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COMMISSION STAFF WORKING DOCUMENT

**THE FORMER YUGOSLAV REPUBLIC OF MACEDONIA
2013 PROGRESS REPORT**

Accompanying the document

**COMMUNICATION FROM THE COMMISSION
TO THE EUROPEAN PARLIAMENT AND THE COUNCIL**

Enlargement Strategy and Main Challenges 2013-2014

{COM(2013) 700 final}

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1. INTRODUCTION

1.1. Preface

The Commission reports regularly to the Council and Parliament on the progress made by the countries of the Western Balkans region towards European integration, assessing their efforts to comply with the Copenhagen criteria and the conditionality of the Stabilisation and Association Process.

This progress report, which largely follows the same structure as in previous years:

- briefly describes the relations between the former Yugoslav Republic of Macedonia and the European Union;
- analyses the situation in the former Yugoslav Republic of Macedonia in terms of the political criteria for membership;
- analyses the situation in the former Yugoslav Republic of Macedonia on the basis of the economic criteria for membership;
- reviews the former Yugoslav Republic of Macedonia's capacity to take on the obligations of membership, i.e. the *acquis* expressed in the Treaties, the secondary legislation, and the policies of the Union.

This report covers the period from October 2012 to September 2013.¹ Progress is measured on the basis of decisions taken, legislation adopted and measures implemented. As a rule, legislation or measures which are under preparation or awaiting parliamentary approval have not been taken into account. This approach ensures equal treatment across all reports and enables an objective assessment.

The report is based on information gathered and analysed by the Commission. Many sources have been used, including contributions from the government of the former Yugoslav Republic of Macedonia, the EU Member States, European Parliament reports² and information from various international and non-governmental organisations.

The Commission draws detailed conclusions regarding the former Yugoslav Republic of Macedonia in its separate communication on enlargement,³ based on the technical analysis contained in this report.

1.2. Context

The European Council of December 2005 granted the former Yugoslav Republic of Macedonia the status of candidate country. The Stabilisation and Association Agreement between the former Yugoslav Republic of Macedonia and the EU entered into force in April 2004. In October 2009, the Commission made recommendations to the Council to open negotiations with the country and to move to the second phase of SAA implementation. These

¹ In April 2013, the Commission published an *ad hoc* Report on specific issues on which the Council had, in December 2012, requested additional information. 'Report from the Commission to the European Parliament and the Council: The former Yugoslav Republic of Macedonia: implementation of reforms within the framework of the High Level Accession Dialogue and promotion of good neighbourly relations', COM(2013) 205 final of 16.04.2013.

² The rapporteur for the former Yugoslav Republic of Macedonia is Mr Richard Howitt.

³ Enlargement Strategy and Main Challenges 2013-2014, COM(2013) 700.

recommendations were reiterated in 2010, 2011 and 2012. The Council has not yet decided on the Commission's proposals.

1.3. Relations between the EU and the former Yugoslav Republic of Macedonia

The former Yugoslav Republic of Macedonia is participating in the **Stabilisation and Association Process**.

The country has been implementing its commitments under the **Stabilisation and Association Agreement** (SAA) with the EU, including all those relating to the first stage of implementation of Title V ('Movement of workers, establishment, supply of services, capital'). Council has not yet decided on the Commission's 2009 proposal on passage to the second stage of the Association, under Article 5 of the SAA. A Protocol to the SAA to take account of Croatia's accession to the EU has been agreed between the EU and the former Yugoslav Republic of Macedonia and is awaiting ratification.

Regular political and economic dialogue between the EU and the country has continued through the SAA structures. Meetings of the Stabilisation and Association Committee and the Stabilisation and Association Council took place in June and July 2013, respectively. Experts from the two sides met in seven sub-committees and a special group on public administration reform. The former Yugoslav Republic of Macedonia participates in multilateral economic dialogue with the Commission and the EU Member States to prepare for participation in multilateral surveillance and economic policy coordination under the EU's Economic and Monetary Union.

A **High-Level Accession Dialogue**, launched in March 2012, has continued to provide an impetus to the process of reforms for EU integration, without overriding the standard pre-accession procedures. It focuses on five key areas: protecting freedom of expression in the media, strengthening the rule of law and fundamental rights, reforming public administration, electoral reform, and developing the market economy. A plenary meeting was held on 9 April to review progress. Over the past year, action has been taken in relation to almost all of the targets set in the framework of the Dialogue. As was reported in the ad hoc report by the Commission in April, in some areas goals have been achieved, for instance the decriminalisation of defamation, the introduction of systematic verification of statements of interest, and improved legislation on the interception of communications. The focus in 2013 is on achieving the remaining goals, as detailed in the relevant sections of this progress report.

Visa liberalisation for citizens of the former Yugoslav Republic of Macedonia travelling to the Schengen area has been in force since December 2009. In the framework of the post-visa liberalisation monitoring mechanism, the Commission regularly assesses progress made by the country in the implementation of reforms introduced under the visa roadmap. This also includes an alert mechanism to prevent abuses, coordinated by Frontex. Within this framework, the European Commission has regularly submitted its monitoring reports to the European Parliament and Council. The next report will be presented by the end of 2013. A **readmission agreement** between the European Union and the former Yugoslav Republic of Macedonia has been in force since January 2008.

Implementation of the enlargement strategy for the former Yugoslav Republic of Macedonia is supported by **financial assistance** under the Instrument for Pre-Accession Assistance (IPA). The Multiannual Indicative Planning Document (MIPD) for the period 2011 to 2013 identified the following priority areas for financial support: public administration reform, justice, home affairs and fundamental rights, private sector development, agriculture and rural

development, transport, environment and climate change and social development.

Under the last National Programme within the current IPA component I, the Commission earmarked €56 million for the years 2012 and 2013 and adopted new allocations of €148 million for operational programmes under components III, IV and V. The former Yugoslav Republic of Macedonia also continued to benefit from various regional, cross-border cooperation and horizontal programmes. In the period 2007-2013 the Commission has committed over €610 million for projects to be implemented in the country, approximately a quarter of which has been contracted so far. Of this, the national authorities are directly responsible for managing over €480 million under the decentralised implementation system (DIS) for four out of five IPA components. There are, however, concerns that limited national capacity to programme and absorb IPA funds under the DIS may increase the risk of de-commitments. The national management and control systems remain uneven and need strengthening. A number of measures have been taken by the national authorities to improve capacity and performance and implementation of all IPA programmes is slowly making progress, but the backlog of projects continues to pose problems. Greater commitment is required from the authorities to accelerate implementation and increase the impact of financial assistance. The government and the Commission are currently preparing a comprehensive Country Strategy Paper for the period 2014-2020, which will provide a coherent and strategic framework for financial assistance under the new Instrument for Pre-Accession Assistance (IPA II).

The former Yugoslav Republic of Macedonia participates in the following **EU Programmes**: the Seventh Research Framework Programme, Progress, the Competitiveness and Innovation Programme, Culture, Europe for Citizens, Fiscalis 2013, Customs 2013, and the Intelligent Energy Europe Programme. It also ratified the memorandum of understanding for participation in the EU's Civil Protection Mechanism.

2. POLITICAL CRITERIA

This section examines the progress made by the former Yugoslav Republic of Macedonia towards meeting the Copenhagen political criteria, which require stability of institutions guaranteeing democracy, the rule of law, human rights and respect for and protection of minorities. It also covers regional cooperation, good neighbourly relations with enlargement countries and Member States and compliance with international obligations, such as cooperation with the International Criminal Tribunal for the former Yugoslavia.

2.1. Democracy and the rule of law

The year was marked by a political crisis following events in parliament in December 2012. A political agreement was reached on 1 March, enabling the return of all MPs to parliament, the holding of local elections, the continuation of relevant reforms, as well as an explicit commitment to the Euro-Atlantic agenda, the establishment of a Committee of Inquiry which proposed changes to the parliament's rules of procedures to prevent a recurrence and a commitment to restoring dialogue with journalists.

Constitution

There have been no amendments to the Constitution since 2011, and it is broadly in line with European standards. The Constitutional Court received over 200 applications challenging laws and other acts in 2012. In around 15% of its rulings it annulled the provisions challenged, indicating a need for further improvements in the quality of legislation at the

drafting stage. There is also a need for more systematic and transparent follow-up by the executive and legislature in cases where the Constitutional Court has annulled legislation. Although there is an obligation to propose new provisions, a number of laws are in practice left with gaps, thereby undermining legal certainty. In December 2012, the Venice Commission issued an *amicus curiae* opinion on the Lustration Law at the request of the President of the Constitutional Court, in view of a pending constitutional challenge. The Venice Commission raised potential concerns over, among other things, the initiation of lustration measures a long time after the start of the democratisation process, the misuse of political, ideological or party reasons as grounds for lustration measures and the application of lustration measures to private or semi-private organisations.

Elections

OSCE/ODIHR recommendations following the 2011 parliamentary elections were partially addressed through changes to the Electoral Code and to the Law on Financing of Political Parties in November 2012, and thorough revision of the voter lists. The Venice Commission found the amended Code to be an improvement especially as regards political party and campaign finance reporting, but stated that previous recommendations on thresholds for campaign donations, complaints and appeals procedures and arrangements for out-of-country voting had not been addressed. The Electoral Code was amended twice before the local elections to extend the deadline for candidates to register. Amending the Code so close to an election is not good electoral practice, but there was cross-party consensus and the extension allowed the opposition to participate in the elections.

Municipal elections were held in March/April 2013. The OSCE/ODIHR found that they were efficiently administered. Candidates were able to campaign freely and the campaign was active. Mayoral candidates in most regions signed a Code of Conduct for Free and Fair Elections. The election days were calm and polling well-organised in a majority of the polling stations. Voters were able to freely express their choice in a calm atmosphere, and the turnout was high. The OSCE/ODIHR reported, however, that allegations of voter intimidation and misuse of state resources persisted throughout the election campaign, and that the distinction between state and political party was blurred. The media covered the campaign extensively, but several broadcasters, including the public broadcaster, did not provide balanced coverage of the campaign. While there was greater confidence in the accuracy of voter lists, the procedures for compiling and maintaining the lists can be further improved.

Following the local elections, work on the outstanding OSCE/ODIHR recommendations has continued in two working groups on the electoral legislation and the voters' lists. Representatives from relevant authorities and civil society, assisted by OSCE/ODIHR experts, participate in the working groups.

Parliament

The forcible removal of a large number of opposition MPs and journalists from parliament's plenary hall on 24 December, during the adoption of the 2013 budget under controversial circumstances, triggered a political crisis which exposed deep divisions among political parties and affected the functioning of parliament. The resulting boycott of parliamentary proceedings and threatened boycott of the municipal elections by most of the opposition parties were resolved by a political agreement reached on 1 March, whereby opposition parties agreed to return to parliament and to participate in the elections. In practice, although it participated in the Committee of Inquiry, the main opposition bloc took little part in plenary debates until September.

The political crisis showed the degree of polarisation and highlighted the need for parties to show greater political commitment to resolving problems through dialogue and in full respect of the institutional framework, with both government and opposition playing constructive roles. The crisis also demonstrated the need for greater national consensus on how to meet the country's strategic objectives.

The 1 March political agreement also required a Committee of Inquiry to be established to look into the events on and before 24 December, including their constitutionality, security in and outside of parliament, and revision of the parliamentary rules of procedure, among other issues. Due to disagreement between the political parties over its composition, the Committee only began work in mid-June and agreed a report on 26 August with recommendations about reforms to parliamentary procedures, a code of ethics for MPs, parliamentary security arrangements and treatment of journalists. The consensus on the final report showed that constructive solutions can be found, with political will, through dialogue and compromise. A cross-party Working Group of the Assembly began work immediately on implementing the recommendations. The 1 March political agreement also required the signature of a cross-party Memorandum of Understanding (MoU), confirming support for the Euro-Atlantic integration agenda, which was signed on 16 September.

Between 24 December 2012 and 1 March 2013, in the absence of most opposition representatives, parliament adopted 10 new laws and revised over 80 others, including some relating to *acquis* reforms, raising concerns about the inclusivity of the process. Parliament's rules of procedure were also revised at that time, with the aim of limiting committee discussions on future budgets, and should now be further amended in line with the recommendations of the Committee of Inquiry.

A joint session of the Committee for European Affairs and the National Council for EU Integration (NCEI), chaired by the opposition and including representatives of all segments of society, was held on 9 April and the chair and co-chair of the NCEI participated in the High-Level Accession Dialogue meeting that day. Another NCEI session was held on 24 June. The NCEI has the potential to play an important and constructive role in assembling a broad national consensus on European integration. However, during the reporting period, discussions were affected by party political differences. Under parliament's oversight system, civil society organisations and academia were consulted on 6 draft laws, in 14 public debates and in 2 oversight hearings.

The Parliamentary Institute, set up in 2009 to support the work of Members of parliament, has finally become operational.

Overall, parliament's functioning of was affected by the political crisis which erupted on 24 December and the subsequent boycott by the main opposition bloc. The work of the Committee of Inquiry into the events of 24 December 2012 highlighted the importance of achieving political consensus through constructive dialogue and compromise. It is essential that work on the implementation of the agreed recommendations of the Committee of Inquiry continues as it has begun. Dialogue between the political parties in parliament needs to be improved. The NCEI should play a greater role in assembling a broad national consensus on European integration.

Government

The government coalition has remained stable. Dialogue between the parties in the coalition continued at all levels. There were two government reshuffles, in February and May 2013.

The Macedonian government continued its commitment to the EU accession process, most notably through the High-Level Accession Dialogue and the implementation of EU-related reforms. A new revised roadmap for accession was adopted in November 2012, and reports on its implementation were shared with the Commission in February and April 2013. Regular bi-weekly government discussions on EU integration were held.

The revised National Programme for Adoption of the *Acquis* (NPAA) for 2013 was adopted in December 2012. A first quarterly report was submitted to parliament on 9 May and debated by the NCEI on 24 June. The revised NPAA provides a useful framework of government plans but the lack of data on resources (financial and human), continues to make it difficult to assess its impact and the likelihood of successful implementation.

The population census, which did not take place in 2011 due to disagreements about the methodology for counting citizens abroad, has not yet been carried out. The use of administrative registries is being considered as a potential alternative solution.

With regard to decentralisation of government, a key element of the Ohrid Framework Agreement, the second phase of fiscal decentralisation has still not been completed. Some steps have been taken to review activities, including a new method of monitoring implementation of the decentralisation programme and action plan. The share of VAT transferred to municipalities remains insufficient to fully take on new tasks. Further efforts are required to ensure the financial sustainability of municipalities so they can carry out the responsibilities transferred to them. The relevant laws on regional development have not been fully implemented. The bodies responsible for regional economic development do not have sufficient resources. The regional development budget has decreased further.

Overall, the government has remained stable and has continued its commitment to EU-related reforms, which remain high on its agenda. There should be a more consensus-based approach to politics. A greater distinction is needed between political parties and state structures. Progress needs to be accelerated in the field of decentralisation of government and regional development, focussing in particular on full implementation of the relevant legal framework, on ensuring adequate resources, and on coordination between the relevant bodies.

Public administration

The government has embarked on wide-ranging public administration reforms with a dedicated forum under the SAA, which is being replicated elsewhere in the region, for discussion of such issues. The reform process enjoys political support, and the forum is co-chaired at ministerial level.

The legal framework for public administration continues to be fragmented, affecting its unity, transparency and accountability. Despite several amendments, the scope of the main laws setting out the status, rights, duties and accountability of people employed by the state remained limited in terms of the number of institutions covered. Large numbers of public employees are therefore instead subject to specific legislation and/or general labour law and collective bargaining. Fragmentation hampers the collection of relevant data on public administration. Official figures on the total numbers of employees in the public sector, both permanent and temporary, are still not available, which makes it difficult to measure progress in achieving transparency and reform objectives.

Policy improvements at both central and local level are still needed to combat politicisation. All ongoing recruitment of public employees, irrespective of civil service status, needs to

fully respect the principles of transparency and accountability and be based on merit. There are still cases of tailor-made vacancies and irregular recruitment of staff. Some recruitment has been carried out as a social policy measure, rather than as a response to institutional needs.

Targets on equitable representation, though largely achieved for the civil service, have not been met across the entire public sector. The recruitment procedure for members of non-majority communities still needs to be harmonised with general recruitment procedures. Efforts to meet equitable representation targets must be in balance with the real staffing needs of institutions.

To address the above outstanding issues, the Macedonian authorities continued work on a new legislative framework that would replace the main laws on civil and public servants and enshrine the fundamental principles of transparency, merit and equitable representation.

Work also continued on a new framework for general administrative procedures, with a policy paper in January 2013 setting out the main objectives of the new law. Under the current legal framework, the principle of tacit administrative approval was applied inconsistently, causing uncertainty and delays for citizens. The state commission for administrative appeals became operational, but remains insufficiently equipped and staffed. E-government remains a useful tool in providing services to citizens.

Public awareness of the right to free access to public information remains low. The number of complaints received by the National Commission for Protecting Access to Information (NCPAI) tripled and more than half of the complaints were successful. Three quarters of the complaints were about public information holders failing to respond to requests for information in a timely manner. Enforcement of the Law on Free Access to Public Information is inefficient, with one third of information holders failing to submit their annual reports to the NCPAI, penalties not imposed in practice, and political parties excluded from the obligation to provide information to the public. The administrative capacity of the NCPAI to execute basic functions needs to be improved.

The State Audit Office has been increasingly contributing to public administration reform, building a track record in the area of auditing, including performance auditing. The quality of the Office's reports and recommendations has contributed to identifying reform challenges. While its aggregate annual reports are reviewed by parliament, there is still limited follow-up of the reports' findings.

Overall, work has continued on a new legislative framework for public employment to unify the rules and enshrine fundamental principles of transparency and merit. Additional efforts are needed to guarantee the professionalism and independence of the public administration, and equitable representation. Official figures on the total number of public and civil employees and temporary positions are still not available. Transparency and access to public information remains low.

Ombudsman

The Office of the Ombudsman continued its work as an independent organ for the protection of citizen's rights, and is now in its seventeenth year of operation. The Office received 5 220 complaints in 2012 (a 3% increase from the previous year). About a quarter of the cases handled were confirmed to be violations, most of which related to consumer rights, pensions and disability insurance, property rights and social rights. Although the majority of the

Ombudsman's recommendations are respected by the state bodies to which they are addressed, greater efforts are needed from the Ministry of Interior, the Ministry of Finance, local self-government units and second-instance government commissions, which continue to be the least responsive. In 2013, seven deputy Ombudspersons were appointed by the parliament for an eight-year term, six of whom head the respective regional offices of the Ombudsman outside Skopje. Among them, a Roma deputy Ombudsperson was appointed for the first time. The Office's role as National Preventive Mechanism under the Optional Protocol to the Convention against Torture continued to be pursued actively. The Office is accredited as partly compliant with the Paris Principles relating to national human rights institutions, but further improvements are needed as regards its funding and extending its mandate to human rights promotion as well as protection.

Civil society

An empowered civil society is a crucial component of any democratic system and is an asset in itself, contributing to building more accountable and legitimate states, enhanced social cohesion and more open and deeper democracies.⁴

In that respect, dialogue and cooperation between government and civil society needs to improve in practice, notably with those organisations dealing with social reform, gender equality, Roma, and lesbian, gay, bisexual, transgender and intersex (LGBTI) rights. The government needs to show greater openness to involving civil society.

Civil society has launched several initiatives for civil participation. Strengthened civil society coordination and networking for participation in the work of the National Council for European Integration is a positive development. Civil society remains underdeveloped in rural areas.

The government has made modest progress in implementing the second strategy (2012-2017) and action plan for cooperation with civil society organisations. Administrative capacity is weak. Training on consulting civil society has been provided, albeit often using donor support or civil society organisations. Implementation of the code of good practice for participation of civil society organisations in policy-making processes continues, unevenly, across institutions. The single Electronic Register of Legislation is being used more consistently for online stakeholder consultations on draft legislation but a consistent approach to public participation in decision-making, including appropriate institutional mechanisms, is needed.

At national level, implementation of the code of good practice for financial support to associations and foundations continues, but the system for allocating state funds to civil society has still not been standardised so the sector remains heavily dependent on donor funding. Local government lacks sufficient capacity to ensure standardised cooperation and financing of local civil society organisations. Lack of progress in harmonising tax legislation (limiting access to tax benefits and to certain types of economic activities) hampers the development of an enabling environment for civil society as intended by the Law on Association and Foundations. For the same reason, the government commission for public benefit status (established in 2011) is not fully operational. The Ministry of Justice has not made progress on the amendments to the Law on Donations and Sponsorships in Public Activities that were expected to have been adopted.

⁴ Commission Communication 'The roots of democracy and sustainable development: Europe's engagement with civil society in external relations', COM(2012) 492, 12.09.2012.

The Law on the Prevention of Money Laundering and Terrorism Financing is not in line with the relevant UN guidelines, e.g. as regards the disproportionate fines relating to the obligation on civil society organisations to draft annual programmes.

Judicial system

The country's judicial reform was carried out from 2004 to 2010 and included significant changes to the Constitution, the Law on Courts and the Judicial Council, the establishment of the Academy for Judges and Prosecutors, the introduction of stricter professional requirements, the establishment of an Administrative Court and High Administrative Court, the shift towards enforcement of court judgments by professional bailiffs, the elimination of court backlogs, the introduction of legal aid and mediation, the establishment of an automated case management system and e-justice, as well as the complete overhaul of the criminal procedure legislation and reform of the police. The key long-term reforms in this area have therefore already been completed over the course of the last decade, in line with European standards. Nevertheless, there are concerns about how the courts currently operate in practice, which need to be addressed. These relate to the independence of the courts (and law enforcement in general) as well as the general quality of justice overall.

