, education of the eligible end- beneficiaries and creating the general conditions for the use of Regional competitiveness axis could likely have unfavourable effect of delaying the next programme from 2013 onwards, where this axis is expected to be included.<sup>45</sup>

## **2.2 Institutional set-up – System versus Results**

IPA funds for Regional Development in Republic of Macedonia are implemented under the so-called Decentralised Implementation System (DIS)<sup>46</sup> with ex-ante controls established upon granting Conferral of Management Powers by EU to national authorities<sup>47</sup>. The legal foundations of this system are laid down in the Framework Agreement between the Government of the country and the European Commission<sup>48</sup> which has the power of an international treaty and hence supremacy over national laws.

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<sup>45</sup> For 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 EUR:

Improvement development potential of 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)

<sup>46</sup> In accordance with the Accreditation Criteria set up in the Annex to the IPA Implementing Regulation (IPA IR), Commission Regulation (EC) No718/2007.

<sup>47</sup> Conferral of Management Powers for IPA Regional Development Component by EU to national authorities was granted in July 2009.

<sup>48</sup> Framework Agreement on the Rules for Co-Operation Concerning EC -Financial Assistance to the Republic of Macedonia in 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).

DIS stands for a national implementation system governed by an established network of national bodies and structures responsible for sound financial management of EU funds in the country<sup>49</sup>, 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 bodies<sup>50</sup> 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 country's EU accession strategy and use of EU funds, the SC is responsible for preparation of Strategic Coherence Framework<sup>51</sup> 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 Fund<sup>52</sup> 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 the IPA Regional Development funds; however the Operating Structure is the one that carries out most of the field work.

The Operating Structure for Regional Development<sup>53</sup> is a collection of bodies which manage the Operational Programme for Regional Development. The Central Financing and Contracting Department<sup>54</sup> (CFCD) together with the IPA units in the Ministry of Transport

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<sup>49</sup> For a detailed overview please refer to the Decree on Determining Mutual Relations between the Bodies and the Structures of Decentralised 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).

<sup>50</sup> Commission Regulation (EC) No718/2007 (IPA IR), Articles 22-25.

<sup>51</sup> Available at: <http://www.sep.gov.mk/content/Dokumenti/MK/SCF%20f.draft%2031.07.2007.pdf>

<sup>52</sup> Article 26 of Commission Regulation (EC) No718/2007 (IPA IR)

<sup>53</sup> Article 28 of Commission Regulation (EC) No718/2007 (IPA IR)

<sup>54</sup> <http://cfcd.finance.gov.mk/>

and Communications and Ministry of Environment and Physical Planning comprise the Operating structure. CFCD is at the same time Head of Operating Structure and Contracting Authority for the IPA funds for Regional Development and as such has a 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 a 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 at stake. The respective ministries are responsible for programming of funds for Regional Development and every-day implementation and monitoring of the projects in their fields. Ministry of Transport and Communication has allocated eight (8) officers and Ministry of Environment and Physical Planning eight (8)<sup>55</sup> 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 people 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 MEUR.

In addition, one cannot ignore the “red tape” dimension of DIS. Namely, all of the above bodies and structures are interrelated with a vast 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 Operating Structure has used the Operational Agreements as tool to delegate some tasks to the Ministries. When we add to this the big 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 EU in Skopje in accordance with Annex II of the Decision for Conferral of Management Powers. Accordingly, the entire procurement and contracting process in each stage undergoes to a procedure of approval by the Delegation of EU which sometimes adds up to 3-4 months to the process.

## **2.3 Strategy and Rationale**

### **2.3.1 Transport**

The Operational Programme Regional Development 2007-2011 is the first modest step towards utilisation of IPA III funds for improving the Transport infrastructure along the main transport arteries crossing Macedonian territory, in particular, the Pan-European Corridors X and VIII, defined by the High Level Group for extension of the major Trans-

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<sup>55</sup>These numbers are valid for the period of paper preparation and are kindly provided by an OS officer who was interviewed for the purpose of this Paper.

European transport axes to the neighbouring countries and regions and the REBIS Study (Regional Balkan Infrastructure Study). Both corridors form an integral part of the SEETO Comprehensive Network<sup>56</sup>, which is included in the revised TEN-T Guidelines<sup>57</sup>.

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, and in addition they also represent priorities of regional<sup>58</sup>, 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 that 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 been already 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 upgrading and modernization of the transport infrastructure. However, unlike the first OPRD 2007-2009 which envisaged infrastructure development of the road Corridor VIII as well as railway corridors X and VIII, the modified OP for the period 2010-2011, focuses solely on the latter, thereby excluding all funds for road corridor VIII.

This is understandable to a certain point having in mind the latest EU transport policy trends and its visions encompassed in the EU White Paper for Transport 2011<sup>59</sup>, where major shift towards environmentally friendly transport modes is foreseen and particular attention is given to the development of interoperable railway system in Europe. In addition, none of the TEN-T priority projects falls under the road infrastructure, and 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 being by far the biggest provider of

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<sup>56</sup> 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 refer to as "SEETO Comprehensive Network"

<sup>57</sup> 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 indicatively the TEN-T Comprehensive Network in South East Europe.

<sup>58</sup> 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, which mission and main aim is 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 on 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.

<sup>59</sup> Roadmap to a Single European Transport Area – Towards a competitive and resource efficient transport system, COM(2011) 144 final

transport services, 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 the overall competitiveness.

The never-ending debate roads vs. railways might be again invigorated since the Government's plan to grant concession for construction of motorway sections on the Corridor VIII recently failed, thus in order to fill in the investment gap, the Government may try to 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 point, 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<sup>60</sup>. 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 somewhat hesitations on the priorities in the transport sector and regarding the instruments and sources of financing public projects.<sup>61</sup>

Without prejudice to other transport modes, the interventions in the railway sector and intermodal transport are absolutely needed and well justified to increase the demand for and the share of these modes of transport, where some important infrastructure links and multimodal nodes are missing, while the potential of the existing infrastructure is used to minimal extent and the quality of services is severely limited. The development of railways, which suffer from historically long under-investments<sup>62</sup>, 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 which can trigger its growth), while IPA first step in addressing this issue is by providing assistance under the IPA TA project "Preparation of studies for development of strategic multimodal transport nodes" in due to be contracted, 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:

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<sup>60</sup> Interviews with Macedonian administrative and EC officials and with EU Delegation in Skopje

<sup>61</sup> On several meetings between Macedonian officials and DG Regional Development, it was expressed concerns by the EU on the rather flexible and changing priorities of the Macedonian Government in relations to IPA (*source*: internal reports and minutes of meetings of the Stabilisation and Association Subcommittee on Transport, Energy, Environment and Regional Development)

<sup>62</sup> The result of which for instance is severely restricted services and missing infrastructure links towards Albania and Bulgaria,

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”.

### **2.3.2 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 organised and high quality communal waste collection and disposal services in line with EU Directives by supporting a Project which 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 back in 2007 when the OPRD was first issued, and were later revised in 2010 for the OP modification, however things have not changed rapidly in the meanwhile. Real environmental needs still demonstrate more or less the same challenges rightfully identified in the OP, such as: lack of infrastructure, lack of professional management, inappropriate public service, not satisfactory tariff system, etc. When it comes to the legal novelties, one cannot overlook the latest amendments to the Law on Environment<sup>63</sup> and Law on Waters<sup>64</sup>, 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 technical assistance from the EU. Both laws complemented by accompanying by-laws are compliant with the EU requirements in both fields. While the Law on environment

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<sup>63</sup> “Official Gazette” No 51/2011, as of 13 April 2011.

<sup>64</sup> “Official Gazette” No 51/2011, as of 13 April 2011 and No 44/12, as of 30 March 2012.



modernised the 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<sup>65</sup>. Furthermore, the Second National Environmental Action Plan has been adopted followed by the Waste Strategy of the country 2008-2020 and Medium Term National Waste Management Plan 2009-2015<sup>66</sup>, all in line with EU legislation and tendencies.

The OP, on the bases of a thorough and elaborative analysis, identifies the wastewater and waste sectors as the most urgent areas of intervention in the environmental sector and allocates app. 44 MEUR in total for appropriate remedial arrangements. The programmed OP assistance, foremost concentrates on Technical Assistance actions while storing away the infrastructure investments for better times. Nevertheless, the authors believe that, putting aside its financial constrains, the OP on the whole mirrors reasonably the environmental reality in the country and proposes interventions which are adequate and justified while underlying OP strategy reflects national and EU trends.

### **3. 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 taken place so far. 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 entailed 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 are available as of budgetary year 2007. Secondly, the procedure of procurement and contracting of projects financed under IPA is very administratively burdensome and time consuming process. In order to illustrate this complexity the authors will try to simulate a contracting process for a Project who is presumably a service (technical assistance) contract financed under OPRD. The project idea is born with the beneficiary department, a department at the Ministry of Transport or Ministry of Environment which will directly benefit from the project. This department is drafting the Terms of Reference for the Project and forwarding them to the IPA Unit of the ministry which makes sure that the tender documents are in line with IPA requirements. After having checked that, the IPA unit submits these documents to the Contracting Authority (CFCD) who double checks them and sends them to the EU Delegation in Skopje on final approval. After being approved, the tender is launched. It's only than that the legal

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<sup>65</sup> 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.

<sup>66</sup> The documents are available at [www.moepp.gov.mk](http://www.moepp.gov.mk)

deadlines according to PRAG<sup>67</sup> start to run. Hence a single procedure of procurement and contracting of a tender financed under OPRD usually lasts around a year, when 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 go slow. Still, the clock is ticking 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 and 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
<b>Total OPRD (2007 – 2011)</b>	<b>109.200.000</b>

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

The N+3 rule stands for the fact that the Commission shall automatically decommit any portion of a budget commitment where by December of the third year following year *n* being the one in which the budget commitment was made: it has not been used for the purpose of pre-financing, or it has not been used for making intermediate payments, or no declaration of expenditure has been presented in relation to it<sup>68</sup>. To put it bluntly, this means that the funds allocated for the budgetary year 2007 should be absorbed until 31 December 2010 at latest. Luckily the allocations of the first year are secured by the Pre-financing payment in amount to 30% of the IPA contribution for the first three years of the Programme<sup>69</sup> 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 to put some light on the bright side, one has to acknowledge that a small proportion of Programme funds originating from the Technical Assistance Priority of OPRD have been

<sup>67</sup> *Practical Guide to Contract Procedures for EU External Actions* available at: <http://ec.europa.eu/europeaid/prag/document.do>

<sup>68</sup> Financing Agreement concerning the Multiannual Operational Programme for Regional Development 2007-2009 (OPRD), Article 13.

<sup>69</sup> *Ibid*, Article 64.

committed. Up to now, 6 technical assistance projects were contracted in total amount of EUR 751.224. Nevertheless, the committed funds are not only limited in size<sup>70</sup> 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 which are under way as we speak absorb approximately 55% of the total available funds. Still as for measuring the effect of implementation, we are left with anticipation of potential effect of programmed projects and to that aim the authors will scrutinize in detail progress of different project interventions per Programme Priority.

### **3.1 Transport**

One of the major impediments to smooth implementation of the OPRD and absorption of funds is the lack of technical documentation<sup>71</sup>, which in the case of transport infrastructure projects is extremely long and time-consuming, and the general inexperience in the entire complex technology of project generation. This reflects the small share of physical investment projects in hard infrastructure in comparison to the projects pursuing documents preparations and/or supply of equipment.

