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THE FORMER YUGOSLAV REPUBLIC OF MACEDONIA
2008 PROGRESS REPORT

accompanying the

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

Enlargement Strategy and Main Challenges 2008-2009

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COMMISSION STAFF WORKING DOCUMENT

The former Yugoslav Republic of Macedonia 2008 Progress Report

1. INTRODUCTION

1.1. Preface

Since March 2002, the Commission has reported regularly to the Council and the Parliament on progress made by the countries of the Western Balkans region.

This report on progress made by the former Yugoslav Republic of Macedonia in preparing for EU membership largely follows the same structure as in previous years.

The report:

- briefly describes the relations between the former Yugoslav Republic of Macedonia and the 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 assume the obligations of membership, that is, the *acquis* expressed in the Treaties, the secondary legislation, and the policies of the Union.

The period covered by this report is from 1 October 2007 to early October 2008. 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 permits an objective assessment.

The report is based on information gathered and analysed by the Commission. In addition, many sources have been used, including contributions from the government of the former Yugoslav Republic of Macedonia, the Member States, European Parliament reports¹ 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 enlargement², based on the technical analysis contained in this report.

¹ The rapporteur for the former Yugoslav Republic of Macedonia is Mr Meijer.

² Enlargement Strategy and Main Challenges 2008-2009

1.2. Context

The European Council of December 2005 granted the status of candidate country to the former Yugoslav Republic of Macedonia. The Stabilisation and Association Agreement (SAA) between the former Yugoslav Republic of Macedonia and the EU was signed in April 2001 and entered into force in April 2004. The Council adopted the Accession Partnership for the country, including key priorities for reform, in February 2008.

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 (SAP).

The former Yugoslav Republic of Macedonia has made progress in the implementation of the **Stabilisation and Association Agreement (SAA)** and has reached a high level of compliance. In particular, progress has been achieved in aligning with the SAA provisions in the field of electronic communications. The country fulfils all the commitments foreseen under the first stage of implementation of Title V (Movement of workers, establishment, supply of services, capital) of the SAA. A Protocol to the SAA to take account of the accession of Bulgaria and Romania to the EU entered into force on 1 November 2008.

Political and economic dialogue between the EU and the country has continued through the SAA structures. Due to early elections held in June, the SA Committee was postponed to September and the SA Council to December. As foreseen, seven sectoral sub-committees have been held since November 2007.

The EU provided guidance to the authorities on reform priorities through the **Accession Partnership** of February 2008. Progress on these reform priorities is encouraged and monitored through the bodies set up under the SAA. Based on the Accession Partnership, the 2007 Progress Report and comments made by the Commission, the former Yugoslav Republic of Macedonia adopted a revised national programme for the adoption of the acquis in April.

Following the entry into force of the EC/the former Yugoslav Republic of Macedonia **agreements on visa facilitation and readmission** in January 2008, the first meetings of the Joint Committees provided for in these two agreements were held in May 2008. The visa facilitation agreement simplifies procedures for the issuing of visas to certain categories of citizens of the former Yugoslav Republic of Macedonia, including students, scholars, businesspeople and journalists. Under the terms of this agreement citizens of the former Yugoslav Republic of Macedonia pay a reduced visa fee or receive visas free of charge. The agreement on readmission sets out clear obligations and procedures for the authorities of both the former Yugoslav Republic of Macedonia and EU Member States as to when and how to take back people who are illegally residing on their territories. Implementation of the readmission agreement is proceeding smoothly.

In January, the Council welcomed the Commission's intention to launch a visa dialogue based on detailed roadmaps with clear benchmarks in order to gradually advance towards visa liberalisation. The Commission officially launched the dialogue with the former Yugoslav Republic of Macedonia in February and presented the road map in May. The process will be closely monitored by the Commission which will assess the progress and follow the adoption and implementation of the necessary reforms towards the abolition of the visa requirement.

As regards **financial assistance**, the new Instrument for Pre-Accession Assistance (IPA) started on 1 January 2007. The 2008-2010 Multi-Annual Indicative Planning Document (MIPD) for the former Yugoslav Republic of Macedonia was adopted in September 2008. In 2008, the national programme amounted to €70 million. In addition the country continues to benefit from regional and horizontal programmes. Cross border cooperation is used to promote dialogue between local and regional authorities of neighbouring countries.

Transfer of responsibility for the implementation of CARDS assistance from the European Agency of reconstruction (EAR) to the Commission Delegation in Skopje was completed in September. The EU assistance portfolio managed by the EAR in the country amounts to €326 million. By July 2008, more than 97% of this total had been contracted and more than 93% disbursed. The national CARDS allocations to the former Yugoslav Republic of Macedonia since 2002 amount to €195.5 million. Assistance focused on support to the implementation of the Ohrid Framework Agreement, strengthening of administrative capacity with particular emphasis on the rule of law sector, economic development, social cohesion and support in the field of the environment.

IPA assistance is implemented by the Delegation in Skopje. The EU aims to transfer the management of IPA Funds to the national authorities under the Decentralised Implementation System (DIS) once the national authorities have developed the necessary capacity to assume this responsibility. Further attention is needed to developing accountable administrations and institutions with appropriate capacity.

As regards financial support to **civil society**, this has been extensively supported through the different CARDS programmes, including aid to establish the national civil society forum, capacity building to civil society organisations and the establishment of regional NGO support centres, co-financed by the EU with € 1.2 million. Presently still ongoing is the support - through the Centre for Democracy and Reconciliation in Southeast Europe - to translate history teaching material and develop a history teachers database to raise awareness and create a contact network, amounting to a total of € 159 000. Under the Cross Border Cooperation programmes with Bulgaria and Greece, several civil society organisations received support to stimulate economic development, preserve cultural heritage or implement projects with a social objective.

As regards **Community programmes**, the former Yugoslav Republic of Macedonia has signed memoranda of understanding for participation in the following Community Programmes: 'Entrepreneurship and Innovation specific Programme' (EIP) of the 'Competitiveness and Innovation Framework Programme', in October 2007; 'Progress', in October 2007; and 'Culture', in January 2008.

2. POLITICAL CRITERIA

This section examines 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 monitors regional cooperation, good neighbourly relations with enlargement countries and Member States, and respect for international obligations, such as cooperation with the UN International Criminal Tribunal for the former Yugoslavia (ICTY).

2.1. Democracy and the rule of law

Parliament

Early parliamentary elections were held on 1 June. The OSCE-ODIHR election observation mission reported that key international standards were not met in the conduct of the elections. The electoral campaign was marred by several incidents. In many instances attacks on campaign offices were not investigated by the authorities, which conveyed a sense of impunity to the perpetrators. Effective remedies were not taken against the alleged violations. Equal access to the media was not ensured and several government communication campaigns continued or were launched during the official election campaign.

On election day, organised violence, intimidation and stuffing of ballot boxes in predominantly ethnic Albanian areas prevented citizens from exercising their democratic rights. One person was killed and several others injured. The law was enforced selectively, and the authorities failed to prevent violence and intimidation. Senior ethnic Albanian police officers with affiliation to one of the political parties in government acted in a partial manner: policemen belonging to special police units participated in irregularities in favour of their political party. 15% of vote counts were assessed as bad or very bad by ODIHR.

The authorities have launched investigations against the perpetrators of the incidents and irregularities. To date, these have led to 34 court cases. The president of the Supreme Court has instructed the courts to give priority to these cases. Verdicts have been reached on a number of cases leading to prison sentences for 15 persons. The remaining cases concerning 143 perpetrators are ongoing. Concurrently, 28 police officers have been suspended and against eleven of them criminal charges have been initiated. It is essential that the investigations and prosecutions are completed in a thorough and timely fashion in order to provide an effective deterrent effect.

The irregularities in the parliamentary elections of July 2006 have not been effectively addressed. No sentences have been delivered following the procedures initiated against the 20 perpetrators of election irregularities.

Nonetheless, the administrative aspects of the elections were managed relatively well. The State Electoral Commission (SEC) operated in a transparent and efficient manner. It reacted promptly to misleading campaign posters displayed on the eve of the election. New members of electoral boards were selected randomly from among civil servants and public service employees and were trained, which made the election administration more professional. The large number of international and domestic observers contributed to the transparency of the election.

The SEC reacted firmly and in a transparent manner to the irregularities. It annulled the results in 197 polling stations, accounting for 10% of the registered voters, and dismissed six chairpersons of municipal electoral boards. The Supreme Court confirmed most of the SEC's decisions. The re-runs were organised on 15 June in 187 polling stations. There was a remarkable improvement in security due to extensive policing and calls from all political leaders; nonetheless, some further irregularities took place and further re-runs had to be held on 29 June in 15 polling stations.

The voter turnout increased slightly compared to 2006, reaching 57.5%. Gender balance in candidate lists further improved and surpassed the requirement in the Election Code as

women counted for 35%. Several parties representing smaller ethnic communities participated, as part of larger coalitions.

The coalition led by the *Internal Macedonian Revolutionary Organisation-Democratic Party for Macedonian National Unity* (VMRO-DPMNE) won 63 of the 120 seats, against 27 for the coalition led by the Social Democratic Union (SDSM). The Democratic Union for Integration (DUI) won 18 seats, the Democratic Party of Albanians (DPA), 11, and the Party of European Future (PEI), 1. Several smaller parties secured one or more seats as part of the coalitions led by VMRO-DPMNE or SDSM.

ODIHR made 28 recommendations for future action, including reform of the electoral code, making campaign financing more transparent, strengthening the capacity of the State Electoral Commission (SEC) and ensuring equal access to the media. Following the publication of the ODIHR report, the Government adopted an Action Plan which addresses most of the OSCE/ODIHR recommendations, although it does not provide deadlines, a methodology or a budget. In October, the Electoral Code was amended, broadly in line with OSCE/ODIHR recommendations, in particular as regards the maintenance of the voters' list, strengthening rules on financing of electoral campaigns and clarifying procedures for addressing election irregularities.

In December the Parliament adopted some significant reforms, on the basis of a renewed consensus between the government coalition and the opposition. Laws were adopted on the public prosecutor's office, the council of public prosecutors and the committee on inter-ethnic relations. The remaining appointment to the Judicial Council was made at the end of December. Political parties also agreed on the replacement of a Deputy Speaker and on a new member of the Committee on inter-ethnic relations.

A National Council for EU Integration (NCEI) was established, chaired by the leader of the opposition and comprising representatives from the main political parties in Parliament and all sectors of society. The NCEI has so far been able to make a valuable contribution to building consensus in favour of the EU. The Committee on EU Affairs remained among the most active committees.

In July the new Parliament adopted rules of procedure which had been the subject of controversy for several years. It also quickly re-established most parliamentary committees, including the EU affairs committee and the EU – former Yugoslav Republic of Macedonia Joint Parliamentary Committee. The Chair of the National Council for EU Integration was again appointed from the main opposition party, in an effort to promote consensus, and all the members of the NCEI were appointed. Also, a Deputy Speaker was nominated from the main opposition party. The new law on languages allows for the use of Albanian by the chairs of committees. Furthermore the Speaker of the new Parliament introduced a number of constructive measures in September such as the holding of regular meetings between party coordinators, with the participation of the Deputy Prime Minister responsible for European affairs when EU related matters are on the agenda.

However, the work of the Parliament until its early dissolution had been hampered by insufficient dialogue between the parties. Parliament also failed to nominate members of certain bodies. Insufficient efforts were made to adopt the action plan for the functioning of Parliament, although a budgetary council was established. A new administrative organisation of the Parliament's services was approved, but a budget and staff were not provided.

The SDSM and its coalition partners boycotted the new Parliament from 17 July to 4 August in protest at the arrest and detention of their vice-president and the use of emergency procedure to enact laws. DPA boycotted the new Parliament from its opening until October. Three of its MPs left to create a new party called New Democracy and returned to Parliament on 16 September.

The new Parliament addressed the legislative backlog by enacting 172 laws by 4 August, all by emergency procedure, and mainly in the complete absence of opposition MPs. The emergency procedure is intended to be used to prevent or eliminate major disturbances in the economy, in the interests of the security and defence of the country, or in case of major natural disasters, epidemics or other extraordinary and urgent needs. Application of the emergency procedure was in a number of cases detrimental to the quality of the laws and the absence of the opposition undermined the democratic process.

As regards political dialogue, which is a key priority of the Accession Partnership, there has been sporadic progress. Parliament had adopted some important reforms in December and established the National Council on EU Integration. However, political tension remained high and dialogue with the opposition was limited. The new Parliament was subsequently boycotted by the opposition. Meanwhile, the new Parliament made systematic use of urgent procedure in order to adopt over 170 laws, mostly in the absence of the opposition, thus avoiding the normal democratic debate. In response the president initially refused to promulgate several laws. Parliament did not adopt the conclusions of the enquiry into the clashes that occurred between MPs in September 2007. These developments raise serious concerns about the effective functioning of political institutions. As regards political dialogue significant further efforts are required.

Government

Prior to the early elections in June, the relations within the government coalition of VMRO-DPMNE and DPA were frequently strained. In March, DPA withdrew from the Government for ten days, during which there was a minority Government. DPA returned after receiving assurances from the prime minister on their demands. Three ministers resigned between December and March and their posts were not filled until the formation of the new government in July.

In the reporting period up to mid-April the government focused mainly on the process of NATO accession. Nonetheless, in March the government adopted a well prepared action plan for the fulfilment of the key priorities of the Accession Partnership as well as a revised National plan for the adoption of the *acquis*.

The working relations between the government and the president, in the context of cohabitation, have been mixed. They met regularly and maintained a joint stance on foreign policy. However, there has been disagreement about how to reach an agreement in the UN talks on the name issue. Furthermore, the president pleaded against the dissolution of Parliament, which the government strongly favoured.

The new coalition government, composed of VMRO-DPMNE, DUI, PEI and several parties representing smaller ethnic minorities, was established in July. One of the deputy prime ministers is ethnic Albanian and one minister, for the first time, is from the Roma community. The government programme includes accession to the European Union amongst its strategic priorities.