As regards independence, there are claims of selective justice, indirect political pressure, judgments which are unusually expedited in terms of outcome or speed, as well as the content of judgments sometimes having direct consequences for the career of the judge concerned, particularly in high-profile or politically sensitive cases. Given that justice must not only be done, but it must also be seen to be done, the fact that such doubts persist in itself constitutes a problem for the independence of the judiciary and for public confidence in it.

As regards quality of justice, improvements are needed to ensure that the way in which the court system and the career structure of judges are organised does not drive them towards formalistic decision-making in order to reach short-term productivity targets, rather than actually solving disputes, building a stable jurisprudence, issuing clear, well-reasoned judgments and providing long-term legal certainty in the interest of the citizen. The quality of justice also depends on the competence and training of judges, and the principle of merit-based recruitment to the judiciary therefore needs to be implemented in full. There is still a problem of excessively long court proceedings, including repeatedly quashed judgments and remittals for re-trial or re-hearing by higher courts to lower courts. The number of complaints by citizens to national and international bodies remains high. Tackling this requires training and attitudinal change at the level of individual judges but also at the level of the bodies shaping the development of the judiciary, in particular the Judicial Council and the Supreme Court.

For a detailed analysis of the developments in the judicial system, see *Chapter 23 — Judiciary and fundamental rights*.

Fight against corruption

In the area of anti-corruption policy, the legislative framework is largely in place and has undergone repeated rounds of GRECO evaluation between 2002 and 2012. Numerous national bodies and agencies are involved in combating corruption and administrative capacity is being strengthened. A track-record of criminal investigations, prosecutions and convictions by law enforcement and courts is being developed, as are the corruption-prevention activities of the State Commission for the Prevention of Corruption. However, corruption remains prevalent in many areas and continues to be a serious problem, indicating

that the implementation of existing legislation has yet to make a concrete impact and the effectiveness of existing measures has to be improved. At present, too many prosecutions fail to reach the judgment and sentencing stage, or take too long to do so due to repeated re-trials. Penalties intended to prevent corruption are not used to their full, deterrent effect. The general capacity of courts and law enforcement to deal with corruption cases, in particular high-level cases, must be improved and concerns about selective justice must be dealt with. Enforcement agencies and supervisory bodies need to become more visible and proactive, and to improve cooperation with each other. Problem areas such as corruption in public procurement and transparency of political party funding need to be given special attention. The country needs to demonstrate tangible results in the reduction and deterrence of corruption in practice.

For a detailed analysis of the developments in the area of anti-corruption policy, *see Chapter 23 — Judiciary and fundamental rights*.

Fight against organised crime

The necessary legal framework is in place, including a new Law on Criminal Procedure, which enters into force at the end of 2013 and aims to improve the capacity to tackle complex organised crime and corruption cases by strengthening the role of the public prosecutor, establishing a judicial police, streamlining the investigation phase and introducing new investigative techniques. The competence and professionalism of the relevant institutions, in particular the Centre for Suppression of Organised and Serious Crime and the specialised Public Prosecution Office for Organised Crime and Corruption, is relatively high. Regional and international cooperation is good. Capacity to implement legislation, however, needs to be further strengthened, notably as regards inter-disciplinary training, the use of special investigative techniques and investigation of complex financial crimes.

For a detailed analysis of the developments in the fight against organised crime, *see Chapter 24 — Justice, freedom and security*.

2.2. Human rights and the protection of minorities

Despite legislative progress in the area of freedom of expression, the country's reputation in relation to media freedom has continued to deteriorate, both domestically and internationally. Trust between the government and media representatives was seriously damaged by the events of 24 December 2012. The Media Dialogue, which had served as a positive example for the region since its launch in 2011, was interrupted. The media environment remains highly polarised. During local elections in March, both the Broadcasting Council and the OSCE/ODIHR reported a lack of balanced coverage by several broadcasters, including the public service broadcaster. Extensive consultations were held with both international experts and stakeholders on the preparation of two new draft media laws, however key differences remained unresolved. There are continued concerns about government advertising spending, which is claimed by many to be directed only towards pro-government media, giving them a significant financial advantage. High-quality investigative journalism and the public's access to balanced reporting and a wide variety of views need to be strengthened. A system of self-regulation for the media and a coherent, profession-driven strategy for raising journalistic standards, have yet to be developed. Further efforts are needed in all of these areas in order to improve the media environment.

There have been signs of increased intolerance towards LGBTI people, such as repeated physical attacks on the LGBT Support Centre in Skopje and homophobic media content. While the police have reacted appropriately to violent incidents, full investigations need to be

carried out and far more needs to be done by public officials and by media professionals, owners and organisations to publicly denounce intolerance and ignorance.

Progress on respect for and protection of minorities remains hampered by limited financial resources, inadequate cooperation between authorities concerned and a significant need for more proactive implementation of the relevant policies, notably the Roma strategy.

With regard to inter-community relations, the *Ohrid Framework Agreement* (OFA) has been in force in 2001, but progress is still needed on systemic issues relating to decentralisation, non-discrimination, equitable representation, use of languages and education. Monitoring of issues such as the use of languages and the implementation of the Law on Use of Flags of the Communities is lacking, and the local committees for relations between the communities continue to be under-resourced, with ill-defined roles and competencies in relation to the municipal councils, leading to their under-utilisation. State funding has yet to be allocated for the implementation of the Strategy on Integrated Education. The trend of separation along ethnic lines in schools and incidents of inter-ethnic violence continues.

The first phase of the review of the implementation of the OFA was published on 11 April. Workshops, open to the public, involving experts, academia and civil society organisations, were organised. The conference to present the final outcome of the review, and its recommendations has not yet taken place and these should, when presented, be implemented. Coordination between the Secretariat for the Implementation of the Ohrid Framework Agreement (SIOFA) and other relevant institutions, including the Agency for the Protection of Minorities Representing less than 20% of the Population and the Minister without Portfolio in charge of implementing the Roma Strategy, needs to be improved. Although SIOFA's budget increased in 2013, this was not matched by efforts to strengthen its capacity and internal functioning. In 2012, the overall representation of civil servants from non-majority communities increased slightly to one third of the total, but a large number (some 1 500) have not yet been assigned to any state administrative body. Roma, Turks and other smaller communities continue to be underrepresented in the public administration, notably at senior level. At the same time, the merit principle needs to be strengthened in the recruitment of non-majority members in state institutions.

The issue of social benefits for some of the participants in the 2001 conflict (the security forces, known as 'defenders') remains a serious point of contention between the members of the governing coalition and between communities.

There were some inter-ethnic incidents during the reporting period. Incidents between young people continued to strain inter-community dialogue and trust. Hate speech during sports events, violence in public spaces and demonstrations increased tensions, exacerbated by often biased reporting by the media. Initiatives to promote inter-community harmony are scarce. The OSCE/ODIHR found that ethnically divisive rhetoric heightened tensions in some municipalities during the local elections in March.

The coalition partners made joint efforts to alleviate inter-ethnic tensions. The authorities and community leaders took rapid and effective action to prevent escalation of a number of protests at the appointment, in a government reshuffle, of a former member of the National Liberation Army as Defence Minister. The political leaders should continue to deal with inter-ethnic challenges in a spirit of mutual respect and tolerance.

For a detailed analysis of developments in the area of human rights and the protection of minorities, see *Chapter 23 — Judiciary and fundamental rights*. For developments in the

areas of trade union rights, anti-discrimination and equal opportunities, *see also Chapter 19 — Social policy and employment.*

2.3. Regional issues and international obligations

The former Yugoslav Republic of Macedonia continued to cooperate fully with the **International Criminal Tribunal for the former Yugoslavia (ICTY)**. There are no remaining cases or appeals pending in The Hague.

The former Yugoslav Republic of Macedonia still maintains a 2003 bilateral immunity agreement with the United States, granting exemptions for US citizens from the jurisdiction of the **International Criminal Court**. This does not comply with the EU Common Positions on the integrity of the Rome Statute or with the related EU guiding principles on bilateral immunity agreements. The country needs to align with the EU position.

In March 2013, there were 2 240 **refugees and internally displaced persons (IDPs)** in the former Yugoslav Republic of Macedonia, of whom 1 043 were Roma from Kosovo*. 59 persons were voluntarily repatriated to Kosovo and Serbia in 2012 and 2013. The unresolved legal status of the majority of the refugees limits their access to basic services and full local integration. Court procedures concerning IDPs relating to damages claims from the 2001 conflict are still ongoing and the majority are still housed in collective centres.

Regional cooperation and good neighbourly relations form an essential part of the country's progress towards the European Union. The country has continued to actively participate in regional initiatives, including chairing the South East European Cooperation Process (SEECp) from June 2012 to 2013 and hosting the Fifth Annual Meeting of the Regional Cooperation Council (RCC), the Central European Free Trade Agreement (CEFTA), the Energy Community Treaty and the European Common Aviation Area Agreement. The country continued to contribute to the EUFOR Althea mission in Bosnia and Herzegovina. A regional conference 'Sustainable reforms – towards EU 2020 objectives' was held in Skopje in November 2012.

The former Yugoslav Republic of Macedonia continues to play a generally constructive role as regards **bilateral relations with other enlargement countries and neighbouring EU Member States**, with no outstanding border demarcation issues. A bilateral convention, under Article 12 of the SAA, should be concluded with Serbia following the recent entry into force of its SAA.

Relations with *Albania* continued to develop. A celebration of the 100th anniversary of Albania's independence, hosted in Skopje, was attended by both the Albanian and Kosovan Prime Ministers. A bilateral agreement on mutual recognition of driving licences was signed and a new joint border crossing point was opened.

Relations with *Bosnia and Herzegovina* continued to be good. Agreements on cooperation in the field of health and medical sciences entered into force.

Cooperation with *Montenegro* was further strengthened. Agreement on police cooperation entered into force, while the agreements on the conditions for travel by nationals of the two countries and on readmission of persons residing without authorisation were ratified. An agreement on cooperation and mutual assistance on customs issues entered into force.

* This designation is without prejudice to positions on status, and is in line with UNSCR 1244/99 and the ICJ Opinion on the Kosovo declaration of independence.

Relations with *Serbia* were further upgraded. A first joint government session was held in Belgrade in June, at which agreements were signed on health and interior issues and mixed committees on minorities and economic cooperation were set up. An agreement on legal assistance in civil and criminal matters entered into force. An agreement on mutual enforcement of court decisions in criminal cases was ratified, and an agreement on cooperation on EU integration entered into force. There were no developments regarding the dispute between the Orthodox churches in the two countries, which both Prime Ministers signalled in January should not be an obstacle to deeper cooperation.

The wide-ranging contractual framework for cooperation with *Kosovo* has continued to develop with the ratification of agreements on mutual recognition of pensions, and on advancement and intensification of cultural cooperation. Joint monitoring patrols along the border need to tackle illegal trafficking of goods and illegal migration. A trade dispute took place with *Kosovo* in September 2013. The manner in which the situation at the border escalated over a number of days before being resolved bilaterally, outside of CEFTA procedures, is a matter of concern.

Close relations with *Turkey* continued. An agreement on setting up cultural information centres in the two countries was signed in December 2012.

Relations with *Bulgaria* have been affected by differences primarily concerning interpretations of history. High-profile contacts intensified during the reporting period. Negotiations took place on a bilateral agreement on good neighbourly relations, although open issues remain. As detailed in the April 2013 Report, consultations take place at official and expert level on EU-related issues. Cross-border, sectoral and trade relations and defence cooperation continued. People-to-people contacts continue normally.

Relations with *Croatia* continued to be good, including sharing of experience. A Euro-Atlantic partnership was signed on 31 May.

Relations with *Greece* continued to be affected by the name issue. Formal talks on the name issue, under the auspices of the UN, led by the United Nations Secretary General's Personal Envoy Matthew Nimetz, included visits to both Athens and Skopje and talks in New York on the proposal presented to the parties in April 2013. Mr Nimetz reported, following a visit to both Athens and Skopje in early September, that gaps remained between the parties' positions. He has invited the representatives of the parties to New York in late October with a view to narrowing differences and to seek further convergences. As detailed in the April 2013 Report, official and expert-level contacts continued on the economy, trade, police, customs and military cooperation, as well as cooperation on EU issues between the two foreign ministries and people-to-people contacts continue normally. High-level visits also took place during the reporting period.

Overall, the former Yugoslav Republic of Macedonia is participating actively in regional cooperation and further developing bilateral relations with its neighbours. Although steps have been taken in relation to the name issue, it remains unresolved. Maintaining good neighbourly relations, including a negotiated and mutually acceptable solution to the name issue, under the auspices of the UN, remains essential. Open issues remain in the negotiation of a bilateral agreement with Bulgaria. A constructive approach to relations with neighbours remains important and actions and statements which could negatively impact good neighbourly relations should be avoided.

3. ECONOMIC CRITERIA

In examining economic developments in the former Yugoslav Republic of Macedonia, the Commission's approach was guided by the conclusions of the European Council in Copenhagen in June 1993, which stated that membership of the Union requires the existence of a functioning market economy and the capacity to cope with competitive pressure and market forces within the Union.

3.1. The existence of a functioning market economy

Economic policy essentials

Domestic consensus on the fundamentals of economic policies was broadly maintained, even though the parliament adopted the 2013 central government budget under controversial circumstances. Macroeconomic stability was preserved against the background of a continuously challenging external environment and high unemployment.

The 2013 Pre-accession Economic Programme (PEP) for the period 2013-2015 was submitted in January 2013 and outlines key economic, fiscal and structural policies and planned reform measures. The key objectives remain promotion of growth and employment. The World Bank accorded €155 million under the Public Expenditure Policy based guarantee programme in January 2013, to help the country secure a foreign commercial loan for the financing of the 2013 central government budget deficit. Cooperation with the international financial institutions continued as planned. The country's two-year arrangement under the IMF's Precautionary and Liquidity Line ended on 18 January 2013. *Overall*, a broad consensus on the fundamentals of economic policies was maintained.

Macroeconomic stability

The economy has gradually returned to growth, after the economic situation had deteriorated somewhat during 2012. The output declined by 0.2% in 2012, mainly due to lower private consumption and a worsening merchandise trade balance, while investment growth continued to be strong. The economy has recovered gradually since the third quarter 2012, and in the second quarter 2013 GDP growth reached 3.9% compared to a year earlier. This was carried by strong increases in investment, even though its growth slowed down, from an average 16% in 2012, to an average 8.2% in the first half of 2013. Private consumption contributed to growth in the second quarter, for the first time since the beginning of 2012, as did the trade balance, through strong exports of goods of newly established foreign investors. Encouraging signals emerged from industrial production, which increased by 2.2% in the first seven months of the year, compared to the same period a year earlier, after a 2.8% drop in 2012. Average per capita income in purchasing power standards stayed at 35% of the EU-27 level. *Overall*, the renewed growth of the economy remains narrowly based on investment, with only gradual strengthening of the external sector and also marginal support from private consumption.

External imbalances increased in 2012, with the difficult global environment leaving its mark on the current account deficit, which increased to 3.9% in 2012, up from 3% in 2011. This was mainly due to a widening merchandise trade deficit, which reached 24% of GDP. Its financing relied increasingly on foreign credit, as net foreign direct investment (FDI) inflows declined by about two thirds in 2012 to 1.4% of GDP, on account of large outflows of intercompany loans. Private transfers remained strong at some 21% of GDP, with the share of workers' remittances resilient. In the first half of 2013, FDI inflows picked up again, reaching

2.7% of GDP, 21% higher than in the same period a year earlier (how much). However, private transfers declined by 11% to about 18% of GDP.

Gross external debt rose to 65% of GDP at the end of the first quarter 2013, from 62% a year earlier. The increase was driven mainly by government external financing, which raised public external debt to 27.3% of GDP, compared to 24.4% a year earlier. Private external debt, including intercompany lending, increased by 0.9 percentage points to 38.4%. The international reserve position weakened slightly. At the end of August, foreign reserves amounted to €2.1 billion or about 26% of GDP, compared to 30% of GDP a year earlier. The reserves covered about 4 months of prospective imports of goods and services, which is slightly less than a year earlier. *Overall*, there is at present limited risk to macroeconomic stability from the external side. The current account balance has been gradually improving with a pick-up in export activity, yet it is increasingly relying on foreign credit financing, with uncertain prospects for the development of private transfers.

Unemployment remained persistently high, in particular youth and long-term unemployment, pointing to deep-rooted structural impediments in the labour market. There was some gradual improvement in the official employment and unemployment rates. In June 2013, total unemployment stood at 28.8% of the labour force, having declined by 2.4 percentage points compared to a year earlier. For workers aged 15 to 24 years, the unemployment rate reached 51.7%, down from 54.9% a year earlier. The employment rate increased to 40.7%, compared to 38.8% a year earlier. The recorded employment creation derives to a large part from an increase in part-time and self-employed occupations, and from a rise in public sector employment. *Overall*, in spite of some incremental improvement in the official labour market figures, labour market policy had limited success in addressing the persistently high unemployment. Structural challenges in the labour market remain to be tackled.

Monetary policy remained consistent and adequate given the economic environment and the situation of the domestic banking sector. The exchange rate policy and the de facto peg to the Euro continued to be an integral part of the central bank's strategy targeting price stability. In order to support the economic recovery and combat sluggish credit growth, the central bank relaxed monetary conditions at several occasions since the beginning of 2013. It lowered two key policy rates: the maximum rate on central bank bill auctions, from 3.75% to 3.25%; and the 7-day deposit rate, from 2% to 1.50%. The interest rate on overnight deposits was reduced from 1% to 0.75%. It also eased reserve requirements for loans to net exporters and to energy producers. Consumer price inflation was markedly higher than a year before, with an average inflation in the first eight months of 2013 of 3.5%, compared to 2.5% in the same period a year earlier. Higher prices for electricity and food, but also higher administrative prices were the main drivers bringing year-on-year inflation to above 4% in the last months of 2012. As of July, regulated electricity prices for households were lowered. With energy costs abating, more recent inflationary pressures derived mainly from domestic factors, in particular adverse climate conditions impacting on food prices. *Overall*, monetary policy remained stability-oriented. Energy costs and food prices were the main drivers of rising inflation.

Fiscal discipline was relaxed in 2012, and the quality of public spending deteriorated further. The general government budget deficit reached 3.8%, thus overshooting even the revised deficit target, which the authorities had raised by 1 percentage point to 3.5% in autumn. Another budget rebalancing reduced mainly investment spending, due to severe revenue shortfalls. Total expenditure as share of GDP rose from 31% in 2011 to 34% in 2012, and is estimated to reach 35% in 2013. The primary government budget deficit rose to 3.1% of GDP in 2012, compared to 1.7% in 2011. Capital spending was almost unchanged in 2012 compared to 2011, at 12% of total expenditure, or just over 4% of GDP, projected to decline

to 11.3% of total expenditure in 2013, or 3.9% of GDP. The share of social transfers in total expenditure declined slightly in 2012, to 44.7% from 45.2% a year earlier, and is projected to stay largely unchanged in 2013. As a share of GDP, social transfers increased somewhat, to 15% of GDP, up by 0.4 percentage points.

The 2013 budget foresees a slight reduction in the deficit, to 3.5%, based on rather optimistic expectations of strong growth of revenues, which are projected to be 7.2% higher than in 2012. Yet, after the first seven months of 2013, the central government budget deficit amounted to over 80% of the targeted full-year deficit. This was mainly on account of repayment of arrears in VAT returns, contracted works, and social benefits, which led to an increase in expenditures in the first seven months of about 6% compared to the same period 2012. The government started settling the outstanding amounts as of September 2012.

Even though government debt is still at a moderate level, the increases over the last years give rise to concern. Central government debt stood at 33.6% of GDP by the end of July 2013, compared to 27.8% at end-2011. Moreover, as the budget of the newly created public enterprise for state roads was excluded from the central budget as of 2013, its debt is no longer included in central government debt. *Overall*, fiscal governance and fiscal discipline deteriorated and would benefit from the implementation of a medium-term strategy.

The policy mix slightly deteriorated. While monetary policy provided key support for macroeconomic stability, fiscal discipline weakened and the debt ratio further increased. Public finance could make a bigger contribution to stability, for example by better aligning spending priorities with structural challenges, and by focusing on growth-enhancing capital expenditure. Furthermore, the fast rise in mainly foreign financed debt increases the country's vulnerability.

Interplay of market forces

The role of the public sector in the economy remained largely unchanged. In terms of value added, the private sector accounted for about 85%, as in 2012. The asset value of fully or partly state-controlled enterprises increased to 15.7% of GDP in mid-2013, compared to 12.7% a year earlier, due to capital increases in public companies. The number of fully-owned state companies increased from 12 to 15, due to restructuring in the public sector. The majority of state capital is concentrated in five companies, which are mainly public utilities. The share of public sector employment in total employment remained stable at about 25%. Administered and regulated prices continued to account for some 13% of the Consumer Price Index (CPI) basket. In general, regulated prices, which account for about 12% of the CPI basket, usually cover costs, while administered prices, such as for water supply and waste disposal, usually do not fully cover costs. *Overall*, the economy is mainly driven by the private sector, with the role of the state remaining limited, even though share of the public ownership increased slightly.

Market entry and exit

The business environment was further improved through the simplification of business registration and operation, for example by the establishment of a one-stop shop system for domestic and foreign investors. While companies enjoy a low level of taxation, corporate liquidity suffered in 2012 from the accumulation of government arrears for VAT refunds and contracted works. Implementation of the third (reduction of administrative burdens) and fourth phase (SME measures) of the 'regulatory guillotine' project continued, and procedures for obtaining construction licenses were simplified.

