This briefing paper was requested by the European Parliament's Committee on Foreign Affairs.

It published in the following language: English

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Briefing for the Foreign Affairs Committee of the European Parliament under the framework contract with the Trans European Policy Studies Association (TEPSA)

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Publisher European Parliament

Manuscript completed on 30 July 2008.

The briefing paper is available on the Internet at

If you are unable to download the information you require, please request a paper copy by e-mail: xp-poldep@europarl.europa.eu


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Executive Summary

- The 2007 Annual Action Programme for the former Yugoslav Republic of Macedonia allocates a maximum amount of Community assistance of EUR 34.94 million. The priority axes Good governance and rule of law receive in total EUR 14.1 million, the largest amount of which is spent on the police reform process (EUR 9 million). EUR 7 million are allocated to Economic development and social cohesion, while the third priority axis, Ability to assume the obligations of membership, receives EUR 9 million. In addition, the Commission allocates EUR 4.84 million for programming support and preparing the country to participate in Community Programmes.

- The Former Yugoslav Republic of Macedonia has, as a candidate country, access to the five IPA components. The 2007 Annual Action Programme covers solely component I ‘transition assistance and institution building’, as component III, IV and V may not start until decentralised management has been conferred by the Commission. This transition period should be as short as possible so that the Former Yugoslav Republic of Macedonia may implement projects under all five IPA components. Assistance to cross-border cooperation (CBC) under component II is provided through separate CBC programmes.

- Relating to Good governance and the rule of law, priorities are set on the implementation of sectoral reforms, notably on the police reform process and, less significantly, on the public administration and the judicial reforms. The 2007 Annual Action Programme supports the civil society sector and promotes equitable representation mainly through capacity building activities for central state institutions. There should be a stronger focus on these issues and there also is scope for adopting more of a bottom up approach in addition to the current top-down approach in fostering civil society.

- Regarding Economic development and social cohesion, the 2007 Annual Action Programme only tackles one of the stated Multi-Annual Indicative Programme goals, namely assisting municipalities with building infrastructure to support both social and economic development. Further investment in the other three areas is required and should be rolled out as soon as possible in order to meet the Multi-Annual Indicative Programme goals.

- In terms of the Ability to assume the obligations of membership, the 2007 Annual Action Programme has four priority areas with EUR 9.0 million allocated. The amount of IPA funding is limited so therefore targeted concentration is required. In this case it is questionable why EUR 2.0 million is given in financial support for the production of quality statistics.

- In light of the review of the Multi-Annual Indicative Programme, the EU may consider to place a stronger focus on certain issue areas that have not received concentrated EU assistance under the 2007 Annual Action Programme, notably the fight against corruption and youth and long-term unemployment.
## Contents

Executive Summary .......................................................... ii
Contents................................................................................. iii

1. Introduction ........................................................................ 1
2. Political criteria: Good governance and the rule of law.................. 2
3. Economic criteria: Economic development and social cohesion ........ 4
4. European standards: Ability to assume the obligations of membership ... 6
5. Conclusions and recommendations ..................................................... 8
References ......................................................................................... 10
1. Introduction

The present paper provides for the analysis of the 2007 Annual Action Programme for the Former Yugoslav Republic of Macedonia (FYROM) under the EU’s Instrument for Pre-Accession (IPA). In this programme, the European Commission outlined the EU’s pre-accession assistance for the year 2007. The 2007 Annual Action Programme is split into two constituent parts, the first of which concerns the EU’s support for the police reform process and for programming and project preparation under the five components of IPA while the second provides assistance for good governance and the rule of law, economic development and social cohesion, ability to assume the obligations of EU membership and support to the participation in community programmes and agencies.

The FYROM was granted the status of EU candidate country in December 2005. As a candidate country, the country has access to all five IPA-components. According to the Commission’s Multi-annual Indicative Planning Document 2007-2009 (MIPD), pre-accession assistance for the FYROM is oriented towards four strategic areas:

1. Support to institution building
2. Improve cross-border cooperation
3. Prepare for participation in the Community’s cohesion and rural development policy
4. Prepare for the decentralised management of EU funds (Commission of the European Communities, 2007d: 3).

The 2007 Annual Action Programme is strongly oriented towards support to the first of the four strategic areas, namely institution building. Pre-accession support for 2007 is exclusively provided under the Transition Assistance and Institution Building component, while also covering programming and project preparation for the other four components of IPA.