There is only one transport project for the overall programming period 2007-2011 which entail construction works (new motorway section Demir Kapija-Smokvica), and additional one for reconstruction (railway section Bitola-Kremenica). Apart from the major project which is a road project, all remaining are rail projects. The following list represents a full overview of all projects for which IPA money has been allocated under the present OPRD, with their status of implementation by the end of 2011<sup>72</sup>, with the exception of the major project, which is presented separately

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<sup>70</sup> Amounting to app. 0,46 % of total Programme funds.

<sup>71</sup> 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.

<sup>72</sup> 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
<b>Total</b>	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 significantly low (7% of the operations are tendered, 0.46% contracted and 0.23% payments are done by the Contracting Authority)<sup>73</sup>. 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 rapidly grow.

<sup>73</sup> 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. As regards the Transport priority, total estimated investment needs for projects which require rehabilitation, new construction or documents preparation are given in the table below:

<b>Table 3-3 Estimated value of investment needs in transport sector</b>		
<b>Type of intervention</b>	<b>Estimated costs (EUR)</b>	<b>Estimated time frame (years)</b>
<b>Road constructions</b>	100.000.000	2
<b>Road rehabilitations</b>	87.000.000	4
<b>Studies and design documentations in road sector</b>	7.000.000	4
<b>Railway rehabilitations and constructions</b>	1.871.900.000	11
<b>Project documentation in rail sector</b>	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 Decentralized Implementation System and the heaviest project of all IPA projects in terms of total amount of costs, 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 the corridor X, give an immense political weight to the project, in addition to the regular benefits that will be accrued: better connection to the TEN-T and regional transport network, vehicle operating cost reduction, travel time savings and accidents reduction. It is the biggest and most complex of all IPA projects handled by the Macedonian administration amounting to overall expenditure of 319 million EUR, out of which 45 million EUR from IPA, 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 EUR and given the length of the motorway section is 28 km, the unit costs in this project are 8.7 million EUR. 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
<b>European Commission-IPA Regional Development</b>	45.000.000	Approved- bilateral agreement signed between EC and Government of the Republic of Macedonia
<b>EIB</b>	130.000.000	Finance agreement signed on 17 October 2011 for the first portion of the loan in amount of 65.000.000 EUR
<b>EBRD</b>	90.000.000	Loan Agreement signed on 20 September 2011
<b>Non-eligible costs (to be covered by the National budget)</b>	54.033.238	
<b>Total</b>	319.033.238	

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

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

It should be pointed out that the project has been identified way before the IPA had become operational instrument for pre-accession countries. The extremely long process of preparation can be attributed to many factors which largely follow into these 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 type 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 along 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 is enormous. The bottom-line lesson learned is that commitment of all relevant stakeholders should be extremely high in order to overcome all impediments along the process.

## **Environment**

As the OP fairly puts forward the 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 have as well dragged into the new financial allocations for the OP modification (2010-2011) which only adds up to the existing interventions without introducing new one.

The projects under the Environmental Priority have been designed to support the improvement of the environmental infrastructure focusing 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 so we could not asses their tangible impact to 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 in total value of 19.6 M EUR. The project is still in preparatory i.e. tendering phase and no infrastructure works has commenced yet. The reason for this delay is primarily the lengthy and heavy administrative procedure for Major Projects and 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) consumed almost 2 years followed by signature of the Bilateral Agreement concerning the co-financing of the major project on 9 December 2011. 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 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 the moment since analyses have shown that these enterprises are not yet operational which hinders the successful implementation of the project.

### **3.3 Technical assistance**

As mentioned earlier on, the only Programme Priority which shows more palpable signs of life is the Technical Assistance Axis. Until the end of 2011 the contracted amount for TA was EUR 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 thus easier to procure and contract and those TA operations involve only insiders group of stakeholders, because it benefits merely OS representatives and no external department is involved.

The TA Priority is mainly concerned with producing 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. As regards the future programming plans, there is a possibility to finance the introduction of the Regional Competitiveness as a third Programme Priority. However, this option was postponed for 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 the 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 is 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 catch up for the lost time, but also to enable the business community to sense direct and immediate benefits from IPA financing, as direct grant schemes are going to be made available to them.

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



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

An appropriate communication strategy needs to be developed also, 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 the funds would sharply grow once the major projects are going to be contracted. After all, some fears and myths should be overcome: it is not that much about “how much money are going to be absorbed, but how appropriately they will be used”, and that IPA funds “are not given, but they need to be earned”.

Another positive argument in favour of more allocation to “real” projects and better programming in that direction is the “seedcorn” effect of IPA investments, i.e the credibility on the basis of which they seem able to attract funds from other sources, too. Despite the experience with the motorway project on Corridor X, where the multiple funding resulted in delay of project commencement, it is inevitable for large-scale infrastructure projects to coordinate among several financing providers and to gain the commitment of larger international and regional community. For projects in environment in particular, the local communities, where the impact of the project is the most tangible, should also be well prepared to co-finance 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”, both for transport and environment. Therefore, in accordance with the opinion of the authors, any further discussions on preparation of a General Transport Master Plan<sup>74</sup> are simply redundant for the future IPA programming, when entire focus should be placed on concrete projects for which the TA provided a solid prioritisation.

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 aligned with the EU *acquis communautaire* and measures which will complement and bring added value to the infrastructure development. The infrastructure investment can certainly incentivise the sector-related reforms, and vice versa. Therefore, it should be clear that physical investments in environment cannot be fully maximized without sound management of the public utilities. No new motorway can optimize the

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<sup>74</sup> The General Transport Master Plan is indisputably useful tool for a sustainable transport planning in future, but recourse to other financial means than IPA should be considered for its preparation.

benefits if no accompanying measures for border-crossing facilitation, performance-based management, maintenance and road safety are taken into due account. Neither a railway link can serve to the passengers and businesses if the railway transport is not performed in a liberalized way that allow for competition, quality of services and equal conditions for different modes of transport. It is a two-way relation- these complex undergoing reforms in the transport and environment sector which have great return of investments can be speeded up if infrastructure investments are tangible and directed to concrete and visible projects.

The extent to which Macedonian authorities, but also other national stakeholders perceive this wider challenge and wider prospect inherent to the 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 the 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**

Republic of Macedonia as a candidate country is entitled to make use of the Instrument for Pre-accession (IPA), purpose of which is to assist in the implementation of the reforms necessary for EU membership, fulfilling Copenhagen Criteria and facing the challenges related to the EU membership.

Since 2007, Macedonia has received approximately EUR 620 million for the period 2007-2013, of which EUR 55.8 million have been allocated for Component IV – Human Resources Development. Main strategic objective of 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.”<sup>75</sup>

Even though from the aspect of available assets this component is significantly smaller than the other components (about 8 percent 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 on the key socio-economic problems in the country, with 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”<sup>76</sup> Therefore, it's appropriate and efficient utilization is of particular importance since it contributes for efficient absorption not only of the pre-accession but also of post-accession funds in this area.

So far, of the total amount of entire IPA Component for the period from 2007-2013 amounting to EUR 55.8 million, or of EUR 19.17 million envisaged with 2007-2009 financial package, only EUR 12.5 million were implemented in Macedonia, including the projects 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 part of the projects have commenced.

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<sup>75</sup>Operational Programme for Human Resources Development (2007–2013), p. 6. .

<sup>76</sup> Ibid.

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

## **Methodology**

The analysis of efficient utilization of the assets of Human Resources Development Component was carried out by 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 of achieving the objectives, which is essential document for planning and allocating the assets of IPA IV Component. The data relating to projects, planned and realized activities and results achieved were collected from different sources which were frequently dispersed, for certain projects some information was not easily or not available at all. Data available on the website of the Central Database of Foreign Assistance of the Government of the Republic of Macedonia, Central Finance and Contracting Unit within the Ministry of Finance, the data and official statements on the website of the Secretariat for European Affairs, relevant ministries, Employment Agency and the Delegation of the European Commission in Macedonia. Several interviews were made, however major part of the institutions were not willing to share the information or failed to respond.

Qualitative analysis was made finally relating to this Component efficiency 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 assets. 2007-2013 Operational Programme for Human Resources Development (OP HRD) is essential document for planning and allocating the assets of IPA IV Component. The Programme was adopted in December 2007 with framework determined for financing of the first three years (2007-2009) totalling to EUR 19,176,497.00 The following are competent 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. They are defined in the following four priority axes divided in 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			

### Allocation of the assets by priority axes of the 2007-2009 financial framework

	IPA	National contribution	Total	% of total budget
Priority Axis 1	6846000	1208130	8054130	42%
Priority Axis 2	4890000	862946	5752946	30%
Priority Axis 3	3260000	575301	3835301	20%
Technical Assistance	1304000	230120	1534120	8%
Total	16300000	2876497	19176497	100%

Source: 2007-2013 Operational Programme for Human Resources Development

## Total amount of assets allocated by single measure of 2007-2009 financial framework in EUR

Priority Axis	Measure 1			Measure 2			Measure 3			Measure 4			Total		
	Envisaged assets	Realized (including current projects)	Unused	Envisaged assets	Realized (including current projects)	Unused	Envisaged assets	Realized (including current projects)	Unused	Envisaged assets	Realized (including current projects)	Unused	Envisaged assets	Realized (including current projects)	Unused
1. Employment	1.006.000	1.375.500 <sup>77</sup>	-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

<sup>77</sup> The amount of realized assets in Measure 1.1 and 1.2 is higher than the envisaged assetse according to the Operational Programme. However, according to the Regulation 718/2007 of the European Commission these assets may be reallocated from another measure within same priority axis, by prior approval of the Sectoral Monitoring Committee. Taking into consideration that the total sum of allocated assets for this component and for the Priority Axis is left unchanged, the assumption that the assets are reallocated from Measure 1.3 is valid, in which EUR 4,040,000 are left unused, or EUR 3,364,206 after such reallocation.

## **Priority Axis 1 – Employment**

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

Even though numerous analyses indicate to the fact that official data are not a real indicator, due to huge informal economy and huge number of unregistered workers, numerous reports and studies indicate that unemployment is one of the main problems for the Macedonian economy and society.<sup>787980</sup> 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. Main objective is that the projects envisaged by this Priority Axis foster reduction in unemployment and retaining more people in the labour market through modernization and enhancement of the services provided by the Employment Agency of 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.

### **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, focused on reducing unemployment and retaining the employed.

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78 Republic of Macedonia 2011 Progress Report, European Commission, 2011

79 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](http://www.unodc.org/documents/data-and-analysis/statistics/corruption/corruption_report_fyr_Macedonia_FINAL_web.pdf)

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



The amount of total envisaged assets by the Operational Program is EUR 1,006 million, of which EUR 855,000 are 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 EUR 1,375,500.00. Although the amount of the assets allocated is higher than the envisaged, additional assets were secured from another measure within this Priority Axis.

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 abovementioned legal amendments aimed at better records of unemployed people.