Decentralisation, which is a basic principle of the Ohrid Framework Agreement, has continued. The law on regional development entered into force on 1 January 2008. In accordance with the law on regional development specific administrative structures for the implementation of the regional development law began to be created, with clear distribution of responsibilities. Regional development councils were set up for all eight regions and chairpersons were elected from among the mayors. The National Regional Development Council and one regional centre, as an administrative structure to support one of the regional development councils, were established. The other seven regional centres have yet to be established. Coordination capacity between different structures is not yet sufficiently strengthened.

Another 15 of the 85 municipalities entered the second phase of the fiscal decentralisation process, bringing the total to 57 as of June 2008. The debts of the municipalities were further reduced. Municipal tax collection increased sizeably although revenue remained insufficient in the light of the new competencies. Internal audit units were established in eight more municipalities, reaching a total of 28. The Association of Municipalities (ZELS) continued to contribute effectively to cooperation between the central authorities and municipalities though SDSM mayors temporarily withdrew during the SDSM boycott of Parliament.

However, no progress was made in the direct funding of the tasks decentralised to the municipalities. Among those municipalities that were not allowed to enter the second phase, some still have sizeable debts and have had their accounts blocked by legal proceedings. No steps have been taken to organise and develop the capacity of the municipalities to manage state-owned property. The administrative capacities of some municipalities are very low and the transparency and accountability of the local administration remains insufficient, in particular the system of financial control. The Ministry of Local Self-Government was obliged to function without political guidance because the minister resigned and his position remained vacant for the remaining seven months of the government's term. The decentralised system for financing of education needs to be consolidated and clarified.

Public administration

Some progress has been made in further implementing the law on civil servants, which is a key priority of the Accession Partnership. The Civil Servants Agency (CSA) continued to play an active role in disciplinary proceedings, which have continued to increase: 142 in 2007 compared to 44 in 2006. CSA guidelines on the internal structuring of state administrative bodies (SABs) were issued. The CSA also improved the procedures for the first stage of recruitment (pre-selection) of candidates into public administration.

Within the framework of the code of ethics obligation for civil servants to report illegal acts, three cases were reported leading to one prosecution. Some progress has been made in implementing the law on freedom of information. Additional training on free access to information was delivered to holders of information and to the public. The citizens' charter project was extended to cover an additional nine SABs. Its effectiveness is being analysed regularly. The resources provided to the Ombudsman were slightly increased. Cooperation of public bodies with the Ombudsman has further improved: state bodies carried out the instructions of the Ombudsman in 87.8% of cases in 2007 compared with 75% in 2006.

A consolidated rulebook of the procedures of the government was adopted, which included provisions introducing, from 2009, mechanisms to enhance the preparatory phase, including stakeholder consultation, of legislation. Ministries will be required to submit a Regulatory

Impact Assessment (RIA) with proposed laws. The government adopted a methodology on RIAs in March 2008. Amendments to the organic budget law introduced a new method of financing, intended to link strategic planning more closely with its financial implications. Several moves were made to establish within ministries sectoral units for strategic planning, policy development, and management of human resources. Some attention was given to enhancing the capacity for and process of strategic planning.

The Secretariat-General of the Government carried out training on policy development and strategic planning. An increased number of SABs submitted training records to the CSA, and there were some indications that the importance of training was better appreciated. The national system for coordination of training was revised and a three year training strategy for civil servants at local and central levels was adopted in September.

Staff numbers in EU sectors in some line ministries, including the units dealing with IPA funding, were increased. The process of restructuring the Secretariat for European Affairs, which had begun in April 2007, was eventually completed in March 2008. The new structure entailed a doubling of staff numbers. In some ministries, capacity has been strengthened in priority policy areas.

Salaries of civil servants were increased by 10% in October 2007 and by another 10% in September 2008. Additional "career supplements" were introduced in August 2008, in recognition of sustained and effective service, as provided for by the law on the civil service.

The law on police, which is a key priority of the Accession Partnership, entered into force in November 2007. On this basis, progress was made in implementing the outstanding elements of the police reform. In particular, good progress was made on decentralisation of the police, with the appointment of eight regional commanders, and the selection, in consultation with municipal councils, of all 38 local police station commanders. The new rule book, which is a key piece of implementing legislation, was adopted and the relevant training was delivered country-wide. Initial steps were taken to improve management of available resources, training and budgetary planning. A human resources strategy has been adopted. Budgetary planning improved, and has become more efficient in the areas of procurement of equipment and maintenance of facilities. Efforts were made to tackle corruption in the police. (*See also Chapter 24 – Justice, Freedom and Security.*)

Efforts were made towards ensuring greater accountability of the intelligence services to Parliament. However, further efforts are required, in particular to strengthen judicial oversight of interception of communications. (*See also Chapter 24 – Justice, Freedom and Security.*)

However, there was limited progress in strengthening the role of the CSA, in particular in overseeing the overall recruitment process, in assessing the performance of civil servants and in disciplinary procedures. Full implementation of the provisions regarding performance related supplements has not yet been achieved.

Objective and merit-based criteria are not consistently used in recruitment and promotion. There is a lack of transparency and accountability in recruitment decisions by individual administrative bodies and the CSA lacks mechanisms for assuring the legality and regularity of those decisions. Senior management positions are often filled externally without sufficient regard to professional qualifications and experience, in contravention with the law on the civil service. An important weakness of the current framework is that it does not allow for internal promotion based on merit: this has a de-motivating effect and favours bad practices. Too little

attention has been given to the need to ensure continuity and retain relevant expertise. The number of illegal promotions and demotions increased to 500 in 2007 and then decreased to 57 in 2008 up to August. The CSA is often not informed when staff are reassigned. Understanding of the performance assessment process is still poor, and the capacity in ministries to implement it low. A number of assessment reports were not submitted to the CSA on time.

There are inadequate structures and insufficient administrative capacity for human resources management, policy development, strategic planning, and internal coordination and planning. In particular, there is still no fully functional network of human resource management units in line ministries. While some units exist, they deal exclusively with personnel issues and are under-equipped to handle training/performance appraisal issues. A framework needs to be established for an effective social dialogue between the government and the organisations representing civil servants.

The capacity to prepare legislation is variable, which is reflected in its quality. The preparatory phase for legislation needs to be improved.

The law on access to information remains to be fully implemented, as many public bodies that hold information of public interest still either are not fully able or are unwilling to facilitate access. The administrative capacity of the commission for protecting access to public information remains weak. The amendment to the code of ethics for civil servants which introduced an obligation to report all illegal acts by other civil servants has so far proved ineffective.

Adequate human and financial resources to implement the *acquis* (NPAA) are still lacking. In particular, a number of key positions in the Secretariat for European Affairs, the Ministry of Justice and the Ministry of Local Self-Government remain vacant. The co-ordination of the NPAA with the strategic plans of ministries and the work programme of the government needs to be strengthened. In some cases, administrative restructuring continues to be used as a means of accommodating staff changes rather than fully responding to the policy responsibilities of the SABs. There is insufficient administrative capacity in many municipalities to implement those parts of the *acquis* that are assigned to local level or to manage EU funds.

Comprehensive training for civil servants is not yet in place. Not all annual training programmes were submitted to the CSA on time and funding still depends largely on donor contributions. Partly because of the unsystematic approach, training is sometimes of poor quality or limited relevance.

As regards the police service, implementation of the recently adopted human resources strategy remains a considerable challenge. A career development and appraisal system has yet to be established. The police failed to prevent and responded inadequately to serious incidents in predominantly ethnic Albanian areas during the election campaign and on election day. Certain units were actively involved in irregularities whilst others were negligent. This was due to the politicisation of senior police officers in these areas, as noted by the OSCE/ODIHR observation mission. In this respect the law on police was disregarded.

Overall, some progress has been made in reforming public administration, which is a key priority of the Accession Partnership. However, greater priority needs to be given to establishing a public administration which is transparent, professional and free of political

interference. In this area the country is at an early stage. Progress was made in implementing the law on police, which is a key priority of the Accession Partnership. Nonetheless, the politicisation of senior police officers is a serious concern. In this area the country partially meets its priorities.

Judicial system (See also chapter 23 - Judiciary & fundamental rights)

Good progress continued in implementing the strategy on judicial reform, a key priority of the Accession Partnership. The independence and efficiency of the judiciary are gradually being strengthened.

Reforms have been adopted to strengthen the independence and efficiency of the prosecution service through the Law on the Council of Public Prosecutors and the law on the public prosecutors' office, adopted end 2007 after a long delay. Thereby, a new Council of Public Prosecutors was established in December 2007 with powers to nominate public prosecutors directly and on an independent basis. The council has 11 members selected for four years (renewable once). Six members are elected by the prosecutors themselves and three are selected by the Parliament. The State Public Prosecutor and the Minister of Justice are ex officio members with a right to vote. The members in turn elect a president for two years (not renewable).

The State Public Prosecutor himself continues to be appointed by the Parliament upon a proposal of the Government (six year term renewable once). However, the individual public prosecutors, whose mandate is indefinite, will now be selected by the Council of Public Prosecutors.

The appointments to the Council of Public Prosecutors were delayed but completed by Parliament in July. The Council is now operational.

The new Administrative Court and the new Court of Appeal in Gostivar were set up and started processing cases.

The 2006 law on courts was amended to provide for only one (instead of five) specialised court department to deal with cases of organised crime and corruption. Consequently, Basic Court Skopje 1 has been attributed these cases. The Academy for training of judges and prosecutors is fully functional. The implementation of the laws on litigation procedure and on enforcement of civil judgements is gradually improving the efficiency of the judiciary.

The Judicial Council operated with its full composition, after Parliament finally appointed the remaining member. The Judicial Council adopted the manual for the appraisal of judges, which was compiled on the basis of a wide consultation with the profession and which introduces both quantitative and qualitative criteria for the appraisal of the judges' performance. Nonetheless, it was enacted only after the bulk of promotions had been completed. The Council maintained its efforts to combat corruption in the judiciary.

However, a significant number of vacancies remain open in the public prosecution service, and the higher prosecutor's office in Gostivar has yet to begin work. The laws on the public prosecutor's office and the Council of Public Prosecutors are not yet being implemented because of pending amendments to the law on criminal procedure and of certain practical issues with the law enforcement agencies.

From January the Constitutional Court functioned with 6 members instead of 9. In November, the president of the Court and another member, both from the ethnic Albanian community, resigned because they disagreed with the Court's decision on the law on use of flags of the communities. Then in January, another judge left in order to join the European Court of Human Rights. Parliament appointed a judge to one of the vacant posts in July and in October made the remaining two appointments, on the basis of a proposal of the President of the Republic.

The Minister of Justice has made a number of public statements concerning the decisions on appointment of judges which could be perceived as an attempt to unduly influence the Judicial Council.

The budget of the courts was too low to cover their running costs and their debts to utility companies. This recurrent weakness was remedied again by providing a supplementary budget in the course of the year but nonetheless it continues to jeopardize the efficiency of the judicial system.

Overall, good progress has been made in implementing the strategy on judicial reform, a key priority of the Accession Partnership. The judicial council functions smoothly and the new Council of Public Prosecutors has started to meet. The new Administrative Court and the new Court of Appeal in Gostivar were set up. However further strengthening of the judiciary is required as regards its independence, efficiency, human resources and budgetary framework. A track record of implementation of the new legislative framework has still to be established. In the area of the judiciary the country is moderately advanced.

Anti-corruption policy (See also chapter 23 - Judiciary & fundamental rights)

Some progress has been made in implementing anti-corruption policy, which is a key priority of the Accession Partnership. The law on prevention of corruption was strengthened, in particular to allow the State Anti-Corruption Commission (SACC) to publish the asset declarations without prior approval. The Group of States Against Corruption (GRECO) recommendations are being followed up.

The SACC started to implement the new state programme for prevention and suppression of corruption. A new programme and action plan on conflict of interest were also adopted. Since the law on conflict of interest entered into force, 41 cases have been initiated. A number of misdemeanour procedures were brought against officials who failed to submit asset declarations. In 2008 the budget of the SACC was increased by 11%, five additional staff were allocated and new premises were opened.

The Code of criminal procedure and the law on monitoring of communications were amended to allow use of special investigative measures for cases where corruption is suspected.

Law enforcement agencies, in particular the Ministry of Interior and the public prosecution services, and also the customs administration, demonstrated a steady determination to cooperate and coordinate. There were convictions in some high-profile cases, including the former governor of the National Bank and the former director of the Public Revenue Office. Transparency International has reported some improvement in the perception about the extent of corruption.

However, the fragmented legal system that has resulted from the large number of legislative acts continues to make implementation and monitoring difficult. Shortcomings in the legal framework governing financing of political parties and election campaigns were addressed after the election and a track record of implementation needs to be established. There are gaps in the conflict of interest law, notably as regards civil servants.

Also, reports from the State Audit Office and recommendations from the SACC are too rarely followed up. Checking of asset declarations is sporadic. The SACC needs to be more fully engaged and fulfil its leadership role as regards awareness-raising and engagement with the public. Some shortcomings in the legal framework hampered the fight against corruption, in particular as regards the use of special investigative measures and the delivery and enforcement of court decisions. A centralised mutually accessible intelligence system, which would strengthen operational coordination among law enforcement agencies and watchdog bodies, remains to be established.

There is concern about the politicisation of some corruption cases and the way they are handled.

Overall, some further progress has been made in implementing anti-corruption policy, which is a key priority of the Accession Partnership. The legal and institutional framework has been strengthened and some further results have been achieved in implementation. However, corruption remains a particularly serious problem. Further steps are necessary, in particular as regards implementing provisions on financing of political parties and election campaigns. The country partially meets its priorities in this area.

2.2. Human rights and the protection of minorities

Observance of international human rights law

As regards **ratification of human rights instruments**, the inter-ministerial committee set up in 2006 to monitor the obligations stemming from the ratification of Protocol 1 to the European Social Charter has continued its work. Ratification of the revised Protocol No 2 from 2005, reforming the control mechanism, is still pending.