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1 The five components under the EU’s Instrument for Pre-Accession are component I: transition assistance and institution building; component II: cross-border cooperation; component III: regional development; component IV: human resources development; and component V: rural development.
2. Political criteria: Good governance and the rule of law

The 2007 Annual Action Programme focuses strongly on the implementation of sectoral reforms. The highest priority of the year 2007 is placed on police reform. EUR 9.0 million of pre-accession assistance is allocated to organisational, tactical and operational support as part of the police reform process. The European Commission based this strategic choice on the understanding that there is a need to “consolidate the progress and maintain the momentum” of police reform (Commission of the European Communities, 2007c: 2). This consideration reflects European partnership priorities and is reasonable given the progress made in recent times. The FYROM have proceeded with the implementation of the national police reform strategy and in May 2006 the country adopted the new law on police which provided for a new appointment system for police chiefs and for the decentralisation of the organisational structure of the police. According to the Commission’s 2006 Progress Report, the enhanced efforts have already yielded positive results in that “the general level of security has steadily improved. This has been achieved both by increasing the operational capacity of the police and by fostering trust of all communities towards the police” (Commission of the European Communities, 2006: 6).

The other sectoral reforms subject to the EU’s pre-accession assistance are the public administration reform and the judicial reform, both of which receive substantially less funding than the police reform. The support of judicial reform (EUR 1.1 million) concerns in particular the strengthening of the administrative and IT capacities of the courts. With regard to Public Administration Reform, EUR 2.0 million is envisaged to support the building of the General Secretariat and the Civil Servants Agency. The support to the General Secretariat should help to advance the implementation of the public administration strategy which targets, among other issues, equitable representation and civil society issues.

The 2007 Annual Action Programme supports the civil society sector and equitable representation mainly through the capacity building of the General Secretariat. The idea is that a better equipped secretariat would be capable of implementing the strategies for equitable representation and for cooperation with the civil society sector. This approach is essentially informed by the vision of “technocratic efficiency” meaning that an improved performance of state institutions generates more efficiency which, in turn, generates more public trust (Bechev and Svetlozar, 2005: 3). In the FYROM, the EU might reconsider this top-down approach by adding more bottom-up activities. The strengthening of the civil society should be envisaged not only through capacity building activities of state institutions but also through direct support to civil society actors to strengthen their participation in the political decision-making processes. For instance, specific EU pre-accession support towards strengthening the civil control in the fight against corruption by building capacities of the NGOs could enable them to function better as controllers. This may result in the improved tackling of a key problem hindering the development of the country. Support should also be given to civil society actors involved in reconciliation efforts between the ethnic groups in the country so as to promote a long lasting peace between the communities.

Similar to the civil society sector, equitable representation in the public administration in line with the constitutional and legal provisions derived from the Ohrid Framework might be
considered as subject to more targeted EU pre-accession assistance. In the 2007 budget, the funding for equitable representation of non-majority communities was tripled (MKD 194,500,000.00) (Government of FYROM, 2007: 16). The EU should strongly support these activities, in particular in view of remaining tensions between the ethnic groups which were reflected in the problems in the functioning of the parliamentary and governmental work over the last two years. On 12 April 2008, the parliament decided to dissolve itself and to hold new elections on 1 June 2008 after the country failed to receive an invitation to join NATO at the Bucharest summit earlier in April. This decision ended Prime Minister Nikola Gruevski’s administration, which had been in crisis before. In March 2008, the Democratic Party for Albanians (DPA) left the coalition for ten days in protest at Skopje’s refusal to recognise the independence of Kosovo. Also, between April and May 2007, the opposition ethnic Albanian Democratic Union for Integration (DUI) had boycotted parliament due to differences with the government on the proper functioning of the Committee for Relations among Communities and the application of the double majority mechanisms. In view of these problems, the steady enforcement of the constitutional and legal provisions implemented in the Ohrid peace accord need to be maintained as it is the principal way to ease such ethnic tensions and to ensure a peaceful cohabitation in the country.

Apart from support to sectoral reforms, the 2007 Annual Action Programme seeks to prepare the country for the management of EU funds. EUR 2.0 million are spent to ensure the development of the various structures for all five IPA components and to assist in the creation of an IPA training facility. The training facility is necessary due to the decentralised nature of IPA which gives responsibility to different ministries and decentralised government units in the preparation and implementation of projects. Due to this set-up of IPA, pre-accession assistance under component III-V is limited for the year 2007 since the European Commission has not yet conferred decentralised management. The current transitional period should be kept as short as possible since the components III to V concern key priorities in policy development and project implementation and management.