The Project includes two components as follows:

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 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 the organizational functioning and capacity building. According to the employees in the Secretariat for European Affairs responsible for monitoring, the Project implementation is in advanced stage, and the activities implemented already have significantly positive effect. Since the main objective of this Project is to foster efficiency improvement in the organization and of the service quality, in the further extension of the Project, it is recommended that the Joint Assessment Framework is taken into consideration such as quality management system. This instrument is widely used in different organizations of public administration throughout the European Union, demonstrating as particularly efficient in those 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 making and managing employment policies for implementation and monitoring of the Employment Strategy. According to the Operational Programme a total of EUR 1.05 million are envisaged, of which EUR

890,000.00 are provided by IPA. Within this measure, in September 2011, 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 to EUR 1,806,294.00. (The additional assets for this Project are also transferred from Measure 1.3). this Project is aimed at support to 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, evaluation and reporting on the employment policies.

The Project includes two components as follows:

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

In absence of other measurable indicators, the Project achievement may be also assessed by the Republic of Macedonia Progress Reports of the European Commission for the last two years. The 2011 Progress Report points out that the Employment Agency still lacks detailed monitoring and evaluation approach<sup>81</sup> although it makes analyses of the existing active measures of the labour market, while 2012 Progress Report notes that "monitoring and evaluation of active labour market programme are weak as they are based almost exclusively a basic quantitative analytical approach."<sup>82</sup> Accordingly it may be concluded that even though a monitoring and evaluation system has be developed, it is not good enough. It is expected 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 essential precondition for obtaining relevant findings and development of long-term planning of the labour market.

### **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 in the labour market, reducing and preventing long-term unemployment (over 4 years) and to additionally influence the growth of the women employment rate. The total amount envisaged is EUR 5.43 million, of which EUR 4,539 million are 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

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

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

arrangement for direct grant totalling to EUR 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 in the labour market; reduction and prevention of long-term unemployment; and growth in the women 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, of which 2,150 persons (40%) were young people to the age of 27<sup>83</sup>;

- 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 made relating to the targeting criteria of unemployed persons and the manner of implementation of the measures within the framework of second direct grant. It is expected that the Project lasts for at least 28 months<sup>84</sup>.

**The objectives of individual Project components and results expected are as follows:**

<b>Component</b>	<b>Results expected</b>	<b>Realization status (14.06.2012)</b>
<b>1. Internship as support for first employment of young people to the age of 27</b>	Improved perspectives of 512 young graduates	Total of 436 included
<b>2. Training on general skills to assist in improving their competitiveness in the labour market.</b>	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)
<b>3. Training on skills deficient in the labour market</b>	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)

83 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  
84 Ibid.

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

EUR 4,040 million are left unused from this measure. Approximately EUR 675,000 from this measure were reallocated to the previous two measures within this Component. The extension is expected to ensure better utilization of the remaining assets.

According to the interview carried out in the Secretariat for European Affairs, the Project has 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, and it is also harmonized and replenished with the Operational Plan of the Government for active employment programmes and measures. However, a question arises how much the Project contributed to achieving the objective of this measure – integration of young people in the labour market; reduction and prevention of long-term unemployment; and growth in the women employment rate. By the available documents (Report on the realization of the operational milestone, Statement of the Minister<sup>85</sup>), the result of the Project is measured by the number of persons included in the training, although according to OPHRD<sup>86</sup>, 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 the follow-up, and how many people who completed training or internship found job, 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 official response by the institutions, possible reason for partial fulfilment of the envisaged quotas might be insufficient number of registered, 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)<sup>87</sup>. As 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 how much such training really affected and contributed to growth of the employment rate among women. If statistical data on the condition in the labour market compare, in the last period (data of the second quarter of 2011

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

86 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](http://www.kapital.mk/MK/dneven_vesnik/80304/nitu_rabotat,_nitu_sakaat_da_se_dokvalifikuvaat_za_da_najdat_rabota.aspx?ild=2600)

compared with the data of the second quarter of 2012) the unemployment rate was not significantly reduced (31.3% to 31.2%). There is an interesting fact that for 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 bigger reduction of 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 the unemployment among women may be taken as positive indicator, taking into consideration that this was one of the main objectives of the Project.

#### **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 grey economy focused on increasing the employment rate in the formal sector and total economic development. A total of EUR 660,000.00 have been envisaged for this measure, of which EUR 560,000.00 are 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 grey economy. The problem related to the high percentage of unregistered employees, which makes it impossible to obtain real picture of the unemployment condition in Macedonia, is noted in several study analyses<sup>8889</sup> as well as in the RM Progress Report prepared by EC<sup>90</sup>, and the measures addressing this problem were included in the Operational Roadmap of the Government of RM within the High Level Accession Dialogue<sup>91</sup>. Considering the fact that the Operational Programme notes the weakness of the State Labour Inspectorate, which is responsible supervision body, related to sufficient staffing and lack of assets for efficient realization of its operation<sup>92</sup>, 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. Exactly the lack of efficient cooperation and coordination among the enforcement bodies is subsequently noted in the 2011 and 2012 Progress Report. They stress out that the State Labour Inspectorate has implemented some initiatives at central level related to raising the awareness of tackling against unregistered work; however there is a lack of efficient cooperation and coordination among the enforcement bodies., and it has not improved yet<sup>9394</sup>. Taking into account the complexity of the problem and the importance of its solution, it is not

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

89 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](http://www.cea.org.mk/documents/studii/CEA%20SHADOW%20ECONOMY%20IN%20MACEDONIA%20FINAL_4.pdf)

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

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

92 2007-2013 Operational Programme for Human Resources Development, p. 28

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

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

comprehensible why the available EUR 1 million actually envisaged for tackling this problem are not yet implemented. Moreover, since the State Labour Inspectorate has developed a draft project with entire project documentation, however the Finance and Contracting Unit, which is a body responsible for contracting, decided to withdraw the grant<sup>95</sup>.

Any project within the framework of this Component to be efficient should consider these notes and include tailor-designed activities that embrace inclusive approach to the building of Inspectorate capacity, raising public awareness and improving the 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 continuous commitments in the Republic of Macedonia, the entire 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 is still relatively low, and insufficient investment during the past two decades had negative impact on the entire education quality and value. There are considerable differences in the education level of ethnic groups, and in particular with the Romas, who very often leave school earlier. Despite the continuous improvement (from 22.2% in 2006 to 15.5% in 2010<sup>96</sup>), the rate of persons leaving school earlier is still 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 are persons with low education level. The employment rate in persons having completed pre-school and primary education is only 33.4%<sup>97</sup>. There is a large incompatibility between educational programmes, acquired skills and qualifications and the needs of the labour market. International assessments of the students' capabilities at different levels, for e.g. PISA and the Global Competitiveness Report indicate to relatively low efficiency of education system. There is a need for enhancing the skills and adult education, which currently is insufficiently developed. The difficulties in the labour market resulted in 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 the activity related to modernization of educational and training system, aimed at enhancing the adjustment of the labour market needs and promoting lifelong learning. Furthermore, this priority aims at providing equal access to quality education of all irrespective of their ethnic background.

Three priority measures are determined within this priority area:

### **2.1: Modernization of education and training systems**

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95 Anonymous source

96 State Statistical Office

97 State Statistical Office

2.2: Ensuring access to quality education to ethnic communities

2.3: Development of adult education and lifelong learning

### **Measure 2.1: Modernization of education and training systems**

This measure aims at providing support to 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 EUR 2,886,000.00 is envisaged, of which EUR 2,453,000. Are 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 the labour market needs and European standards.

The Project value amounts to EUR 2,075,243.00 The Project is focused on preparing vocational qualification standards, reform of curricula in line with the 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 2- and 3- year vocational education, in which establishing work groups is envisaged and development of vocational qualification standards for 2- and 3- year vocational education.

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

The Project is aimed at achieving the following results:

- 25 vocational qualification standards developed for 2- and 3- year vocational education
- 12 curricula reformed for 2- and 3- year vocational education
- Trainers trained for 2- and 3-year vocational education

Even though that strategic priority of the Government is fostering the level of higher education, the necessity for such project arises from the need of the country 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 lack of persons with vocational education on the other hand.

Obsolescence of the vocational education programmes and the need for motivating the 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 reforming the vocational education programmes is greeted; however the Project lacks one component that will include activities intended for motivating the students to enrol in vocational schools, which among other, was announced as one of the objectives of the Project by the Ministry of Education.<sup>98</sup> In addition, activities lack focused on realizing the second objective of this measure, or support to the process of bridging vocational schools and business partners. Such activities would be 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 development and better utilization of the national capacities. Considering the fact that EUR 810,757.00 remain unrealized in this measure, there is a possibility that such measures are developed within the framework of additional project of this measure, if prepared.

Considering the fact that one full year of its implementation remains, it is still early to measure its efficiency. However, it is necessary to mention that it is erroneously to measure the results of the Project only through the number of reformed curricula. To the contrary, the key for successfulness 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 as well as the number of persons who have found jobs with such 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 EUR 1,154,000, of which EUR 981,000 are 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 expending for one year.

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 to EUR 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?id=2432](http://www.kapital.mk/mk/dneven_vesnik.aspx/75679/uchenicite_kje_se_motiviraat_struchno_da_se_obrazuvaat.aspx?id=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 Program is ensured in terms of workshops, training sessions and discussions. The planned activities are aimed at introducing innovative programmes, updating programmes and training for 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 Roma population, introduction of innovative programs for Roma children, ethnic training for the teachers and school principals and upgrading of training centres for Roma population, particularly focusing on the Roma population with unfavourable educational structure”.The Project, however, according to the available information, fails to envisage inclusion of Roma population, which by itself is to be a separate component. The two components envisaged within the Project (1. Inclusion of intercultural aspects in the education system and 2. Strengthening the capacity for support of the integration of ethnic communities) are too narrowly defined and may include only a part of the activities presented in the Operational Programme: “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: raising literacy of persons from the ethnic communities; reducing illiteracy of persons speaking native language other than Macedonian. In addition, addressing the particularly important problem relating to frequent occurrence of leaving schools at early age among Roma pupil completely undermined <sup>99</sup>. The 2011 Progress Report indicates that “the need to provide structured training for teachers is yet to be tackled”.

The recommendation of the team of experts in 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, „a targeted approach toward socially deprived minorities, such as the Roma”<sup>100</sup>. This should be taken into consideration when planning the future activities within this measure.

### **Measure 2.3: Development of Adult Education and Lifelong Learning**

As defined in the Operational Programme, this measure is aimed at achieving systematic approach for adult education and coordination of the activities at national level through

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<sup>99</sup> Republic of Macedonia 2011 Progress Report, European Commission, p. 50

<sup>100</sup> Brada, J. (Team leader), Convergence to the European Union: Challenges and Opportunities, Ministry of Finance of the Republic of Macedonia, 2011, p.16

setting up coordinating body for activities related to adult education. In addition, this measure is aimed at 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 EUR 1.732 million, of which EUR 1,472 million are 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. Total amount of envisaged assets is EUR 1.728.235,00, of which EUR 1.469.000,00 are provided by IPA. The Project, extending for 22 months, commenced in October 2011, and last to July 2013. 30 experts from France and Spain will participate in the Project, 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; and

Development and testing of programmes for literacy and completion of primary education of excluded persons.

Numerous activities may be noted carried out by the Centre for Education on its website. According to the information announced, several study visits have been made in Austria, Germany and France for the purpose of getting introduced the Centre employees with their system for adult education, and activities have been implemented for development of programmes for adult education. The Centre for Adult Education has already implemented several programs 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 may not be determined in this stage.