There has been more limited progress on reforming market exit procedures. The deletion from the central registry of companies that were not operational for a long time has started. However, improving exit options through facilitated bankruptcy procedures proves more challenging. In May 2013, an amendment to the Law on Bankruptcy was adopted, which foresees an acceleration of proceedings. Yet, the number of bankruptcy procedures between October 2012 and July 2013 was lower by 29% compared to a year earlier. The average duration of voluntary company liquidation diminished only slightly. *Overall*, while business registration and operation was further facilitated, weaknesses in bankruptcy and liquidation procedures continue to pose a significant impediment to investment and access to finance.

Legal system

The legal system was further strengthened in some parts, notably the clearance rates of courts at all levels improved and there are no significant backlogs remaining. However, the overall duration of court proceedings remains a concern. The registration of real estate property is finalised and the land register covers 100% of the country's territory. The authorities implemented a number of reforms to reduce the work load of courts, in particular through the transfer of enforcement cases to private bailiffs. While the legal and financial independence of some regulatory and supervisory bodies has been further strengthened in formal terms, the impact on the business environment has remained limited. Institutional and administrative capacities, such as insufficiently skilled human resources and insufficient physical resources continue to hamper the proper functioning of some of these agencies like the State Appeals Commission for Public Procurement and the State Audit Office. *Overall*, the legal system for a functioning market economy is largely in place, yet weaknesses related to lengthy procedures, contract enforcement and corruption remain.

Financial sector development

The economic weight of the banking sector remained stable, with total assets of commercial banks amounting to about 87% of GDP. The sector remains highly concentrated, with two thirds of total assets owned by the three largest banks, the biggest bank alone accounting for about a quarter of total assets.

Liquidity and solvency of the banking sector proved resilient to the subdued global economic and market environment. The average ratio of liquid to total assets improved throughout 2012, and stood at 29.6% at the end of the first quarter 2013, compared to 26.5% a year earlier. Liquid assets cover just over half of household deposits, slightly less than a year earlier. Regulatory capital in relation to risk-weighted assets stood at a comfortable 17.3% at the end of the second quarter.

The credit growth continued to decelerate. Annual growth of credit to the private sector has been declining since May 2012 reaching 3.5% at end-July 2013. Growth was driven almost entirely by loans to households, which increased by 7.8%. Credit growth to corporates declined to 0.5%, against the backdrop of a further deteriorating quality of corporate loan portfolios. The share of non-performing loans (households and corporates) in total loans stood at 12.3% at the end of June 2013, compared to 10% a year earlier, with the largest share accounted for by corporate loans. Given the easing of monetary policy earlier this year, it appears that impediments to faster credit growth lie outside the transmission mechanism of monetary policy, and are possibly rooted in a combination of strong adverse risk perceptions of lenders, and a lack of quality investment projects on the demand side. In spite of the deteriorating portfolio quality, banks managed to avoid significant losses in profitability. Performance was somewhat weaker in the second quarter 2013 than a year earlier, as

manifested by the decline in the return on assets (0.2%, compared with 0.4% a year earlier) and in the return on equity (1.8% compared with 3.2%). Lending in foreign currency decreased somewhat, but still accounts for close to 40% of total loans outstanding, which poses a potential stability risk given the de facto currency peg.

The relevance of non-banking financial intermediaries is generally low, at just over 10% of total sector assets, or 8% of GDP. Pension funds hold just over 4% of total assets and experienced strong asset growth in the reporting period. Assets in the mandatory fully funded pension insurance grew by 30% between February 2012 and February 2013, and those of the voluntary fully funded pension insurance by about 66%. The insurance sector continued to account for less than 4% of total assets. 4 new insurance brokers and 3 new agencies entered the market in 2012. While gross written premiums increased by over 3%, their share in GDP was almost unchanged, at over 1.4%, compared to 2011. The insurance sector remained well capitalised, solvent, and even improved its technical provision coverage from 96% in 2011 to 103%.

Overall, the financial sector remained well capitalised and liquid. However, credit growth was sluggish and non-performing loans increasingly pose a challenge.

3.2. The capacity to cope with competitive pressure and market forces within the Union

Existence of a functioning market economy

While persistently high unemployment points to serious difficulties to the functioning of the labour market, overall macroeconomic stability has been maintained. The quality of public finance planning and management has deteriorated further, with productive investment remaining below needs. Market entry procedures have improved, while the reform of market exit procedures still needs to gain pace. Enforcement of contracts remains difficult, which impacts negatively on the business environment.

Human and physical capital endowment

Further steps were taken towards improving the infrastructure and the quality of education at all levels, such as the recruitment of about 250 additional teachers for primary and secondary schools for the academic year 2012/13; investment in the education infrastructure; and a reinforced focus of secondary school curricula on entrepreneurial skills. Yet, the general qualification of the workforce remains low, and matching the skills of graduates with the needs of potential employers remains a major challenge. A strategy for vocational training reform was adopted, and practical experience during education was made mandatory. There was little progress in implementing the adopted reforms.

The country's capital stock remains low and relatively outdated given the underinvestment of the past. Gross fixed capital formation was strong in the last quarter of 2012, at 36% of GDP, partly due to a boost in public capital spending, but fell to 26% of GDP in the first half of 2013. Public investment stayed at over 5% of GDP in 2012. It was concentrated on transport and utilities infrastructures, with some investment also in the physical infrastructure of education. Its impact on growth and employment is, however, difficult to assess due to lack of recent disaggregated data and implementation details. Spending is not sufficiently focused on building a knowledge-based society, but is used for less productive purposes, such as the decoration of the capital. Weak implementation capacity continues to impede the authorities' efforts to add to, and to modernise the public capital stock. Foreign direct investment, which

in the past was more evenly distributed among manufacturing and services sectors, shifted towards more traditional manufacturing sectors recently. The stock of foreign investment amounted to just below 50% of GDP in mid-2013, down from 53% a year earlier. Overall, there was some gradual progress in addressing reform needs in the education system. The capital stock remains modest and public spending was not sufficiently focussed on growth-enhancing activities.

Sector and enterprise structure

In 2012, the economic activity shifted slightly from the industrial sectors to services activities. The share of the mining, manufacturing and utilities sectors in total value added declined from 21.3% in 2011 to just under 20% in 2012, while the share of financial and community, social and personal services rose from 18.9% to 19.6%. The enterprise structure remained largely unchanged in 2012. The share of SMEs (national definition) in total private sector employment increased slightly compared to 2011. Access to finance was eased somewhat by the use of the credit line from the European Investment Bank. However, SME development continues to be impeded by poor access to financing. Competition in the network industries remains constrained by the small number of incumbent suppliers. In spite of some improvements in employment registration, the informal sector remains sizeable and poses a challenge for policymakers, as it reduces the tax base and the efficiency of economic policies. *Overall*, the enterprise structure remained largely unchanged, with further SME development hampered mainly by difficult access to finance. There has been limited progress in tackling the large informal sector.

Some further progress towards diversification into manufacturing activities with higher value added is evidenced by the export structure, partly reflecting the new operations of a few foreign investors. The share of machinery and transport equipment in total exports amounted to 9.9% in 2012, an increase by 2 percentage points compared to 2011. Still, clothing, chemicals, and manufactured iron and steel products account for almost half of exports. Overall, in 2012, 70% of total exports were accounted for by 15 products. *Overall*, some gradual, further diversification of economic production is visible in terms of value added and exports.

State influence on competitiveness

Government's influence on the economy's competitiveness remains limited and is mainly exerted through direct subsidies to and tax exemptions for companies, including in particular foreign investors, and through active labour market programmes. Official data points to a decline in state aid in 2012 to about 0.1% of GDP, from about 0.4% in 2011. Reporting on state aid and comparability with EU standards remain limited. The legal framework for state aid was strengthened by the adoption of regulations on regional aid, horizontal aid and Services of General Economic Interest. Yet, their impact remains limited given the low reporting awareness in state aid providers. *Overall*, while state aid laws have been strengthened, there is a lack of transparency about implementation details and amounts due to shortcomings in reporting.

Economic integration and convergence with the EU

The country's total trade in goods and services remained largely unchanged in 2012, at about 128% of GDP. Trade integration with the EU progressed further: over 73% of total exports were destined to the EU in the first half of 2013, compared to 65% a year earlier. FDI from the EU accounts for close to 80% of total FDI stock, with the Netherlands, Austria, Slovenia

and Greece as the biggest foreign investors, providing over half of the total foreign investment stock. Labour productivity declined by 1% in 2012. Price competitiveness also remained broadly unchanged: the real effective exchange rate, adjusted by the consumer price index, appreciated slightly, on average, by about 0.2 percentage points. Wage developments were not conducive to a pick up in private consumption: in the first quarter 2013, real net wages dropped by an average 2.3% on the year. *Overall*, trade integration with the EU is quite advanced. The export structure continues to improve, even though traditional manufacturing products still dominate. International price competitiveness remained largely unchanged.

4. ABILITY TO TAKE ON THE OBLIGATIONS OF MEMBERSHIP

This section examines the former Yugoslav Republic of Macedonia's ability to take on the obligations of membership — that is, the *acquis* as expressed in the Treaties, the secondary legislation and the policies of the Union. It also analyses the former Yugoslav Republic of Macedonia's administrative capacity to implement the *acquis*. The analysis is structured in accordance with the list of 33 *acquis* chapters. In each sector, the Commission's assessment covers progress achieved during the reporting period and summarises the country's overall level of preparations.

4.1. Chapter 1: Free movement of goods

In the area of **general principles**, reforms to align the law with Articles 34 to 36 of the Treaty on the Functioning of the European Union continue. By September 2013, 30 out of 42 identified legal acts had been amended.

As concerns **horizontal measures**, in the field of *standardisation* a total of 22 552 European standards and standardisation documents had been adopted as national standards by September 2013 compared to 16 500 a year earlier. The Institute of Standardisation (ISRM) adopted 18 317 EU standards, i.e. more than 98% of CEN/CENELEC standards, as national standards and issued two national standards. The European Committee for Standardisation and the European Committee for Electrotechnical Standardisation were regularly notified about nationally adopted standards. The Assembly of the ISRM had 114 members, compared to 97 a year earlier, and 26 technical committees.

In the area of the new legislative framework for *conformity assessment* ten authorised conformity assessment bodies operate in the regulated area. The Ministry of Economy issued a new list of standards through the application of which the product is considered to be safe to be placed in the market.

In the area of *accreditation*, the Institute of Accreditation accredited a total of 113 conformity assessment bodies and had withdrawn 11 accreditations by September 2013. The Institute signed an agreement in October 2012 for mutual recognition of accreditations in the area of testing and calibration with the International Organisation for Accreditation of Laboratories. The institute still needs to establish capacity in new fields. A new accreditation scheme for medical laboratories following ISO 15189:2010 was developed.

A national strategy and an action plan for the development of the Bureau of Metrology 2013-2015 were adopted. The bureau introduced fully automated electronic processing of documents on the verification of measuring instruments and vehicles. The number of calibration and verification certificates issued by the bureau continues to increase and its laboratory for electric measurements served as a pilot laboratory in the inter-regional comparison exercise.

Concerning *market surveillance*, in 2012 the State Market Inspectorate conducted 338 inspections following the Law on Product Safety and 98 inspections following the Law on Construction Products, an increase of 15% on 2011. Subsequently, the Inspectorate initiated 16 administrative procedures and 1 misdemeanour procedure. A national programme for coordination and execution of measures for market supervision for 2013-2014 was adopted.

In the area of **‘Old Approach’ product legislation**, a rulebook on methods for quantitative analysis of two-component fibre and a rulebook on approval of biocides, aligning national legislation with the corresponding *acquis*, were adopted. Local stakeholders received training on liabilities deriving from the new Law on Chemicals and the EU Chemicals Regulation. Preparations in the area of ‘old approach’ product legislation are advanced.

In the area of **‘New and Global Approach’ product legislation**, four local bodies were designated for conformity assessment under the Law on Construction Products. Only three national annexes to Eurocodes have been developed and adopted. Preparations in the area of ‘New and Global Approach’ product legislation are advanced.

As regards **procedural measures**, a new decree was issued on procedures for notifying the European Commission of draft technical non-harmonised acts, technical specifications and standards, transposing the relevant EU directives. With the exception of articles on notification by the Institute for Standardisation, the decree applies as from EU accession or the signing of the Agreement on Conformity Assessment and Acceptance of Industrial Products (ACAA). Preparations in this area are advanced.

Conclusion

Some progress was made in the field of free movement of goods. The country is close to fully complying with Articles 34 to 36 of the Treaty on the Functioning of the European Union. The number of European standards adopted as national standards continues to increase. However, the national annexes to all Eurocodes need to be adopted. Certain areas of the framework horizontal *acquis* are still not harmonised. Preparations in the area of free movement of goods are advanced.

4.2. Chapter 2: Freedom of movement for workers

In the area of **access to the labour market**, the legislation does not allow EU citizens access to posts in the public service.

There were no developments as regards preparation for participation in the **EURES** (European Employment Services) network. As regards **coordination of social security systems**, there are 19 bilateral agreements on coordination of social security systems, of which 11 are with EU Member States. Ratification/signature of agreements with Denmark, Hungary and Italy is pending. Negotiations on relevant agreements with Kosovo and Albania are ongoing. The government adopted a draft decision of the Stabilisation and Association Council on the coordination of social security systems. In this area, the country is moderately advanced.

An agreement on the use of the **European Health Insurance Card** was signed with Austria and entered into force, bringing the number of agreements to eight. Preparations in this area are slowly progressing.

Conclusion

Little progress was made in the area of freedom of movement for workers during the report period. Preparations in the area of free movement of workers are still at an early stage.

4.3. Chapter 3: Right of establishment and freedom to provide services

As regards the **right of establishment**, a single database was set up, creating a single database for all licences and permits.

As regards the **freedom to provide cross-border services**, the Law on Lawyers was amended to enable them to provide permanent, cross-border services. Shortcomings remain in service sectors including veterinary medicine, private education, construction, tourism and the regulated professions. Preparations in this area are on track.

In the area of **postal services**, the level of alignment and administrative capacity is already very high. The regulator issued new general authorisations to provide postal services to businesses. Shortcomings remain as far as the period for designation of the universal service provider, a separate accounting system and the financing of the net costs of the universal service obligation are concerned. The administrative capacity of the Postal Agency is satisfactory.

In the area of **mutual recognition of professional qualifications**, regulations were adopted to establish and manage records and registers for professional qualifications for sectoral professions and regulated professions. Full alignment of the Law on Recognition of Professional Qualifications with the *acquis* remains to be achieved as regards directives on layers, commercial agents and professional use of toxic products. Alignment with the *acquis* in the area of mutual recognition of professional qualifications is moderately advanced.

Conclusion

Overall, there was little progress in the areas of the right of establishment and freedom to provide services. In the area of **postal services**, the level of alignment is advanced. There is not yet full alignment with the *acquis*, particularly as regards mutual recognition of professional qualifications, free movement of services and establishment.

4.4. Chapter 4: Free movement of capital

In the area of **capital movements and payments**, the country already meets the requirements of the first stage of the Stabilisation and Association Agreement (SAA). Further liberalisation is scheduled after the transition to the second stage of the SAA. Nationals are still not allowed to buy foreign securities or to buy real estate abroad, and opening foreign bank accounts is restricted. EU citizens are not allowed to buy agricultural land. Restrictions remain on the amounts that non-residents can transfer through their local and foreign currency accounts. Preparations in the area of capital movements and payments are moderately advanced.

As regards **payment systems**, the Law on Payment Operations was amended to regulate micro-payment operations, bringing it closer into line with the Directive on Payment Services (2007/64/EC). The National Payment System Council adopted a strategy for the development of the payment system 2013-2017, which provides for further harmonisation of national legislation with European and international standards and convergence of payment instruments. Most of the charges for cross-border electronic payment transactions remain

disproportionate to those for domestic electronic payment transactions. In the area of payment systems, the country partially meets its targets.

Preparations for the **fight against money laundering** are moderately advanced. Inter-institutional coordination is gradually being strengthened within the framework of the Council on Combating Money Laundering and Financing of Terrorism. Co-operation with foreign financial intelligence units, investigative and prosecuting bodies continues to improve. In order to address the inadequate level of reporting and operational efficiency, the Financial Intelligence Unit (FIU) is implementing a new reporting and analytical IT system. The number of reports on suspicious transactions increased by 53% in 2012 to 239, from 156 in 2011. The FIU sent 36 notifications relating to money laundering and financing of terrorism to law enforcement institutions. However, there were only two new prosecutions and four convictions in 2012.

Conclusion

In the area of free movement of capital, there was limited progress during the last year. Preparations are on track and gradual harmonisation of the regulatory framework for payment systems is under way. Preparations are being made to strengthen institutional capacity to combat money laundering and terrorism financing. Further liberalisation of capital movements and payments is scheduled after the transition to the second stage of the SAA.

4.5. Chapter 5: Public procurement

As regards **general principles**, the Public Procurement Bureau continued to provide training, which is mandatory for contracting authorities only. A qualification system for public procurement was introduced for entities operating in the energy sector. Out of 14 sectoral laws, 13 were harmonised with the Law on Concessions and Public-Private Partnerships (PPPs). The relevant unit in the Ministry of Economy has limited capacity to ensure effective implementation of the Law on Concessions and PPPs. A PPP council was set up. Economic operators continue to be excluded from participation in future tenders for 1 to 5 years because of grave professional misconduct; the negative reference list is not yet aligned with Case C-465/11 of the Court of Justice of the EU. The EU Directive on Defence and Sensitive Security Procurement has not yet been transposed. As regards general principles, the country is well on track.

As regards the **award of public contracts**, the use of e-procurement system was expanded to include concessions and PPP contract notices. A register of contracts awarded is still not set up by the Ministry of Economy. Concerns remain over the transparency, confidentiality and equity of e-auctions. The 'lowest price' award criterion is widely used in e-auctions, which could lead to lower quality rather than value for money; prior public opening of bids entails a risk of collusive behaviour. Data on budget savings from mandatory use of e-auctions shows savings of 13%. Some of the criteria, including amounts, for the work contracts under 'Skopje 2014' were repeatedly amended. Tender requirements have yet to ensure wider participation by small and medium-sized enterprises in public procurement. With regard to the award of public contracts, the country is moderately advanced.

As regards the **remedies** system, the total number of State Appeals Commission (SAC) cases further decreased from 690 in 2011 to 585 in 2012; 96% were resolved. Appeals against tenders launched dropped from 14% in 2011 to 5% in 2012. The SAC publishes all of its decisions online, which has helped to reduce the number of appeals. The SAC dealt with 5 cases in the field of concessions and PPP. The administrative court overruled 17 decisions by

the SAC, more than in the previous year; court proceedings are lengthy. Some economic operators were withdrawn from the negative reference list following SAC decisions but the right to appeal against the list *per se* has yet to be safeguarded in the Law on Public Procurement. Comparative court statistics on public procurement-related cases are available and the methodology for their collection has been improved. Enforcement is gaining momentum with 13 people convicted in 2012 for abuse of public procurement or PPP procedures (there were no convictions in 2011); 8 court decisions became final. The SAC remains severely understaffed and under-budgeted, with a large number of vacant posts. The professional requirements for president of the SAC were reduced and aligned with those of first-instance courts. Full alignment with the amended EU Directive on Remedies has yet to be achieved. As regards the remedies system, the country is advanced.

Conclusion

Good progress was made in the area of public procurement. There is a medium-term strategy for the public procurement system. Legislation on concessions and public-private partnerships is almost harmonised at sector level but its implementation has been delayed. The negative reference list has yet to be aligned with the *acquis*, including on the right of economic operators to appeal against their inclusion. Administrative capacity in the public procurement field is sufficient, with the exception of concessions and PPPs. Overall, preparations in the area of public procurement are advanced.

4.6. Chapter 6: Company law

In the area of **company law**, a new law on takeovers of companies with shareholders, aiming at transposing Directive 2004/25/EC on Takeover Bids, was enacted in May 2013. Company law was amended in May 2013 to allow the Central Registry to automatically delete long-term inactive companies. In 2012, the Academy for Judges and Prosecutors provided training for 201 judges from all court instances, including judges dealing with business-related disputes. Article 16 of the Tenth Company Law Directive on cross-border mergers has yet to be transposed. Overall, in this area the country remains on track.

As regards **corporate accounting**, the legislative framework required by the Law on Accounting to regulate performance of accounting activities is complete. Implementing legislation relating to the Law on Performing Accounting Activities was enacted and enabled the certification of more than 4 000 accountants. Chartered accountants were empowered to perform procedures for registering a company.

An Institute for Chartered Accountants was established and its supervisory board was set up.

As regards **auditing**, the work of the Institute for Chartered Auditors is now supervised by the Council for Audit Promotion and Supervision. The staff of the Institute increased from three to four but remains insufficient to perform effective quality control. Overall, in the area of corporate accounting and auditing the country is moderately advanced. Chartered auditors' qualifications obtained abroad are not yet recognised.

Conclusion

Good progress was made in the area of company law. A Council for Audit Promotion and Supervision was put in place as a regulatory body independent of the Ministry of Finance. An Institute for Chartered Accountants became operational and the number of staff was further

increased. Qualifications obtained abroad by chartered auditors have not yet been recognised. Overall, preparations in the area of company law as a whole are moderately advanced.

4.7. Chapter 7: Intellectual property law

The law on **copyright and neighbouring rights** is not aligned with the World Intellectual Property Organisation (WIPO) Performances and Phonograms Treaty. The exclusion of phonogram rights and several disputes impeded the work of the two licensed collective rights management societies. The head of unit for copyright and neighbouring rights in the Ministry of Culture was dismissed, reducing the capacity of the unit, and co-operation between the unit and relevant institutions remains limited.