The 2007 Annul Action Programme has no targeted financial support to anti-corruption policy even though the European Commission’s 2007 Progress Report stated that “corruption is widespread and constitutes a very serious problem” (Commission of the European Communities, 2007e: 12). The fight against corruption is defined as a cross-cutting issue to be taken into account in all projects and as part of the police reform strategy. This approach could be more comprehensive, however. In the 2007 ‘National Programme for the Adoption of the Acquis Communautaire’ the fight against corruption was one of the main priorities. The government sought to establish a more comprehensive approach on this issue in general and to strengthen the institutional capacities of enforcement agencies in particular (Government of FYROM, 2007: 12). As a result, a more targeted EU approach on the fight against corruption at all levels of the administration would support the political momentum and also better reflect the experiences the EU has already acquired in other candidate countries. According to the Croatia’s 2007 Annual Action Programme, “the main lesson learned from past assistance is that judicial reform and the fight against corruption and organised crime need to be developed in the early stages of the pre-accession process and further anchored and intensified during the whole pre-accession process” (Commission of the European Communities, 2007a: 12).
3. Economic criteria: Economic development and social cohesion

The 2007 Progress Report notes the strong GDP growth rates which have accelerated since the disappointing macro-economic performance of 2001 – 2003.\(^2\) Despite this economic growth, the country’s GDP level is still at a very low base in comparison to the EU, being at 28% of the average EU-27 GDP in purchasing power standards. Broadly, the economic stability enjoyed by FYROM has been very positive in nurturing a functioning market economy.

The major problem identified in the 2007 Progress Report is unemployment which is “very high at some 36% of the labour force and declined only by about 0.5% over the last year” (Commission of the European Communities, 2007e: 19). The unemployment rate has remained stubbornly high despite robust employment growth (3%). The Progress Report attributes this to structural unemployment, “as confirmed by the weak link between economic growth and the level of employment” (ibid). Youth and long term unemployment are recognised as key short-term priorities in the FYROM 2006 European Partnership document (Council of the European Union, 2006: 3-4). Youth is an issue that needs immediate redress, as it is a potentially explosive social situation, especially among males. Unemployment is also prevalent among the poorly qualified (Commission of the European Communities, 2007e: 23). This would suggest that there is a need to focus on retraining, lifelong learning and increasing the level of education among school leavers. Improving the physical infrastructure could also increase labour mobility, thereby reducing any regional disparities in unemployment levels that exist. Despite the prioritisation of unemployment as a major action point, it is not explicitly dealt with in the 2007 Annual Action Programme under Economic development and social cohesion. There is EUR 0.9 million of financial support allocated for Preparatory measures for the Lifelong Learning and Youth in Action programmes under Programming Support and Community Programmes. This funding is for the establishment of a national agency for these programmes so there is no immediate effect on the unemployment rate.

The assessment directs attention to a number of factors that weaken the economic performance of the FYROM. Some of them, e.g. the reform of the judiciary, are subject to pre-accession assistance under IPA component I in other areas but have a direct impact on the economic development and social cohesion of the country. In others, such as the legal system, the structures have largely been put in place but procedures are still slow, due in part to the weakness of the judiciary. Having insufficient legal certainty and a significant number of unsettled property disputes impedes the functioning market economy. The sizeable informal economy is also highlighted as an area where significant improvements need to be made. Again, assistance provided through other Component I funding, e.g. Tax and Customs Reform, will increase the administrative capacity in these areas leading to a more sophisticated system meaning activities in the informal economy will be subject to increased surveillance. The informal economy is not, however, explicitly dealt with under Economic development and social cohesion funding.

\(^2\) For more detailed information on the country’s growth dynamics, see the Eurostat homepage: http://epp.eurostat.ec.europa.eu/portal/page?_pageid=1090,30070682,1090_33076576&\_dad=portal&\_schema=PORTAL
The MIPD envisages a number of actions through various channels. Helping to improve administrative capacity in the area of fiscal policy, strengthening the competitiveness of the economy and improving the investment climate, in particular by supporting small businesses and by implementing the European Charter of SMEs, facilitating trade and supporting a strong regional policy are the four aims of the MIPD. Under Economic development and social cohesion the 2007 Annual Action Programme receives only one area of pre-accession assistance: assisting municipalities with building infrastructure to support both social and economic development. EUR 7.0 million are envisaged for three components:

1) Implementing small-scale infrastructure projects in municipalities (14 projects planned)

2) Training ministerial and municipal staff (probably also staff of communal enterprises) to improve skills in managing infrastructure projects

3) Supporting a Municipal Award Project targeted at municipalities that have significantly improved their public services.