Within the framework of IPA IV Component, during 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, 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 EUR 6.3 million. In the same time, within the framework of Measure 2.2 “Enabling quality inclusive education for all”, the cluster “Strengthening pre-school education” is planned. Total planned budget for the activities within Measure 2.2 is EUR 2.7 million

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

With the transition process, since its independence in 1991, Republic of Macedonia has gone through a range of complex political and economic processes affecting the citizens' living standard and general social welfare. Due to the structural changes in economy accompanied by a range of political changes, poverty and social exclusion occurred as new social problems in the country. Since then, poverty has been one of the key problems for the Macedonian society, and the fact that in 2011 the poverty percentage was 30.4%<sup>101</sup> indicates to the seriousness of the situation. This Priority Axis is aimed at support to social inclusion focused on the integration of disadvantaged persons in the labour market through training for professionals 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 for the individual needs of most vulnerable groups in the labour market. The activities within this measure is to contribute to enhancing the efficiency and effectiveness of social services focused on enabling better approach to the labour market. The total envisaged amount for this measure is EUR 1,534 million, of which EUR 1,304 million are provided by IPA

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

Main objective of the Project is building institutional capacities for improving social inclusion policies through 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. Precisely, the Project is aimed at improving the efficiency of social services for the purpose of promoting social inclusion of vulnerable groups and strengthening the

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<sup>101</sup> State Statistical Office

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 shared database.

Building institutional capacities as well as the concerned parties' capacities is extraordinary significant for implementation of active social inclusion policies as is pointed out in the general comments in the recent progress reports for the Republic of Macedonia in this area. In that 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 yet early to measure the efficiency of the Project, it is evident that it lacks one component as it fails to envisage activities that would contribute to realization of the objective established in this measure: strengthening the capacity of civil society focused 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), for which the two last reports note that has not progressed.<sup>102</sup>

### **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 the Albanian. According to the Operational Programme a total of EUR 1,725,882 million are envisaged, of which EUR 1,467 are provided by IPA Funds.

Within the framework of this measure, 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 was open for civil organizations, and the Ministry of Labour and Social Policy is beneficiary. So far, however, there are no results for approved projects. Main objective of the call for proposals is to contribute to the integration of women from ethnic communities in the labour market through enhancing their employment potential.

Specific objectives of the call are:

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<sup>102</sup> Republic of Macedonia 2012 Progress Report, European Commission, 2012, p. 59

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.

By the interview carried out in the Secretariat for European Affairs, there are no results yet relating to the call as the evaluation process is still ongoing. Extended implementation is due to the fact that this is first grant scheme and time-consuming process for establishing evaluation criteria; however the process itself is slow due to the compulsory communication 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 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 organisations in the area of social inclusion**

This measure aims at improving authorisation 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, the local self-government and non-governmental organisations. Inter-ministerial and inter-institutional cooperation, as well as across the board training have been envisaged as part of this measure in order not only to improve the quality of the services provided, but also to facilitate the integration of the vulnerable groups in the labour market. The total budget envisaged amounts to 575,296 EUR; out of which 489,000 EUR are IPA contribution.

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". Project beneficiary is the Ministry of Labour and Social Policy. The overall budget of the project is 149,759 EUR.

The global objective of the project is to enhance the capacities of non-governmental organisation 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 organisations and local self-government units) in terms of drafting and actual implementation of social inclusion projects in line with the 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 on social issues was announced in February 2012. The call itself stated that the target group shall comprise around 60 persons coming 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<sup>103</sup>, the training has engaged 150 persons, broken down in five groups of 30 persons, 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"<sup>104</sup>. 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 insofar, as well as unofficial observations, the project is expected to exert substantial positive influence and to assist the capacity-building process of non-governmental organisations, which can on the other hand contribute to improved provision of services and facilitate the integration of the vulnerable groups at the labour market. Nevertheless, this brings up the question

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103 [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](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)

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

why the project amounts to only one-fifth of the funds included and the greatest portion of the funds foreseen for this measure (425,573 EUR) 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)" <sup>105</sup>.

#### **Measure 1.1 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 EUR; out of which 1,300,000 EUR shall be IPA contribution.

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, Ministry of Employment and Economy, on one side and the Ministry of Labour and Social Policy on the other side. The implementation period of the project was from 10 January 2011 to 10 January 2012, and the total budget amounted 1,462,950 EUR.

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 towards 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:

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<sup>105</sup> 2007-2013 Operational Programme for Human Resources Development, p. 110

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 regards 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 has noted "little progress" in the segment concerning the preparations for participation in the European Social Fund, and additionally, it has underlined "the weak administrative capacity is having an adverse impact on the quality of project and programme management."<sup>106</sup>

## **Participation of the civil society in the monitoring of the Component**

The participation of the 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 decentralised 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 the interview with a member of the monitoring committee, is mainly seen in the possibility (however limited) to give certain suggestion in 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 some more substantial progress of the civil society towards programme improvement is somehow limited, due to number of factors.

Such is for instance the case where, although 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

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<sup>106</sup> Republic of Macedonia 2012 Progress Report, European Commission, 2012, p. 59



representatives of the civil organisations), and thus are not directly included in the implementation of the programme or separate projects, possess only partial information. This issue restricts them from providing a meaningful contribution or intervening in terms of improvement of the programme or certain projects. The formality of the monitoring committee can also be seen in the mere fact that the committee meetings, as laid down in the Regulation, are held on annual basis, with a possibility to convene additional meeting on a concrete topic. Furthermore, except for the inclusion of a representative from the civil organisation, more active participation of the remaining stakeholders from the 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 program from being enhanced further.

## **Conclusion**

Although the considerable delay of the accreditation granting for management of the IPA Human Resources Development Component has caused delay in the commencement of the projects, the majority of the envisaged measures have initiated projects, and part of them have already been wrapped up. The majority of the projects are intended to provide institutional support or capacity-building support to relevant institutions responsible for the implementation of their respective policies. Insofar, out of the foreseen amount totalling 19,647,26.00 EUR of the financial framework for 2007-2009, the funds of which should be used by 31 December 2012, only 12,483,277 EUR are 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 might 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: Within the frameworks of the priority axis Employment, measure 1.4 From Informal to Formal employment and measure 3.2 Integration of the ethnic communities within the priority axis 3. Social inclusion. Measure 1.4 is directed towards activities that will contribute to the improvement of the employed persons 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, still, there are is no data that indicates the start-up of such a project. Consequently, there is a possibility that the funds foreseen for this measure might 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 most of them are moving in the right direction towards 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. Such is, for instance, the case where one of the project objectives within the measure 2.1 Modernisation 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 are completely lacking. Instead, project's activities are solely directed towards preparation of standards for professional qualification and 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 the ethnical 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 the intercultural aspects in the education system; 2. Strengthening of the capacities for support to the integration of the ethnic communities), however, Roma population is not a target group in any of those 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.

Having in mind that this is not a first cycle of implementation of this type of projects, weak administrative capacity and lack of experience with this type of projects is one of the main reasons for the shortcomings of projects' quality and programmes management. Given this fact, it is justifiable to some extent that part of the funds within this measure are 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 (increase employment, invest in human capital through improved education, as well as promotion of inclusive labour market). Having well-developed administrative and institutional capacities is a precondition for successful implementation not only on the current programmes and for quality

programme management, but also for preparing the country to participate in the European Social Fund, which is one of the main objectives of the component.

Nevertheless, this inevitably brings up the question whether such allocation, exclusively for institutional development and development of the administrative capacities, is the "best purpose" of the funds designated to this component. In any event, the objective of this component is not to build the institutional capacities, but rather to foster human resources development by improving both the quantity and quality of human capital, leading consequently to more and better jobs, higher growth and development, as well as increased national competitiveness at international level. Moreover, there is the fact that 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 the human resources development, as is already the case in Montenegro and Croatia, and in the same time to include greater number of grants.

Due to the fact that the projects involving entities outside the state institutions are deemed to face the greatest difficulties of all, 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 the country. It is our opinion that this is a pressing problem which, if not opened and tackled properly, shall cause serious issues regarding the achievement of objectives of this component and the EU funds as a whole.

Finally, the participation of the civil sector in the monitoring committee has proved to have a positive effect, particularly since the civil society perception for the public administration has improved significantly. It is recommended to foster the participation of the civil society to the end of better use of the potentials and available resources to improve the quality of separate projects and the entire programme.

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

**Resume of the research:**

Value added indicator is a key to understanding the contribution of the 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 a 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 of their economic contribution to the national economy. Namely, this indicator is useful for assessing the productivity of different input and hence for improving the 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 is 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 percent increases to 16%. In addition, Macedonian agriculture has served as 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 percent as 36% of the labour force and 44%<sup>107</sup> 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 since they can visibly accelerate the development of the Macedonian agriculture.

Main intention of this research is quantification of results of supported investment with IPARD funds in the Republic of Macedonia. Namely, many Macedonian farmers are now evaluating ways to add value to their commodities to capture some of the value that is being added beyond the farm gate. Value may be added to agricultural commodities by processing, packaging and marketing. At the farm level, value can be added by retaining

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<sup>107</sup> Macedonia: *Growth and Poverty, 2002-2004*, Western Balkans Programmatic Poverty Assessment (World Bank).

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 of the preparation of a product/commodity for the consumer than was done before. The idea of this research is to calculate the change of GVA, NVA and labour productivity and estimate the overall increase of all three indicators at result and impact at IPARD beneficiary level, in order to trace the positive change, if there is any.

Due to the lack of an operational FADN system in the Republic of Macedonia, or any other adequate data collection system at farm level, currently the prediction of changes in GVA, NVA and labour productivity can be only based on empirical case studies. In that context, within this research were prepared specialized concrete questionnaires' (Annex 2. and Annex 3.) for two case studies. In direct contact with two IPARD beneficiaries were collected data for revenues and all costs related to their business before supported investment. Collected data were afterward used as inputs in specially developed methodology for assessing the impact of IPARD funds. Calculations revealed positive changes in both case studies. Namely, first case study showed increment in the production and sales, and arrived at 8,67% change of GVA, 41,78% change of NVA and 1,73% increment of the labor productivity. This indicators for the second case study are 8,8% change of GVA, change of NVA is 9,66% and the labor productivity was slightly increased, for 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 to help producers absorb the shocks brought about by globalization (Coltrain, D., D. Barton and M. Boland, 2000).<sup>108</sup> In the era of globalization with considerably increased competition in agricultural sector and the rapid commoditization of its products, pursuit of agricultural value-added initiatives, then, may be seen as a strategic response to these circumstances. Of course, these trends themselves have been vastly boosted from various trade liberalization agreements involving the United States, such as the Canada-US Trade Agreement, NAFTA and the WTO (Amanor-Boadu, V, 2000).<sup>109</sup> Other factors influencing this situation include increasing consumer demand for convenient, ready-to-eat/cook, safe and nutritious food products and their willingness to pay premiums

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<sup>108</sup> Coltrain, D., 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.