In the area of **industrial property rights**, WIPO's electronic document management system was customised for the State Office for Industrial Property and linked with the automated court case management information system applied in all courts. In 2012, the Academy for Judges and Prosecutors trained 218 members of the judiciary on protection of intellectual property rights (IPR). In the area of industrial property rights, the country is on track.

As regards **enforcement**, a methodology for collecting data on was adopted; the improved statistics on IPR enforcement will be available from 2013 onwards. The Law on Customs Measures for the Protection of IPR was amended in May 2013 to introduce fines for counterfeit recidivism and to allow use of seized counterfeit clothing items for disaster recovery or social assistance packages. A user manual for the platform of the World Customs Organisation for IPR infringements was adopted, allowing recognition of originality of products. The Coordination Body for Intellectual Property undertook 25 coordinated actions in 2012, twice as many as in 2011; co-operation with the Agency for Managing Confiscated Property continued. In 2012, a total of 126 court proceedings were brought for violations of IPR. Courts imposed some 15 prison sentences and a number of fines for criminal offences on individuals. Counterfeit foodstuffs, cosmetics, hygiene products, medicines, toys, technical and electronic equipment are still widely available and awareness of their threats to health and safety is limited. Laboratory results confirming that medicines are counterfeit are not allowed as court evidence, which hampers the prosecution of counterfeiters. The IPR enforcement system remains complex rather than effective. Counterfeiting is not considered organised crime and efforts to combat it are insufficient. Co-operation at both national and international level has yet to be promoted. Preparations in this area are moderately advanced.

Conclusion

Some progress was made in the area of intellectual property law. A track record on investigation, prosecution and trial for IPR offences has been established. There are shortcomings in the procedures for prosecuting counterfeiters, with laboratory results on counterfeit medicines excluded as court evidence. There is no legal basis for collective management of phonogram rights. Awareness of IPR among institutions and the public remains low. Overall, preparations in the field of IPR are moderately advanced.

4.8. Chapter 8: Competition policy

In the area of **anti-trust and mergers**, the enforcement record of the Commission for Protection of Competition (CPC) slightly deteriorated. The CPC adopted two decisions on prohibited agreements, one on abuse of dominant position and 20 on concentrations. The CPC helped to draft secondary legislation in the broadcasting and energy sectors and the national strategy for development of the public procurement system. CPC staff participated in various

workshops and training, which strengthened already good basic skills, but would benefit from more advanced training. However, staff dealing with anti-trust and mergers is not used efficiently. The operational budget of the CPC remains limited. Effective implementation of the leniency measures provided for in the Law on Protection of Competition remains limited because of conflicting provisions in the criminal code. Enforcement of CPC decisions in misdemeanour cases is suspended on appeal until a final decision is taken by the Administrative Court. The number of decisions upheld by the Administrative Court has increased from six in 2012 to seven by September 2013. Judges of the Administrative Court received additional training on anti-trust and mergers. Preparations in the area of anti-trust, including mergers, are at an advanced stage.

The legal framework in the field of **state aid** has improved with the adoption of decrees on regional aid, horizontal aid and services of general economic interest. The CPC took five decisions on compatibility of state aid by September 2013, which is a decrease compared with 11 in 2012. The administrative capacity of the state aid department was strengthened through IPA twinning assistance for state aid control, including some specialised training, workshops and study visits for CPC staff. The number of staff dealing with state aid is adequate. In the area of state aid, the country is on track.

Conclusion

Good progress was made in the field of competition policy. The legislative framework is in place and the enforcement record continued to improve. The budgetary resources of the CPC remain limited. The number of staff is adequate but they need to be used more efficiently. Overall, preparations in this area are advanced.

4.9. Chapter 9: Financial services

In the field of **banks and financial conglomerates**, the Banking Law was amended, with the aim of aligning it with Directive 2006/48/EC on the taking-up and pursuit of the business of credit institutions, and with the three pillars of Basel II. Savings societies are to be restructured either by closure, transformation into financial companies, or continuation as saving societies but under the same conditions as banks. The central bank further upgraded the regulations on credit risk management and introduced an internal capital adequacy assessment process. It introduced a procedure for determining the banking stability index and developed a methodology for identifying systemically important banks. The bank also set up a special team to deal with consumer complaints but its administrative capacity (three employees) needs to be reinforced; consumer protection remains a challenge. Preparations in the areas of banks and financial conglomerates are well on track.

In the fields of **insurance and occupational pensions**, preparations for implementing the Solvency II Directive (2009/138/EC) are ongoing. The capacity of the Insurance Supervisory Agency and its cooperation with the supervisory authorities of insurance companies that have local subsidiaries are adequate. Capital and solvency margins are still well above the levels required and the guarantee fund against insurer insolvency is sufficient. The Ministry of the Interior estimates the number of uninsured vehicles at 10%, but no solid data is available. Initiatives for improving the enforcement record on combating offences committed by uninsured drivers are launched, but enhanced efforts are needed to tackle uninsured driving. The Law on Compulsory Insurance of Road Vehicles still authorises the Ministry of Finance to set premiums for motor vehicle insurance, which is a barrier to competition between insurance companies and is not in line with the EU *acquis*.

The Agency for Supervision of Fully Funded Pension Insurance (MAPAS) implements and enforces risk-based supervision. The 50% limit on investing in non-domestic securities remained, which is contrary to the EU *acquis*. Parliament appointed new management and MAPAS moved to new premises. Its overall enforcement capacity and leverage over the institutions it supervises improved. In the area of insurance and occupational pensions, the country is moderately advanced.

As regards **financial market infrastructure**, alignment with the Financial Collateral Directive (2003/47/EC) is partial and alignment with Settlement Finality Directive (98/26/EC) has not begun.

In the area of **securities markets and investment services**, the Securities Law was amended to increase protection of smaller shareholders and boost stock exchange trading. The management structure of the Securities and Exchange Commission was changed and parliament appointed new members. Preparations in the areas of securities markets and investment services are well advanced.

Conclusion

There was, overall, progress in financial services. Laws on banks and on securities were amended. MAPAS reinforced its capacity and leverage over the institutions it supervises. The measures taken to combat uninsured driving should be pursued further. Alignment with key parts of the *acquis* on financial market infrastructure has not yet been achieved. In the area of financial services, alignment with the *acquis* is moderately advanced.

4.10. Chapter 10: Information society and media

In the area of **electronic communications and information and communications technologies (ICT)** the Agency for Electronic Communications, as the regulator, introduced cost-oriented prices for access to wholesale services in the electronic communications market. It strengthened its complaints system to protect consumer rights and continued with the second round of market analyses. The Agency's use of surplus funds for purposes other than for the development of electronic communications continued to be of concern, undermining its credibility. The Rules on the manner of calculation of the annual fee for the use of radio frequencies were amended to reduce the annual fees for the digital dividend in the band 790 – 862 MHz. The Agency also announced a 20% reduction in the frequency fees for other bands from 2015. Authorisations were given for the use of the radio frequency bands 790-862 MHz and 1710-1880 MHz to provide public mobile communication networks and services from the fourth generation networks. The introduction of the 112 emergency phone number was further delayed. The capacity of the Ministry of Information Society and Administration in the field of electronic communications and the information society has yet to be strengthened. The fixed broadband penetration reached 14.4% of the population according to the latest available data, compared to the EU average of 28.2%. In the area of **information society services**, initiatives were launched to facilitate and enhance companies' use of online channels, especially for SMEs. Preparations were launched for liberalising the internet domain name market, with the introduction of a system of multiple registrars. The process for setting up a national body for dealing with computer incidents was started. Barriers to internet trading remain.

As regards **audiovisual policy**, draft laws on Media and on Audiovisual Media Services include provisions to align national legislation with the audiovisual media services Directive. The draft laws were published on the internet and made available for comments and relevant

international organisations were consulted. A number of stakeholders continued to raise concerns that the proposed laws might be used to restrict media freedom. The Broadcasting Council adopted guidelines on promoting media pluralism, on enforcement of sanctions, and on fair competition in the media sector. The council improved its capacity for monitoring of content and oversight of media ownership and concentration; such efforts need to continue. Concerns with regard to its independence remain. The public service broadcaster improved its offer in terms of content, but providing pluralistic and balanced news coverage is not yet embedded in its policies and practices, as seen in the lack of balanced coverage during the 2013 municipal election campaign. A digital multiplex (DVB-T) operator was selected and digital transmission of national and regional commercial television began on 1 June 2013

Conclusion

Progress was made in this area, implementing national legislation in the fields of electronic communications and audiovisual policy and preparing new legislation aiming at alignment with EU *acquis*. Alignment with the *acquis* on electronic communications remains a priority. Overall, preparations in this area are on track.

4.11. Chapter 11: Agriculture and rural development

Preparations in the area of horizontal issues are advanced. As regards the setting up of an integrated administration and control system (IACS), the land parcel identification system (LPIS) is operational. Registration of land parcels continues and now extends to the majority of declared holdings. While interconnection capacity has improved, full compatibility between data registers has not yet been achieved. Institutional capacity to manage and maintain a functioning IACS is insufficient.

The national support programme for agricultural and rural development for the period 2013–2017 was adopted. The 2013 allocation for financial support for agriculture further increased. Direct aid payments account for more than three quarters of the budget, including area and headage payments, premium payments and input subsidies for strategically important products, and non-commodity-based payments. There was a substantial increase in the allocation for rural development measures, for which preparations are on track.

Implementing legislation was enacted relating to agricultural and rural development support policy and quality of agricultural products. Despite additional staffing, institutional capacity remains a significant concern. Steps have been taken to improve the capacity of the Agency for Financial Support for Agriculture and Rural Development, responsible for both national support schemes and measures under the Instrument for Pre-accession Assistance for Rural Development (IPARD). Staffing and equipment are still insufficient.

As regards sustainable agricultural information system and farm accountancy data network, data quality and reliability have been continuously improved. As regards common market organisation, a strategy for improvement and monitoring of milk quality (2013-2020) was adopted, as was implementing legislation for cereals and rice. Preparations in this area are at an early stage.

In the area of rural development, implementing legislation on local action groups, on local strategies for development of rural areas and on cross-compliance were adopted, as was a Law on Agricultural Cooperatives. The institutional capacity of the IPARD Managing Authority in the Ministry of Agriculture, Forestry and Water Economy was strengthened. Implementation of the IPARD programme under component V continues. Progress in preparing for

implementation of other IPARD measures (technical assistance and rural infrastructure) has been limited and efforts have to be intensified. Absorption capacity for component V remains a significant concern. An unused €7.39 million was de-committed from the allocations of the IPARD programme for the year 2009.

As regards quality policy, implementing legislation to establish labels of origin, geographical indication and the mark for traditional speciality guaranteed products was introduced. Preparations in this area are on track.

As regards organic farming the national strategy for organic production and the action plan for 2013-2020 were adopted. Organic producers receive top-up payments worth an additional one third of conventional production. Despite the payments, organic production capacity declined. Administrative capacity remains insufficient. Preparations in this area are on track.

Conclusion

Some progress was achieved in the area of agriculture and rural development. The integrated administration and control system has been further developed. Absorption capacity for the implementation of IPARD remains a concern and has to be improved. Administrative capacity throughout the sector needs to be strengthened. Overall, preparations remain moderately advanced.

4.12. Chapter 12: Food safety, veterinary and phytosanitary policy

As regards **general food safety**, a new food safety strategy (2013–2015), an internal audit plan (2012-2016) and a general crisis management plan were adopted by the Food and Veterinary Agency. The government established National Council for Food and Animal Feed Safety to perform an advisory function. Preparations in this area are on track.

In the area of **veterinary policy**, the Agency continued to provide regular updates on control systems of imports and import requirements for live animals and animal products. The system of reduced frequency of checks on consignments at the border inspection posts has yet to be implemented. A system for identification and registration of pigs has not been set up yet. The animal identification, registration and movement control is not always implemented correctly and does not produce reliable data. Rulebooks were issued on identification and registration of equidae and pet animals.

As regards control measures for animal diseases, the Agency continues to implement the programme for oral vaccination of foxes against rabies and issued an eradication rulebook. The FVA also continues mass vaccination of domestic pigs against classical swine fever and will increase monitoring of the wild boar population from 2013. The quality of the rabies laboratory improved, allowing the Commission to authorise it to perform blood tests for rabies. Implementing legislation on zootechnical issues and trade in semen, ova, and embryos was adopted. Significant delays in payments to authorised private veterinary stations remain a problem for the implementation of the animal health programme. In the area of veterinary policy, preparations are advanced.

As regards the **placing on the market of food, feed and animal by-products**, a rulebook was issued on control of trichinella in meat, aiming at harmonisation with the relevant EU legislation. A strategy for improvement and monitoring of milk quality (2013-2020) was adopted. The Commission authorised the rabies laboratory to perform rabies serological blood tests in recognition of its improved quality.

Determining suitable locations for disposal or processing remains the biggest obstacle to management of animal by-products.

In the area of **food safety rules**, implementing legislation aimed at alignment with the *acquis* was adopted, on the safety of quick-frozen foodstuffs, food contact materials, natural mineral waters, and vegetable oils and fats

The annual monitoring programme for food safety is in place. Risk-based classification of food establishments dealing with food of non-animal origin and inspection planning has been established. The capacity of the food inspectorate remains insufficient in terms of human resources. Preparations in this area are on track.

As regards **specific rules for feed**, some implementing legislation and guidelines and manuals for official controls were adopted. Preparations in this area are on track.

In the area of **phytosanitary policy**, some implementing legislation was adopted on plant health and on quality of seeds and propagation material but no action was taken to implement international standards, in particular on surveillance, export certification and determining pest status. Control of marketing places of plant production products continues on a random basis only. Coordination between the competent authorities has not improved. The administrative capacity of the Phytosanitary Directorate remains weak.

The State Phytosanitary Laboratory remains under-used due to its undefined role in the food safety monitoring system and the lack of samples received on a regular basis. Preparations in the area are not very advanced.

As regards **genetically modified organisms (GMOs)**, further implementing legislation was adopted.

Conclusion

Good progress was made in the area of food safety and veterinary policy, in particular regarding the implementation efforts of the Food and Veterinary Agency and the introduction of the risk-based system for official controls. Preparations in the area of food safety and veterinary policy are well on track. Preparations in the phytosanitary area are at an early stage.

4.13. Chapter 13: Fisheries

EU requirements on **resource and fleet management** and **inspection and control** do not apply to inland fishing, except for control of marketing and traceability of fishery products.

The administrative capacity of the unit for fisheries and aquaculture in the Ministry of Agriculture, Forestry and Water Economy and of the relevant unit in the Agricultural Inspectorate remains insufficient. Preparations in this area are at an early stage.

As regards **structural action** for small-scale commercial fisheries and inland fisheries, the country does not have an operational fisheries programme to serve as a basis for structural measures.

In the field of **market policy**, databases and registers relating to production of and trade in fresh fish and fish reproductive materials are regularly updated.

As regards **state aid**, the 2013 allocation for financial support for fisheries and aquaculture increased by one fifth (to €1.46 million).

There are no formal **international agreements**. The government is actively seeking informal working arrangements with Albania and Greece regarding the management of resources in Lakes Ohrid, Prespa and Dojran.

Conclusion

There was limited progress in the area of fisheries. Administrative capacity remains insufficient. A large proportion of the fisheries *acquis* is not relevant as the country is landlocked.

4.14. Chapter 14: Transport policy

As regards **road transport**, the Law on Public Roads was amended and a new public enterprise for state roads set up, replacing the agency for state roads. Further alignment of implementing legislation with the *acquis* on digital tachographs continued and progress was made in the area of transport of dangerous goods. The number of fatal road accidents fell. The administrative and operational capacity of the state transport inspectorate still needs to be increased. Further alignment with the road safety *acquis* is necessary. Preparations in the road transport sector are advanced.

As regards **rail transport**, two rulebooks on railway transport infrastructure were adopted to align further with the *acquis*. High track-access charges and market closure further constrain the income of the infrastructure manager without having resulted in the tangible effects on the state operator or the transport sector as the government had hoped for. The rail market remains closed to licensed EU operators until accession. Safety Authority inspections were stepped up, but its administrative capacity still needs to be strengthened. Procedures for safety certification remain lengthy. An EU transport company obtained a licence to set up a training centre for train drivers. The establishment of a new accident investigation entity in the Government Secretariat-General is not yet complete. Further alignment with the railway *acquis* is necessary as the railway market remains closed to competition.

In the field of **inland waterways transport**, the Law on Inland Waterway Navigation was amended, further regulating the recognition of certification and transportation of goods in inland waterways. A plan for safety inspections was prepared and the licensing process is ongoing. Preparations in this area are advanced.

In the area of **combined transport**, preparation of a strategic study for multi-modal nodes continued.

As regards **air transport**, the Law on Aviation was amended and two rulebooks adopted to align further with the aviation *acquis*. Implementation of the first phase of the European Common Aviation Area Agreement (ECAA) is not yet complete. Although some progress was made in the field of safety and social legislation as well as market access issues, further alignment with the ECAA requirements in this area is still needed. A provision providing a financial incentives scheme for airlines is a subject of concern and is currently being investigated by the services of the Commission. The capacity of the air navigation services provider needs strengthening. A committee to investigate aviation accidents and serious incidents has been set up, but is not fully operational. No progress was made in rectifying the

findings of the European Aviation Safety Agency (EASA) corrective action plan especially in the airworthiness field.

The national authorities intend to take part in the Galileo **satellite navigation** programme.

Conclusion

There was little new progress in the field of transport policy. Further alignment of the road safety and railway legislation with the *acquis* is needed. The railway market remains closed. The administrative capacity of the Rail Safety Authority still needs to be strengthened. An Accident Investigation Committee for rail transport needs to be set up. Overall, preparations in the area of transport policy are moderately advanced.

4.15. Chapter 15: Energy

As regards **security of supply**, the programme for implementing the national strategy for energy development 2013-2014 was adopted in May. A second security of supply statement was submitted to the Energy Community Secretariat. By September 2013, oil stock reserves stood at 56 days' average consumption. Funds for reconstruction of the largest thermal power plant in the country were secured. The budget for energy cost subsidies for the most vulnerable households was halved. In September, an agreement with the Russian Federation on a section of the South Stream natural gas pipeline was ratified, which raises concerns regarding its compatibility with the Energy Community obligations. In the area of security of supply, the country is on track.

In the field of the **internal energy market**, the Energy Balance 2013-2017 was adopted, estimating the annual average rate of growth of final consumption at about 3.3%. Domestic production of electricity remains insufficient to cover local demand and imports of electricity are growing at an average annual rate of 3.8%.

A set of implementing acts under the Energy Law were adopted or amended, concerning procurement of electricity to cover losses in the network. Amendments were adopted to the rulebooks on regulated maximum income, tariff systems and prices for electricity, the rules on the supply of electricity, the tariff and prices for the supply of electricity and natural gas by the last-resort supplier, as well as new tariffs for transport, management and distribution of natural gas. Several implementing acts on the electricity and gas network rules still remain to be adopted. According to the Energy Law and the market rules, all consumers of electricity and natural gas, other than small companies and households, became eligible consumers and started purchasing electricity on the open market as of January 2013. However, opening of the electricity market for medium-sized companies was postponed until January 2014 due to government concerns over the impact on consumer prices. The customers connected to the distribution network have no access to the competitive market. The average regulated price of electricity for tariff consumers was decreased by 4.48%.

In the gas sector, a dispute related to the ownership of the gas transmission pipeline remains unsolved, to the detriment of the sector's development. The development of the gas distribution network is ongoing. Market opening remains limited, of the four eligible consumers one has switched supplier. Rulebooks on tariffs on sale prices and sale of gas to supplier of last resort were adopted in January 2013. The founding capital of the state-owned gas transmission operator was increased. The producer and supplier of district heating in Skopje was sold to a foreign investor. A new rulebook on prices for district heating systems was issued by the Energy Regulatory Commission (ERC), together with one on the

Commission's organisational structure, following an increase in staff. The capacity of the energy department of the Ministry of Economy needs to be strengthened. In the area of the internal energy market, the country is moderately advanced.

In the area of **energy efficiency**, the Energy Law was amended in June 2013 to bring it further in line with *acquis* on energy performance of building and energy audits. Rulebooks on energy efficiency of buildings and on energy audits were adopted in 2013. A rulebook which transposes the framework Directive on energy labelling was adopted in August 2013. The Ministry of Economy and the national distributing company set up a platform for energy efficiency to educate the public in ways to save energy. In the area of energy efficiency, the country is on track.

As regards **renewable energy**, a new feed-in tariff was adopted for electricity produced from biomass, and the national renewable energy action plan was prepared. A feasibility study on use of wind potential at five locations is being drafted. The number of water concessions for construction of small hydropower plants increased to 70 but there were no tenders for new concessions. The government continues to run a programme for subsidies to households for installing solar collectors. The renewable energy potential in the country remains under-exploited and complex administrative procedures and regulated electricity prices still limit more intensive investment in this area. Sustained efforts are needed in order to meet the Energy Community obligation of full implementation of the renewable energy directive by the beginning of 2014.

In the area of **nuclear safety and radiation protection**, the administrative capacity of the Radiation and Safety Directorate is still insufficient to execute its legal responsibilities properly and its financial independence has not been strengthened. As the country has not set up a licensed storage facility for radioactive waste, it was excluded from the EU-funded regional programme for management of radioactive sources.

Conclusion

There was some progress in the area of energy, in particular on energy efficiency and the regulatory framework of the electricity and natural gas market. Progress towards an effectively functioning energy market was stalled by the postponement of further market opening. Preparations in this area are moderately advanced.