The European Charter for Regional or Minority Languages and the Council of Europe's Convention on Action against Trafficking in Human Beings have still not been ratified.

In 2007 the **European Court of Human Rights** (ECtHR) delivered 16 judgements finding that the former Yugoslav Republic of Macedonia had violated the European Convention on Human Rights (ECHR).

Between 1 January and 31 December 2007 454 new applications relating to the country were made to the ECtHR. The number of pending cases before the Court regarding the former Yugoslav Republic of Macedonia is 980.

Little progress can be reported as regards **promotion and enforcement of human rights**. The inter-ministerial body for protection of human rights met four times and adopted its rules of procedure. However, it is not yet effective in coordinating the action of ministries and bodies concerned. It needs to provide stronger leadership to raise the levels of respect for fundamental rights throughout the country. In particular, training of public servants in all relevant areas needs to be intensified.

Civil and Political Rights

With regard to the **prevention of torture and ill-treatment and fight against impunity**, the Ministry of the Interior has dealt with 52 cases of ill-treatment and no cases of illegal arrest. This was a decrease in the number of cases compared with previous years. Criminal charges were brought against 27 police officers involved. The prosecutor's office conducted 22 investigations against police misconduct.

The Ministry of the Interior made further progress in implementing the code of police ethics by carrying out a programme of training. Cooperation between the Ombudsman and the Sector for Internal Control and Professional Standards was satisfactory and led to 38 recommendations by the Ombudsman in this area being followed up.

The keeping of records of informative talks by the police has improved, thus helping to improve the transparency of implementation of detention procedures.

However, the Ombudsman regretted the lack of effective control over special police units, notably the Alpha units, which are widely alleged to have used excessive and unjustified force, inter alia against Roma. The prosecutor's office should make further significant efforts to promptly and in an independent manner investigate and prosecute allegations of ill-treatment. The decisions of the ECtHR in this respect need to be fully implemented. The Ministry of Interior needs to conduct its investigations in accordance with internal procedures, national law and international standards. There are increasing calls for an independent, external mechanism for monitoring of police misconduct to be established.

Access to justice is still limited in the case of appeals against acts and decisions by civil servants affecting individual citizens' rights and obligations. As in previous years, the second instance Government commissions which decide on complaints about decisions of administrative bodies were the least responsive to the Ombudsman's recommendations. There was a slight decrease in the duration of court procedures.

As regards the **prison system**, the Government started implementing a programme to improve conditions in prisons. The Prilep prison was refurbished, Stip and Idrizovo prisons are being reconstructed and a new prison is being built in Kumanovo. The prison staff received some training on fundamental rights and on European best practice on prison rules.

However, the Council of Europe's Committee for the Prevention of Torture continues to be deeply concerned about the state of the prison system. It notes that there is a lack of professional management as senior officials are political appointees who are frequently changed. Rapid action is needed to eliminate inhuman and degrading conditions of detention, particularly in Idrizovo prison, and to address inadequate health care provisions. There is also a lack of clear procedures for dealing with widespread allegations of ill-treatment of prisoners. Vulnerable prisoners, such as juveniles, are particularly at risk. During 2007 there were eight deaths and two suicides in prisons, compared with six and three respectively in 2006. The conditions of detention cells in most police stations remain sub-standard. Significant additional efforts need to be made to address the recommendations of the CPT.

No steps were taken to respond to the European Parliament's recommendation to follow up the Khaled El-Masri case.

The legal framework for **freedom of expression**, including the media, meets most international standards. However, in practice the Broadcasting Council and the public broadcaster lack sufficient resources and financial independence because of the failure of the fee collection system. Moreover, an amendment to the broadcasting law adopted in July establishes the possibility to declare bankruptcy or liquidation of the Public Service Broadcaster at any moment. The broadcast media continue to be dominated by private television stations, most of which have strong links to political parties. Ownership of the print media remains highly concentrated. The media continue to be subject to significant political interference. During the elections, the Broadcasting Council could not effectively address issues of equal access to the media because Parliament had not adopted the necessary guidelines. The media generally enabled voters to make an informed choice, although they did not treat all political parties equally. The public television broadcaster showed bias in its news programmes during the election period, giving undue coverage to government parties. (*See also Chapter 10 – Information society and media.*)

With regard to **freedom of assembly and association**, the legal framework meets most international standards. There were no particular developments.

Implementation of the Government's strategy and action plan for cooperation with **civil society organisations** is progressing. The transparency of the criteria for allocating grants from the state budget to NGOs has improved through the public announcement of the call for proposals, the selection criteria and the results. An important step forward in opening new potential sources of financing for NGOs was taken: the adoption of the implementing legislation for the law on sponsorship and donations now allows companies and physical persons to donate part of their income tax. The implementation of the law is slowly progressing, despite the complex administrative requirements.

However, involvement of civil society in the policy development process and in legislative drafting is minimal. Civil society organisations remain heavily dependent on foreign funding. The lack of sufficient financial resources is a serious constraint on their ability to deliver more professional and service-oriented activities. Government initiatives to support civil society development, such as tax relief, have not been forthcoming.

In the area of **freedom of religion**, the law on the legal status of churches, religious communities and religious groups entered into force in May 2008 and implementation has begun. Procedures for registration of the religious communities and groups which were not registered before 1998 were set up in June.

In April, the law on primary education was amended to enable religious education to be introduced in primary schools as of September 2008. The constitutional court undertook a review of the amendments but could not reach a conclusion due to a split vote and could therefore not block the implementation of the law. Thus mandatory religious education has been introduced for school children starting from 12 years old, with the option to choose between two subjects: religious instruction dispensed by priests or history of religion taught by specialised teachers.

Overall, some more steps have been taken to strengthen civil and political rights. However, further vigorous efforts are needed, in particular as regards prevention and prosecution of torture and ill-treatment and as regards the prison system. Overall the country is moderately advanced in this area.

Economic and Social Rights

As regards **women's rights**, equal opportunity committees have been established in 79 municipalities out of 85. Implementation of the 2007 national action plan for gender equality is progressing. The sector for equal opportunities within the Ministry of Labour and Social Policy assumed the role of the gender equality body. It is responsible for coordinating gender equality issues on the national and local levels. In the Parliament a record 38 out of 120 members are women. A national strategy against domestic violence was adopted in April 2008. Amendments to the law on the family provided clearer definition of family violence. The definition of rape in criminal law was widened thus affording more protection to women. A public campaign has been organised for raising awareness especially among young people on prevention of and protection from trafficking in human beings. Police carried out activities to break up criminal groups involved in illegal migration, including human trafficking. Some progress has been made in preventing trafficking of women.

However, the sector for equal opportunities lacks adequate capacity and a clearly defined mandate. Limited efforts were made to promote women's rights in rural areas and to increase female participation in the labour market. Domestic violence remains a cause for concern. Measures against sexual harassment remain weak. The practice of family voting instructions in the ethnic Albanian community continued to undermine the right of women to vote freely. Roma women and girls continue to suffer from double racial and gender discrimination.

As regards **children's rights**, compulsory education was extended by law from 8 to 9 years. A health programme to target the poorest communities is ongoing and childcare services are improving.

The amendments to the Criminal Code adopted in January 2008 strengthened provisions to protect children from crimes such as child pornography, sexual abuse and trafficking of juveniles.

However, further significant efforts are needed to adopt reforms in line with international instruments such as the UN Convention on Rights of the Child. Implementation of the 2006 action plan for the protection of children's rights has been slow. 17% of children are not covered by the public health insurance, scheme, 90% of children do not attend pre-school and 37% do not attend secondary school; the figures for Roma, ethnic Albanian and/or children from deprived backgrounds are particularly high. The number of families living below the poverty line has not declined and a strategy to reduce poverty is missing. Juvenile delinquency is very high whilst the law on juvenile justice has not yet entered into force.

As regards **socially vulnerable people and people with disabilities**, important reforms are under way in the area of mental health. The decentralisation of care is ongoing under the National Action Plan on Mental Health initiated in 2007, through the de-institutionalisation of psychiatric patients and efforts to support psychiatric care in the community. However, the staffing and facilities for treatment of patients in community health centres remained insufficient. The de-institutionalisation process needs to be strengthened and adequate financial resources need to be provided. Allegations of ill-treatment of patients at the "Demir Hisar" psychiatric hospital were reported. In general, persons with disabilities face a number of obstacles which prevent their participation in society, such as lack of access to education, employment and public services. The situation of vulnerable groups has been aggravated by the problems linked to the decentralisation of competences to the municipal level.

Little progress can be reported in the field of **labour rights and trade unions**. The Economic and Social Committee does not fulfil its role, partly because the capacities of the social partners are weak, and partly because its membership is unrepresentative. These factors make both the tripartite and the bipartite social dialogue very formal, and impede the development of an all-inclusive social dialogue. In this context the country still has not been able to select its members in the Joint Consultative Committee with the EU Economic and Social Committee.

In the area of **anti-discrimination policies**, neither a framework law on anti-discrimination has yet been enacted nor has this issue been clearly regulated in the existing legal provisions. Mechanisms to identify, pursue and criminalise all forms of discrimination by state and non-state bodies against individuals or groups have not yet been established. Minorities and persons with disabilities continue to suffer from discrimination. Lesbian, gay, bisexual and transgender (LGBT) people are also subject to discrimination. The envisaged national anti-discrimination strategy should therefore also address discrimination on grounds of sexual orientation and gender identity.

As regards **property rights**, the process of returning property confiscated during the period of the Socialist Federal Republic of Yugoslavia has still not been completed. The administrative capacities of the state geodetic institute have been strengthened, but progress in dealing with restitution claims is slow. No progress has been made in returning property of the religious communities.

Overall, some steps have been taken to strengthen social and economic rights. However, further significant efforts are needed, in particular as regards children's rights and anti-discrimination policies. Overall the country partially meets its objectives in this area.

Minority rights, cultural rights and protection of minorities

In the field of **cultural rights**, a law on use of languages spoken by at least 20% of citizens was adopted in August. It clarifies and extends the scope for the use of non-majority languages at all levels of state and local self-government within the limits set by the Ohrid Framework Agreement and the Constitution. Notably it provides for the use of non-majority languages in Parliament for members and committee chairpersons (the speaker and deputy speaker continue to use the single state language). The law extends the provision on the use of language to the local offices of the State organs. It clarifies that non-majority languages may not be used in the police and the army. De facto, the provisions apply only to the Albanian language at national level because of the 20% threshold. The High Commissioner for National Minorities has assessed that the law provides a clear and coherent legal framework and meets international standards. However, the law does not sufficiently address the use of languages of the smaller ethnic communities.

As regards **minorities**, inter-ethnic tensions were generally at a low level but have intensified in some areas and at certain moments. The Ohrid Framework Agreement remains a crucial guarantee of the rights of the ethnic communities³ in the country and progress was made as regards the use of languages and equitable representation.

³ Albanian, Bosniak, Roma, Serbian, Turkish, Vlach.

A law on the parliament's committee on inter-community relations was enacted. It clarifies the scope of application of the double majority mechanism concerning laws impacting on community relations by listing all planned laws whose enactment should proceed according to the 'Badinter' principle.

A law on the advancement and protection of the rights of the smaller communities was adopted which, in particular, provides for a specialised agency to be set up.

Committees for relations between communities have been set up at local level in nearly all municipalities (19 out of 20) where they are required by law, as well as in some other municipalities with sizeable minority populations but below the legal threshold of 20%. The department for implementation of the Ohrid framework agreement in the government was upgraded to a secretariat.

There has been some progress towards implementing the strategy for equitable representation of ethnic communities in the public sector, in particular as regards the Albanian community. The number of ethnic Albanian civil servants increased by 3.75% between January 2007 and January 2008. Six of the 15 members of the Judicial Council and one of the six elected members of the Council of Public Prosecutors belong to non-majority communities.

In 2007 the Ombudsman received only six complaints (11 in 2006) concerning discrimination and equitable representation. One reason may be that citizens rarely declare this problem publicly as a result of either fear or lack of information.

The right to education in one's mother tongue has contributed to the delivery of education services based on ethnicity even in ethnically mixed municipalities. However, integration of ethnic communities remains rather limited, in particular at the local level. Negative trends include the orientation to segregated schooling at primary and secondary level. Furthermore, in several mixed secondary schools there were severe incidents of violence between students from different ethnic communities. Mutual understanding and intercultural dialogue need to be fostered between the different components of society, in particular in the field of education. Smaller ethnic communities, whilst largely integrated, need adequate facilities for teaching in their mother tongue.

The effectiveness of the committees for relations among communities at municipal level is hampered by the lack of a clear legal framework and insufficient resources. The Secretariat for implementation of the Ohrid framework agreement remained without a minister for four months and is understaffed.

There was little progress in equitable representation of the ethnic Turkish and the Roma communities, which remain underrepresented within the civil service. Furthermore, the lack of a single data collection system for the entire public sector blurs the picture of equitable representation. The lack of enforcement mechanisms, such as sanctions, to ensure that institutions meet recruitment targets for non-majority communities remains a problem, as does the politicisation of some recruitment. Professional training needs to be strengthened as an accompanying measure.

A certain number of Roma and ethnic Albanians lack personal documents, such as birth certificates and medical insurance or employment cards, which are necessary to access social insurance, health care and other benefits.

The Constitutional Court decided to annul some provisions of the 2005 law on use of flags of the communities. The ethnic Albanian community was concerned by this development and the two ethnic Albanian judges resigned in protest from the Constitutional Court. A broad consensus on implementation of the Court decision remains to be found.

As of March 2008 there were 1,840 **refugees/asylum seekers** in the country, of whom the vast majority are Roma and Ashkali refugees from Kosovo who entered the country as of 1999. Only 28 have received recognised refugee status so far and none during the reporting period. Most applicants have been granted humanitarian protection for up to 12 months. The government needs to ensure that the ending of temporary protection status is based on independent, impartial evaluation of the human rights situation in Kosovo. Concerns persist regarding the independence of the government commission that hears appeals against first-instance decisions on refugee status. The Administrative Court replaced the Supreme Court as the last instance for asylum cases. It has not yet issued any decision on an asylum case.