<sup>109</sup> Amanor-Boadu, V.: *Trade Liberalization and the WTO Negotiations after Seattle*, Guelph: George Morris Centre, March 2000.

for such service-embedded products (K. Wolfe, 1999)<sup>110</sup>. 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 mean for justifying improvements in almost anything, starting from value-added accounting (Calhoun, C.H., M.E. Oliverio and P. Wolitzer, 1999)<sup>111</sup> to value-added public relations (Harris T., 1998).<sup>112</sup> Thus, value-added branding, for example, is conceived of to be superior to plain branding (Nilson, T.H, 1998).<sup>113</sup> Yet, it must be outlined that the argument of how and how much better "value-added" makes any activity it qualifies has not been profoundly discussed in the literature. Thus, value-added agriculture is considered as a superior form of agriculture but there has still not been brought precise frame and measure the implied superiority.

Today's agri-food system extends well beyond the farmgate 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 with 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. 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 and accounts for sources of income by tracing payments for the final goods

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<sup>110</sup> Kent Wolfe: *Getting A Food Product to Retail*, The University of Tennessee Agricultural Development Center, ADC Info. No. 40, July 1999.

<sup>111</sup> Calhoun, C.H., M.E. Oliverio and P. Wolitzer.: *Ethics and the CPA: building trust and value-added service*; New York : John Wiley, 1999.

<sup>112</sup> Harris, T.: *Value-Added Public Relations: The Secret Weapon of Integrated Marketing*; Lincolnwood, IL: NTC Business Books, 1998.

<sup>113</sup> Nilson, T.H.: *Competitive Branding: Winning in the Marketplace with Value-Added Brands*; New York: John Wiley & sons, 1998.

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 (R. Holland and K. Wolfe, 2010) <sup>114</sup>:

land and other natural resources such as water,

labor of workers,

capital, such as machinery and buildings,

management and entrepreneurship.

Land, labor, 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

adds 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.

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<sup>114</sup> Rob Holland and Kent Wolfe: *Considerations for a Value-Added Agribusiness*; Agricultural Extension Service, the University of Tennessee, 2010, p.21.



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.

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 usually must 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 an agri-food gross value added is actually contributed by other sectors of the economy. This outside value added can be deducted to get 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 economists' 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, E.G, 2000)<sup>115</sup>:

products or product groupings,

firms, industries, groups of industries, or the entire economy,

number 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 in the same time period.

Gross and net value added can be computed for all the goods produced and sold by an industry, or they can be computed on a per unit basis (Chopra, S. and P. Meindl, 2004)<sup>116</sup>. On-farm value added can be found from farm cost of production data. Off-farm measurements usually emphasize forward linkages after the farmgate. Off-farm figures can then be broken down by marketing function such as processing and 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.

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<sup>115</sup>Wood, E.G.: *Added Value: The Key to Prosperity-Third edition*; Tip tree, Essex: Business Books Ltd., 2000, p. 16

<sup>116</sup>Chopra, S. and P. Meindl: *Supply chain Management: Strategy, Planning, and Operation-2nd Ed.*; Upper Saddle River, NJ: Pearson Prentice Hall, 2004, p 24.

## **IPARD Institutional and Legal frame for the Republic of Macedonia**

Regarding the institutional and legal frame for introducing IPARD in the Republic of Macedonia, first official document was the National Programme for agriculture and rural development 2007-2013<sup>117</sup>, whose main purpose is to act as 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 the 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 on support for 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, the implementation and the follow-up mechanisms are in compliance with the Common provisions set in the Commission Regulation (EC) No 718/2007 and in specific with the Principals for Assistance (Article 3) and the provisions for IPA for Rural Development (Title IV) and thus facilitate the transition process of implementation of the *Acquis communautaire*. The Programme is subject of 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 agriculture sector stakeholders. Initially, independent in-depth studies were prepared for four agro-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, Farmers Federation, non-governmental organizations and sector advisory technical committees participated in the Programme definition.

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<sup>117</sup>National Programme for Agriculture and Rural Development 2007-2013; Ministry of Agriculture, Forestry and Water Economy of the Republic of Macedonia, Skopje, 2009.

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), 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 overall situation in the rural economy, development of agricultural and agriculture-related sectors, defining the main problems, 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 of the European Union and is thus eligible for the pre-accession assistance in accordance with EC Regulation 1085/2006 of 17 of 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 preaccession financial aid for sustainable agriculture and rural development with focus on preparation for the Common Agricultural Policy and related policies and for the European Agricultural Fund for Rural Development (EAFRD) and adjusting 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 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.”

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

Improving the technological and market infrastructure of commercial agricultural holdings and food processing industry aimed at increased added value of agro-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, were selected two priorities, Improving market efficiency and implementation of Community standards and Development of rural economy, and appropriate measures, with groups and sub-groups of investments have been included in the Programme (Annex 1.).

### **Research results:**

Regarding the IPARD beneficiaries, for the purpose of this research economic model which contains revenues and all costs related to their businesses is used on the field visit and interviews in order to collect all necessary data.

Agricultural and food sector in the Republic of Macedonia covers the activities of 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 product is used for direct consumption or as a raw material, is considered as a primary agricultural product. Accordingly, if the product goes through any type of further modification, it is referred as a secondary agricultural product.

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

Namely, measure 101 focuses on the improvement of the competitiveness of the agricultural sector through increase of the quality of production by using modern production means and technological improvement of production process in compliance with the Community 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 priority sector for measure 101 is primary agricultural production. That resulted in subdividing primary agricultural products into two sub-groups, namely: primary agricultural product from plants and primary agricultural products from diary animals and fattening animals. In order to collect data for GVA, NVA and labour productivity calculation related to the business of IPARD beneficiaries under measure 101, specific and suitable questionnaires are 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 for 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 to 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 EURO. Thanks to the new equipment, the beneficiary was able to add value to its production by increasing the cheese production and sales, and arrived at 8,67% change of GVA. Since there was not significant change in the annual depreciation rate, this beneficiary made significant change of NVA, 41, 78%. New equipment has substitute human labor and workers were engaged in other activities, contributing to increscent of the labor productivity for 1,73%.

### **Case study 2.**

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

Group of investment 1013-investements 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 EURO. 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, and arrived at 8,8% change of GVA. Since it was serious reconstruction investment, there was significant change in the annual depreciation rate, and thus this beneficiary made modest change of NVA, 9, 66%. New glasshouse is on same area as the old one so the labor productivity was slightly increased, for 0, 29%.

<b>Case study 1.</b>			
<b>Measure 101: Investements in agricultural holdings to restructurate and to upgrade to Comunity sandards</b>			
<b>10142: Purchase of specialised equipment for milking, cooling and storage</b>			
<b>650 sheep-befor IPARD investement</b>		<b>650 sheep-one year after IPARD investement</b>	
<b>Costs (denars)</b>	<b>MK denars</b>	<b>Euro</b>	<b>Costs (denars)</b>
fodders	1081000,00	17721,31	fodders
cost of animals		0,00	cost of animals
vet	47750,00	782,79	vet
Labour	648000,00	10622,95	Labour
Energy	18000,00	295,08	Energy
Cost of water	12000,00	196,72	Cost of water
Cost of maintenance	29500,00	483,61	Cost of maintenance
Overhead expense	60000,00	983,61	Overhead expense
contractual workers	576000,00	9442,62	contractual workers
Depreciation	40000,00	655,74	Depreciation
<b>Total</b>	<b>2512250,00</b>	<b>41184,43</b>	<b>Total</b>
<b>Revenues</b>			<b>Revenues</b>
Sale of cheese	345000,00	5655,74	Sale of cheese
sale of lambs	2112250,00	34627,05	sale of lambs
sale of whool	52800,00	865,57	sale of whool
sale of manure	75000,00	1229,51	sale of manure
sale of milk		0,00	sale of milk
<b>Total</b>	<b>2585050,00</b>	<b>42377,87</b>	<b>Total</b>
intermediate consumption	1824250,00	29905,74	intermediate consumption
GVA	760800,00	12472,13	GVA
GVA/sheep	1170,46	19,19	GVA/sheep
		<b>Change of GVA in euro</b>	<b>1184,43</b>
		<b>Change of GVA in %</b>	<b>8,67</b>
NVA	72800,00	1193,44	NVA
		<b>Change of NVA in euro</b>	<b>856,56</b>
		<b>Change of NVA in %</b>	<b>41,78</b>
Labour productivity	152160	2494,43	labour productivity
		<b>Change in labour productivity in euro</b>	
		<b>Change in labour productivity per worker in euro</b>	
		<b>Change in labour productivity per worker in %</b>	

Case study 2.			150 000 m2, 300 000 kg. tomatoes-befor IPARD investement			150 000m2, 350 000 kg. tomatoes		
<b>Measure 101: Investments in agricultural holdings to restructurate and to upgrade to Comunity standards</b>								
<b>1013: Group of investments for Vegetable production</b>								
<b>10132: Construction and reconstruction of existin glasshouses</b>								
<b>Costs (denars)</b>			<b>MK denars</b>			<b>Euro</b>		
plot preparation		18000,00			295,08			
plants					0,00			
planting		650000,00			10655,74			
fertilizer		470000,00			7704,92			
fungicide and insecticide		180000,00			2950,82			
manure		200000,00			3278,69			
maintenance		41000,00			672,13			
energy		265000,00			4344,26			
irrigation		12000,00			196,72			
fuel		2050000,00			33606,56			
contractual workers		2200000,00			36065,57			
labour		2400000,00			39344,26			
other cost		50000,00			819,67			
depreciation		30000,00			491,80			
<b>Total</b>		<b>8566000,00</b>			<b>140426,23</b>			
<b>Revenues</b>								
sale of tomatoes		10000000,00			163934,43			
					0,00			
					0,00			
<b>Total</b>		<b>10000000,00</b>			<b>163934,43</b>			
intermediate consumption		6136000,00			100590,16			
GVA		3864000,00			63344,26			
GVA per kg.		12,88			0,21			
GVA per ha.		2576000,00			42229,51			
					<b>Change of GVA in euro</b>		<b>17688,52</b>	
					<b>Change of GVA in %</b>		<b>8,80</b>	
NVA		3634000,00			59573,77			
NVA per kg.		12,11			0,20			
					<b>Change in NVA in euro</b>		<b>17360,66</b>	
					<b>Change in NVA in %</b>		<b>9,66</b>	
Labour productivity		1717,33			28,15			
					<b>Change in labour productivity in euro</b>			
					<b>Change in labour productivity per worker in euro</b>			
					<b>Change in labour productivity per worker in %</b>			

**Table 1. Overview of the calculated indicators for IPARD beneficiaries**

Case study	Sub-measure	Capacity/ Size	Total IPARD investment	Change in GVA in EURO	Change in GVA in %	Change in NVA in EURO	Change in NVA in %	Change in FTE <sup>118</sup>
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<sup>118</sup> \*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 half-time. In this table, approximation only-no available and/or reliable data for total number of paid hours and the lent of the period were obtained.

			amount (€)					(appr ox.)
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	17688,5 2	8,8	17360, 66	9,66	1

## Methodology:

In the Republic of Macedonia, State Statistical Office collects data for the sources of value added and the cost structure of GDP and calculates it by product approach and by current prices. On national level, 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, fixed capital consumption, compensations of employees and taxes on production. According to the NACE<sup>119</sup> classification by NACE sections and subsections, calculations are made on the level of the whole economy, on the level of institutional sectors and subsectors and by size of enterprises. Institutional sectors and subsectors are defined according to the recommendations in SNA93<sup>120</sup> and ESA95<sup>121</sup>, depending on the kind of production, on their main activity and their function, which are an indicator of their economic behaviour, having also in mind the managing of the enterprise. As for agricultural and food products, State Statistical Office incorporates GVA calculations within two sections (Agriculture, hunting and forestry and Manufacturing) and several subsections.