4.16. Chapter 16: Taxation

As regards **indirect taxation**, the Law on Value Added Tax (VAT) was amended in December 2012 but some of the reduced VAT rates (5%) made permanent through this revision — e.g. for the import of personal computers, PC components, software and thermal solar systems — are not in line with the *acquis*. The Law on Excise Tax was amended: it increases the excise duty on alcoholic beverages, while the increase for cigarettes and tobacco will be gradually applied over ten years. However, some rates for excise remain lower than the minimum required by the *acquis*.

In the area of **direct taxation**, the Law on Personal Income Tax was amended, postponing the application of taxation on capital gains from the sale of securities until 2016 and delaying the application of taxation of interest on deposits until accession. Alignment with the relevant directives (the Parent-Subsidiary Directive, the Merger Directive and the Interest and Royalties Directive) has yet to be addressed. The law on special zones for technological and

industrial development needs to be aligned with the EU Code of Conduct for Business Taxation.

As regards **administrative cooperation and mutual assistance**, electronic data exchange between the public revenue office and the financial police intensified. A double taxation agreement with Luxembourg was ratified, bringing the number of agreements concluded with EU Member States to 24. These agreements do not cover debt recovery or the automatic exchange of information.

In the field of **operational capacity and computerisation**, voluntary compliance and enforced collection improved and electronic services were extended. Mandatory registration of cash payments was further extended. Electronic submission of VAT and profit tax returns was made compulsory. While the processing of VAT refunds improved, substantial efforts are required to reduce delays and build up a good track record of compliance with legal deadlines. A forensic laboratory has been set up to fight high-risk tax fraud, but is not yet operational. The action plan for reducing the informal economy was updated. However, the fight against tax evasion and the informal economy remains a challenge. Operational capacity and IT infrastructure, in particular, need to be improved.

Conclusion

Overall, there was some progress during the reporting period. Further efforts are required to align the direct and indirect tax legislation with the *acquis* and to achieve and maintain a good track record for processing VAT refunds within legal deadlines. The fight against tax fraud and tax evasion and efforts to combat the grey economy need to be further intensified. On the whole, preparations in the area of taxation are moderately advanced.

4.17. Chapter 17: Economic and monetary policy

In the area of **monetary policy**, the central bank improved its capacity notably in management of foreign exchange reserves and further developed non-standard monetary policy measures. A comprehensive set of targets for further progress towards compliance with the European System of Central Banks requirements was identified.

In the area of **economic policy**, the pre-accession economic programme (PEP) for 2013-2015 was submitted on time, with more explicit information on the macroeconomic and fiscal frameworks. Its usefulness is considerably limited by the low quality of forecasting, non-compliance with (European System of Accounts) ESA 95 standards and lack of fiscal notification. Consistency and transparency in the area of fiscal policy deteriorated. Strategic policy formulation and implementation capacity remain inadequate at all levels of the administration. Economic and fiscal policy priorities are not aligned with specific structural reform challenges. Although the Law on the Budget was amended to increase the consistency of strategic planning and budgeting, a medium-term budget framework is still lacking. The fiscal strategy 2014-2016 was not adopted as required by law and the public investment plan was not adopted. Institutional capacity varies greatly between the central and local levels.

Conclusion

Overall, only limited progress was made during the reporting period. Institutional capacity for economic policy remains insufficient and the quality of the PEP still needs to be strengthened. The fiscal discipline and sustainability of public spending need to be improved. On the whole, preparations in the area of economic and monetary policy are advanced.

4.18. Chapter 18: Statistics

In the area of **statistical infrastructure**, the Law on State Statistics was amended to strengthen the role of the State Statistical Office as the principal coordinator of official statistics, improve the implementation of surveys and enhance the quantity and quality of data provided by the administration. The Office's Strategic Plan (2013-2015) was adopted. The new programme for statistical surveys 2013-2017 provides for improved implementation and harmonisation of surveys across the national statistical system. The resource situation of the SSO remains a concern. Overall, preparations in this area are advanced.

As regards **classifications and registers**, groups of business entities were introduced in the business register. Procedures for updating the register of agricultural holdings were enhanced. The new International Classification of Education (ISCED 2011) is being applied. Preparations in this area are moderately advanced.

As regards **sectoral statistics**, in the area of national accounts, further progress was made in the integration of sector accounts and publication of quarterly GDP data. Data on GDP broken down by region and sector account were published according to NACE rev 2. More efforts are needed to achieve full alignment with ESA 95 standards. The second farm structure survey was conducted and the design of the Labour Force Survey was improved. Further progress was achieved in business, agricultural and environmental statistics. The central bank improved the production of financial accounts and harmonisation of capital investment statistics and financial sector statistics with international standards. The number of data transmissions to Eurostat continued to increase. Data on quarterly balance of payments, annual international trade in services, the Structure of Earnings Survey and the Job Vacancy Survey were sent for the first time. The use of administrative registers to derive population data is being considered.

Conclusion

There was good progress in several areas, in particular statistical infrastructure and sectoral statistics. Greater efforts are needed to speed up alignment with the *acquis* and to enhance the quality and availability of data, particularly population data. Preparations in the field of statistics are advanced.

4.19. Chapter 19: Social policy and employment

As regards **labour law**, amendments were made to the Laws on Labour Relations and on Employment and Insurance against Unemployment, to improve labour records. Three ILO technical conventions were ratified in the areas of collective bargaining, labour relations and labour administration. Effective enforcement of labour law is slow and cooperation between the relevant institutions has not improved. Alignment with the *acquis* in this area remains at an early stage.

The law on **health and safety at work** was amended to regulate the costs to employers of services provided by authorised occupational health and safety experts. Some rulebooks were adopted to further align legislation with the *acquis*. Inspection capacity for health and safety at work has not improved. Implementation of the strategy for occupational health and safety and the action plan for 2012-2013 is slow. Coordination between the relevant authorities has not improved. The National Council for Occupational Health and Safety met only sporadically. Alignment with the *acquis* in this area remains moderately advanced.

As regards **social dialogue**, the Economic and Social Council strengthened its role as a forum for tripartite social dialogue, with regular meetings. The local Economic and Social Councils set up in a few municipalities are not yet very active. The right to strike was challenged when a strike by medical workers was suspended. Social dialogue in the private sector remains weak, especially for collective bargaining. Participation by social partners in the policy-making process remains limited. The capacity of trade unions is still weak.

In the area of **employment policy**, the Law on Records in the Field of Labour was amended to harmonise it with recently enacted amendments to the Law on Employment and Insurance against Unemployment and the Law on Labour Relations. This will enable a distinction between active job seekers and other unemployed and also changes to the method of calculating the unemployment rate. Consequently, the unemployment rate somewhat decreased, but was still very high in the second quarter of 2013 at 28.8%. An action plan on youth employment 2012-2015 was adopted. In December 2012, the government adopted the 2013 operational plan for active employment programmes and measures. National capacity to monitor and evaluate employment policy was reinforced. Labour market participation is still very low. Long-term unemployment, high youth unemployment and very low labour market participation by women all need more attention. The public sector remains the largest employer. The national budget allocated to the active labour market programme remains inadequate and decreased slightly. The implementation of active labour market policy is still a challenge for the Employment Service Agency, which has started a long-term modernisation process. Employment in the grey economy has not diminished, and cooperation and coordination between enforcement bodies is weak.

As regards preparations for participation in the **European Social Fund**, procurement of IPA co-financed projects is ongoing. A lack of strategic planning and weak administrative capacity and interinstitutional cooperation are hampering project and programme management and implementation.

As regards **social inclusion**, the revised national strategy for alleviating poverty and social exclusion was endorsed in March, setting provisional national targets for indicators such as the employment rate in line with Europe 2020. Progress in implementing the strategy has been limited. Poverty remains high and implementation of existing policies and strategic plans is unsatisfactory, hindered by a lack of institutional capacity and financial resources. Ownership and commitment to reform is limited, and their implementation is often challenged due to lack of an integrated approach among the relevant bodies. Implementation of the Strategy for Roma Inclusion for 2012–2014 is slow. Discrimination against and separation of Roma pupils in schools continues. The drop-out rate for Roma children from primary education, despite legal obligations, remains significant. The problems of Roma without personal documents remain an issue - in more than 400 recorded cases, less than one quarter obtained documents.

As regards *people with disabilities*, a National Coordinating Body to monitor the implementation of the UN Convention on the Rights of People with Disabilities was set up. Limited progress was made on implementing the national strategy on equal rights for people with disabilities 2010-2018. People with disabilities face prejudice and stereotyping preventing full access to the labour market.

As regards **social protection**, provisions supporting the employment of orphans and introducing special allowances for blind people were included in the amended Law on Social Protection. Reform of the pension system is ongoing; the total pension budget increased by 5%. The administrative capacity of institutions in charge of implementing the Law on Social Protection is insufficient.

In the area of **anti-discrimination**, implementation of the action plan 2011-2015 of the Commission for Protection from Discrimination is progressing. Its communication strategy 2013-2015 was adopted. The commission has insufficient human and financial resources to fulfil its mandate properly, and its cooperation with other relevant bodies needs to be improved. The anti-discrimination unit in the Department for Equal Opportunities, in the Ministry of Labour and Social Policy, is seriously understaffed. The Law on Anti-Discrimination is still not in line with the *acquis* as it does not explicitly prohibit discrimination on grounds of sexual orientation in employment and occupation. Systematic data collection and analysis are still not in place. Awareness-raising on equality and non-discrimination is extremely limited. (See also Chapter 23 — *Judiciary and Fundamental rights*)

As regards **equal opportunities**, a strategy for gender equality (2013–2020) was adopted, and implementation of the national action plan for gender equality (2013-2016) began. The female employment rate remains very low compared to the EU average. The mechanism in place to deal with complaints of unequal treatment does not function properly. There is still a tendency to confuse equal opportunities with anti-discrimination issues. The Department for Equal Opportunities lacks appropriate resources. The activities and capacity of local equal opportunity commissions remain limited, with little improvement in the situation of women in rural areas or of Roma women. Discriminatory customs, traditions and stereotypes remain significant, capitalising on underlying regressive trends in society. (See also Chapter 23 — *Judiciary and Fundamental rights*)

Conclusion

Little progress was made in the area of social policy and employment. Unemployment is very high and limited progress was made in achieving an efficient and inclusive labour market. Long-term unemployment, high youth unemployment, very low participation of women in the labour market and high levels of informal employment remain major challenges. The capacity of social partners needs to be further strengthened. Measures in favour of people with disabilities and other socially excluded people are insufficient. To tackle discrimination against Roma, implementation of the Strategy for Roma Inclusion should improve. Overall, preparations in this area are at an early stage.

4.20. Chapter 20: Enterprise and industrial policy

As regards **enterprise and industrial policy principles**, the government has shown good results in simplifying current legislation and has implemented the measures of the third phase of the regulatory guillotine. The country is implementing the Small and Business Act principles. It has also made progress in implementing regulatory impact analysis (RIA).

Concerning **enterprise and industrial policy instruments**, the company registration system is organised as a one-stop shop and companies are assigned a single identification number, valid for all interactions with the public administration. Access to finance for SMEs remains an issue. There are currently no public credit guarantee schemes in operation and other sources of finance, such as leasing and risk capital, have declined due to the unfavourable environment. Measures taken by the Ministry of Economy and the SME Agency to develop the private sector are still limited in volume and scope. An SME portal was created, providing information on various national, EU and other donor programmes to support local companies. The government adopted a strategy for innovation for the period up to 2020, and an action plan for its implementation from 2013 to 2015. Construction permits are now issued only online, and two more technological industrial development zones have started up, making a

total of four. The government has several programmes to support export promotion, largely co-financed by international donor community. A strategy specifically supporting the export of IT services was adopted. Acts were adopted to alleviate the fiscal burden on companies in distress. Preparations in the area of policy instruments are moderately advanced.

As regards **sector policies**, a Law on the Establishment of Free Zones for Tourism was enacted and a Special Committee for Tourism, chaired by the Prime Minister, was set up.

Conclusion

There was some progress in the field of enterprise and industrial policy. While progress has been made in policy making, challenges remain in the provision of SME support services, innovation and access to finance. Preparations in this area are moderately advanced.

4.21. Chapter 21: Trans-European networks

In the area of **transport networks**, implementation of the memorandum of understanding on the development of the South-East Europe Regional Transport Network continued. The authorities actively participated in and contributed to the activities of the South-Eastern Europe Transport Observatory. Construction of the motorway section from Demir Kapija to Smokvica, along Corridor X, co-financed by IPA funds, is under way. The IPA-funded tender for drafting technical documentation for the connections with Albania and Bulgaria is ongoing. Preparations for introducing the European Train Control System (level 1) and the Global System for Mobile Communications – Railway along Corridor X are ongoing. Administrative and technical capacity still needs to be strengthened. Preparations in the area of transport networks are advanced.

There were no developments as regards **energy networks**. The country is moderately advanced in the area of electricity networks.

As regards telecommunications networks, for budgetary reasons, the country cancelled its participation in the ‘Information and communication technologies, policy support’ programme of the Competitiveness and Innovation Framework Programme.

Conclusion

Some progress was made in the area of trans-European networks. There was active participation in the South-East Europe Transport Observatory and the Energy Community. Overall, development of transport networks is continuing. Preparations in this area are advanced.

4.22. Chapter 22: Regional policy and coordination of structural instruments

As regards the **legislative framework**, the regional development plans (2009-2013) confirmed that the provisions of the Law on Regional Development on channelling funds from the central budget for regional economic development activities through the relevant bodies have still not been implemented. More transparent allocation of government capital investment in ministry-run projects is needed. Capacity to co-finance EU projects remains limited at all levels. The country is not yet sufficiently prepared for future use of the Structural Funds. Preparations in this area are still at an early stage.

As regards the **institutional framework**, the necessary structures are in place but significant improvements are needed to speed up the preparation and implementation of EU-funded

projects, particularly in the area of the environment. Shortcomings include lack of cooperation within and between institutions and insufficient technical expertise at both national and local level. There was some progress in preparing participatory instruments and methods to involve municipalities, civil society and the private sector in the programming and implementation of projects. Preparations in this area are moderately advanced.

In the area of **administrative capacity**, training and the provision of technical assistance to strengthen all the institutions involved in implementing the IPA has continued. Weak capacity has resulted in slow tendering and low contracting rates for IPA since management powers were granted. There is an urgent need to further strengthen the project management capacity of the relevant institutions to ensure effective and efficient management of EU funds. Weak capacities and coordination endanger full utilisation of IPA environmental funds. An effective staff retention policy is needed. Preparations in this area are still at an early stage.

As concerns **programming**, the lack of strategic planning, insufficiently diverse project pipelines in the environment and transport sectors, the low quality of tender documents and lengthy procurement processes have resulted in delays, consequently increasing de-commitment risks. Preparations for IPA II programming began in January. Closer coordination and active participation by all stakeholders in the programming process is needed. In the area of **monitoring and evaluation**, the capacity of the national authorities in this area should be strengthened. Enhanced use of the management information system should be ensured; recommendations made by the IPA Sectoral Monitoring Committees are not yet systematically followed up. Transparency on the use of IPA funds needs to be increased. Preparations in the area of monitoring and evaluation are moderately advanced.

In the area of **financial management, control and audit**, improvements in management and control systems are needed to ensure continuation of operations and payments under IPA components III and IV. Non-respect of principles of equal treatment and proportionality led to the cancellation of a major tender under IPA component III. Systematic monitoring, on-the-spot checks, and internal and external audits are needed to prevent any repetition of shortcomings and irregularities found.

Conclusion

Limited progress was made in the area of regional policy and coordination of structural instruments. Contracting need to be accelerated to address very significant delays in implementing IPA programmes. Urgent efforts are needed to overcome shortcomings in the capacity of the relevant institutions to carry out programming tasks and to demonstrate commitment to financial management, control and audit functions. Overall, preparations in the area of regional policy and coordination of structural instruments are not very advanced.

4.23. Chapter 23: Judiciary and fundamental rights

Judicial system

The country's judicial reform strategy and related action plan were implemented between 2004 and 2010. The main reforms in this area have therefore already been largely completed. However, improvements are needed in practice to ensure the correct implementation of European standards relating to independence and quality of justice.

As regards **independence and impartiality**, several issues should be addressed in order to safeguard the independence of judges, in particular their security of tenure. The legislation

governing the dismissal of judges still needs to be amended in order to make it precise and predictable. Safeguards are needed to ensure that disciplinary measures are applied in a more proportionate way by the Judicial Council. The tendency to impose dismissal rather than a less severe disciplinary sanction continues, as does the use of the catch-all dismissal ground ‘unprofessional and un-conscientious exercise of judicial office’ in almost all cases. In addition, the current system of evaluation and promotion of judges places more emphasis on productivity and targets than on quality and problem-solving, which can encourage formalistic rather than independent decision-making. The direct link between performance evaluation and dismissal, which should only be used to punish serious disciplinary breaches, needs to be removed.

In the area of **professionalism and competence** of the judiciary, the Academy for Judges and Prosecutors (AJP) continued to play a central role in providing life-long training for the judiciary and prosecution service. Its continuous in-service training programme was attended by over 7 000 participants, including around 4 000 judges, 1 000 public prosecutors and 1 000 expert associates, as well as civil servants and other participants. The AJP further developed its decentralised training system by holding 76 of its 232 training activities in cities outside the capital, and the system of e-learning is also being continuously developed through the AJP’s dedicated training web portal. Amendments to the Law on Courts entered into force, requiring all newly appointed first-instance judges to have graduated from the AJP’s 2-year initial training programme. Minimum requirements of prior judicial experience were also introduced for appeal court and Supreme Court judges (four and six years respectively). However, the Judicial Council continued to ignore the legislative requirements, appointing 39 first instance judges in 2012, only 4 of whom were AJP graduates, and 13 in the first half of 2013, only 1 of whom was an AJP graduate. At the same time, 13 of the 80 candidate judges and prosecutors who have graduated since 2009 are still waiting to be appointed to their first post. This calls into question the effectiveness of the new legislation and the commitment to the principle of merit-based recruitment. It also has the negative effect of demotivating potential future candidates from applying to the AJP. Despite information campaigns, repeated calls for applications and an increase in the stipend of AJP candidates during initial training, there were insufficient numbers of new applicants for the AJP’s 2013 initial training programme and it remains to be seen when the next round of initial training will begin. Preparatory classes for the AJP entrance exam and collaboration with universities are steps in the right direction towards ensuring that new stricter entrance requirements can be met by candidates. Measures targeted at encouraging more candidates from non-majority communities to enter into professional training should also be considered. The AJP’s 2013 budget was decreased, it lacks sufficient numbers of staff and its premises are inadequate given the scope of its activities. Greater efforts are needed to support the work of the AJP, to attract high-calibre candidates to the judicial and prosecutorial professions and to safeguard the principle of merit-based recruitment.

As regards **accountability**, three judges were dismissed in 2012 and their dismissals were upheld on appeal by the Supreme Court. In addition, one judge’s judicial function was terminated upon conviction of a criminal offence. The Judicial Council considered 879 complaints filed against judges and courts during 2012. The highest number of complaints continues to concern the length of court proceedings. The Ministry of Justice received 509 complaints. The Supreme Court continued to receive applications for compensation for unreasonably lengthy court proceedings (1 906 in 2012, a slight increase from the previous year). In 2012, it upheld 203 applications and awarded almost €158 000 in compensation and costs, an increase from 2011. In 2012 the country also paid out over €157 000 in friendly

settlements to applicants who had claimed damages before the European Court of Human Rights in similar cases.

As regards the **efficiency** of justice, the majority of courts at all levels were able to process as many cases as they received, or more, during 2012. There are now no courts with significant backlogs. New software was installed in all courts, as well as the Judicial Council, in order to generate improved statistical data on their performance. The enforcement of judgments by professional bailiffs continued smoothly and almost all old enforcement cases have now been transferred out of the court system. However, there is still no reliable information on the average overall duration of court proceedings from start to finish, including all instances, and there is no monitoring mechanism to identify and give priority to 'old cases' which have been in the court system for many years. Greater efforts are needed to ensure that the monthly targets imposed on judges, concerning the number of cases to be processed, do not result in a general lowering in the quality of justice and lead to more lengthy proceedings in the long-term.

The court budget for 2013 is €29.6 million (or 0.4% of GDP), of which a majority of around 80% is still spent on the salaries of judges and administrative staff. The total number of judges (670) remains more than 50% higher than the European average in relation to the size of the population. There is a need to assess the sustainability of this spending and to start planning a gradual rationalisation of the court system. The budget of the Public Prosecutor's office is around €6.6 million, of which a majority of around 75% is spent on salaries, while the remainder is insufficient to cover the necessary IT infrastructure upgrade for the prosecution service. A longer-term strategy to ensure the correct distribution of human resources within the justice system still needs to be developed.

As regards **access to justice**, the legal aid budget for 2013 is €50 000. 244 lawyers and 8 NGOs are now registered to provide legal aid. A total of 146 requests for free legal aid were submitted in 2012, of which 57 were approved. The majority of cases concerned property disputes, victims of domestic violence and protection of children and minors. Cases concerning social security and labour disputes are still under-represented and the lack of systematic legal aid for juveniles is a concern. Some improvements are still needed to make the work of courts more accessible to the public, including locating information desks at the entrances of court houses and introducing user-friendly search functions for judgments published on court websites.

Anti-corruption policy

The Criminal Code was amended to remove the possibility for courts to return a bribe to a bribe-giver who declares the offence before it is uncovered. The Law on Financing of Political Parties and the Election Code were further amended with a view to addressing GRECO and ODIHR recommendations.