The number of registered **internally displaced persons (IDPs)** resulting from the 2001 conflict in the country remained fairly stable (778). Some are still living in temporary accommodation centres and court proceedings are ongoing concerning claims for compensation.

Little progress can be reported regarding the **Roma**. The four action plans prepared by the Ministry of Labour and Social Policy in the framework of the 2005-15 Decade of Roma Inclusion are being implemented slowly. A further six Roma information centres were set up, bringing the total to eight. The societal hostility towards Roma continued, but the instances of direct attacks have diminished significantly. A Roma has been appointed as minister without portfolio in the new government.

However, inter-ministerial co-ordination, as well as the commitment of line ministries, remains weak. Discrimination against Roma people continues. In 2007, Roma had the highest rate of unemployment (according to some reports about 70%), the lowest personal and family incomes and the highest mortality rate of any ethnic group. Although there was a slight increase in Roma children attending school in 2007, they still have the lowest levels of participation in primary school, with only 63% attendance and the steps taken to tackle the high drop-out rates from the education system are inadequate. There have been instances where Roma children with learning difficulties were transferred to special institutions for children with mental disorders, thus raising concerns about segregation and unlawful discrimination as established in the jurisprudence of the European Court of Human Rights. Cases of police violence and targeting against the Roma were reported. Several cases have been brought before the European Court of Human Rights concerning police abuse of Roma and the lack of an effective system of investigation concerning cases of ill-treatment.

Overall, there has been some progress with regard to cultural rights and minority rights. A law on languages was adopted and there has been some progress on equitable representation. Nonetheless, effective implementation of the Ohrid Framework Agreement needs to move forward, through a consensual approach and a spirit of compromise. More efforts are needed to address the concerns of the smaller ethnic minorities. Little progress can be reported regarding the Roma. They continue to face very difficult living conditions and discrimination, with poor access to education, social protection, healthcare, housing and employment. Nonetheless, overall the country is moderately advanced in this area.

2.3. Regional issues and international obligations

The former Yugoslav Republic of Macedonia has cooperated fully with the **International Criminal Tribunal for the former Yugoslavia (ICTY)**. The trial of the Ljuboten case in which the ICTY indicted citizens of the former Yugoslav Republic of Macedonia, concluded with Mr Ljube Boskoski, the former Minister of the Interior, being acquitted and Mr Johan Tarculovski being sentenced for murder, violation of the laws or customs of war, wanton destruction and cruel treatment. The Prosecutor at the ICTY has filed an appeal against the acquittal of Mr Boskoski.

The ICTY Trial chamber decided to refer back to the national authorities the four files on which the Tribunal had decided not to pursue its investigations. The judicial reforms necessary to ensure proper handling of the files were adopted and the relevant training of judges and prosecutors has been undertaken. The Office of the Public Prosecutor has undertaken a legal review of these files and transmitted two of them to the competent court. The first hearing of one of the cases started in September. The OSCE has defined with the authorities operational procedures for its monitoring of the cases, as prescribed by the 2007 law on cooperation with the ICTY.

The former Yugoslav Republic of Macedonia still maintains the bilateral immunity agreement with the United States of June 2003 granting exemptions from the jurisdiction of the **International Criminal Court (ICC)** which does not comply with the EU common positions on the integrity of the Rome Statute as well as related EU guiding principles on bilateral immunity agreements. It needs to align with the EU position.

Regional cooperation and good neighbourly relations form an essential part of the process of integrating with the European Union. The country has continued to participate actively in regional initiatives, including in the transition from the Stability Pact to a more regionally owned framework with the South East European Cooperation Process (SEECP) and the new Regional Cooperation Council (RCC). The country assumed the first chairmanship of the 2006 Central European Free Trade Agreement (CEFTA) after its entry into force. The 15th Summit of the Central European States was held in Ohrid in May. The country continued to contribute to the EU ALTHEA mission in Bosnia and Herzegovina.

As regards **bilateral relations with other enlargement countries and neighbouring member states**, relations with *Albania* have remained good, with reciprocal high-level visits and the conclusion of agreements on a visa free regime, local border traffic and cooperation in border control.

Relations have remained good with *Bosnia and Herzegovina, Croatia, Montenegro and Turkey*. Several high-level visits took place involving these countries. Agreements with Bosnia and Herzegovina on readmission and on police cooperation were concluded. An agreement with Croatia on mutual protection of national minorities entered into force. An agreement was concluded with Turkey in the field of health and medical science.

Overall relations with *Serbia* have been stable although they have been adversely affected by the recognition by the former Yugoslav Republic of Macedonia of the independence of Kosovo. The issues between the Orthodox Churches in the two countries remain unresolved. Following Kosovo's declaration of independence, the government of the former Yugoslav Republic of Macedonia launched a joint process of border demarcation. Good progress has been made and the demarcation is nearing completion. The country accepted as valid the new

travel documents issued by the Kosovo authorities. The government decided to recognise the independence of Kosovo in October.

Relations with *Greece* are close and cover many areas, notably economic matters and foreign direct investment. The two countries are cooperating on the co-financing of road transport links within the framework of the EU's Trans European Transport Network. Nonetheless, relations between the two countries were further affected by the unresolved name issue. Actions which could negatively impact on good neighbourly relations should be avoided. Maintaining good neighbourly relations, including a negotiated and mutually acceptable solution to the name issue, under the auspices of the UN, remains essential.

Relations have remained good with *Bulgaria*.

3. ECONOMIC CRITERIA

In examining the 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

The country is fully participating in the EU's Pre-accession Fiscal Surveillance. It presented its second Pre-accession Economic Programme in December 2007 and submitted the third fiscal notification in April 2008. Cooperation with the International Monetary Fund (IMF) and with the World Bank have been important corner-stones of the country's economic policy framework. However, in September, the authorities announced their intention not to enter into another IMF arrangement for the time being. Furthermore, a number of medium-term strategies define the policy framework, such as the Public Investment Programme for 2008-2010 and the Public Debt strategy for 2008-2010. Political consensus on the essentials of a market economy has been maintained. Nonetheless, implementation of reforms slowed down before and after the elections. Overall, a broad political consensus on the fundamentals of economic policy has been maintained.

Macroeconomic stability

Output growth accelerated to 6% in the first half of 2008, compared to 5% in 2007 and 4% in 2006. The main factors underpinning growth were investments and private consumption. Export growth has slowed down, while import growth remained strong, reflecting buoyant domestic demand. Industrial production rose by an average of around 10% during the first eight months of 2008, compared to some 2.5% for the same period the year before. Overall, economic activity has remained stronger than in the past.

The current account deficit widened markedly from autumn 2007, reflecting a less favourable global environment with decelerating global demand and increasing energy prices, but also strong domestic demand. In the last quarter of 2007, the current account went from a surplus of nearly 2.5% of GDP to a deficit of 3% of GDP for the whole year. This trend continued and by mid-2008 had pushed up the current account deficit to some 13% of GDP. The main

factors were higher expenditures for imports, mainly for fuel but also machinery. On the other hand, capital inflows rose markedly, in particular FDI, which reached 6.5% of GDP on an annualised base, compared to 2.8% of GDP the previous year. Overall, external imbalances widened sharply, putting an end to several years of overall balanced current account outcomes.

Official reserve assets of the *National Bank of the Republic of Macedonia* (NBRM) increased slightly in absolute terms to some €1.6 billion by September. However, due to a strong increase in expenditures for imports, the import coverage with foreign exchange reserves has dropped to around three months of expected imports. Gross external debt started to rise again towards the end of 2007, after early debt repayments had resulted in a declining ratio for most of the year. By end June 2008, gross external debt had increased by some 6 percentage points of GDP (to 50% of GDP, compared to 44% the year before), mainly as a consequence of increased borrowing abroad by a few foreign-owned companies. The country's per capita income, measured in purchasing power standards (PPS), reached 29% of the EU-27 average in 2007, compared to 27% the year before. Overall, the country's position with respect to foreign exchange reserves and external indebtedness has still remained sound. However, in view of the recent widening of the trade deficit, the country's external vulnerability has increased significantly.

So far, the international financial crisis has had only a very limited impact on the economy and its financial sector. However, the recent widening in the current account deficit creates an important external financing need requiring significant capital inflows, which in the past has been mainly financed by workers remittances. The level of foreign debt is relatively low and the risk of a sudden stop or reversal of capital flows seems limited. However, the external imbalances render the economy vulnerable to possible disruption in capital flows.

The situation in the labour market improved slightly and the unemployment rate saw a marginal decline. The number of employed persons rose some 3.5% during the first half of 2008, compared to nearly 4% in the first half of 2007. The number of unemployed declined by about 1.5% during the last year, which brought unemployment down to 33.8% in mid-2008, which is about 1 percentage less than a year ago. A significant share of unemployment is structural in nature, partly resulting from a mismatch between required and available qualification. As a result, employment growth is fed mainly by an increase in labour supply, while the decline in the number of unemployed is significantly less dynamic. There has been a significant amount of job creation in low value added sectors, such as agriculture. About 20% of the unemployed are aged between 15 and 24. The unemployment rate in this age group is still very high (56% in the first half of 2008), but has marginally declined in line with the overall marginal decrease in unemployment. The existence of a substantial informal sector might lead to a significant over-estimation of actual unemployment. However, even when taking this factor into account, unemployment is still an important issue, in particular among young people and less educated. Overall, the trend of a slightly improving labour market situation has continued, although unemployment is still at very high levels. The persistently high unemployment points to structural weaknesses, such as skill mismatches, and an insufficient functioning of the labour market. In addition, slow expansion of productive capacities hampers job creation.

The Central Bank has managed to maintain the exchange rate of the denar at a stable level of 61.2 denar to the euro and has continued with a de-facto peg. With the exception of the Lombard rate, the Central Bank left the other policy rates unchanged. Interest rates of the private sector started to rise moderately. Rates for Central Bank bills rose from 4.8% in

October 2007 to 7% by June 2008. The short-term lending rates of commercial banks showed a moderate decline from 8.2% at the end of October 2007 to 8.0% in February, but rose to 8.6% by June 2008. The high growth of credit to the private sector continued, at some 40% (year-on-year) during the first half of 2008, but has slowed down since then. The volume of broad money (M4) rose by 32% year-on-year during the first half of 2008, but also moderated since then. Overall, exchange rate and monetary policy have remained sound, which has helped to maintain confidence in the stability of the financial system.

Average annual inflation slowed in 2007 to 2.3%, compared to 3.1% in 2006. However, in the last months of 2007, sharply increasing food and energy prices led to an acceleration in headline inflation, which reached 6.1% in December 2007 and continued to rise to nearly 9% in March and April 2008 (year-on-year basis). Since then, year-on-year inflation rates have declined, slipping to 7.1% in September 2008. The strong increase in inflation is mainly due to higher food and energy prices, which – owing to the high share of consumer spending on food – has a significant impact on the costs of living. Overall, inflation has accelerated markedly.

The fiscal stance has become more expansionary with a planned general government deficit of 1.5% of GDP in 2008, compared to an actual fiscal surplus of 0.6% of GDP in 2007. The fiscal performance in 2007 and 2008, as in previous years, was characterised by higher than expected revenues and lower than planned investment expenditures. At the end of 2007, the authorities adopted additional spending measures amounting to some 2% of GDP, while in July 2008 the parliament approved a supplementary budget with further spending measures amounting to some 4.25% of GDP in order to meet fiscal targets. The additional budget envisages more funds for education, compensation for the high oil prices, job creation and support for workers of companies that have gone bankrupt. As in the past, the continued underestimation of revenues and the difficulties in implementing investment projects highlight administrative weaknesses in this sector. Overall, while fiscal policy programming has become more expansionary, actual revenue and expenditure outcomes are tending to show unanticipated surpluses.

Implementation of fiscal decentralisation continued. By mid-2007, the number of included municipalities has been increased to 62, covering some 84% of the country's population. Furthermore, the tax base of the municipalities has been widened by amendments to the property tax law and the new Law on Roads. Overall, the budgets of those municipalities amount for some 6% of GDP. Municipal debts have been reduced further, from about 0.75% of GDP in 2005 to some 0.25% by 2007. The new competences continue to represent significant challenges to the municipalities and require close monitoring by the central authorities.

General government debt has declined to around 21% of GDP by mid 2008⁴. The authorities have continued to improve the efficiency of tax administration and to simplify the tax system. Overall, the public sector accounts have remained largely in balance and the efficiency of tax collection has been improved. However, the quality of public finances continues to be hampered by weaknesses in medium-term budgetary planning and priority setting, leading to a high proportion of discretionary and short-term spending decisions.

⁴ Public sector data is not yet presented according to the European standard (ESA 95), thus comparability is limited.

The country's fiscal and monetary policy mix remained largely in line with the country's need to accelerate economic activity. However, in view of the recent deterioration in external balances, the importance of maintaining a sound economic policy mix has increased. Fiscal policy benefited from a strong revenue performance, while the objective of substantially balanced public sector accounts was largely achieved. The country's resilience to shocks remained intact, despite increased pressures due to a sharp increase in food prices and a rapid widening of external imbalances. Employment rose, reflecting the benefits of stronger growth but also reflecting progress in reducing unregistered economic activities. Overall, the macroeconomic policy mix was largely in line with the aim of maintaining economy stability, although very high unemployment remains a key challenge.