In this research, for consistency in preparation of economic model for GVA, NVA and labour productivity calculation, as well as for estimation of overall increase of all three indicators for potential applicants in IPARD program, 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 whether or not the whole quantity is sold or partially added to stocks. Having on mind the specifics of the production process in agriculture and the potential use of the produced

<sup>119</sup> NACE-National Classification of activities

<sup>120</sup> SNA-System of National Accounts

<sup>121</sup> ESA-European System of Accounts



goods, during 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, which 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-supply, working cloths and spare parts, transport cost of employees, daily allowances, separate live, contract payments and other benefits received from the employees, and which are connected with performing of the regular economic activity.

Compensations of employees are defined as founds given to employees and workers for the work done during the year and paid out in cash or in-kind. This category of founds includes wages and salaries, allowances added to salaries, social contributions, personal taxes, as well as all compensations for food, transport, accommodation, vacation 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. Because it is difficult to separate salaries of self-employed persons, individual agricultural producers and members of their family from the surplus achieved, this category contain the owner's 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 accidental damages. For the purposes of this 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 estimation.

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 adjusted number of non-registered employees using Labor Force Survey data.

Self-employed 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, number of self-employed obtained from the Tax Office, number of individual agricultural producers that pay contributions to the Pension Fond and adjusted number of non-registered employees using Labor Force Survey data.

After collecting all necessary data, calculation of GVA, NVA and labor productivity at IPARD beneficiary level is done with the following economic model:

*Gross Value Added (GVA) = gross output – intermediate consumption*

*Net Value Added (NVA) =*

*GVA – (depreciation + compensations of employees + taxes on production)*

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

### **Situation before investment**

*gross output – intermediate consumption = GVA(baseline)*

### **Situation after investment**

*gross output – intermediate consumption = GVA(target)*

### **Result Indicator**

Increase in Gross Value Added in IPAR beneficiaries:

*GVA(target) – GVA(baseline)*

### **Conclusions**

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

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

According to the realised on-field visits, the collected data, interview results of IPARD beneficiaries, following conclusions and recommendations can be given:

- Having 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. Namely, these are the inputs data required for calculation of GVA, NVA and labour productivity indicators. According to the experience from the on-field visits, the predictions have to be taken with cautious as regards their reliability provided by the agricultural holdings, farmers and micro enterprises level. This problem becomes more complex and less realistic when calculating these indicators on 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 this type of indicators.
- When the primary goal is calculation of the change of GVA, NVA and labor productivity and estimate 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 agriculture and food sector. Having on mind collected data from the case studies, prepared questionnaire for collecting cost and revenues data, the recommendation is to prepare concrete plan for direct contact with IPARD beneficiaries, that contain revenues and all costs related to their business before supported investment and after that.

It needs to be stressed that the roles of processing, packaging and marketing farm commodities, that are core elements of IPARD Programme for the Republic of Macedonia, have traditionally not been tapped by Macedonian agro-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 Macedonia 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 point out that Macedonian agriculture has an ability to provide relatively high proportion to the “value added” which is not directly measurable, but which have positive effects on overall society, especially on:

- Rural economy and the employment of low-skilled labor;
- 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 on open fields. This products are covered with 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, legal entities dealing in agriculture, commercial companies entering into agriculture activities)

Replacing the 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 for 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, 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 excluding 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 concession contract for the building for minimum 10 years ( for glasshouses and greenhouses only)

Primary agricultural products from diary animals and fattening animals-milk from cattle, sheep and goats in lactation, sows and pigs for fattening and poultry fattening (broilers). This products are covered with 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 goats in lactation)

10142 Purchase of specialized equipment for milking, cooling and storage

Sable size 5 dairy cows /m<sup>2</sup>; 1 sheep or goat in lactation/ 1.4 m<sup>2</sup>

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

Prove the right to use the building for 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 modernising of existing ones

Sable size 1 sow/1.3 m<sup>2</sup>; 1 fattening pig/0.65 m<sup>2</sup>; 17 broilers/ m<sup>2</sup>

Capacity of 2.000-8000 pigs for fattening; 40-100 sows; 5000-30.000 broilers.

Prove the right to use the building for 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. This products are covered with 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-size winery company

Capacity of 1500-55000 hl /year

1032 Group of investments for Fruits and vegetables processing

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

Medium -size fruit and vegetable processing company

Capacity of collection center 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. This products are covered with following groups and sub-groups of investments:

1033 Group of investments for Milk and dairy

10331 Setting up and modernization of milk collection centers

Medium-sized milk processing company with collection center/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 products processing capacity 5000-100000l/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, pig and poultry

10343 Investments for decreasing negative impact on the environment in meat processing establishments and slaughter-houses

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

Meat processing capacities 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 the rural areas

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

30212 Establishment and modernization of collection centers for mushrooms and medical/oil herbs and spices and facilities for mushroom cultivation

30213 Establishment of workshops for traditional handicrafts 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. Questioner No: 1 for collecting data from IPARD beneficiaries with 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 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 economical 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
<b>COSTS</b>				
<b>Livestock and dogs feeding</b>				
Voluminous fodder-purchased				
Voluminous fodder-own				
Concentrated fodder				
Salt				
Dogs food				
Dietary supplements				
<b>Veterinary services</b>				
Vaccines				
Parasite protection				
<b>Water and drinking water</b>				
<b>Stocks and maintenance</b>				
<b>Energy</b>				
Electricity				
Gas				
Fuel				
Other				
<b>Gross-wage for employees</b>				
Shepherd/cattleman				
Sheepfold master				
<b>Wage for contractual workers</b>				
<b>Depreciation</b>				
<b>Other costs</b>				
Office (small) supply				
Milk and cheese container				
Sheep shearing				
Working cloths				
Transportation of the herd				
Transportation of milk/cheese				
Other				
<b>TOTAL COSTS</b>				
<b>REVENUES</b>				
Milk				
Lamb/calf/small pig/kid				
Cheese and other processed goods				
Wool, skin and other products				
Manure				
Supplemental services (activities)				
<b>TOTAL REVENUES</b>				

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

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

### Annex 3. Questioner No. 2 for collecting data from IPARD beneficiaries with primary agricultural product from plants

measure 101, sub-group off primary agricultural product from plants (group of investments 1011, 1012, 1013-vineyards, orchards, open field vegetable production, green and glass houses)

#### A: General Information

<p><b>Agricultural holding/Enterprise:</b></p> <p><b>Municipality:</b></p> <p><b>Address:</b></p> <p><b>Telephone and E-mail:</b></p> <p><b>Activity:</b></p> <p><b>Status:</b>            <b>individual</b>                               <b>Private enterprise</b></p> <p><b>Number of employees:</b></p> <p><b>Size:</b> <b>micro small medium</b></p> <p>Criteria for classification in one of the above mentioned categories:</p> <ul style="list-style-type: none"> <li>• Number of employees</li> <li>• Annual revenues (total turnover)</li> <li>• Average value of total assets</li> </ul> <p><b>Contact person:</b></p>
<p><b>Note:</b> information regarding title/name of the agricultural holding/enterprise, the activity, number of employees and its size are not going to be 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 economical model for GVA calculation, as needed for this project.</p>

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

	Measure (unit)	quantity	Unit price	Total
<b>COSTS</b>				
<b>Plot preparation</b>				
Tillage				
Manure				

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

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

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

# 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 it turns to the analysis of the absorption capacity of the Republic of Macedonia. The analysis is structured as an assessment of the 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, comprised of structure, human resources and tools, related to the actual EU requirements.*

*The analysis shows that, in the case of the Republic of Macedonia, the macro-economic and the financial absorption capacities are not an obstacle for utilization of IPA funds. However, the situation with the administrative/institutional capacity is quite different, and it is actually 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. The 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, EU delivered substantial support to the Republic of Macedonia through various programmes, such as ECHO, Obnova, PHARE, Emergency Response Programme and balance-of-payments support. From 2001 until 2006 the Republic of Macedonia has received from the EU financial assistance from the CARDS programme. Main institution for the management of that assistance was the European Agency for Reconstruction (EAR). Since late 2005 the Republic of Macedonia has status of candidate country for EU accession. Notwithstanding the objections on the implementation of recommendations under the annual progress reports, the EU Commission has recommended starting of accession negotiations. Yet, due to political reasons, the country has not started this next phase of the EU accession process. Therefore, since 2007 the country is 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 2004<sup>122</sup>, 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, however, since it was not a primary and sincere interest of the government<sup>123</sup>, the results in the creation and upgrading of Macedonia's absorption capacity can be assessed – at the best – as very moderate.

Within the context of the 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 which generates considerable results (i.e. in an effective and efficient manner). EC experiences show that states have limited capacity for that, 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.

Having this in view, this research has two broad aims:

*First*, to make preliminary assessment of the capacities in the Republic of Macedonia for effective and efficient absorption of the EU funds in its pre-accession period and to give some recommendations 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

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<sup>122</sup> The first edition on EU Funds for Economic and Social Development/Cohesion published in Macedonia was a booklet under that title, which was published in 2004.

<sup>123</sup> There has been no change of the government in the Republic of Macedonia since 2006.

in near future, and about the concept and problems which Macedonia is facing regarding its absorption capacity for their utilization.

From methodological point of view, in line with the ToR defined by the beneficiary, this research is performed solely as a desk research. This comprised gathering of available relevant data and information, and their assessment from the point of view of the elements which 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 in 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) data-base for allocated, contracted and disbursed IPA funds. Further and more in-depth research should combine desk research with stakeholder consultations, survey 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 one tackles shortly the period before the IPA instrument (prior to 2007), whereas the second one 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; and (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 [M. Mrak and V. Uzunov, 2004; M. Mrak and D. Tilev, 2008; and a presentation by G. van Bork, 2011]. The section has two sub-sections: first it tackles the theoretical concept of absorption capacity, whereas it then presents the absorption capacity of the new EU member states.

### **1.1. The concept of absorption capacity**

Within the context of the EU public finances, absorption capacity is defined as the extent to which a member state or a candidate country is capable to spend the allocated financial resources from the EU budget, and above that, this should also be done in a way which would generate considerable results (i.e. in an effective and efficient manner). EC experiences show that states have limited capacity for that, 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.

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; and (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. So, 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 can not receive huge amounts of financial support from the EU budget.

*Financial absorption capacity* is defined as the ability to co-finance EU supported programs and projects, to plan and guarantee these national contributions in multi-annual budgets, and to collect these contributions from the partners interested in a program 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, programs and projects in due time, to decide on programs 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.