While the MIPD is a multi-year planning document, the 2007 IPA funding itself, through Component I, doesn’t cover the aims of the MIPD nearly comprehensively enough. The 2007 Annual Action Programme funding is concentrated in only one area and it is not one of the four MIPD target areas. Leaving the improving of the administrative capacity in the area of fiscal policy, the strengthening of the competitiveness of the economy and the improving of the investment climate and the facilitation of trade out of Economic development and social cohesion IPA Component I funding. Despite this, the economy will benefit to a degree from financial support made through other component I funding such as Tax Reform, Customs Reform, Public Administration Reform and Judicial Reform through the improvement of the general business environment.

The Progress Report does note the low levels of investment in physical infrastructure and the corresponding lack in quality. According to the MIPD, the “upgrading of the transport infrastructure is of vital importance for the country’s economy” (Commission of the European Communities, 2007d: 6). While the Annul Action Programme allocates EUR 5.0 million for investment in this area, more investment is required to improve the business and investment climate due to decades of neglect in this area. It must be noted though that improving the physical infrastructure will have a positive effect on the investment climate and in the facilitation of trade in the country.

In the Annual Action Programme there needs to be more of a focus on broad macro-economic issues such as unemployment and at strengthening the competitiveness of the economy, which appear to be somewhat neglected. Overall the levels of funding for Economic development and social cohesion are quite low (EUR 7.0 million) when compared to the funding allocated to police reform or the implementation of the acquis. As already noted, access to funding associated with Components III-V would be of particular benefit so the speeding up of their implementation should be a priority.
4. European standards: Ability to assume the obligations of membership

With regard to the adoption and implementation of the *acquis communautaire*, the MIPD defined that priority should be given to those areas “where harmonisation of the legislation is an obligation linked to the implementation of the Stabilisation and Association Agreement and where the volume of legislation to be harmonised is particularly large and where harmonisation requires costly investment that must be spread over many years” (Commission of the European Communities, 2007d: 11). In the 2007 Annual Action Programme, the Commission considered four priority areas to meet these pre-conditions:

1) Regulatory and Supervisory bodies (EUR 2.0 million)
2) Tax reform (EUR 2.0 million)
3) State Statistical Office (EUR 2.0 million)
4) Customs Reform (EUR 3.0 million)

Concerning the first priority, supporting regulatory bodies in the economic sphere, the Commission has set priorities on the energy regulatory body and the insurance supervisory agency. The capacities of the energy regulatory body should be strengthened to advance the alignment of the respective national legislation with the *acquis*, whereas the insurance supervisory agency should be legally established during 2007. The EU’s pre-accession assistance therefore gives support in making it fully operational. As regards the reform of the tax system - the second priority - the 2007 Annual Action Programme seeks to advance the implementation of the tax reform strategy and to strengthen the capacities of the taxation and customs unit in the Ministry of Finance and of the Public Revenue Office. The State Statistical Office was chosen as a third priority, in particular to improve the quality of key priority statistics for the Stabilisation and Association Process, e.g. macroeconomic and business statistics. The final priority was the reform of the custom system. Pre-accession support is focused on further implementing the customs reform strategy, providing the respective administrative branches with information technology equipment and reinforcing border controls through improving current operational techniques.

The focus of the 2007 Annual Action Programme is therefore on institution and capacity building in selected issue areas aimed at enabling the country to transpose, implement and enforce the *acquis*. The EU might consider a broadening of these issue areas, however. It is questionable if EUR 2 million have to be spent on developing a system for producing quality statistics, while no specific activities are included on, for instance, consumer and health protection or environmental protection. Also support to minorities, vulnerable groups and fostering equal opportunities might be targeted more explicitly. In the 2007 Annual Action Programme, the Commission only deals with these issue areas in a cross-cutting way meaning that they are included as an integral part in each project fiche to which up to 10% of a project budget may be allocated.