The administrative capacity of the relevant institutions was strengthened slightly, however both the State Commission for the Prevention of Corruption (SCPC) and the Anti-Corruption Unit of the Ministry of Interior remain inadequately staffed and funded (6 out of 18 planned posts in the Anti-Corruption Unit are still vacant). The State Audit Office (SAO) is also understaffed and underfunded in the light of its new functions of financial supervision of political parties and election campaigns. The limited powers of the SCPC are hampering its development into an effective anti-corruption body. The dismissal of the former president of the SCPC without a clear legal basis raised concern. One new prosecutor was employed in 2013 in the Basic Public Prosecutor's Office for the fight against organised crime and

corruption, but both human and material resources still need to be significantly strengthened within the prosecution service in order to meet the challenges of the new Law on Criminal Procedure which is due to enter into effect in December 2013.

There were 123 convictions for corruption-related offences in 2012, most of which related to abuse of public office. Bribery offences still account for a low number of overall convictions. The SCPC received 177 complaints in 2012, a drop of 33% compared to 2011. It filed 13 requests to the public prosecutors' offices to initiate criminal proceedings. The overall capacity of the courts to deal with corruption cases remains weak, in particular as regards high-level cases, where proceedings are lengthy and inefficient. Requests sent by the SCPC to the public prosecutor to initiate criminal proceedings are not effective, as they rarely lead to successful prosecutions. Orders for seizure and confiscation of assets remain rare and special investigative measures are not used systematically to detect and investigate corruption offences. It remains to be seen whether the new Law on Criminal Procedure will improve the general implementation of the anti-corruption framework in practice.

The corruption prevention activities of the SCPC in 2012 included both the random verification of asset declarations and the newly introduced systematic verification of statements of interest of appointed and elected officials, as well as checks carried out *ex officio* or on the basis of external complaints. In 30 cases the SCPC asked the Public Revenue Office to conduct an asset examination procedure and, as a result, 6 officials were charged the 70% tax rate on their undeclared income. The SCPC also initiated misdemeanour proceedings against 10 officials who had failed to submit asset declarations. As regards conflicts of interest, 483 statements submitted by MPs, ministers, deputy ministers and officials elected or appointed by parliament were verified by the SCPC in 2012. During the verification exercise, 123 officials were found not to have submitted statements and as a result misdemeanour proceedings were initiated in 26 cases in early 2013. However, the absence of a registry of elected and appointed officials continued to hamper effective control of assets and conflicts of interest of these officials.

In 2012, the Sector for Internal Control and Professional Standards in the Ministry of Interior started disciplinary procedures against 347 police officers (an increase from 228 in 2011). It also raised criminal proceedings in 10 corruption-related cases. The customs administration further strengthened its integrity system with measures relating to transparency, human resources and financial management. 72 disciplinary procedures were initiated against customs officers in 2012; however none were directly corruption-related. Criminal charges were brought against 2 customs officers for taking a bribe. The internal control system in central and local administration remains weak and effective whistle-blowing mechanisms in the public and private sectors are yet to be set up.

The implementation of the legal framework on political party funding remains deficient. The lack of transparency and accountability of political parties for breaches of the legislation on party funding remains a concern. In spite of legislative amendments, limited action has been taken as regards measures to inform political parties about their reporting obligations and a more streamlined and proactive supervision and sanctioning system is needed. The OSCE/ODIHR reported widespread allegations of misuse of state resources during the 2013 local elections and the failure of the relevant institutions to counter them raised serious concerns. The SCPC's public announcement about the irregularity of the asset declaration of an opposition mayoral candidate, a few days before election day, called its impartiality into question.

Corruption in public procurement continues to be a serious concern. While reports of violations of public procurement law and corruption in public procurements are widespread, there is currently no institution assigned to ensure effective and timely control and supervision of public procurements, including concessions and public-private partnerships, and of the execution of contracts. No administrative sanctions are foreseen for violations of the administrative regulations and criminal investigations and convictions for abuse of public procurement rules, while on the increase, are still relatively rare. The institutional framework and measures taken need to be expanded to effectively address this problem.

The Law on Free Access to Public Information and its implementation remain deficient. The legal penalties are still not imposed in practice and political parties remain excluded from the list of holders of information, releasing them from the obligation to provide information to the public and from the penalty regime. The transparency and accountability of public institutions and enterprises, and of public expenditure, continue to be insufficient. (*see also 2.1 - Public administration*).

In 2012, the SCPC and the Academy for Judges and Prosecutors carried out 32 anti-corruption training activities, reaching more than 800 participants. The collection of data on the implementation of 2011-2015 state programmes for the prevention and suppression of corruption and on conflicts of interest improved with the introduction of new software in the SCPC. Representatives of the police, financial police, customs administration, Public Revenue Office, public prosecutor's offices and courts, as well as the SCPC, cooperated in a working group to set up a unified statistical system for anti-corruption policy. However, much remains to be done as regards awareness-raising. The enforcement of anti-corruption policy was largely invisible to the public. The number of complaints to the SCPC is falling year on year. Operational cooperation between institutions still remains weak, and the law enforcement and supervision agencies engaged in the fight against and prevention of corruption are insufficiently proactive.

Fundamental rights

The country is already party to most of the **international human rights instruments** and further progress was made with the ratification of the Convention on the Protection of Children against Sexual Exploitation and Sexual Abuse and the signing of the Third Optional Protocol to the Convention on the Rights of the Child. The European Charter for Regional or Minority Languages, which has been signed, has yet to be ratified.

During the reporting period, the **European Court of Human Rights** (ECtHR) delivered judgements on 6 applications, finding that the country had violated rights guaranteed by the European Convention on Human Rights (ECHR). In the *El Masri* case, the Court ruled that the country had breached the applicant's rights under, among others, Article 3 (prohibition of torture and inhumane or degrading treatment). The country has been held by the ECtHR to provide an effective remedy in cases relating to unreasonably lengthy domestic court proceedings. However, it still needs to follow up on the execution of over 50 older ECtHR judgments in which it was found in the past to have violated the right to be heard within a reasonable time (Article 6). An inter-ministerial commission for the execution of ECtHR judgments was set up in November 2012 but its impact remains to be seen. Efforts should be made without delay to satisfy the Committee of Ministers of the Council of Europe that execution has been completed in all cases of violation of the ECHR, and that the necessary systemic improvements have been made. Greater efforts are also needed to ensure that any orders for pre-trial detention and extensions thereof are in line with the ECHR and the jurisprudence of the ECtHR concerning Article 5 (right to liberty and security). 511 new

applications have been submitted to the ECtHR since September 2012, bringing the total number of pending applications to 593.

With regard to the **prevention of torture and ill-treatment** and the fight against impunity, the number of complaints filed with the Ombudsman's Office on excessive use of force by the police fell in 2012, although the number of overall complaints about the work of the police rose. The Ombudsman's annual report noted the persistence of such cases, particularly involving Special Units, and the need to strengthen the independence and effectiveness of the Ministry of Interior's Sector for Internal Control and Professional Standards in cases of use of force. Allegations of violence against inmates by prison officers persisted. In 2012, out of 88 complaints filed with the Directorate for Execution of Sanctions against prison staff, 12 cases related to torture or ill-treatment. One employee at Idrizovo prison was suspended and placed under house arrest for excessive use of force. Shortcomings remain as regards the implementation of formal safeguards, including the zero-tolerance strategy for ill-treatment in prisons and police stations. Weaknesses in the complaints system and the related data-collection mechanisms of police and prisons continue to be a concern. Mechanisms for detailed examination of all alleged cases of torture or ill-treatment of persons deprived of their liberty have yet to be set up. Efforts are still needed to improve the material conditions for detained persons as degrading conditions persist in a number of detention facilities.

As regards the **prison system**, a health-care strategy was adopted for penitentiary institutions, together with an action plan for 2012-2014 and practical guidelines. A treatment programme for inmates addicted to drugs and other psychotropic substances was developed. A strategy for the development of a probation service was adopted by the government. Internal control guidelines for penitentiary institutions were introduced. The annual budget for the penitentiary system was increased by 7% in 2013. A pilot education programme for juveniles was implemented in the educational-correctional facility in Veles. Inmates submitted fewer complaints to the Ombudsman's Office in 2012 (278, compared with 352 in 2011). The problem of overcrowding in prisons is being addressed, with the construction of a new prison in Kumanovo completed in 2013 and preparations under way for construction work at Idrizovo and Skopje prisons, as well as the juvenile facility in Tetovo. However, the prison system remains seriously underfunded and understaffed, which hampers its sustainable functioning in line with international human rights standards. Overcrowding of 20 to 35% persisted during the reporting period. Treatment programmes for vulnerable groups are yet to be implemented in practice. Adequate healthcare is not systematically ensured and inhumane material conditions persist in some facilities, including all pre-trial and juvenile facilities. The right of juveniles to basic education is still not ensured. Systematic training of prison staff still needs to be set up. Allegations of corruption among prison staff and inter-prisoner violence remain to be addressed. Care needs to be taken that new facilities are not only built but also fully equipped, well managed and maintained in the long term. A national strategy for the penitentiary service has yet to be developed. Reform and development of the prison system continues to suffer from insufficient managerial and administrative capacity.

In the area of **freedom of expression** and the media, the Criminal Code was amended to decriminalise defamation and insult. A new Law on Civil Liability for Insult and Defamation was adopted, among other things setting out maximum levels of damages which could be awarded in civil cases. In 2012, over 200 judges, lawyers, journalists and other practitioners participated in training on freedom of expression and by September 2013, 161 civil court judges competent to deal with defamation had undergone a specific training programme. 70 key judgments of the European Court of Human Rights relating to Article 10 (freedom of expression) have been translated and made available on the websites of the Ministry of Justice and the Academy for Judges and Prosecutors, to act as a training tool. New draft laws on

media and on audio-visual media services were prepared which also include provisions on freedom of expression and the media; however during the consultation phase these were criticised by some stakeholders as potentially open to abuse. There are continued concerns about the lack of transparency of government advertising and self-censorship due to economic pressures exerted on journalists and media owners. Polarisation of the media and poor professional standards hamper the public's right of access to diverse viewpoints and accurate information. *(see also 2.2 - Human rights and the protection of minorities)*.

In the area of **freedom of assembly and association**, the overall situation is satisfactory. There were no cases of misuse of the legislation or prohibitions on registration.

Freedom of thought, conscience and religion is generally ensured. A further religious entity was registered, bringing the number to 31. The Constitutional Court rejected a complaint based on protection of religious freedom, made by the Bektashi community from Tetovo, concerning the courts' decision to reject their registration.

Concerning **women's rights and gender equality**, a strategy for gender equality for 2013-2020 was adopted by the parliament, together with a national action plan for gender equality for 2013-2016. Participation by women in the local elections increased. Women's participation in the labour market remains very low. The capacity of some local commissions on equal opportunity was strengthened, but their overall expertise and activities remain limited. The Sector for Equal Opportunities Policy in the Ministry of Labour and Social Policy still lacks adequate resources. Discriminatory customs, traditions and stereotypes remain significant and are open to exploitation and the fostering of regressive trends in society. Implementation of the 2012-2015 national strategy for combating and preventing domestic violence is slow.

In the area of **children's rights**, a new Law on Child Protection was adopted, focusing the system and organisation of child protection around the rights of the child. The database on vulnerable children in the Centres for Social Work started operating and was connected to the State Statistical Office, although there is still a lack of a systematic collection and analysis of data with particular reference to children with disabilities. They remain the most vulnerable group, and their social inclusion continues to be hampered by stigma, discrimination, and a lack of appropriate infrastructure and social services. There are still only an estimated 15% of children with disabilities in the education system, mainly in specialised institutions. Street children have become less visible in the reporting period and no accurate data is currently available. The Centres for Social Work remain seriously underfunded and understaffed. A programme for the compensation of juvenile victims was established; however, its initial budget of €8150 is insufficient and needs to be substantially increased. In 2012 the members of the National Council for the prevention of juvenile delinquency started receiving remuneration for their work. Ad hoc training for juvenile justice professionals continued. However, there are still insufficient financial and administrative resources and poor coordination between the authorities involved in juvenile justice. The adoption of the new Law on Justice for Children was delayed. The conditions in the educational-correctional facility in Veles and the juvenile prison in Ohrid remain a matter of serious concern and most police stations fail to meet the legal requirements applicable to detention and interrogation of juveniles. Free legal aid is not systematically provided to juveniles and there is still no systematic education provided to juveniles deprived of their liberty.

As concerns the treatment of the **socially vulnerable and/or persons with disabilities**, a national coordinating body was set up to monitor the implementation of the UN Convention on the Rights of Persons with Disabilities. Currently 69 people with disabilities are housed in

the communal housing units set up as part of the de-institutionalisation process. Integration of people with disabilities remains very limited and their poverty rate very high. Implementation of the national strategy on equality of rights of people with disabilities 2010-2018 remains slow.

In the area of **anti-discrimination policies**, the Commission for Protection Against Discrimination became a member of the European Network of Equality Bodies. In 2012, the commission received 75 complaints and processed 43. Since its establishment in 2011, the Commission has identified discrimination in 11 cases, mainly on the grounds of ethnicity and belonging to marginalised groups. The Commission's recommendations have so far been respected in all but one case. Concerns remain about the Commission's independence, given its persistent lack of financial and human resources. There is a significant need for more awareness-raising activities and campaigns to prevent discrimination and to promote understanding of the Law on Anti-Discrimination and the work of the Commission. The Law on Anti-Discrimination is not fully aligned with the *acquis*, as it does not prohibit sexual orientation as grounds for discrimination, but in practice the Commission also handles complaints based on sexual orientation and has already issued several findings in this connection. Data on the reporting, investigation and prosecution of hate speech and hate crime is not collected systematically and training of law enforcement, prosecutors and judges needs to be stepped up.

As regards protection of the rights of **lesbian, gay, bisexual, transgender and intersex (LGBTI)** persons, the situation has worsened. Reports of violent attacks, including against the LGBT Support Centre in Skopje, need to be fully investigated by law enforcement authorities. Further efforts, including awareness-raising and promotion of tolerance, are needed from the authorities at all levels. Homophobic media content persists and media professionals and owners need to take greater responsibility in combating ignorance and intolerance.

As regards **labour and trade union rights**, social dialogue is functioning well. The right to strike was challenged in the case of a strike by medical workers. Bipartite social dialogue has not improved. The capacity of trade unions is still weak.

In the area of **property rights**, the land register now covers 100% of the country's territory and a new Law on Cadastre was adopted, regulating its maintenance. The E-cadastre system became operational in all 29 branches of the Cadastre Office and includes web-based updating of property rights by notaries and bailiffs and electronic issuing of cadastre-related data. The Law on Expropriation was amended to limit reimbursement for expropriated property with a market value of over €5 million and €25 million to periods of five and eight years respectively. The Law on Denationalisation was amended to provide for compensation instead of restitution on certain grounds including defence and the public interest. Property which could not be returned continued to be compensated through the issue of government bonds. In 2012 the twelfth bond issue had a total value of €12 million. In 110 out of 272 property complaints lodged with the Ombudsman's Office, most of which related to denationalisation, a breach of property rights was confirmed. Some cases have remained at the first-instance stage for over a decade. There is a lack of consistency in property decisions taken at second instance and by the Administrative Court, which needs to be addressed in order to secure legal certainty.

As regards the respect for and protection of **minorities** and cultural rights, the Agency for the Protection of Minorities Representing less than 20% of the Population visibly increased its cooperation with civil society and donors. It is still hampered by limited financial resources and some of its work is mainly funded by donors. No new staff were assigned. Both the

directorate for education in communities' languages, in the Ministry of Education and Science, and the directorate for the promotion of culture of the communities in the Ministry of Culture, continue to face difficulties in fulfilling their mandates due to limited resources and the lack of a stable, pre-determined budget. The number of textbooks and qualified teachers in communities' languages are limited. No state funding was allocated to the implementation of the Strategy on Integrated Education. The trend of separation along ethnic lines in schools, and incidents of inter-ethnic violence in secondary schools continued.

There was an increase in state allocations for the implementation of the **Roma** strategy, related to the construction of an educational facility in Šuto Orizari; however the overall implementation of the Roma strategy has slowed. The sustainability of ongoing projects in the area of health, education, employment, housing and social welfare is at risk, as they are mainly donor funded. Evaluation and monitoring mechanisms are weak and ineffective. The unit for implementation of the Roma strategy in the Ministry of Labour and Social Policy remains understaffed. Segregation of Roma in schools still persists. No comprehensive measures have been taken to address the overrepresentation of Roma children in special schools, nor to mainstream street children into education. Open discrimination against the Roma continues, particularly in employment. Legislative measures still need to be taken to address civil registration and personal identity documentation. The Roma continue to live in a cycle of poverty and unemployment, and in substandard living conditions.

The Directorate for **Personal Data Protection**'s inspections more than doubled in 2012 compared with the previous year. The number of complaints rose from 319 in 2011 to 399 in 2012, while the number of cases where a violation was confirmed by the Directorate decreased from 87 in 2011 to 56 in 2012. Misdemeanour and criminal procedures were initiated as a result. Cooperation with the public and private sectors improved, and visibility at international events increased. The Directorate carried out training for different entities. However, sector-specific legislation is not harmonised with data protection legislation and the Directorate is not consulted systematically on policies and drafts. Amendments to the Law on Data Protection to further align it with the *acquis* still need to be adopted. Various media, especially internet media, do not respect the right of individuals to privacy.

Conclusion

Some progress has been made in the field of the judiciary, notably with the introduction of stricter professional requirements for judges and the elimination of remaining backlogs in the courts. Further improvements are needed to ensure the independence of the judiciary in practice, notably as regards the systems for evaluation and dismissal, as well as to ensure that all judicial appointments are based on merit and to address the problem of lengthy court proceedings. In the area of corruption, the legislative framework is in place and steps have been taken to develop and consolidate the country's enforcement track record. Efforts are needed to ensure proper follow-up of cases referred to the public prosecution service and improve the effectiveness of courts both in terms of sanctioning and speed of proceedings. As regards fundamental rights, progress was made on the rights of the child, the protection of property rights and data protection. However, overall efforts in this area are hampered by a persistent lack of funding and capacity, and all relevant institutions need to become more proactive in promoting and safeguarding fundamental rights in practice. Serious efforts are needed to address concerns in the area of freedom of expression.

4.24. Chapter 24: Justice, freedom and security

Some developments took place in the field of **migration**. The Law on Foreigners was amended, simplifying the procedure for foreigners, employed by businesses of crucial importance to investment in the country, to obtain a permit for temporary stay. The database on foreigners covering asylum, migration and visas, is still in the testing phase. In 2012, 682 irregular migrants were detected in the country, with the highest numbers continuing to be detected at the border with Serbia. The strategic capacity for managing migration flows is insufficient, in terms of staff and equipment, to cope with the increasing numbers of migrants transiting the country. Border controls have not been effective in detecting irregular migration into the country from Greece and onward transit from the country towards Serbia. In 2012, 1067 people were returned under the EU readmission agreement and it continues to be implemented well. Readmission agreements with Montenegro and Switzerland entered into force. In this area, the legislative and institutional framework is in place, but significant efforts are needed to improve both implementation and strategic planning.

As regards **asylum**, the Law on Asylum and Temporary Protection was amended with a view to further alignment with the *acquis* laying down minimum standards for reception conditions for asylum seekers and on procedures for granting and withdrawing refugee status. The amendments extending the Law on Free Legal Assistance and the Law on Health Insurance Guarantees to asylum seekers entered into force. The centre for integration, which provides services to recognized refugees and persons under subsidiary protection, continued to build its capacity by extending its premises. In 2012, 527 new applications for asylum were made, a decrease from 740 in 2011. In 504 cases (95%) the asylum procedure had to be stopped due to the applicants leaving the reception centre prematurely. Efforts should be stepped up to prevent asylum centres from being targeted and used by organised crime groups involved in smuggling of migrants. The capacity of the asylum unit in the Ministry of Interior was improved slightly by the addition of two more staff. Some progress was made on speeding up the process of providing asylum seekers with ID papers, with more than double the number of persons being issued with documentation during this reporting period, compared with the previous one. Difficulties persist in providing access to interpreters during interviews with asylum seekers. In this area, the country is advanced.

In the area of **visa policy**, the country has been well advanced for a number of years. There is already a high degree of alignment with the EU ‘positive list’ and ‘negative list’, with some further efforts needed to align fully by the date of accession. All diplomatic and consular missions are linked with the national visa system N-Vis and the Visa Centre at the Ministry of Foreign Affairs. Secondary legislation entered into force allowing citizens of foreign countries where there is no consular representation to make a visa application through any of the country’s diplomatic or consular missions abroad.

The implementation of the visa-free regime with the EU progressed smoothly overall. The national authorities continued to cooperate in counteracting the phenomenon of unfounded asylum applications in EU and Schengen countries. Nevertheless, the number of citizens making unfounded asylum applications abroad is still high. Public campaigns including leaflets, posters, media events and information talks in municipalities and high schools have continued, in order to inform citizens of the consequences of abusing the visa-free regime. Since the introduction in 2011 of a new criminal offence relating to facilitation of abuse of the visa-free regime, 447 controls have been carried out on tourist agencies and passenger transport companies and criminal charges have been brought against 20 persons. Border controls, surveillance patrols and risk analysis have been enhanced. However, long-term policies to improve the social and economic inclusion of the most vulnerable groups of the

population most likely to migrate, remain underdeveloped and underfunded, and need to be stepped up in order to make a practical impact on the situation. Further systematic efforts in all of these areas need to continue. The Commission will submit its regular report to the European Parliament and Council by the end of 2013.