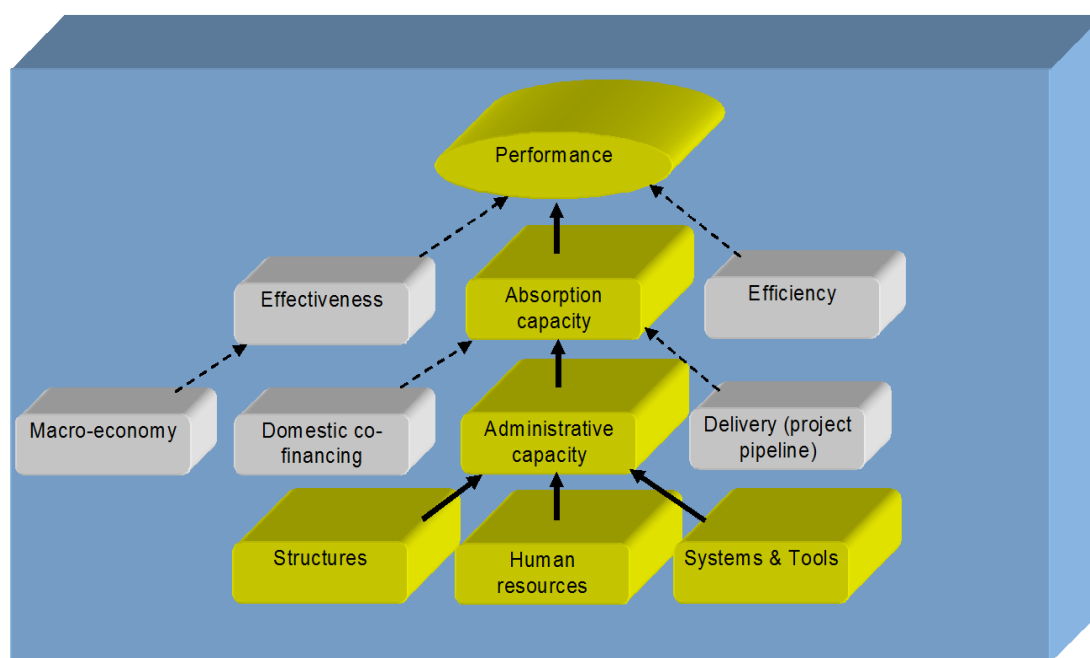
The *supply side*, which is the ability of the country to manage the funds efficiently and effectively. This is determined by *design variables*, comprised of structure, human resources and tools, related to the actual EU requirements.

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 to detail tasks and responsibilities at the level of job description, to estimate the number and qualifications of staff and to fulfill 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, and (v) financial management and control. The graph above<sup>124</sup> depicts the relations between the listed issues in an easily observable way.

## 2.1. The absorption capacity of the new EU member states

### ***Macro-economic absorption capacity***

<sup>124</sup> 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 10 candidate countries that joined the EU in May 2004 have never been in a situation 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. Those 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.

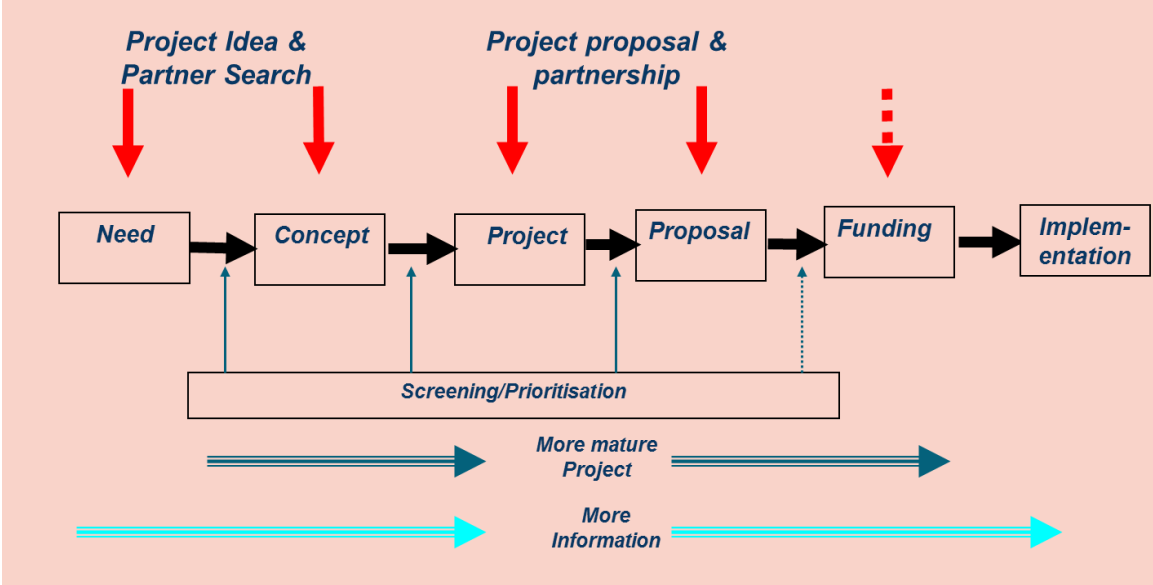
### ***Financial absorption capacity***

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 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 which would become available after accession. The scale of this challenge varies with 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 very proactive. It is primarily a responsibility of the countries themselves to design a detail 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 fell 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; and (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 and, therefore, 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, in fact a precondition for further preparation, including staffing, 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 the governance structures. This has to be decided having regard for 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 these responsibilities may be shared with other bodies, the MAs carry finally 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 in the 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 as essential.

(2) EU funds can be channeled to eligible countries and regions on the basis of *multi-annual programmes* which provide 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; and (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, whose main advantage is that it typically reflects well the real needs of these players. The other one 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 a lot of 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 – National Development Programmes, Community Support Frameworks, 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 a “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 very 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, more dispersed approach has been used.

One problem which has been experienced in many EU-candidate countries was 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 give an 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. Very 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 the staffing requirement, 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; and (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. They 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 that 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 all old and new member states the importance of *financial management and control* has increased significantly over 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 the Funds; (ii) submitting certified payment applications to the Commission; (iii) ensuring that final beneficiaries receive EU funds quickly; and (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 a lot of 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; and (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 has 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: first it turns shortly to the period before the IPA instrument (prior to 2007), whereas afterwards it turns to the period of the IPA instrument (since 2007). This second sub-section follows the structure and points of analysis presented in the sub-section.



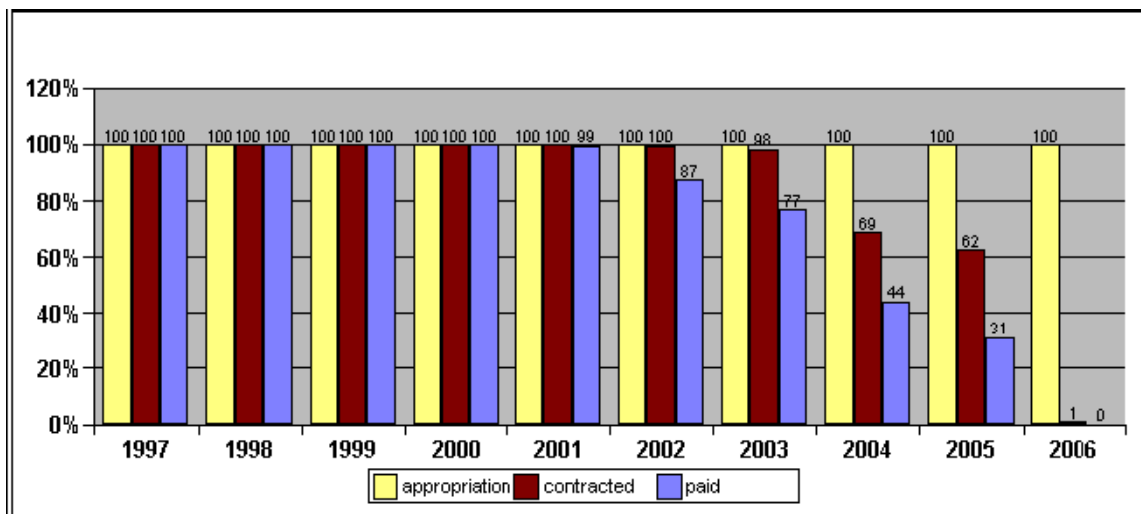
## 2.1. The period before IPA (prior to 2007)

The Republic of Macedonia has 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 which were in force from 1998 till 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, EU has delivered substantial support to the Republic of Macedonia through various programmes, such as ECHO, Obnova, PHARE, Emergency Response Programme, as well as balance-of-payments support. From 2001 until 2006 the Republic of Macedonia has received from the EU financial assistance from the CARDS programme.

EU's main institution for managing the 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 since 1997, and then took forward the implementation of CARDS. EAR has been relatively efficient in managing the assistance. The EU assistance portfolio managed by the AEAR 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 attached below) [M. Mrak & D. Tilev, 2008, p. 43].

### 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 [source: same, p.44], (while the further analysis shows whether they have really been learned):

Assistance implementation requires a level of flexibility over the standards of the administration in the country. In particular, challenges were faced during the implementation of assistance as regards 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 to 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 the 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 in ensuring sustainability in the implementation of 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 those lessons, these are the findings of the analysis within the newest MIPD (2011-2013) [Republic of Macedonia, Instrument for Pre-Accession Assistance (IPA), Multi-annual Indicative Planning Document (MIPD) 2011-2013, p. 6]:

“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.”

## **2.2. The period after 2007**

In terms of the 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, the 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 the paper.

Furthermore, the overall financial assistance under the IPA is channeled through five components: (i) Transition Assistance and Institution Building; (ii) Cross-border Cooperation; (iii) Regional Development; (iv) Human Resources Development; and (v) Rural Development. However, since by 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 which 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 – disbursed amounts of IPA funds until now, which is done with 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 EU financial resources equivalent closely to 4 per cent of their GDP.

The same is true for the Republic of Macedonia. Data presented in the table below points that, since 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 amount of Pre-Accession Assistance.

	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](http://www.finance.gov.mk).

### ***Financial absorption capacity***

The standard national co-financing rate for pre-accession funds is around 25 per cent. Having that in mind, data presented in the following table shows that, even in case if 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 the public sector expenditures.

	2007	2008	2009	2010	2011	2012	2013
Required funds for co-financing 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, but it is also a fact that utilization of EU funds is subject to full transposition of EU legislation.<sup>125</sup> 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 which 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*

<sup>125</sup> 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.



*accompanied with its implementation.* The important parts of a national legislation which is of particular importance for absorption of the EU funds are in the following areas: (i) public procurement, (ii) state aids, (iii) competition, (iv) financial control and management, (v) environment, and (vii) equal opportunities<sup>126</sup>.

*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 the PPB has no executive power over entities – public and/or private – which do 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.), and (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.” [2011 EC Progress Report, p. 36].

In the areas of legislation on *competition and state aid* the situation is not very different. The legislation has recently been amended to comply to EU *acquis*, but its implementation is now becoming an issue of concern. The last EC Progress Report finds that – some progress was made in the area of competition, while in the field of mergers and state aid the enforcement record has improved in quantitative terms, but it 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. [Source: same, p. 39].

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<sup>126</sup> Same, p.2-3.

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 the parliament and the government. This is also the conclusion of the 2011 EC Progress Report: “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.”

As far as *environment protection legislature* is concerned, same as in many other areas, there is progress in transposing the EU *acquis* into national legislation and in ratifying multilateral environmental agreements, but significant efforts are needed in the implementation of that legislation. The administrative capacity is still very weak at both central and local level 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 the progress in this area has been almost halted recently: “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.” [Source: same, p. 56].

**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; and (iii) strengthen capacities of the judiciary, so as to be able to enforce the legislation in the respective fields.

#### ***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 Report [same, p. 56]:

“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 on entails a more detailed assessment on those issues.