Interplay of market forces

Privatisation has largely been completed. The share of the private sector in total output is about 80% of the value added. The value of State-owned assets stands at some 13% of GDP, with five State utilities accounting for some 12% of GDP. The value of State-owned assets in the remaining 53 companies amounts to some 1% of GDP. Some 10 000 people or about 1.3% of the labour force are employed in companies with a majority State ownership. No further privatisation took place, apart from the privatisation of some radio stations. Overall, the free interplay of market forces has remained unchanged but is already well advanced

Market entry and exit

The government took further steps to improve the legislation on the "one-stop-shop" system for starting a business. As a result, in 2007 the average time to register a company was cut from 3 days to 26 hours. Since early 2008, the law requires that registration should not take longer than 4 hours. In addition, the costs of registration have been reduced to less than EUR 50. During the first half of 2008 5.200 new companies were registered, which is about 1% up on the same period in 2007. As a result, the number of registered companies grew by some 6% during the past year. As part of the so-called "regulatory guillotine" project, the authorities screened some 2000 pieces of legislation, eliminated redundant legislation and simplified a number of laws and by-laws. The average duration of bankruptcy procedures has fallen from 3 years and 7 months to 2 years and 2 months. At the same time, the number of new bankruptcy procedures has fallen by about half, compared to the same period a year ago. The backlog in bankruptcy cases has been reduced. Overall, some progress has been achieved in further reducing barriers to market entry and exit. However, there is still considerable room for improving the overall business environment.

Legal system

The law on the real estate cadastre has been amended, resulting in a strengthening of the institutional set-up and requiring a formal decision on a registration request within 15 working days. The registration of property rights has made good progress and now covers some 82% of the country's territory compared to 63% in September 2007. The authorities plan to finalise full registration by 2009. The backlog of unsolved property disputes has been reduced further, from some 9 000 unresolved property cases at the end of 2007 to 7 700 by July 2008. However, in general, legal procedures are still slow and this adversely affects legal certainty and impedes the proper functioning of market mechanisms. Regulatory and supervisory agencies have often lacked sufficient resources and independence to fulfil their role as guardians of the rule of law and providers of a level playing field for all economic agents. However, amendments made to the budget law in September have strengthened the financial

independence of a number of those agencies. Overall, further progress has been made in clarifying property rights and strengthening the independence of regulatory and supervisory institutions. However, weaknesses in the judiciary, including slow procedures and insufficient resources, still hamper the rule of law, for example in the area of contract enforcement. In combination with slow progress in addressing corruption and organised crime, these weaknesses have a negative bearing on the quality of public services, the business environment and the country's attractiveness to foreign investment.

Financial sector development

Financial intermediation increased markedly in 2007. Total deposits of the non-financial private sector reached 47% of GDP, compared to 41% at end 2006. This sharp increase helped trigger a marked rise in bank lending to the private sector, which brought the credit-to-GDP ratio to 37% of GDP by end 2007, compared to 26% of GDP the previous year. In order to contain the rapid expansion of credit, the Central Bank increased the bank's reserve requirement by 1 percentage point. The capitalisation of stock and bond markets rose sharply in 2007, reaching 92% of GDP at end of 2007, but fell back again during 2008 to 56% in August. Bond markets followed a similar pattern, but at a lower level, achieving a market capitalisation of 12% of GDP, which dropped to 5% by August. The assets of the banking sector reached 66% of GDP at the end of 2007, compared to 57% a year before. The structure of the financial sector has improved: one small bank which did not meet the fit-and-proper standards has been closed and some foreign investors have entered the market. The share of State ownership in the sector continues to be low, amounting to some 5% of the sector's assets. The main State assets consist of a majority share in the country's only development bank and a limited number of remaining minority shares in other private banks. Despite a relatively large number of banks (18 banks and 12 savings houses), concentration in this sector is rather high, with the five largest banks accounting for some three quarters of the sector's assets and deposits. The efficiency of financial intermediation has increased, as indicated by a further decrease in spreads between lending and borrowing rates, from 4.6 percentage points at the end of 2007 to 4.0 percentage points in September 2008. Profitability in the sector was relatively high in 2007, with an average return-on-equity of 15.2%, compared to 12.3% in 2006. The return-on-assets remained at 1.8%, reflecting the strong asset growth, which occurred in 2007.

The stability of the sector has benefited from the legislation to implement the new banking law, which has raised regulatory standards and strengthened supervisory capacities. The exposure of the banking sector to non-performing loans (risk classes C, D and E) declined, and non-performing loans as a share of total loans dropped from 7.6% at end-2006 to 5.7% at end-2007. However, the share of loans with a foreign currency component increased from 52.7% end of 2006 to 54.7% end of 2007. The banking sector continues to be well capitalised, with an average capital adequacy ratio of 17% end of 2007. Larger banks report an average capital adequacy ratio of 12.7%, while small banks report an average capital adequacy ratio as high as 66.8%. Overall, the financial sector continued to develop positively during the past year, with a significant deepening of financial intermediation and a strengthening of regulatory and supervisory standards. However, this sector is still relatively small.

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

Existence of a functioning market economy

Overall, macroeconomic stability has been maintained, although a less favourable international environment prompted a sharp increase in inflation and a widening of external imbalances. Progress in reducing barriers to market entry and exit has been maintained and the number of unresolved property disputes has been further reduced. Financial intermediation has deepened and financial market supervision has been strengthened. The financial independence of some supervisory and regulatory agencies has been strengthened. However, despite important progress in improving the business environment, the still slow speed of judiciary procedures and sometimes insufficient resources of supervisory and regulatory agencies are still impeding the rule of law, contract enforcement and the creation of a level playing field for market participants, which are crucial elements for fully functioning markets.

Human and physical capital

The authorities increased their efforts to provide education to a greater number of pupils and to improve vocational training for adults. Budgetary allocations for education have been increased from around 3.5% of GDP in 2005 to nearly 5% in 2007. For 2008, budgetary allocations (including foreign donations) have been raised to nearly 6% of GDP. Spending for decentralised education and higher education saw the strongest increases. An important share of additional spending is devoted to the renovation and construction of school buildings. The number of teachers for primary and secondary schools has been increased by 1.5% and 2.5% in 2008. However, the efficiency of public spending on education and the quality of education still leaves room for improvement. Despite these efforts, the overall level of education and training of the labour force still is relatively low and a substantial mismatch still exists between the qualification profile of the labour force and the requirements of the enterprise sector. Overall, measures have been taken to improve the level of qualification, such as starting to improve vocational training. However, further efforts to reduce the mismatch with labour market demands are still needed.

The authorities have embarked on a number of measures to address unemployment. The scope of active labour market measures has been widened and steps have been taken to remove impediments to job creation. For example, work has started on modernising and simplifying the current system of social security financing. Nevertheless, unemployment has remained at a very high level. In particular, a considerable proportion of unemployment is structural and mainly affects young people and those lacking qualification. Overall, measures have been taken to improve the labour market situation, but the mismatch between supply and demand is still a sizeable one.

Overall, the country's capital endowment is relatively low and its quality has suffered from decades of underinvestment. Recently, domestic and foreign investment has started to increase. Some progress has been made in improving the electricity network and a number of roads in Corridor X. Inflows of FDI have reached some 10% of GDP in the first half of 2008, compared to some 3% of GDP on average during the same period of the previous year. The main factors behind this increase were related to foreign investment in the banking sector, although there has also been some greenfield investment. In some cases, slow legal procedures and fragmentation of responsibilities between the central and local governments are impeding FDI. Overall, the share of investment in GDP remained relatively low, in particular in the light of the country's need to accelerate growth. Infrastructure continues to require repair and modernisation.

Sector and enterprise structure

The overall trend towards a larger contribution by manufacturing and trade services to output generation and the declining share of the agricultural sector has continued. Construction and real estate business were those sectors with the largest increase in the number of companies, while the share of manufacturing declined. Competition has been increased in the telecommunication and transport sector by allowing additional suppliers to enter the market. However, the latest take-over in the telecommunication sector raises doubts, whether competition has indeed increased in this sector. The number of new enterprises in the total economy has risen by some 6%. In 2006, small and medium-sized companies (SMEs) accounted for some 54.3% of GDP and 78.4% of employees. The informal sector remains large, although there are indications that it has been somewhat reduced, for example by improvements tax collection, a lowering of the tax burden, and financial incentives for registration. Overall, structural change made limited progress

State influence on competitiveness

Direct state influence on competitiveness has been limited. However, competition in product markets is often impeded by slow judicial procedures and weak regulatory and supervisory agencies that lack the necessary independence and resource endowment. Despite some progress in reducing distortions in the electricity sector, energy prices do not yet cover full costs, which lead to substantial losses of the State-owned energy providers and requires significant budgetary transfers. Overall, direct State influence on competitiveness is rather limited. A weak rule of law and weak institutions are not always able to create a level playing field for market participants. Indirect State aid still leads to distortions in relative prices, in particular in the electricity sector. Overall, direct state influence on competitiveness is limited. However, in some areas, such as electricity, indirect and direct state interference is still high. Furthermore, numerous ad-hoc changes to business legislation impede the predictability and reliability of the business environment.

Economic integration with the EU

The country has a small open economy, with total trade in goods and services accounting for some 130% of GDP. Trade integration with the EU is advanced, with about 60% of all exports being directed at the EU-27 and about 47% of imports coming from the EU-27. The neighbouring countries in the Western Balkan are the second most important trade destination, with about 34% of exports and about 11% of imports. The importance of CEFTA as an export destination has increased markedly. The export structure is still highly concentrated on a limited range of products, with textiles and clothing accounting for about 24% of total exports, and manufactured iron and zinc products for some 26%. Overall, trade integration with the EU is well advanced, but the commodity mix is still concentrated on a few price-sensitive products.

International price competitiveness has started to deteriorate. While the exchange rate against the euro has remained stable in nominal terms, the recent strong rise in prices has resulted in an increase of the real effective exchange rate. However, when unit labour costs are taken into account, real effective exchange rates are still improving. Real wage increases seem to have remained in line with productivity growth. Standard indicators do not point to any significant material changes in export price competitiveness.

4. ABILITY TO ASSUME THE OBLIGATIONS OF MEMBERSHIP

This section examines the former Yugoslav Republic of Macedonia's ability to assume 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

No progress can be reported as regards **general principles**. An action plan for achieving compliance with Articles 28-30 of the EC Treaty has yet to be drafted.

Some progress can be reported in the field of **horizontal measures**. The necessary administrative infrastructure is largely in place; however, segregation of tasks has yet to be ensured. Framework legislation needs further alignment with the *acquis*. A comprehensive strategy with milestones for implementation of the *acquis* for the relevant horizontal institutions has not yet been prepared.

In the area of *standardisation*, the process of adoption of European standards (ENs) has not accelerated. By August 2008, a total of 3,674 European and international standards had been adopted as national standards, mostly by endorsement. The adopted standards mostly relate to the areas of low voltage equipment; safety of machinery; personal protective equipment; pressure equipment; electromagnetic compatibility; gas appliances; and equipment for potentially explosive atmospheres (ATEX). Altogether 2,975 standards give presumption of conformity to technical regulations transposing the “new approach” directives. Of these, over 300 standards are related to the law on construction products.

The number of technical committees within the Institute for Standardisation has increased to 31, and membership of the Institute's assembly rose to 62. The new Council of the Institute was appointed with a mandate of four years. The administrative capacity is still insufficient; the recruitment planned in 2007 did not take place. There were no particular developments as regards full membership of European standardisation organisations.

A Decree on designation and notification of *conformity assessment* bodies was adopted. Also, a Decree on authorisation of legal entities to undertake conformity assessment was adopted, which identified the Ministry of Economy as the institution responsible for authorisation and for keeping the register of conformity assessment bodies.

The Law on *accreditation* was amended in order to achieve full alignment with EU terminology. The Institute for Accreditation functions with nine permanent employees, which is still insufficient. It also draws on the expertise of 12 lead assessors, 37 technical assessors and 37 experts. Three more conformity assessment bodies were accredited, bringing the total number to 20. The Institute has become a member of the European cooperation for Accreditation. Bilateral cooperation agreements were signed with the accreditation bodies from Serbia, Montenegro and Albania.

The capacity of the Bureau of *Metrology* has been strengthened with five new employees, bringing the total to 33. However, it still lacks adequately trained staff to perform its functions

and to operate the equipment that has been delivered. The Bureau has signed the Mutual Recognition Arrangement with the International Committee for Weights and Measures (CIPM-MRA) and is an associate member of the European Association of National Metrology Institutes (EURAMET) and of the European Cooperation in Legal Metrology (WELMEC).

Market surveillance is still very weak. A number of training sessions were organised for staff from the Ministry of Economy and the horizontal organisations on: implementation of the rapid information system (RAPEX); misdemeanour procedures and fines related to product safety; and implementation of specific directives. In the first eight months of 2008, the State Market Inspectorate undertook 470 inspections related to the Law on product safety and 250 related to the Law on construction products. However, as the Inspectorate is responsible for a large number of functions apart from product safety, it has very limited capacity for actual market surveillance activities concerning technical compliance of products with the directives and for analysis of potentially defective products. The administrative capacity of the coordination body for cooperation on market surveillance remains unsatisfactory.

Progress has been made in the area of **"old approach" product legislation**. Implementing legislation to the Law on safety of cosmetics and to the Law on pharmaceuticals, aiming to transpose the relevant *acquis*, was adopted. The latter defines procedures for issuing and renewing market authorisations for pharmaceuticals and for recognising authorisations issued by EU Member States. In addition, implementing legislation aiming to transpose the *acquis* in the fields of metrology (on units of measurement and on nominal quantities for pre-packed products) and chemicals was adopted. Preparations in the area of old approach product legislation are advancing.

There has been some progress in the area of the **"new and global approach" product legislation**. Legislation aiming to transpose the *acquis* on gas appliances, simple pressure vessels and non-automatic weighing instruments was adopted. Preparations in the area of new and global approach product legislation are advancing.

In the area of **procedural measures**, legislation concerning the acquisition and possession of weapons has been adopted. No particular new developments can be reported as regards notification procedures, external border checks and cultural goods.

Conclusion

Some progress has been made in this area. However, most of the sectoral *acquis* on free movement of goods has still to be transposed and implemented. Administrative infrastructure exists, and the capacity of the various institutions has improved, but it is still insufficient to ensure proper enforcement.

4.2. Chapter 2: Freedom of movement for workers

Some progress has been made on **access to the labour market**. Implementing legislation to the Law on employment of foreigners was adopted. However, the administrative capacity required to implement the legislation in this field is insufficient. No development has occurred with regard to legislation on employment of EU citizens in the public sector and exercise of public authority.