As concerns **external borders and Schengen**, the Law on Border Control and implementing legislation continued to be harmonised with the Schengen Border Code. Travel documents containing fingerprints started to be issued. A joint contact centre with Albania was opened. Mixed patrols continued to be carried out at the borders with Kosovo, Bulgaria and Albania and also started to be carried out with Serbia; in 2012, there were over 280 mixed patrols with neighbouring countries. Good cooperation with Frontex continued in the form of joint operations and training, as well as through the Western Balkans Risk Analysis Network (WBRAN). The staffing, training and equipping of the inland mobile unit set up at central level continued. Further progress was achieved in equipping the border police, notably with surveillance equipment and equipment for detecting forged documents. Reconstruction and renovation of police stations for border surveillance were completed, meaning that all 20 now meet operational standards. Ten police stations for border surveillance are connected to the central database of the Ministry of Interior and the connection of another six is under way. The TETRA radio communications network has reached mobile coverage of 87% of the country and hand-held coverage of 60%. The institutional and functional capacity of the National Coordination Centre for border management (NCCBM), the governmental body responsible for monitoring and implementation of the integrated border management strategy and action plan, remains very weak and it has limited human resources. Significant improvements are needed in the management of the NCCBM, as well as improved internal coordination and cooperation with related Ministries. The follow-up to the 2003 national integrated border management (IBM) strategy and the 2009 strategy for further development of the existing IBM system is being planned and will cover the period 2014-19. It should take full account of the EU IBM concept. Preparations in the area of external borders and Schengen are well advanced.

Regarding **judicial cooperation in civil and criminal matters**, regional cooperation was further developed. In 2012 the country received 1255 requests for mutual legal assistance in civil matters and 2235 requests in criminal matters. It sent 767 requests to other countries for mutual legal assistance in civil matters and 597 in criminal matters. A bilateral extradition agreement with Croatia entered into force, as did three bilateral agreements with Serbia, on legal assistance in civil and criminal matters, extradition and enforcement of criminal court judgments. Three agreements were signed with Bosnia and Herzegovina, amending existing ones on legal assistance in civil and criminal matters, extradition and enforcement of criminal court decisions. In the framework of its agreement with Eurojust the country cooperated with Germany, Austria and the Netherlands on the investigation and prosecution of organised crime groups involved in drug trafficking and in September 2012 an agreement was also signed on the establishment of Joint Investigative Teams with these countries. Preparations in this area are advanced.

In the area of **police cooperation and the fight against organised crime**, regional and international law enforcement cooperation through Europol and Interpol continued to be good. 149 international arrest warrants were issued in the country in 2012. Preparations have been made to launch the SIENA connection for secure exchange of sensitive and operational data with Europol. A liaison officer still needs to be assigned to Europol.

Amendments to the Law on Police were adopted, in order to align it with the new Law on Criminal Procedure, but there are some concerns about the lack of clear rules on deprivation

of liberty and on the collection and storage of data. Further efforts are needed to prepare for the implementation of the new Law on Criminal Procedure which enters into effect as of December 2013. Training of police and public prosecutors is ongoing, but the Investigative Centres and Judicial Police provided for in the new law still need to be set up. New amendments to the Law on Private Security introduced detailed criteria on the use of force by private security personnel and set higher standards for founding and operating private security companies. However, some provisions of the law create room for potential infringements of citizens' freedom of movement and increase the potential impunity of security personnel by making the abuse of their powers subject only to fines, rather than criminal prosecution. Amendments to the Law on Interception of Communications, removing the direct involvement of the Minister of Interior in authorising interceptions, entered into force but the secondary legislation regulating its enforcement in detail and safeguarding against undue influence in the execution of interception orders, remains to be adopted. The Law on Electronic Communications still needs to be amended to take into account the Constitutional Court's annulment of certain articles which imposed overly broad obligations on operators to provide access to communications networks.

Basic training started for the 330 police cadets who were recruited to the Police Training Centre in 2012. Implementation of the Training Strategy is advancing slowly. Professionalization of human resources and a rigorously merit-based recruitment policy should be a priority within the police. An independent and robust external oversight mechanism for the police force is still missing.

The institutional framework for the fight against organised crime is well established, including specialised entities and departments within the police, the prosecution service and the court system. A track record of investigations, prosecutions and convictions continued to be built up steadily. In 2012 the Centre for Suppression of Organised and Serious Crime submitted over 40 charges against 195 persons to the Basic Public Prosecutors Office for Organised Crime and Corruption. A number of police operations were carried out against organised groups involved in drug trafficking, cybercrime and smuggling of migrants.

Staffing of the Centre for Suppression of Organised and Serious Crime has continued to improve slowly (63.7% of the posts are filled, a slight increase from last year). The National Criminal Intelligence Database is not yet operational and the National Coordination Centre for the fight against organised crime has still to be established. Both of these tools would provide valuable support for more proactive investigation of organised crime. Coordinated efforts by the relevant law enforcement agencies in the fight against organised crime (the Ministry of Interior, the Public Prosecutor's Office, the Customs Administration and the Financial Police) should be intensified. The use of special investigative measures needs to be increased, as does the systematic use of financial investigations. The Customs Administration's and Financial Police's capacity to apply special investigative measures remains limited and needs to be upgraded. As elsewhere in the region, organised crime remains a serious concern.

In 2012, the Financial Intelligence Unit (FIU) reported 29 cases of suspicious transactions related to money laundering and 121 related to other types of economic and financial crime to investigating authorities and the prosecution service. Most of the cases processed continue to relate to tax evasion. A total of 36 persons were prosecuted in six cases during 2012. Eleven persons were convicted in four cases, an increase on last year. The level of reporting remains weak and the investigation and prosecution of money laundering and financial crime needs to become more proactive and efficient.

Regarding trafficking of human beings, 8 victims were identified, down from 11 in the previous year. Efforts are needed to ensure that the Centre for Victims of Human Trafficking has the sustained ability to provide comprehensive care. In 2012, 24 people were charged on suspicion of trafficking (compared with 35 in 2011) and 20 were convicted (compared with 17 in 2011), of whom 14 received prison sentences. In addition, the appeal courts upheld 7 previous convictions sentencing offenders to 8, 6 and 4 years' imprisonment respectively. Mixed teams for early identification of victims were formed at local level. A public campaign was launched on the need to combat trafficking in human beings. A comprehensive, multi-disciplinary and victim-oriented approach to trafficking still needs to be developed and identification of victims needs to be improved. The country remains a source, destination and transit country for trafficking in human beings for sexual and labour exploitation. The national authorities in cooperation with civil society should ensure that victims have unhindered access to assistance, support and protection, including re-integration into society. Prevention efforts aimed at effectively curbing the demand for trafficking in human beings should also be stepped up.

As regards cybercrime, the Cybercrime Convention and its Additional Protocol were ratified in 2004 and 2005 respectively and the Criminal Code penalises among other things the misuse of personal data, online distribution of child pornography, online grooming, creation and distribution of computer viruses, cyber fraud and cyber forgery. Offences related to hacking, online scams, phishing, identity theft, distributed denial of service attacks and online child pornography have been prosecuted in the courts. There is a dedicated Cybercrime Unit since 2010, currently located within the Centre for Suppression of Organized and Serious Crime. The Forensic Department of the Ministry of Interior includes a lab for analysis of IT equipment. In 2012, the government adopted a decision to establish a national Computer Emergency Response Team (CERT) and in January 2013 a National Programme and Action Plan were adopted for the prevention and protection of children and young people from involvement in illegal internet activities and content.

The country is well advanced in the field of police cooperation and the fight against organised crime.

As concerns the **fight against terrorism**, the FIU submitted seven notifications of suspicious transactions regarding financing of terrorism to law enforcement agencies and the prosecution service in 2012. Preparations in this area are already well advanced.

In the field of **cooperation in the field of drugs**, good cooperation on common projects continued between the national focal point and the European Monitoring Centre for Drugs and Drug Addiction (EMCDDA). Experts from the country actively participated in the different training sessions organised by the EMCDDA. In 2012, the quantity of drugs seized on the country's territory increased slightly in relation to 2011. Cooperation between the police and customs administration on drugs seizures improved and several successful international police operations to cut drug trafficking channels took place. The country is on the main Balkans drug trafficking routes and continued and sustained efforts are needed from the Customs Administration to detect and seize narcotics at the borders. The human resources capacity of the Illicit Drugs Department in the Ministry of Interior also needs to be strengthened. A higher level of data exchange with partners including Europol would facilitate the fight against organised crime groups involved in drug trafficking in the region. The country broadly meets *acquis* requirements in this area.

Regarding **customs cooperation**, the customs administration took part in a number of international operations and projects to detect illicit trade in counterfeit goods, drugs,

explosives, high-risk chemicals and pharmaceuticals. Cooperation and exchange of intelligence with the customs authorities of neighbouring countries intensified, as did cooperation with the relevant UN agencies. Cooperation with the regional intelligence liaison offices of the World Customs Organisation continued. Preparations in this area are on track. (See also Chapter 29 — Customs union)

For measures against **counterfeiting of the euro**, see Chapter 32 — *Financial control*.

Conclusion

Progress has been made in the area of justice, freedom and security, notably on external borders, judicial cooperation in civil and criminal matters and cooperation in the field of drugs. Further efforts are needed to improve the efficiency of the asylum system, increase the proactive investigation and prosecution of money laundering and financial crime and prepare for the implementation of the new Law on Criminal Procedure, in particular through training of police and public prosecutors. Overall, preparations in this area are advanced.

4.25. Chapter 25: Science and research

As regards **research and innovation policy**, the Law on Innovation, the national strategy on innovation 2012-2020 and the national programme for scientific and research activities for 2013-2017 were all adopted. The level of investment in research stagnated at around 0.20% of GDP.

The level of participation in the **Seventh Framework Programme** (FP7) continued to increase. Efforts to link industry and academia resulted in an increase of SMEs in research projects. The administrative capacity in the Ministry of Education and Science was strengthened. A memorandum of understanding with the European Commission's Joint Research Centre (JRC) was signed, which will offer more cooperation with the JRC institutes. The country is successful under the COST and EUREKA programmes. Preparations to become associated to the EU's next research and innovation programme Horizon 2020 have started, but overall further efforts are needed to strengthen the administrative capacity and participate in research on societal challenges.

As regards the **European Research Area**, the adoption of the national programme for scientific and research activities 2013-2017 aims at further integrating into the European Research Area by identifying research priorities in line with EU priorities and strengthening cooperation between academy and industry. A target of 1.8% of GDP investment in research by 2020 has been set with 50% coming from the private sector. In 2013, the research budget increased slightly but for technological development the budget decreased. The innovation strategy adopted in October 2012 aims at stimulating competitiveness and economic development based on knowledge and innovation. Serious efforts are required to implement the strategy and reliable statistics to monitor progress. The adoption of the Law on Innovation and a newly set-up innovation and technological development fund are steps in the right direction.

Conclusion

Good progress was made in the area of science and research especially as regards legislative developments and strategic documents. Participation in FP7 continued to increase. Administrative capacity improved but efforts are still needed to strengthen the research

capacity and prepare for Horizon 2020. Overall preparation in the area of science and research are on track.

4.26. Chapter 26: Education and culture

As regards European standards on **education, training and youth**, laws on primary, secondary and higher education were amended. Strategies were developed to minimise the ‘brain drain’ of the highly educated and to reduce school violence. An action plan for introducing new kindergartens in rural areas was prepared, as access to pre-school education has remained limited to urban areas. A strategy for vocational education 2013-2020 was adopted. Adult education activities continued with new training programmes. A council for higher education reforms was created to ensure that the university curricula reflect the needs of the labour market. The national qualifications framework remains to be developed. A programme for the development of sports until 2017 was adopted.

The country continued to improve its performance in the areas where EU level benchmarks were set for 2020. In 2012, the country performed better than the EU average as regards early school leaving, and reduced the gap with the EU in other areas such as adult participation in lifelong learning and tertiary educational attainment. Enrolment rates and graduation from universities have increased. However, participation in pre-school education decreased since 2010, and performance in science tests is unsatisfactory. National targets have yet to address education and training priorities. Regional disparities in education infrastructure remain high. The administrative capacity of the Ministry of Education and Science remains insufficient. There is no transparent educational data collection method.

As regards access to the ‘Lifelong learning’ and ‘Youth in action’ programmes, the legal basis for the management of post-2013 programmes by the National Agency was adopted. In order for the country to participate fully in the future Erasmus+ programme, the Ministry of Education and Science is to submit to the Commission an ex-ante compliance assessment on the national agency for European educational programmes and mobility. In the area of **culture**, the country continued to participate in the ‘Culture’ and ‘Europe for citizens’ programmes. Amendments to the laws on culture and on cultural heritage allow public private partnerships. The network of bilateral cultural agreements was extended. Alignment in the area of culture is advanced.

Conclusion

Some progress was made in the areas of education, training, youth and culture. Improving the country’s performance in relation to the ‘Education and training 2020’ common benchmarks and preparing the compliance assessment for full participation in the future Erasmus+ programme remain a priority. Preparations in the areas of education and culture are moderately advanced.

4.27. Chapter 27: Environment and climate change

As regards the **environment**, in the area of *horizontal legislation* the national environmental strategy has not yet been adopted. Administrative capacity for implementing the Environmental Impact Assessment (EIA) and Strategic Environmental Assessment (SEA) Directives was improved, but remains insufficient, notably at local level. A coordination body has been set up for cooperation and dialogue with civil society. The access to information and public consultation need to be improved in connection with the implementation of the EIA and SEA directives.

In the area of *air quality* alignment with the *acquis* continued, with the adoption of implementing legislation. Most of the air quality monitoring system was made operational.

In the area of *waste management*, alignment with the *acquis* continued, with the adoption of implementing legislation. Steps were taken to set up an integrated regional waste management system. Investment in this area is far from sufficient and needs to be increased with a focus on waste separation and recycling.

In the area of *water quality*, the national water strategy was adopted, together with amendments to implementing legislation. Alignment with the *acquis* in this area is still lagging behind and administrative capacity remains insufficient at both central and local levels. Further steps were taken towards drafting river basin management plans, and the protection and restoration water resources. River basin management structures are not yet operational. The lack of coordination between the competent authorities in the water sector continues to hamper implementation of the legislation. There was no progress in addressing the gaps in the water monitoring system. The 2013 programme for water resources provides limited financial allocations for infrastructure investment. Preparation for infrastructure investment is lagging behind and funding is low compared with the needs of the sector. No progress was made in applying the 'polluter pays' principle or on establishing an appropriate water pricing system. This lack of progress continued to hamper the operation of water treatment facilities and put at risk investment in the sector.

In the area of *nature protection*, amendments to the implementing legislation led to limited increased alignment with the *acquis*. Management plans for protected areas were drafted. Requirements for public consultation with stakeholders are still not properly applied. Implementation of these plans is still inadequate due to the lack of sustainable financing and insufficient monitoring.

With regard to *industrial pollution control and risk management*, work on alignment with and implementation of Seveso II Directive is progressing, with amendments to the Environmental Law. The integrated pollution prevention and control permitting process is behind schedule. The requirements for public consultation with stakeholders are still not properly applied.

In the area of *chemicals*, some progress was made on the implementation of the Regulation on Registration, Evaluation, Authorisation and Restrictions of Chemicals (REACH) and on alignment with the Biocides Directive. In the area of *noise*, preparations remain at an early stage.

Good progress was made in the area of *civil protection* with participation in the IPA-funded civil protection cooperation project. The Directorate for Protection and Rescue participated in a number of regional meetings and training events in the framework of the Disaster Preparedness and Prevention Initiative for South-Eastern Europe.

Regarding **climate change**, the country does not yet have a comprehensive countrywide climate policy or strategy. Substantial efforts are required in order to integrate climate change into other sectoral policies and strategies. The country regularly associated itself with EU positions in the international context. It has also previously associated itself with the Copenhagen Accord, but has not yet put forward a mitigation commitment by 2020. The country should consider making mitigation commitments consistent with those of the EU and its Member States for the purpose of the post-2020 climate agreement to be reached by 2015. It is also invited to start reflecting on its climate and energy framework for 2030 in line with

the European Commission's Green Paper 'A 2030 framework for climate and energy policies'.

As regards alignment with the climate *acquis*, implementing legislation on consumer information on fuel consumption and CO2 emissions for new passenger cars was adopted. The country identified 40 installations for the purpose of future implementation of an emissions trading system. Significant efforts are required to strengthen the country's monitoring, reporting, and verification capacity. The country participated regularly in climate work under the Regional Environmental Network for Accession (RENA). Efforts to raise awareness and promote cooperation between stakeholders should be intensified.

There was little effort made to strengthen **administrative capacity** for implementing and enforcing environmental and climate change legislation. It remains largely insufficient, both at national and at local level. Coordination between administrative bodies is not yet effective. Stakeholders are insufficiently involved in the decision-making process. The environmental monitoring and information system needs further development. Investment in the sectors continues to be extremely low in relation to needs. Full utilisation of external funding requires strengthening of capacities and prioritisation of the sector. Environmental protection and climate change requirements are still not well integrated into policy making and policy implementation in other areas.

Conclusions

Limited progress was made in the fields of environment and climate change. Further progress was made in legislative alignment with the EU environment *acquis*, in particular on horizontal legislation, waste management and air quality. There was limited progress in alignment with the EU climate *acquis*. Significant efforts are needed to implement the legislation, especially in the areas of water management, industrial pollution control, nature protection and climate change. Significant strengthening of administrative capacity, both at central and local level, is of the utmost importance. Investment needs to be significantly increased, especially in the waste and water sectors. Overall, preparations in the field of the environment are moderately advanced while preparations in the field of climate change remain at an early stage.

4.28. Chapter 28: Consumer and health protection

In the field of **consumer protection**, as regards *horizontal aspects*, a new consumer protection programme 2013-14 was adopted. The regulatory framework and enforcement record have improved. The Organisation of Consumers (OC) continued to raise awareness, educate and provide advice to consumers, and to build the capacity of professionals in market inspectorates, consumer organisations and the relevant ministries. However, effective implementation of consumer protection policies was limited by the continued lack of administrative and financial resources.

As regards *product safety-related issues*, information campaigns were held and brochures distributed on toy, food and elevator safety. Consumer complaints can now be addressed not only to consumer organisations but also to market inspectorates, public bodies' dedicated offices and the Ombudsman. Amendments to the Law on Product Safety were drafted to improve alignment with the *acquis*.

As regards *non-safety-related issues*, following the entry into force of the Law on Consumer Protection governing agreements on consumer credit, relevant information campaigns were organised on that and on unfair commercial practices. Consumer complaints about public

utilities and telecommunications increased. Market inspectorates need further training in order to ensure effective consumer protection. Preparations in the area of consumer protection are advanced.

In the area of **public health**, regarding *horizontal aspects*, the Law on Healthcare was amended to secure funding for the public health programs from the excise duty on beer and alcohol. 17 public health programmes were adopted in accordance with the Law on Healthcare. The overall budget increased compared to 2012 and the purchase of medical equipment continued, as did preparations for the refurbishment of public health institutions. The use of e-health cards continued to expand. Efforts continued to develop human resources, including training programmes for health professionals. Proper and timely planning of human resources in community healthcare is a priority area for reform. However, capacity to plan and implement public health programmes at local and regional level remains weak and this limits effective decentralisation in the health sector. It also hampers equal access to healthcare and reduces mother and child health indicators.

In the area of *tobacco control*, enforcement of the Law on Protection against Smoking remains at satisfactory, especially in urban areas.

In the area of *communicable diseases*, activity under the national strategy for containment of antimicrobial resistance 2012-2016 continued. The national strategy on immunisation 2012-2020 was adopted. An action plan for implementation of the International Health Regulations was adopted. Action to prevent the spread of West Nile virus was successfully taken, including awareness-raising activities and disinfection. Several training courses were held for health professional dealing with communicable diseases. The annual programme on HIV/AIDS and the national strategy for fighting HIV/AIDS 2013-2017 were adopted. Preparations in this area are ongoing.

In the area of *blood*, technical assistance to the staff of blood centres aimed at full implementation of the *acquis*. In the area of *tissues, cells and organs*, the Law on Transplantation was amended to further align the regulatory framework with the *acquis*. Preparations for implementation of the *acquis* in this area are ongoing.

In the field of *mental health*, a working group for preparation of the new national strategy covering the period to 2020 was set up. The annual programme on healthcare for people with mental disabilities was adopted but funds remain insufficient. Mental health facilities remain understaffed and without adequate financial resources. No progress has been made towards the creation of community-based mental healthcare as an alternative to institutions. The sustainability of existing community mental health centres is a serious concern. Preparations in this area are at an early stage.

In the field of *drug abuse prevention*, an evaluation of the national strategy regarding illicit drugs until 2012 was completed to prepare ground for a new strategy covering 2014-2020.

As regards *health inequalities*, training on implementation of international conventions on the rights of people with disabilities was given through TAIEX for health professionals working in this area. Under the Decade of Roma Inclusion 2005-2015, Roma health mediators continued to provide health counselling to Roma people, which has so far resulted in about 1 200 Roma families being covered by essential health and social services. The yearly national programme for treatment of *rare diseases* has been adopted but the budget is still low.

As regards *cancer screening*, a new yearly programme for early detection of malignant diseases was adopted. Screening for early detection of breast, colorectal and cervical cancers was provided. The cancer registry is still only partly operational. Awareness-raising activities are regularly carried out but additional funding is needed. Preparations in these areas are ongoing.

Conclusion

There was some progress in the area of consumer and health protection. Further progress in this area is undermined by the limited financial resources available and weak operational structures, particularly in the field of consumer protection. The sustainability of the healthcare system, including financial resources, remains a challenge. Overall, preparations in this area are moderately advanced.

4.29. Chapter 29: Customs union

As regards **customs legislation**, the 2013 customs tariff was adopted in line with the latest changes in the EU Combined Nomenclature (October 2012). Customs duties on some 120 tariff lines were abolished or reduced as part of anti-crisis measures. Preparations in this area are advanced.