#### *Demand side – project generation capacity*

This 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, while it is still only a part of an early stage of the project 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. And this is the case for both public and private institutions. Same as with numerous other issues in recent years, the issue of the low project generation capacity is not publicly debated, however, the tacit and almost unanimous consent is that the bottlenecks in the

project generation capacities are a problem which greatly hinders the ability of the country to absorb not only EU funds, but also funds from other sources.

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

The use of public, and even or private funds, in many cases is not conditioned by existence of well prepared project proposals. Consequently, there is huge lack of pressure on – and incentive to – project sponsors 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, 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 is even more bizarre, regarding the fact that the pre-elections (political) programmes of one of the (two) political parties which hold the government cabinet since 2006 – and which after the elections become official national / governmental development programmes – are based on hundreds of projects<sup>127</sup>. However, those 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 can not at all be considered as a pipeline of development projects.

No public institution in the Republic of Macedonia has the project generation activity as its sole, or as main area of activity. Establishment of private (consultant-type) ventures whose professional occupation is project preparation has a history of 10 to 15 years, but in an environment/market which completely lacks established standards of performance; hence, apart from very few domestic and the foreign-owned ones, it will still take some time before their expertise to mature up to international standards.

Despite the numerous institutions even at university level which 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 tackling systematically the project generation capacity problem in the country. A first step is to avoid completely the existing abuse of the idea of “projects” and “project generation” as justification for political nomination. Another issue is to avoid completely the political criteria and interference as 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

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<sup>127</sup> In the political parlance in the country, this is often referred to as “project-type of public management”.

time and resources, and (ii) smaller projects and schemes should be prepared on 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 capable of drafting specific project proposals through training and specialised education. EU has provided significant technical assistance to the EU candidate countries aimed at increasing their capacity to generate projects. On a 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, they being: (i) management; (ii) programming; (iii) implementation; (iv) monitoring & evaluation; and (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 organisation of MAs and intermediate bodies, their staffing and arrangement of the delegation of tasks. As a candidate country since 2005, Macedonia has access to all five IPA components since its start (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 Decentralised Implementation System (DIS). Until now Macedonia has decentralised management of IPA funds under all components except the component II. However, this process of accreditation was implemented far from smoothly.<sup>128</sup> In order to meet the conditions for conferral of management powers by the EC, the Republic of Macedonia has 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. [Source: M. Mrak, D. Tilev, 2008, ,p. 48].

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 dependant on the situation regarding the quality and mode of upgrading the quality of the public

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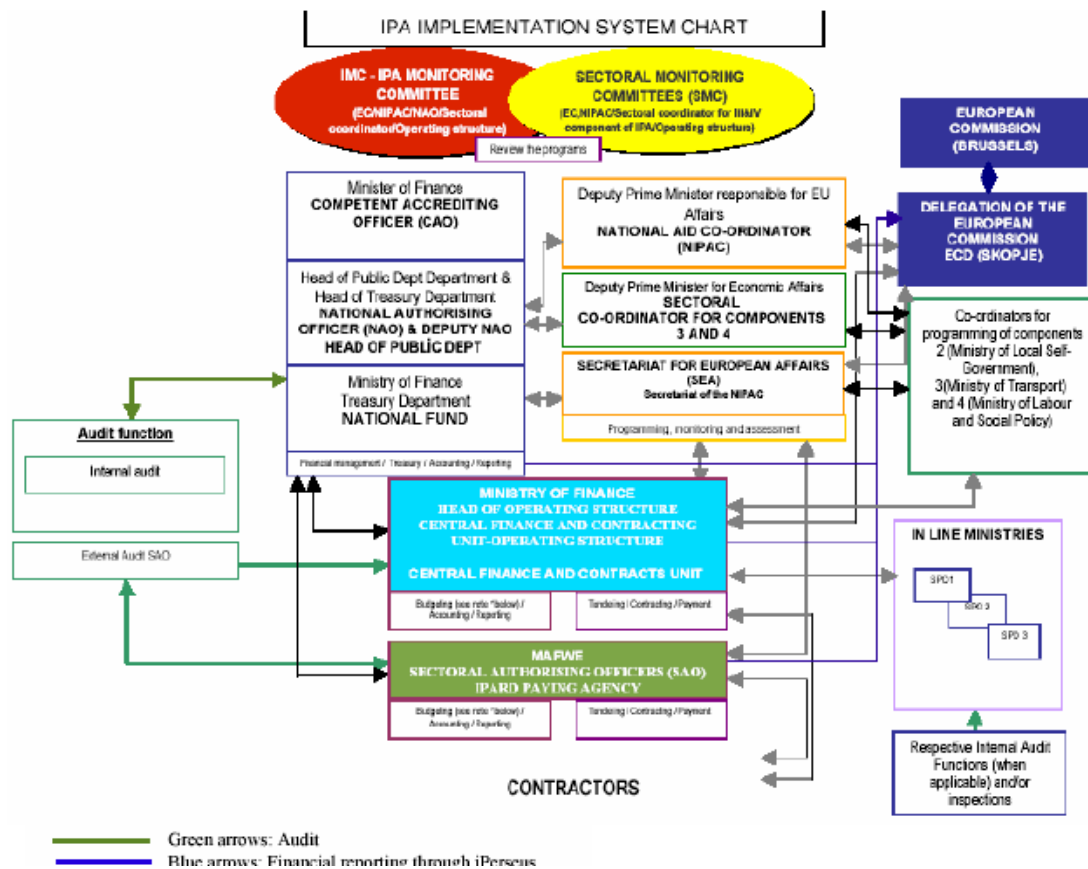
<sup>128</sup> This analysis does not enter into detailed discussion of the institutional structure under each component, since it is accompanied by separate analyses for each of them.

administration. An assessment of the human resources working in public institutions of the Republic of Macedonia indicates huge weaknesses in many respects:

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

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

Promotion practices, as a rule, 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 open. Large quantity of temporary positions were converted into permanent positions in 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 the 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 continued 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 to the real needs of the institutions continued. 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)**

Ability of a country to generate comprehensive and detailed medium and long-term development plans is crucial for its overall development and, within this context, also very crucial for absorption of EU funds. As it was presented before, EU funding is channelled on the basis of *programming documents*.

In the Republic of Macedonia, medium-term programming has short history. Prior to that, policy-making in the country was not based on medium and long-term strategic plans and documents, but rather on ad hoc measures. As a consequence, there was lack of demand for programming. And due to the prolonged 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 to have growing demand for objective and



coherent economic policy advice in the Republic of Macedonia for at least two reasons. First, the country was in front of 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. Second, the country was expected to move ahead into EU accession, hence the importance of the programming for absorption of EU funds should have increased.

However, the events in recent years prove that those expectations have been unrealistic. Namely, at the moment, the Republic of Macedonia practically has no National Development Plan (NDP), or rather officially it has one such document which is outdated. The first NDP was drafted in the first half of 2006, but with the change of the political party in the government cabinet in September that year, since it did not encompass its pre-election promises, it was decided that that document has to be rejected, and a new one should be prepared. The new NDP, entitled “Macedonia – National Development Plan 2008-2013 (draft version)”, was prepared and uploaded on the government’s web-site until the beginning of 2010, when it was removed and 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.”

The next very important programming document for utilization of EU funds is the Multi-Annual Indicative Programming Document (MIPD). Until now EC has adopted 4 MIPDs for the Republic of Macedonia, covering the periods 2007-2009, 2008-2010, 2009-2011 and 2011-2013. Apart from those, there are numerous other programming (strategic) documents in the country, such as: The National Programme for the Adoption of the Acquis (NPAA), as the national key document reflecting the main priorities of the EU integration process, Public Administration reform Strategy (2010-15), Strategy of the Reform of the 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 and National Strategy for Sustainable Development (2008-30), as well as, National Strategy for Poverty reduction and Social Inclusion (2010-20), National Strategy for SMEs development (2011-13), and National Strategy for Environmental Investments (2009-13).

The very number of national strategies and programming documents might point to a conclusion that the area of programming is well developed and filled, however, the analysis within the MIPD (2011-2013) points out that: "... as regards 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." [Source: MIPD 2011-2013, p. 6]. And further on, "... 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 materialise in the coming years, moving away from an approach of listing all potential reform needs." [Source: MIPD 2011-2013, p. 7].

Considerable part of the programming processes relates to the capacity to involve partnerships in the process. However, the preparation of programming documents in the Republic of Macedonia did not involve different stakeholders with the 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 the society is very little known in country, hence it is seldom applied, both on central and on local levels, and especially on a formal basis. Namely, "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 Organisations 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 Organisations in the coming years." [Source, same, p. 16].

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 of proper inter-ministerial communication, is often debated in the Republic of Macedonia as one of the main missing links (or pressing needs) in the work of the government.

**Recommendations:** There is an urgent need in the Republic of Macedonia to start addressing problems of medium-term economic programming as a part of the policy analysis in a systematic matter. Experiences of EU candidate countries also indicate that lack of appropriate capacities in this area or their inadequacy presented an important obstacle 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. On a short-run, a combination of a foreign expertise with domestic capacities, strengthened through targeted education and training of a selected group of younger professionals, could be an option. On a longer-run, however, a more stable institutional framework should be established to carry out this task. In a feasibility study an assessment should be made whether this framework could be based in one (more) of the existing public institution(s) that would be upgraded in a manner to perform the programming role effectively and efficiently, or 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 utmost importance that medium-term fiscal planning, and within this context implications for national co-financing of EU sponsored projects, is an integral part of the overall economic planning from the beginning of the process. If not, programs and projects are being prepared without clear understanding of financial capacity of the country. Recent reforms in the area of public expenditure management are in line with introduction of performance budgeting system which, among other issues, requires knowledge on programming. Hence, the process of reforms will create pressures on public servants to acquire 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 wider population of civil servants. Other training and education possibilities have to be created as well.

Next issue within the programming context is use of partnerships in the process. Considerable efforts should be made to start creating a culture of partnership between different entities at the national, regional and local. Partnership is required for securing ownership over projects to be executed. What is, therefore, needed is raising awareness among public institutions on the one hand and private and civil sector 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 ensure inter-ministerial co-ordination; and (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 the EU pre-accession countries have shown that implementation of projects after their approval has proved to be weak in the past, and would therefore require special attention of national authorities.

In contrast to management and programming of the EU funds where the role of Macedonian entities is rather limited for the time being, 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 on central and local levels, but also private firms, NGOs, etc.

Implementation of projects, 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 still is not by itself a guarantee for 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 one presented above (in the part of the text talking about 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 the 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 activities 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 level 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 implementation of the regular public institutions' duties in Macedonia, is also at the very beginning. Monitoring and evaluation is 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." [Source, same, p.14].

**Recommendations:** In the context of its preparations for decentralized management of EU funds, the Government of the Republic of Macedonia will have to make arrangements that are necessary in the area of monitoring and evaluation. It would be useful for the country to start designing its monitoring and evaluation arrangement, including a computerized monitoring system for gathering all the financial and physical data. The set up of a functioning monitoring system implies (i) definition of data and indicators to be collected, and (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, but the overall pool of financial management and control experts is insufficient and in some cases their skills are still not entirely comparable to international standards. Namely, "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." [2011 EC Progress Report, p. 10-11].

**Recommendations:** Financial management and control is another area of activities which the Republic of Macedonia has to upgrade substantially. Similarly as above, it would be useful to start prepare a financial management and control system in close coordination with the preparation of institutional arrangements in the other project cycle areas.

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