No progress has been made towards preparing for participation in the **European Employment Services Network (EURES)**. The employment service agency and its network

of employment offices have not yet taken the necessary preparatory steps. The technical capacity and human resources required are lacking.

Little progress has been made in the field of **coordination of social security systems**. No further bilateral social security agreements were signed. The administrative capacity required to coordinate social security schemes in the framework of movement of workers remains insufficient.

No progress can be reported with regard to the **European Health Insurance Card**.

Conclusion

There has been little progress in the area of freedom of movement for workers. The administrative capacity for coordinating social security schemes and for participation in EURES is insufficient. Overall, preparations are at an early stage.

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

Some progress has been made in the area of **right of establishment**. Work on analysing unjustified and discriminatory procedures in legislation ("regulatory guillotine") is ongoing. Amendments to the Law on foreign exchange operations dropped the requirement for foreign companies to register as foreign investors with the Ministry of Economy. As a result, foreign investors now register in the Central Registry. The lack of transparency and objectivity in granting authorisations, though reduced, still persists. Furthermore, decisions are sometimes delayed or reversed. In this area, the country is moderately advanced.

Modest progress can be reported in the area of **freedom to provide cross-border services**. There is still no distinction in the treatment between foreign operators providing cross-border services and those providing services through a permanent establishment in the country. Some of the licensing and authorisation requirements for tourism and catering services have been simplified and made cheaper; however, they still do not allow service providers freely to exercise their activity. A principle of tacit approval was introduced in several fields. The existing legislation imposes nationality, residence and establishment requirements for many service activities. There are serious gaps in coordination between the various authorising bodies. Their administrative capacity is not satisfactory. Preparations in the area of cross-border services are being initiated.

Progress has been made in the area of **postal services**. The Law on postal services, which is aligned with the second Postal Directive, was enacted and entered into force. Further legislative work is needed in order to prepare the implementing legislation envisaged in the new Postal Law, which is an important part of alignment with the second Postal Directive. According to the postal strategy for 2007-2010, the reserved area is to be abolished after 2012. The organisational and financial restructuring of *Makedonska Posta* has been completed. The Postal Agency was established as an independent regulatory authority. However, it is not yet fully operational. It has not developed the appropriate administrative capacity to regulate the postal market and enforce postal legislation. In the area of postal services the country is advanced.

No progress has been made regarding **mutual recognition of professional qualifications**. A new Law on higher education entered into force. It regulates only the recognition of higher education diplomas obtained abroad. The legislation does not distinguish between academic

and professional qualifications. The administrative capacity of the information centre for recognition of foreign academic diplomas within the Ministry of Education and Science remains weak. There is no coordination between the sectoral institutions responsible for implementing and enforcing the mutual recognition of professional qualifications. In the area of mutual recognition of professional qualifications the country is not yet prepared.

Conclusion

Progress in this chapter has been partial and mainly confined to the area of postal services and the legislative changes related to the right of establishment. There is a lack of coordination between the various bodies responsible for authorising cross-border services. The level of preparedness for mutual recognition of qualifications is quite low.

4.4. Chapter 4: Free movement of capital

Good progress has been made in the field of **capital movements and payments**. The Law on Foreign Exchange Operations was amended in July 2008. Following the amendments to the Law on ownership and other real rights, the residents of EU countries are allowed to obtain ownership rights on apartments and residential buildings. The right of ownership of construction land, however, requires prior authorisation, and restrictions on acquisition of agricultural land remain in place. As regards portfolio investment, non-residents are no longer required to open custody accounts with authorised banks for purchases of securities or to pay a premium for the right to cover the security position of the custody account. However, in order for the area of portfolio investment to be liberalised, as envisaged in the SAA provisions governing the second stage, the remaining restrictions on residents will have to be removed. Pension funds still have to comply with stringent restrictions and requirements regarding the type and volume of domestic securities that they can purchase on the stock exchange. They still may not invest more than 20% of their capital in non-domestic securities. Non-residents who hold denar accounts in local banks may not perform the full range of operations. Nationals are still not allowed to open accounts in foreign banks. Preparations in the area of capital movements and payments have advanced.

Some progress has been made in the area of **payment systems**. A strategy for development of the payment system was adopted. The Law on the payment system came into force, and several pieces of implementing legislation were adopted aiming to achieve further alignment. The administrative structure for implementing the legislation has been set up. The central bank (NBRM) has strengthened the function of monitoring of the payment system, in accordance with the Law on the payment system and the best practice of EU Member States' central banks. However, the charges for cross-border electronic payment transactions continue to be disproportionate to those for domestic electronic payment transactions. In the area of payment systems, the country partially meets its targets.

Progress has been made in the **fight against money laundering**. The Law on prevention of money laundering and financing of terrorism was enacted, aiming to transpose the relevant *acquis* and 49 FATF recommendations. The law introduces, for the first time, provisions on the financing of terrorism and on international cooperation. The Directorate for prevention of money laundering was renamed the Office for prevention of money laundering and financing of terrorism; its role remains purely analytical. The Office operates several IT applications for easier analysis of suspicious transactions and has established direct, but sometimes limited, access to the databases of some public institutions. The awareness of the reporting institutions has increased, but is still not satisfactory, with only two thirds of the banks providing regular

reports to the Office. The Office signed memoranda of cooperation and on sharing of intelligence information with relevant administrative bodies in the country and with counterpart institutions from the region. Within the country, inter-agency cooperation has steadily improved. A credible enforcement record has still to be established, although there has been a slight increase in the number and quality of reports of suspicious transactions sent to the investigating and prosecuting authorities. Between October 2007 and October 2008 only two reports, out of 13 reports and 18 notifications on other criminal acts sent by the Office to the investigating and prosecuting authorities, resulted in enforcement action. International cooperation between the Office and its foreign counterparts started to produce initial results; further efforts in this direction are encouraged. Some of the new employees are engaged on a temporary basis and it is not clear either whether they are appropriately qualified or for how long they will be employed. Preparations in the area of the fight against money laundering are moderately advanced.

Conclusion

Good progress has been made in the area of free movement of capital, especially with approximation of legislation. Some restrictions on short-term capital movements and cross-border transfers have not been removed. The administrative capacity and enforcement record on combating money laundering are not sufficient.

4.5. Chapter 5: Public procurement

Good progress has been made as regards **general principles**: the new Law on public procurement (LPP) also covering the utilities sector was enacted. The law fundamentally transposes the *acquis*. A number of significant improvements have been made, such as the e-procurement possibilities. The threshold for small purchases has been raised and the possibility to apply framework agreements has been introduced. The new legislation on concessions and public-private partnerships is not in line with the *acquis* or with good international practice. In terms of general principles, the country is well on track.

Progress has been made in the area of **award of public contracts**. Appropriate implementing legislation has been developed and compliance of contracting procedures with the new public procurement rules has increased. All public companies now comply with the new regulations. The Public Procurement Bureau, though lacking sufficient staff (despite taking on two new employees) and suitable premises, has developed its competence and a pro-active approach to managing public procurement policy. The administrative capacity of the contracting authorities and the level of awareness of public procurement rules on the part of economic operators have improved, especially in small municipalities, but still need to be strengthened in larger contracting authorities. Preparations in the area of award of public contracts are advanced.

The new **remedies** system introduced by the LPP marks a major improvement. However, further changes will be necessary to achieve alignment with the amended EC Remedies Directives. The State Appeals Commission, which is to be set up under the LPP, will have legal personality and an independent status. Its members will be elected by parliament after a public competition which is currently ongoing. However, establishment of this new institution, scheduled for 30 June 2008, is still pending. In the meantime, an improvement has been observed after the appointment of the Complaints Committee in September 2007 in the form of shortened review procedures, but consistency of decisions on complaints is not fully satisfactory.

Conclusion

Substantial progress has been made in the area of public procurement. However, the newly adopted legislation on concessions and public-private partnerships is not yet aligned with the *acquis*. Current efforts on training for the contracting authorities and economic operators on the new public procurement rules need to be sustained.

4.6. Chapter 6: Company law

There has been good progress in the area of **company law**. The Company Law has been amended to provide the possibility of voluntary liquidation of companies and of electronic submission and registration of annual accounts in the Central Registry. Provisions transposing the *acquis* on pre-emptive rights will come into force upon accession. Provisions on approval of interested-party transactions and cross-border mergers are still to be amended. The Central Registry became a member of the European Business Registry and, as such, is able to share data on companies with 22 countries. The second phase of the regulatory reform advanced. In the area of company law, the country meets the requirements.

There has been modest progress in the area of **corporate accounting and auditing**. The stock exchange set more stringent audit and disclosure requirements for all listed companies. The financial systems department in the Ministry of Finance, though lacking staff, has sufficient administrative capacity to prepare instructions and properly enforce accounting and financial reporting requirements. The Institute for Chartered Auditors (ICA) moved to new premises and increased transparency by publishing data on its website. The ICA has taken initial steps towards establishing an oversight system for statutory auditors and audit firms. However, this initiative is not in line with the Directive 2006/43/EC on statutory audit, which puts an end to self-regulation. The Directive also requires public authorities such as the responsible ministry to be involved in the preparatory work for establishment of the system of public oversight.

Nonetheless, the ICA still has only one full-time employee. The ICA has not yet begun to implement the programme for the education, training and examination of auditors. The programme for effective and independent quality assurance for audit reporting is not being carried out. The disciplinary system for auditors has not yet been finalised. The ICA is reluctant to put into action the programme for recognition of chartered auditors' qualifications obtained abroad. There are still delays in translating and transposing the revisions of the International Accounting Standards (IAS) and of the International Financial Reporting Standards (IFRS): the 2003 edition of the IFRS and the 2004 edition of the IAS are still being used. In the area of corporate accounting and auditing, the country partially meets its priorities.

Conclusion

Good progress has been made in the area of company law. Legislative alignment is at an advanced level. However, steps should be taken to align with the Directive on statutory audit to ensure effective and independent quality assurance for audit reporting and an appropriate oversight system. There are delays in planned reforms to develop capacity for ensuring proper enforcement of financial reporting and audit requirements.

4.7. Chapter 7: Intellectual property law

There has been some progress in the area of **copyright and related rights**. The Copyright Law was amended to transfer responsibility for inspection from the Ministry of Culture to the State Market Inspectorate (SMI) and to increase the fines for breach of copyright. The Criminal Code was amended to include new types of breach of copyright related to new technologies and also to increase the maximum prison term. The private copying levy scheme was set up. The Centre for Intellectual Property Education became a member of the global network of intellectual property academies supported by the World Intellectual Property Organisation.

One additional person was employed by the Sector for Copyright and Related Rights; the administrative capacity of the Ministry of Culture to manage copyright policy is therefore sufficient. It established a website on copyright protection; however, this site is not regularly updated. The activities of two of the three collective rights management societies were suspended because of a dispute with the government; this case has yet to be heard by the administrative court. Overall, in this area the country has started to address its priorities.

Little progress has been made in the field of **industrial property rights**. Two additional employees were taken on in the State Office for Industrial Property and some training was provided. The Office signed Memoranda of Cooperation with its counterparts from the Czech Republic, Hungary, Slovenia and Romania. The European Patent Convention has been ratified. However, the International Convention for Protection of New Varieties of Plants remains to be ratified. Preparations improved in the area of industrial property rights, although much remains to be done.

There has been some progress in the area of **enforcement**, both at the border and within the country. However, piracy and counterfeiting remain widespread. The country still lacks a comprehensive strategy and an action plan for building up the capacity necessary to implement and enforce the *acquis* on both copyright and industrial property rights. Enforcement of intellectual property rights (IPR) is hampered by the lack of appropriate awareness, experience and qualifications of the inspectors and judges in this field. The country has nevertheless stepped up its efforts to ensure a level of protection of intellectual and industrial property rights similar to that which exists in the Community, including effective means of enforcing such rights. The capacity of the SMI and the Ministry of the Interior to tackle infringements of IPR has been increased by training, employing additional staff and increasing cooperation with the relevant stakeholders. In this regard, the authorities signed memoranda of understanding with a collecting society and two chambers of commerce. However, the resources allocated are still insufficient for proper implementation of IPR law, and inspectors lack expertise and equipment.

The specialised departments of the 13 basic courts now exercise their powers for cases related to IPR law. The customs authority and the SMI began to use their powers to impose fines for misdemeanours. The number of misdemeanour, civil and criminal procedures initiated and completed increased slightly, but the situation is not yet satisfactory. The number of cases relating to industrial property rights, in particular trademarks, is still too low. Fines and other sanctions have been increased, but are not always applied effectively.

There was a slight increase in the number of requests from owners of rights to the relevant State institutions for protection of their rights; the number and value of goods seized and destroyed (including equipment used to counterfeit goods) also increased slightly. The SMI

and the Ministry of the Interior were more active in seizing and destroying equipment used to counterfeit goods, but their efforts are not yet sufficient. Various seminars were organised for the law enforcement bodies, customs officials and inspectors from the SMI and the Ministry of the Interior. Collection and presentation of data on IPR enforcement by all relevant agencies have improved; the amended rulebook for the courts provides for separate registration of data on court proceedings related to IPR law. Nevertheless, a comprehensive statistical approach needs to be adopted in order to demonstrate the IPR enforcement track record.

The coordinating body for IPR achieved the first tangible results in fostering cooperation and agreeing a common approach between all the law enforcement bodies. The authorities are starting to show greater determination to tackle piracy: the activities of the coordinating body were adequately supported in terms of staffing and logistics by all the institutions. Similar efforts are now necessary to protect industrial property rights and to combat counterfeiting. The results of all the measures were presented via the media and on the website of the State Office for Industrial Property. A major public-awareness campaign was conducted. The academy for training of judges and prosecutors organised specialised training for 96 judges and prosecutors.

Conclusion

Progress was made in the area of intellectual property law, especially with strengthening the legal framework and enhancing the administrative capacity. The enforcement record is slowly improving, in terms of both the number and value of goods seized and destroyed and the number of court proceedings initiated and completed. Nevertheless, further efforts are needed in order to improve the track record, strengthen the capacity of enforcement bodies, adopt a coherent IPR strategy and carry out awareness-raising activities.