As regards **administrative and operational capacity**, the customs administration is developing a new customs declaration and processing system and integrated tariff environment system. A new transit application, compatible with the new computerised transit system (NCTS), is under development through an IPA-funded project. However, the project faces implementation difficulties, which might delay significantly the process of accession to the Convention on a common transit procedure. The national project plan for the NCTS has not been regularly updated. The single-window system for issuing authorisations was upgraded with additional functionalities and the number of economic operators using it has increased. The project management and quality assurance capacity needs to be strengthened in order to minimise the risks associated with parallel implementation of IT development projects and improve performance and sustainability.

Operational capacity for customs controls and combating cross-border crime were enhanced. The sector for control and investigations was restructured and strengthened. Professional and integrity standards and internal control measures were implemented systematically. The risk management system at border crossings was further developed and new applications for risk analysis were introduced. Several international channels for drug trafficking were interrupted and significant seizures of drugs and other illicitly trafficked goods were made. Sustainable financial resources for operation and maintenance of the customs control equipment have yet to be secured.

The customs administration took part in the work of the business advisory body as a forum for consulting chambers of commerce and economic operators. Cooperation with the customs administrations of the neighbouring countries and the wider region intensified, with a number of agreements signed and bilateral meetings held. Preparations in this area are advanced.

Conclusion

There was some progress in the area of customs union. The administrative capacity of the customs administration to implement legislation, inter-agency cooperation and capacity to tackle cross border crime continued to improve. Further strengthening of the institutional and

management structure is needed, including greater sustainability and continuity of financial and human resources. Preparations in this area are advanced.

4.30. Chapter 30: External relations

In the area of the **common commercial policy**, the country participated in the work of the Central European Free Trade Agreement (CEFTA) bodies and continued to closely coordinate and align itself with the policies and positions of the EU in the WTO.

There were no significant developments regarding *export credits*. A new list of *dual-use goods* and technologies is being implemented, replacing the 2011 list and aligning with the list of dual-use goods and technologies in Council Regulation (EC) 388/12.

Preparations in the area of the common commercial policy remain moderately advanced.

As regards **bilateral agreements with third countries**, the country ratified investment protection agreements with Kazakhstan. The number of ratified bilateral investment protection agreements rose to 38, of which 33 are in force and 17 are with EU Member States.

Preparations in the areas of **development policy** and **humanitarian aid** are at an early stage.

Conclusion

Limited progress was made in the area of external relations, notably as regards the common commercial policy. The country's institutional capacity is still not sufficient for full participation in the EU's commercial, development and humanitarian policies. Preparations in the area of external relations are moderately advanced.

4.31. Chapter 31: Foreign, security and defence policy

Foreign policy issues feature in the regular **political dialogue** between the EU and the former Yugoslav Republic of Macedonia. (*Concerning relations with other enlargement countries and Member States, see Political criteria, 2.3 — Regional issues and international obligations.*)

As regards the **common foreign and security policy (CFSP)**, the country aligned itself, when invited, with 33 out of 35 EU declarations and Council decisions (94% alignment). (*As regards the International Criminal Court, see Political criteria, 2.3 — Regional issues and international obligations.*)

The country also aligned itself with sanctions and *restrictive measures* introduced by Council decisions and continued to implement restrictive measures during the reporting period. There were regular meetings of the relevant coordination body.

There were no developments concerning *conflict prevention*.

With regard to *non-proliferation*, the National Coordination Body on prevention, risk reduction and protection against chemical, biological, radiological and nuclear weapons and materials met twice in the reporting period. The Ministry of the Interior organised campaigns on misuse of firearms and petards at public events. No campaigns were run to collect illegal weapons or destroy weapons.

The country continued to cooperate actively *with international organisations* (UN, OSCE, Council of Europe, etc.). It chaired the US-Adriatic Charter and the South-East European Cooperation Process for most of the reporting period.

With regard to *security measures* (classified information), the first round of negotiations with Spain took place on an Agreement on Exchange and Mutual Protection of Classified Information.

As regards the **common security and defence policy**, the country maintained its ongoing commitment to participate in EU civil and military crisis management operations. It signed and ratified the Agreement on establishing the framework for participation of the country in EU Crisis Management Operations. The country is currently participating in the ISAF mission in Afghanistan (156 personnel). Two members of the country's police force carried out training activities in the Military Police School in Afghanistan.

The former Yugoslav Republic of Macedonia also continued to participate in the EUFOR operation in Bosnia and Herzegovina — ALTHEA — (11 personnel). It also continued to participate in the UNIFIL operation in Lebanon (one staff officer).

Conclusion

The country has maintained its high level of alignment with EU declarations and Council decisions and has continued to participate in civil and military crisis management operations. Overall, preparations in the area of foreign, security and defence policy are well advanced.

4.32. Chapter 32: Financial control

In the area of **public internal financial control** (PIFC), the Treasury manual has been amended to strengthen commitment control by obliging budget users to record multi-annual commitments from 2014 onwards. Certification of internal auditors in the public sector has started. The Law on Financial Inspection in the public sector has been adopted. The government has adopted a revised action plan for the public administration reform strategy (2010-2015) at the end of 2012, including some actions relating to PIFC and inspection. The new PIFC Policy Paper remains to be adopted. There is still insufficient coordination and implementation of PAR and Internal Control reform plans. Overall, there is insufficient delegation of responsibilities, which hinders moves towards genuine managerial accountability.

In the area of **external audit**, the State Audit Office (SAO) completed 54 audits in 2012 compared to 77 audits in 2011. The SAO carries out all types of audits, and financial audits result in a professional audit opinion. Performance audit is being gradually developed. The SAO has increased cooperation with parliament by signing a memorandum for appropriate follow-up of the audit reports and by preparing a manual of procedures for parliament on reviews of reports. Currently, parliament systematically discusses and approves only the annual SAO report, but there is no formal review mechanism for individual audit reports. The SAO's independence still needs to be safeguarded constitutionally. The SAO's budgetary autonomy is not guaranteed in practice, and its operational budget for 2013 has been reduced by the Ministry of Finance.

As regards the **protection of the EU's financial interests**, the National Authorising Officer has submitted reports on 78 cases of irregularities, 17 of which have been sent to the public prosecutor. The Anti-Fraud Coordination Service has set up a working group for preparation

of a national strategy for prevention of fraud and protection of the EU's financial interests for the period 2013-15.

As regards **protection of the euro against counterfeiting**, the central office for preventing money counterfeiting cooperates and participates in joint activities with Europol. An electronic database on counterfeited money is in place, with access for the Ministry of the Interior, the financial police, the central bank and the customs administration. The first users from the Centre for Suppression of Organised Crime have completed training on use of the database.

Conclusion

There has been little progress in the area of financial control. The linkages between development of PIFC and wider public administration reform need to be further strengthened. Substantial efforts are also needed to safeguard the State Audit Office's independence in the Constitution and to ensure administrative capacity for the protection of the EU's financial interests. Overall, preparations in this area are at an early stage.

4.33. Chapter 33: Financial and budgetary provisions

There were no developments in the areas of **traditional own resources**, the **VAT resource** and the **GNI resource**. (*For progress in the underlying policy areas see Chapters: 16 — Taxation; 18 — Statistics; 29 — Customs union; and 32 — Financial control.*)

In the area of **administrative infrastructure**, the institutions for the underlying policy areas directly affecting the own resources system are largely in place. These institutions will need to be further strengthened to ensure correct calculation, collection, payment and monitoring of own resources and reporting to the EU on the implementation of the EU's own resources rules.

Appropriate coordination structures to steer and streamline own resources pre-accession preparations and to establish working procedures need to be set up. Effective tools to fight tax evasion and fraud and to reduce the size of the informal economy need to be further developed.

Conclusion

There has been no progress in the area of financial and budgetary provisions. The institutions and capacity needed to provide the administrative framework for correct calculation, forecasting, collection, payment, monitoring and reporting of own resources will need to be built in due course. Overall, preparations are at an early stage.

Statistical Annex

STATISTICAL DATA

The former Yugoslav Republic of Macedonia

Basic data		Note	2001	2008	2009	2010	2011	2012
Population (thousand)			2 031	2 045	2 049	2 053	2 057	2 060
Total area of the country (km ²)			25 713	25 713	25 713	25 713	25 713	25 713
National accounts			2001	2008	2009	2010	2011	2012
Gross domestic product (GDP) (million national currency)			233 840	411 728	410 734	434 112	459 789	460 587f
GDP (million euro)			3 839	6 720	6 703	7 057	7 473	7 490f
GDP (euro per capita)		1)	1 890	3 286	3 269	3 434	3 630	3 651fp
GDP (in Purchasing Power Standards (PPS) per capita)		1)	4 972	8 414	8 500	8 748	8 868p	9 057fp
GDP per capita in PPS (EU-27 = 100)			25	34	36	36	35	:
Real GDP growth rate (growth rate of GDP volume, national currency,% change on previous year)			-4.5	5.0	-0.9	2.9	2.8	-0.2e
Employment growth (national accounts,% change on previous year)			-1.7	6.2	2.5	1.5	3.1	0.5f
Labour productivity growth: GDP growth per person employed (% change on previous year)		2)	-2.9	-1.1	-3.4	1.4	-0.3	-0.4f
Real unit labour cost growth (national accounts,% change on previous year)			-0.8	-2.0	9.9	1.8	-6.5	-0.7f
Labour productivity per person employed (GDP in PPS per person employed, EU-27 = 100)			46.5	58.5	60.2	58.3	:	:
Gross value added by main sectors (%)								
Agriculture and fisheries		3)	11.8	11.6	11.1	11.5	10.9	:
Industry		3)	26.1	24.1	21.8	21.5	21.6	:
Construction		3)	6.0	5.7	6.0	6.3	7.4	:
Services		3)	56.1	58.7	61.1	60.8	60.0	:
Final consumption expenditure, as a share of GDP (%)			94.8	98.5	95.7	93.8	93.4	93.9f
Gross fixed capital formation, as a share of GDP (%)			14.8	21.0	19.9	19.1	20.6	:
Changes in inventories, as a share of GDP (%)			4.2	5.8	6.3	5.8	5.6	:
Exports of goods and services, relative to GDP (%)			42.7	50.9	39.2	46.6	54.9	53.4f
Imports of goods and services, relative to GDP (%)			56.6	76.2	61.0	65.3	74.5	75.9f
Industry		Note	2001	2008	2009	2010	2011	2012
Industrial production volume index (2010=100)		4)	95.9	115.1	105.1	100.0	106.9	104.0
Inflation rate		Note	2001	2008	2009	2010	2011	2012
Annual average inflation rate (CPI,% change on previous year)			5.5	8.3	-0.8	1.6	3.9	3.3
Balance of payments		Note	2001	2008	2009	2010	2011	2012
Balance of payments: current account total (million euro)			-263	-862	-457	-144	-224	-291
Balance of payments current account: trade balance (million euro)			-588	-1 763	-1 560	-1 448	-1 682	-1 784
Balance of payments current account: net services (million euro)			-21	9	16	37	98	23
Balance of payments current account: net income (million euro)			-30	-94	-47	-100	-121	-150
Balance of payments current account: net current transfers (million euro)			377	985	1 133	1 367	1 480	1 620
of which government transfers (million euro)			55	49	35	31	76	48
Net foreign direct investment (FDI) (million euro)			499	409	137	159	337	111
Foreign direct investment (FDI) abroad (million euro)			-1	9	-8	-1	0	6
of which FDI of the reporting economy in EU-27 countries (million euro)			:	:	:	:	:	:
Foreign direct investment (FDI) in the reporting economy (million euro)			500	400	145	160	337	105
of which FDI of EU-27 countries in the reporting economy (million euro)		5)	:	264	131	139	210	56
Public finance		Note	2001	2008	2009	2010	2011	2012
General government deficit/surplus, relative to GDP (%)			:	-0.9	-2.6	-2.4	-2.5	-3.8
General government debt relative to GDP (%)			48.8	20.6	23.8	24.2	28.0	34.1
Financial indicators		Note	2001	2008	2009	2010	2011	2012
Gross foreign debt of the whole economy, relative to GDP (%)		6)	44.2	49.2	56.4	58.2	64.9f	68.9
Gross foreign debt of the whole economy, relative to total exports (%)		6)	108.4	97.6	148.2	127.8	121.6	131.7
Money supply: M1 (banknotes, coins, overnight deposits, million euro)			415	881	854	933	997	1 072
Money supply: M2 (M1 plus deposits with maturity up to two years, million euro)			1 145	2 913	3 040	3 277	3 523	3 540
Money supply: M3 (M2 plus marketable instruments, million euro)			1 267	3 184	3 388	3 781	4 147	4 330
Total credit by monetary financial institutions to residents (consolidated) (million euro)			620	2 803	2 913	3 102	3 367	3 551
Interest rates: day-to-day money rate, per annum (%)		7)	11.7	4.1	6.0	3.8	2.2	2.1
Lending interest rate (one year), per annum (%)		8)	23.0	8.5	10.0	5.5	5.5	4.2

Deposit interest rate (one year), per annum (%)	9)	:	:	:	:	:	1.0
euro exchange rates: average of period - 1 euro = ... national currency		60.913	61.265	61.273	61.515	61.529	61.524
Effective exchange rate index (2005=100)	10)	88.6	100.8	106.8	106.3	107.2	108.5
Value of reserve assets (including gold) (million euro)	8)	844	1 495	1 598	1 715	2 069	2 193

External trade	Note	2001	2008	2009	2010	2011	2012
Value of imports: all goods, all partners (million euro)		1 893	4 664	3 637	4 137	5 053	5 062
Value of exports: all goods, all partners (million euro)		1 293	2 698	1 937	2 535	3 215	3 114
Trade balance: all goods, all partners (million euro)		-600	-1 966	-1 700	-1 602	-1 838	-1 948
Terms of trade (export price index / import price index)		97.1	93.1	98.3	101.5	92.7	:
Share of exports to EU-27 countries in value of total exports (%)		:	59.6	56.4	61.8	60.4	62.8
Share of imports from EU-27 countries in value of total imports (%)		:	48.2	52.3	53.2	54.4	58.4

Demography	Note	2001	2008	2009	2010	2011	2012
Natural growth rate: natural change (births minus deaths) (per 1000 inhabitants)		5.0	1.9	2.3	2.5	1.6	1.7
Infant mortality rate: deaths of children under one year of age per 1000 live births		11.9	9.7	11.7	7.6	7.6	9.8
Life expectancy at birth: male (years)		70.8	72.1	72.5	72.7	:	:
Life expectancy at birth: female (years)		75.6	76.3	76.7	77.0	:	:

Labour market	Note	2001	2008	2009	2010	2011	2012
Economic activity rate (20-64): share of population aged 20-64 that is economically active (%)		:	69.4	70.1	70.4	70.1	69.6
* Employment rate (20-64): share of population aged 20-64 in employment (%)		:	46.3	47.9	48.1	48.4	48.2
Employment rate male (20-64) (%)		:	56.2	58.4	58.4	57.8	57.5
Employment rate female (20-64) (%)		:	36.2	37.1	37.5	38.8	38.7
Employment rate of older workers (55-64): share of population aged 55-64 in employment (%)		27.7	31.7	34.6	34.2	35.4	35.4
Employment by main sectors (%)							
Agriculture	11)	25.0e	18.9u	18.5be	19.1e	18.1u	17.3
Industry	11)	29.3e	25.2u	23.3be	22.6e	24.1u	23.6
Construction	11)	6.0e	6.5u	6.5be	6.4e	6.2u	6.3
Services	11)	39.8e	49.5u	51.7be	51.9e	51.6u	52.7
Unemployment rate: share of labour force that is unemployed (%)		30.5	33.8	32.2	32.0	31.4	31.0
Share of male labour force that is unemployed (%)		29.5	33.5	31.8	31.9	31.8	31.5
Share of female labour force that is unemployed (%)		32.0	34.2	32.8	32.2	30.8	30.3
Unemployment rate of persons < 25 years: share of labour force aged <25 that is unemployed (%)		56.1	56.4	55.1	53.7	55.3	53.9
Long-term unemployment rate: share of labour force that is unemployed for 12 months and more (%)		26.5	28.7	26.3	26.7	25.9	25.5

Social cohesion	Note	2001	2008	2009	2010	2011	2012
Average nominal monthly wages and salaries (national currency)		10 552	16 096	19 957	20 553	20 847	20 902
Index of real wages and salaries (index of nominal wages and salaries divided by the CPI/HICP) (2000=100)	12)	98.1	126.9	158.7	160.8	157.0	152.3
* Early school leavers - Share of population aged 18-24 with at most lower secondary education and not in further education or training (%)		:	19.6	16.2	15.5	13.5	11.7

Standard of living	Note	2001	2008	2009	2010	2011	2012
Number of passenger cars per 1000 population		152.1	128.6	137.7	151.0	152.1	146.4
Number of subscriptions to cellular mobile telephone services per 1000 population		109.0	1 223.4	948.4	1 098.2	1 104.9e	:

Infrastructure	Note	2001	2008	2009	2010	2011	2012
Density of railway network (lines in operation, per 1000 km²)		36.0	36.0	36.0	36.0	36.0	36.0
Length of motorways (km)		145	237	251	251	259	259

Innovation and research	Note	2001	2008	2009	2010	2011	2012
Spending on human resources (public expenditure on education in% of GDP)		3.6	3.3	3.6	3.7	:	:
* Gross domestic expenditure on R&D in% of GDP		0.3	0.2	0.2	0.2	:	:
Percentage of households who have Internet access at home (%)		:	29.0e	42.0e	46.0	55.0	58.3

Environment	Note	2001	2008	2009	2010	2011	2012
* Greenhouse gas emissions, CO2 equivalent (tons, 1990=100)	13)	92.6	83.9	73.6	:	:	:
Energy intensity of the economy (kg of oil equivalent per 1000 euro GDP)		720.4	613.9	575.7	573.3p	607.1p	:
Electricity generated from renewable sources in% of gross electricity consumption		9.2	9.3	15.4	28.0	15.0p	:
Road share of inland freight transport (% of tonne-km)	14)	87.0b	84.3	89.0	89.0	91.8	93.2

Energy	Note	2001	2008	2009	2010	2011	2012
Primary production of all energy products (thousand TOE)		1 642	1 624	1 607	1 616	1 744p	:
Primary production of crude oil (thousand TOE)		0	0	0	0	0	:
Primary production of hard coal and lignite (thousand TOE)		1 419	1 378	1 293	1 194	1 418p	:
Primary production of natural gas (thousand TOE)		0	0	0	0	0	:
Net imports of all energy products (thousand TOE)		1 011	1 404	1 273	1 271	1 435p	:
Gross inland energy consumption (thousand TOE)	15)	2 677	3 023	2 810	2 879	3 133p	:
Electricity generation (thousand GWh)		6.4	6.3	6.8	7.3	6.9p	:

Agriculture	Note	2001	2008	2009	2010	2011	2012
Agricultural production volume index of goods and services (producer prices, previous year=100)		90.2	104.5	102.9	107.7	96.8	94.7
Total utilised agricultural area (thousand hectare)		1 244	1 064	1 014	1 121	1 120	1 267
Livestock: cattle (thousand heads, end of period)		265	254	253	260	265	251
Livestock: pigs (thousand heads, end of period)		189	247	194	191	197	177
Livestock: sheep and goats (thousand heads, end of period)		1 286	950	849	854	839	796
Production and utilisation of milk on the farm (total whole milk, thousand tonnes)		201	368	343	347	376	350
Crop production: cereals (including rice) (thousand tonnes, harvested production)		474	613	606	539	552	460
Crop production: sugar beet (thousand tonnes, harvested production)		38	0	0	0	0	0
Crop production: vegetables (thousand tonnes, harvested production)		667	728	804	887	845	702

: = not available
 b = break in series
 e = estimated value
 f = forecast
 p = provisional
 u = unreliable or uncertain data
 * = Europe 2020 indicator

The balance of payments sign conventions are used for FDI. For FDI abroad a minus sign means investment abroad by the reporting economy exceeded its disinvestment in the period, while an entry without sign means disinvestment exceeded investment. For FDI in the reporting economy an entry without sign means that investment into the reporting economy exceeded disinvestment, while a minus sign indicates that disinvestment exceeded investment.

Footnotes:

- 1) Mid-year population used in calculation.
- 2) GDP in constant prices of the previous year.
- 3) 2001 - 2008, data according to Nace Rev. 1.1.
- 4) Data are recalculated according to NACE Rev.2 for the period from 2008 to 2010.
- 5) 2012, data on FDI flows by countries are produced only for the categories Equity capital and the Loans component of Other capital. Data for reinvested earnings and the remaining components of FDI flows, based upon the Annual FDI Survey, are available within t+270 days.
- 6) 2001, external debt data are calculated on the old methodology, with partial data coverage.
- 7) Until 2001 data cover transactions with all maturities concluded on the Institutionalized Money Market. The interest rates are calculated as weighted average. From 2008, data cover bilateral transactions over night. The interest rates are calculated as weighted average.
- 8) End of year.
- 9) In 2012 NBRM introduced two deposit instruments for the banks, O/N deposit and 7 day deposit. The rate of O/N deposit was 1% and on 7 day deposits was 2% at the end of year.
- 10) NEER (nominal effective exchange rate).
- 11) 2001 - 2010, data are provided according to NACE Rev 1.1
- 12) In 2009 a new concept of the gross income was implemented.
- 13) 2001, the data are recalculated in the frame of the Third National Communication (UNFCCC); data for the period 2003 - 2009 are part of the greenhouse gas inventory prepared in the frame of the Third National Communication (UNFCCC). The Communication will be adopted by the Government of the Republic of Macedonia in November 2013.
- 14) Break in series: 2004-2008 revised data (included transport for own account); break in series: 2005-2010 revised data (included pipeline transport).
- 15) To compute gross inland energy consumption the primary production, net imports and stock change data were used.