Another priority axis of IPA pre-accession support for 2007 concerns Programming Support and Participation in Community Programmes (EUR 4.84 million in total). This choice is based on the 2003 Thessaloniki agenda which stated that “Community programmes will be opened to SAP countries along the lines established for the participation of candidate
countries” (Council of the European Union, 2003: Point 2). As participation in these programmes may turn out to be expensive for the FYROM, the 2007 Annual Action Programme seeks to “co-finance the costs of the ‘entry-tickets’ for the participation in several of these Community Programmes and Agencies” (Commission of the European Communities, 2007b: 6). The possible highest rate of co-financing is 90%. The 2007 Annual Action Programme supports, in particular, the country’s participation in the Lifelong Learning and Youth in Action programmes. Besides preparing the FYROM for participation in the community programmes and agencies, EUR 3 million is allocated under the heading ‘programming support’ for the establishment of a project preparation facility in charge of preparing and implementing the activities under the five IPA components.
5. Conclusions and recommendations

The aim of this paper has been to assess the 2007 Annual Action Programme for the Former Yugoslav Republic of Macedonia (FYROM) under the EU’s Instrument for Pre-Accession.

In the year 2007, the FYROM has received pre-accession support mainly under IPA component I Transition Assistance and Institution Building which included programming and project preparation under all five IPA components. Component II was covered by separate cross-border cooperation programmes. The European Commission has set priorities on the implementation of sectoral reforms, notably on the police reform process and, less significantly, on the public administration and the judicial reforms. The 2007 Annual Action Programme also sought to prepare the country for the implementation of all five IPA components and assisted in the creation of an IPA training facility. In terms of assistance for economic development and social cohesion, the European Commission placed an emphasis on backing municipalities with building infrastructure to support social and economic development. Besides supporting a municipal award project, the pre-accession assistance in this field was directed towards implementing small-scale infrastructure projects and training ministerial and municipal staff. As regards the adoption and implementation of the acquis, priority was given to four issue areas, namely supporting regulatory bodies in the economic sphere, advancing the tax and customs reform and strengthening the state statistical office. The last priority axes of the IPA assistance for 2007 concerned support for the country’s participation in community programmes and agencies, in particular in the Lifelong Learning and Youth in Action programme.

Based on these conclusions, following recommendations can be given:

- The FYROM has, as a candidate country, access to all five IPA components. The 2007 Annual Action Programme focuses on component I ‘transition assistance and institution building’, as component III, IV and V may not start until decentralised management has been conferred by the Commission. This transition period should be as short as possible so that the FYROM may implement projects under all five IPA components.

- In terms of the strengthening of the civil society, there is scope for adopting more of a bottom up approach in addition to the current top-down approach. This could be implemented through enhanced direct support to civil society actors. Another priority in the area of Good governance and the rule of law would be an increased focus on equitable representation in the public administration in line with the Ohrid Framework Agreement. This priority needs more attention, particularly in light of recent difficulties in the functioning of the parliamentary and governmental work which led to the dissolution of the parliament on 12 April 2008.

- The lack of targeted funding directed towards anti-corruption policy in the 2007 Annual Action Programme needs to be rectified as corruption was highlighted in the 2007 Progress Report as a very serious problem. Corruption is a major crosscutting issue that has a bearing not only on good governance and the rule of law but also the business and investment climate.
• With regards to *Economic development and social cohesion*, the 2007 Annual Action Programme only tackles one of the four stated MIPD goals, namely assisting municipalities with building infrastructure to support both social and economic development. Further investment in the other three areas is required and should be rolled out as soon as possible in order to meet the MIPD goals. Physical infrastructure does remain a major priority so funding and represents a cross cutting issue but it should not be the sole focus of the spending.

• Despite macroeconomic stability and relatively strong GDP and employment growth, the unemployment rate remains an area of particular concern and every effort should be made to remedy this situation. Youth and long-term unemployment need to be tackled in the immediate short term. In the medium term, more investment in the overall quality of education and the increasing of participation levels is required. Disappointingly, in the 2007 Annual Action Programme unemployment is not explicitly dealt with.

• In terms of the *Ability to assume the obligations of membership*, the 2007 Annual Action Programme has four priority areas with EUR 9.0 million allocated. As was noted earlier, the amount of IPA funding is limited so therefore targeted concentration is required. In this case it is questionable why EUR 2.0 million is given in financial support for the production of quality statistics.
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