4.8. Chapter 8: Competition policy

There has been good progress in the area of **anti-trust, including mergers**. The Commission for Protection of Competition (CPC) issued the manuals necessary for implementing the competition law. The CPC began to build up an enforcement record, in particular in the field of concentrations and abuse of dominant position. Between 1 October 2007 and 30 September 2008 the CPC took 26 administrative decisions, of which 25 concerned mergers and 1 abuse of a dominant position, and imposed 18 misdemeanour fines, of which four relate to administrative decisions issued in 2008. The administrative court confirmed one CPC decision on abuse of a dominant position.

The number of staff dealing with anti-trust issues and their level of training increased, but is still insufficient. The training of judges and the administrative capacity of the courts to enforce the competition law have been reinforced, but are not yet adequate. The overlap of competences between the CPC and the public prosecutor's office in cartel cases still remains. The suspension clause for both administrative and misdemeanour decisions has not been removed, which diminishes the deterrent effect of the sanctions.

Progress has been made in the area of **State aid**. A new Regulation on the conditions and procedure for granting horizontal State aid was issued. The Law on technological-industrial development zones has been amended with the aim of aligning it with the *acquis*. However, some of its provisions need to be amended in order to avoid possible interpretations in the

application of the law that would be contrary to State aid rules. The regional State aid schemes have been developed and are aligned with the State aid legislation.

The CPC issued 6 *ex-ante* and 8 *ex-post* decisions approving State aid and 15 opinions at the request of State aid providers. The decisions of the CPC on State aid are respected. The CPC compiled the inventory of State aid measures for the period January-June 2008. The inventory includes decisions on compatibility of State aid approved in 2006 and 2007. However, the administrative capacity is not sufficient for proper monitoring of State aid: the number of staff of the CPC is still not adequate to respond to its complex tasks. An effective and comprehensive system for *ex-ante* control of State aid is not yet in place. Some bodies that grant State aid are still reluctant to report on the form and intensity of the State aid that they provide. Overall, preparations in the area of State aid are advanced.

The CPC continued to perform its duties independently. Its financial independence has been secured by eliminating the requirement to seek approval from the Ministry of Finance for some of its expenditure. However, the Ministry still determines the size of the CPC's budget, which it reduced in 2008.

Conclusion

Good, but uneven, progress can be reported in the area of antitrust, including mergers and State aid. The CPC still needs more and better qualified staff and adequate funding. The *ex-ante* control of State aid is not sufficiently effective.

4.9. Chapter 9: Financial services

Good progress has been made in the area of **banks and financial conglomerates**. Implementing legislation to the Law on banking was adopted, relating to supervision of commercial banks. The law was approximated to the EU banking directives in the areas of risk management, exposure limits, reporting and audit requirements and capital adequacy. However, further efforts are needed in order to continue the alignment with the banking *acquis*, especially with the Capital Requirements Directive.

The central bank (NBRM) has moved further towards risk-based supervision. Its supervisory practices, capacity and expertise were further enhanced: the sector for supervision, legislation and financial stability was strengthened with nine extra staff, and additional training was given. However, continuing efforts in that respect are needed. Consumer protection has yet to be adequately addressed. Preparations in the area of banks and financial conglomerates are on track.

There has been good, but uneven, progress in the area of **insurance and occupational pensions**. Amendments to the Law on insurance supervision entered into force. Nonetheless, insurance supervision continues to be weak. The independent insurance supervision agency has still not become operational. Supervision continues to be the responsibility of the financial system department within the Ministry of Finance, whose capacity is still poor. Enforcement was weak: there were no on-site inspections, and the IT system necessary for off-site supervision is still lacking. No memoranda of understanding were concluded with other supervisors in the financial sector or with foreign insurance supervisors. A properly financed guarantee fund for insolvency of insurers is still lacking. Some insurance companies still do not have adequate reinsurance. Implementing legislation to the Law on traffic safety has yet to be adopted. Enforcement of sanctions against uninsured driving is weak.

Amendments to the Law on fully funded pension insurance, regulating the establishment and responsibilities of companies for managing pension funds and defining the responsibilities of the Agency for supervision of fully funded pension insurance (MAPAS) were adopted by parliament. Implementing legislation regulating the payment of fees to the mandatory pension funds, the charges payable for transfer of members between two pension funds and the procedure for mandatory enrolment of people in the fully funded pension funds was adopted by the government. MAPAS became a member of the International Organisation of Pension Supervisors. Its capacity has been further strengthened by three additional employees and staff training and seems to be adequate. Preparations in the area of insurance, with the exception of pensions, are lagging behind.

There has been some progress in the field of **financial market infrastructure**. A Law on financial collateral was enacted regulating the security of transactions between financial institutions, which aims at aligning with the *acquis*. Legislation is not yet fully in line with the *acquis* on settlement finality. Alignment of the NBRM's decisions on classification of assets and on limits of credit exposure with the *acquis* has still to be confirmed. Some provisions of the Law on rapid money transfer are not in line with the *acquis*, and amount to an effective barrier to access to the money remittance market. Preparations in the area of financial market infrastructure are advanced.

Progress has been good in the field of **securities markets and investment services**. The Law on securities was further amended, and implementing legislation was adopted which lays down the rules to be observed by the various issuers of securities (companies, financial institutions and municipalities). The Securities and Exchange Commission (SEC) has been exercising its enforcement powers effectively; its enforcement record has improved. In November 2007, the first two management companies were established. They managed three open-ended investment funds with assets of €1.43 million. The SEC approved the first issue of corporate bonds by one of the commercial banks operating in the country. Legislation is still not in line with the *acquis*, especially as regards the Capital Adequacy Directives. The responsibilities of the NBRM and the SEC still overlap in the area of licensing and supervision of trading in securities. The number of staff of the SEC and its IT capacity are still inadequate, and its operational independence is insufficient. Preparations in this area are moderately advanced.

An action plan on approximation to the EU supervisory standards and best international practice (BASEL, IAIS and IOSCO principles) for the banking, insurance and securities sectors to implement the recommendation of the EC peer assessment mission has been adopted jointly by the NBRM, SEC, insurance sector supervisors and the Ministry of Finance.

Conclusion

There has been progress in legislative alignment with the *acquis*. Deficiencies persist in the administrative capacity of the supervisory bodies, in particular as regards insurance, where enforcement is particularly insufficient. The overall state of preparation is moderately advanced.

4.10. Chapter 10: Information society and media

Progress has been made in the area of **electronic communications and information technologies**. The Law on electronic communications (the primary law) has completed alignment with EU rules with respect to appeal procedures and the authorisation regime. As a

result of the amendments, the concession contracts with operators with significant market power (SMP) will cease to be valid on the entry into force of the amended law, when they will be replaced by authorisation following notification.

Further progress was made by the regulatory body in imposing competitive safeguards against SMP operators in compliance with Article 146 of the primary law. Interconnection rates were drastically reduced, number portability introduced and a universal service provider pre-selected. Moreover, certain mandatory obligations for SMP operators (interconnection offers, retail rates regulation, cost accounting and accounting separation) have finally been enforced. These measures have resulted in growing competition in the fixed and broadband markets and a significant decrease in prices.

Whereas greater competition was brought to the mobile market with the entry of a third market player, the recent stake of Deutsche Telekom in OTE/Cosmote is dramatically increasing its dominant position. Corrective measures are needed to restore a competitive situation.

The emergency number 112 has not yet been introduced.

The regulatory body recruited additional staff and enhanced its cooperation with the Commission for Protection of Competition. Moreover, there were improvements in the enforcement record: the regulatory body imposed over 100 fines and other measures in infringement cases. However, there is a need for clarification of tasks between the regulatory body and the ministry.

Progress can be reported in the area of **information society services**. Laws on conditional access and electronic commerce were enacted. Provisions on cyber-crime were incorporated into the Criminal Code. A secretariat for the information society was established, headed by a minister without portfolio, which is responsible for developing an information society. The e-procurement system of the government was upgraded. Free and public Internet access was introduced in 15 towns, and free ICT training is given. Preparations are moderately advanced in this area.

There has been some progress in the field of **audiovisual policy**. A strategy for the development of broadcasting activity and an action plan were adopted. The Broadcasting Council adopted guidelines on communication of changes in the ownership structure of broadcasters and a rulebook on sanctions for non-compliance with the Law on broadcasting and implementing legislation regulating media coverage of the elections. Moreover, a Memorandum of Understanding for strengthening the monitoring capacity of the Broadcasting Council was signed with the OSCE mission.

Full implementation of the Broadcasting Law was not ensured. Despite legal provisions regulating the independence of the Broadcasting Council and the public service broadcaster, both remain vulnerable to political interference, largely because their financial stability has not been ensured. Selection of replacements for three, out of the nine, members of the Broadcasting Council whose mandate had expired has been delayed. The financial situation of the Broadcasting Council and the public service broadcaster is not secured. The funding system of the public service broadcasters and the Broadcasting Council (collection of licence fees) should have been operational since 1 June 2006. Reports show that the system has almost completely failed since very few people actually pay the licence fee. According to the Broadcasting Council, the fee collection is "0" since January this year. Amendments to the

law were enacted which provide for the possibility of initiating bankruptcy of the public service broadcaster.

Administrative capacity remains weak. The Broadcasting Council is understaffed. Decisions of the Broadcasting Council are sometimes not respected by the broadcasters.

There is no legislative provision relating to concentration of ownership of the media.

Conclusion

Significant progress can be reported in the area of electronic communications, including enforcement measures. This has brought more competitive conditions to the benefit of consumers. In the media, the financial situation of the Broadcasting Council and the public service broadcaster remain a cause for concern. Overall, preparations are advanced.

4.11. Chapter 11: Agriculture

Significant progress has been achieved in the area of **horizontal issues**. A Framework Law on agriculture and rural development was enacted, providing a legal base for transposition of the relevant CAP *acquis*. The final results of the agricultural census were published. The Law on agricultural land was enacted and its implementing legislation adopted. It regulates management, oversight and protection of agricultural land. Additional employees were recruited in the Departments for policy analysis and the agricultural information system, for management of agricultural land and for rural development. The agricultural inspectorate was reinforced with two additional staff in Skopje and eight in regional units, out of 33 new recruits planned by 2010. The inspectorate was supplied with additional IT equipment. The human resources of the ministry are still insufficient to deal with its existing and future responsibilities.

In 2008, a total of €1.3 million was allocated to the *direct support* schemes. Direct support includes an income support scheme, premium payments schemes for crops and livestock, plus agricultural insurance payments. The rulebook on implementation of the single register of agricultural holdings was adopted. The software and hardware for the electronic farm register have been designed and procured. Farmers are currently filling in registration forms that will be subsequently introduced into the system.

No progress can be reported in setting up an integrated administration and control system (IACS) since the pilot projects. Administrative responsibility for collecting and sharing data between different institutions has still to be clarified. No progress has been made in establishing the land parcel identification system (LPIS). The real estate cadastre presently covers some 80% of the country's territory.

The capacity of the *paying agency* (Agency for Financial Support of Agriculture and Rural Development) has been strengthened. Manuals on its internal organisation were adopted, new premises and equipment were supplied and the new staff was trained. However, its capacity for sound management of State funds has yet to be confirmed.

Implementation of the strategy and operational plan for development of a sustainable and efficient agricultural information system is slow. Little progress has been made on implementing the Law establishing a farm accountancy data network (FADN); adoption of the implementing legislation is progressing slowly. A law on *State aid* in agriculture has not yet been enacted.

Concerning the **common market organisations**, preparations in the area of **arable crops, fibre and sugar** are at an early stage.

Progress can be reported in the area of **animal products**. The Law on livestock breeding was enacted. Alignment of the law with the *acquis* remains to be confirmed. Preparations in this field are starting.

Progress can be reported in the area of **specialised crops**. The pilot vineyard register is being extended to cover the entire territory of the country. Most of the implementing legislation to the Law on *tobacco* and tobacco products has been enacted. The list of *seed* varieties was amended and more seed varieties were added to the national list of agricultural plant varieties.

Progress can be reported in the field of **rural development**. As part of the national agricultural and rural development strategy, the government adopted a €2.95 million programme for revitalisation of villages, aimed at reconstruction of water supply systems and irrigation systems as part of the national agricultural and rural development strategy. The rural development programme under the Instrument for Pre-Accession Assistance (IPARD programme) has been adopted. Substantial progress has been made with the preparations for the national accreditation of the IPARD agency. Adoption of the procedures has progressed and the administrative capacity has been strengthened. The staffing level of the IPARD agency is now 68 employees, out of the 134 planned for 2010. Some progress has been made in setting up the monitoring system, on the legislative framework for operation of the managing authority and on appointment of the management staff. Preparations in the area of rural development are advanced.

Progress can be reported in the field of **quality policy** for products with high export potential. A budget of €150,000 has been allocated in 2008, compared with €30,000 in 2007, for implementing the programme to support quality and food safety standards for target products. Preparations in this area are advanced.

Progress can be reported on **organic farming**. Implementation of the 2007-11 strategy for development of organic agricultural production is progressing. The programme includes direct support for organic production, together with public-awareness campaigns about organic production. Manuals have been adopted on registration of producers, processors and traders of organic products, on the labelling of organic products and on the list of officially recognised certification bodies from third countries. Preparations in this area are advanced.

Conclusion

There has been progress in the field of agriculture and good progress has been made on rural development. Policy development has been followed by increases in the administrative capacity of the relevant institutions and by effective implementation. Alignment with the *acquis* is still at an early stage.

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

Some progress has been made as regards the **general** principles. The implementing legislation further transposes most of the *food and feed law*; alignment remains to be confirmed. The national strategy on food safety was adopted. The Food Safety Directorate began to cooperate with the European Food Safety Authority. The software for the rapid alert system has not yet been prepared. Preparations in this area are on track.

Progress has been made in the area of **veterinary policy**. In particular, implementing legislation has been adopted, aiming to transpose part of the veterinary *acquis*. The legislation on *control systems in the internal market* and on *control systems for imports* only partially transposes the *acquis*. The organisational structure of the border controls has been upgraded, but is not sufficient. An EU-compatible control system is not yet in place, particularly for import control. Some progress has been made in the area of *identification and registration of animals*. The system for identification of bovines and registration of their movements is operational for the most part. Identification of sheep and goats is underway, while identification and registration of pigs is in its preliminary phase. Demotions of professional staff in the Veterinary Directorate have adversely affected the administrative capacity for identification of animals.

The animal health control system does not comply with EU legislative and institutional requirements. Some of the implementing legislation on the *control measures for animal diseases* has not yet been transposed. The *acquis* on transmissible spongiform encephalopathies has not yet been transposed. The contingency plans for most of the notifiable diseases are being prepared and published annually; their compliance with EU standards remains to be confirmed. The Veterinary Directorate improved the official controls, but not sufficiently to tackle transmissible animal diseases systematically. Some progress has been made in the area of *intra-Community trade in live animals, semen, ova and embryos* with the enactment of a Law on livestock breeding, aiming to transpose part of the relevant *acquis*. The administrative capacity for implementing this legislation is insufficient. The implementing legislation on *non-commercial movement of pet animals*, aiming to transpose the *acquis*, was adopted.

The annual monitoring programme for *prohibition of substances and residue control* does not meet most of the EU requirements. The implementing legislation on *import requirements for live animals and animal products* has not been issued. No new *international veterinary agreements* have been signed. The implementing legislation to the Law on *animal welfare* has not yet been issued. The Law on livestock breeding, aiming to transpose the *acquis* on *zootechnical issues*, was enacted. The 2008 allocation for *veterinary expenditure* on measures to eradicate and monitor animal diseases is €4.39m; almost a quarter of the total amount is to cover liabilities carried over from 2007. The capacity and independence of the laboratory of the veterinary faculty, though improved, are not sufficient. The number of veterinary inspectors has been increased: their management and training are still not satisfactory. The capacity of the veterinary service at both central and local levels to put in place an EU-compatible control system has been reinforced, but is not sufficient. In the area of veterinary policy the country partially meets its objectives.

Little progress has been made in connection with the **placing on the market of food and feed**. The legislation on *hygiene rules, specific rules for animal products, control rules and specific control rules for animal products* still only partially meets the EU requirements. Some of this legislation will not come into force until a later date. Alignment with the *acquis* on inspection surveillance and sampling has still to be confirmed. The *rules for animal by-products* have not yet been transposed. The necessary collection and treatment systems have not yet been set up. The aid schemes for Hazard Analysis Critical Control Point (HACCP) certification have been extended to 2008. Training for inspectors to assess the compliance of agri-food establishments with HACCP standards has started. HACCP certification still remains limited to larger establishments. Many agri-food establishments have not taken sufficient steps towards meeting the deadline of September 2009, which is when the HACCP certification will become mandatory for the domestic market. There is no strategy for

enhanced implementation of the HACCP system. Evaluation of agri-food establishments for compliance with EU standards and upgrading programmes is at an early stage. It is still the producers and importers who provide for the *funding of checks*. Preparations in this area are being initiated.

Progress can be reported in the area of **food safety rules**. The implementing legislation on *food additives* and *ionising radiation* was updated. In addition, the existing legislation aims to transpose the *acquis* on *labelling, extraction solvents, flavourings, food supplements, fortified food, food for particular nutritional uses, quick-frozen foodstuffs, contaminants, novel food* and *mineral water*. The legislation on *food contact material* and *GMOs* has yet to be adopted. The registers for fortified food, food for particular nutritional uses, food additives and mineral water have not yet been established. The capacity of the laboratory in the Institute for Health Protection is insufficient to provide reliable results. The number, training and competence of staff in the Food Safety Directorate (FSD) are still insufficient. The number of legal staff in the FSD has not been increased to enable it to pursue misdemeanours. In order to improve coordination, a memorandum of understanding has been signed between the Veterinary Directorate (VD) and the FSD. Still, no single authority has competence for food safety control. Because of the overlapping legal competences between the FSD and the VD, the overall organisational structure and coordination remain poor and ineffective. In the area of food safety rules, the country partially meets its objectives.

No progress was made on **specific rules for feed**. The legislation has not yet been transposed. Preparations in this area still need to be launched.

Progress has been made in the area of **phytosanitary policy**. A new Law on *plant health (harmful organisms)*, aiming to transpose the *acquis*, was enacted. The Law on *fertilisers and plant protection products*, aiming to transpose the relevant *acquis*, was enacted. The register of plant protection products has been established and the register of operators is being prepared. New implementing legislation on *quality of seeds and propagating material* and *plant variety rights*, aiming to transpose the *acquis*, has been adopted. Some of this legislation is to be implemented only upon the country's accession to the EU. The programme for surveillance of seed and seed materials is being implemented. The staff of the plant health authority has been increased, but their numbers and training are still not sufficient. Most of the funds from the 2008 programme for plant health protection will be used to set up regional and border laboratories, to introduce banderols for plant protection products and train phytosanitary inspectors and to monitor and eradicate harmful plant organisms. The administrative capacity of the Phytosanitary Directorate is weak. Coordination between the various stakeholders in the area of phytosanitary policy has not improved. The responsibilities of the plant health authority are still divided between the Phytosanitary Directorate and the Seed and Seed Materials Directorate. The equipment for border controls is still inadequate. The laboratory capacity is still under-used. No further *international phytosanitary agreements* have been signed. In the area of phytosanitary policy, the country has started to address its priorities.

Conclusion

There has been modest progress in the area of food safety, veterinary and phytosanitary policy, mainly regarding legislative preparedness. The administrative capacity, in terms of both the number and competence of staff, has been strengthened, but is not yet adequate to ensure proper implementation of the *acquis*. No single authority has competence for food safety control.

4.13. Chapter 13: Fisheries

Substantial progress has been made in the field of **resource and fleet management** with the enactment of the Law on fisheries and aquaculture. The law regulates commercial fishing, fish production and sport fishing. Some of the implementing legislation has been adopted. Preparations in this area are moderately advanced.

Little progress has been made in the area of **inspection and control**. The administrative capacity of the unit for fisheries and aquaculture within the agriculture department of the Ministry of Agriculture, Forestry and Water Economy, which is responsible for issuing licences for concessions for commercial fishing, fish production and sport fishing, has been slightly increased but is still insufficient. The agricultural inspectorate, which plays the principal role in the control and inspection of fisheries, does not have sufficient capacity. Preparations in this area are at an early stage.

No progress has been achieved in the field of **market policy**. The administrative structure for implementing market policy is not yet in place. Preparations are at an early stage.

No developments can be reported in the field of **structural policy**.

Little progress has been achieved in the field of **State aid**. The new Law on fisheries and aquaculture regulates State aid. Preparations in this area are being launched.

Conclusion

There has been progress in this area. The administrative capacity has still to be developed. Since the country is landlocked, most of the fisheries *acquis* is not relevant. Preparations for implementation of the common fisheries policy are at an early stage.

4.14. Chapter 14: Transport policy

Good progress has been made in the area of **road transport**. Implementing legislation to the Law on road transport introduced new conditions for issuing certificates of professional competence and for engaging in international road transport. Implementing legislation relating to the laws on road transport safety, on vehicle licence plates and on traffic signs and signalling was adopted. The Law amending the Law on public roads was enacted. Implementing legislation to the Law on road passenger transport, relating to the driving licence for international road passenger transport, was adopted. Implementing legislation to the Law on transport of dangerous goods by road and rail, relating to training of safety inspectors for the transport of dangerous goods, was adopted. However, the Law on road transport is still only partly aligned with the *acquis* on market access. The current system for road taxation and charging does not meet the requirements of the *acquis*. Inspection capacity remains insufficient. The Agency for public roads has not yet been set up. Implementing legislation on digital tachographs was adopted. Road safety rules are not properly enforced and effective road safety campaigns are lacking. Preparations in the area of road transport are advanced.

Progress can be reported in the area of **rail transport**. In December 2007, the government signed the Addendum to the Memorandum of Understanding on the Development of the South East Europe Core Regional Transport Network for a South-East European Railway Transport Area, aiming at gradual opening of the rail transport market. Implementing legislation to the laws on railways, on safety of railways and on rail transport was adopted.

The Law establishing an independent regulatory agency for rail transport contracts was enacted, but has not yet entered into force. Implementing legislation to the Law on railways was adopted relating to interoperability, safety of the rail network and licences for transport of passengers and goods. Implementing legislation was adopted on licences and safety certificates for managing railway infrastructure, regulation of rail traffic, training of railway technicians and compliance of trains with noise and environmental protection regulations. Implementing legislation to the Law on rail transport safety was adopted relating to stations, trains, wagons, tracks and safety equipment for workers and passengers. Moreover, rulebooks were issued dealing with a state of emergency and interruption of rail transport, and on classification and categorisation of railway lines. The safety authority has not yet been established. Public service obligations are still not being compensated for. The system of track-access charges has not yet been introduced. The government adopted the 2008 investment programme for the railway sector, which allocates €3 million to railway reconstruction and maintenance for the first six months of the year, compared with €2.5million for the whole of 2007. This amount is not sufficient to meet all the needs, though it may be as much as the railway infrastructure company is able to manage.

The State took over 77% of the former railway company's arrears by acquiring shares in the two new companies for infrastructure and transport, which retained the remaining arrears. Preparations in the area of rail transport are advanced.

Good progress has been made on **inland waterways** with the adoption of implementing legislation on licences for sailing small boats, fees for testing boats and signs and signals on inland waterways. In this area, the country is sufficiently prepared.

In the area of **combined transport**, the country continues to implement the Memorandum of Understanding on the South-East European Core Regional Transport Network, which is aimed at improving and developing the capacity of the SEE road and rail network. It is also continuing to strengthen cooperation with the SEE Transport Observatory (*See Chapter 21 – Trans European networks*). Preparations are on track.

Progress can be reported in the area of **air transport**. The country is applying the multilateral European Common Aviation Area (ECAA) agreement. Implementing legislation to the Law on aviation was adopted, relating to the planning, building and reconstruction of airports and devices for airport flight control systems. Implementing legislation relating to the introduction of the Eurocontrol Safety Oversight and also on inspection and safety of airports and on training and qualifications of air safety and security personnel was adopted. The Civil Aviation Agency issued a rulebook on transposition and direct implementation of the Joint Aviation Authorities international standards and rulebooks, on supervision of public air transport and on health standards and certificates of staff involved in air traffic control. However, parts of the ECAA first phase *acquis*, notably those relating to market access conditions for ground handling services and to aviation safety and security procedures, have still not been implemented. Contrary to the law, the Civil Aviation Agency still retains both regulatory and operational responsibility and is not yet adequately staffed for its operational function. The committee for air accident investigation lacks sufficient capacity to act as an independent body for investigation of accidents and serious incidents. The air traffic department of the Ministry of Transport and Communication lacks sufficient well-qualified staff. Preparations in this area are moderately advanced.

No particular development in the area of **state aid** and **satellite navigation** can be reported.

Conclusion

Good progress can be reported in the area of transport policy. However, administrative capacity in all sectors remains insufficient. Regulatory bodies and safety authorities have yet to become operational in the fields of land, air and rail transport. The reforms undertaken in railways still need further implementation. In the area of transport policy, preparations are advanced.

4.15. Chapter 15: Energy

There has been some progress with **security of supply**. A new Law on mandatory reserves of oil and oil reserves was enacted. However, at the end of August 2008, the Commodity Reserve Bureau held oil stocks equivalent to only 42 days' average consumption, compared with 56 days in 2007. At present there are not sufficient financial resources to secure 90 days' consumption. The new law provides that from 2009 the reserves will be managed by a new Directorate for mandatory reserves of oil and oil derivatives. A strategy for long-term development of the energy sector has still to be completed. Preparations in this area are at an early stage.

Some progress has been made with regard to the **internal energy market**. By enacting amendments to the Energy Law in July 2008, the country further aligned its legislation with the Community legislation in the energy field. Renewable energy sources are now covered by the energy law, as are energy efficiency issues and a better metering policy for the electricity distribution sector. Following a complaint from a private investor against the new Energy Law, in September the Secretariat of the Energy Community Treaty decided to open a Dispute Settlement Procedure in accordance with Article 12 of its 'Rules of Procedure for Dispute Settlement'. The procedure is currently ongoing. The government adopted a timetable for gradual opening of the electricity market to competition. Since 1 January 2008 eligible consumers, which account for a little more than 40% of total consumption, have been under an obligation to purchase their electricity directly from the market. The Energy Regulatory Commission (ERC) approved the distribution grid code. Certain gas and electricity tariffs still do not reflect costs, while collection rates are still not sufficient to ensure the viability of the system. Two members of the ERC reached the end of their mandate and were replaced by parliament. The administrative capacity of the ERC for regulating the markets and protecting customers is not sufficient. Its independence has not been strengthened, in particular as regards regulation of prices on markets where competition is not sufficient. The ERC does not have proper market regulatory authority over the operations of all independent power producers (IPP), in particular over the State-owned Negotino thermal power plant. The tender for privatisation of this plant was cancelled. The practice of including representatives from the electricity generation company on evaluation panels for tenders is not consistent with safeguarding competition on the energy market. The activities of the natural gas transmission system operator and the natural gas distribution system operator are not unbundled and are performed by the same company. The ownership of the gas system has still not been resolved. Gas will be a primary input in the two combined heating and power plants that are being constructed. The government established an electricity exchange, which is not yet operational. The Energy Department of the Ministry of Economy is still understaffed. In the area of the internal energy market the country partially meets its objectives.

There has been modest progress in the area of **State aid**. The new horizontal legislation prohibits State aid for restructuring of the coal industry. Most of the coal (lignite) reserves are being managed by the electricity generation company. There is no clear legal and financial

separation between the lignite excavation activities and operation of the thermal plants. Preparations in the area of State aid are advanced.

Some progress has been made in the field of **renewable energy**. The ERC adopted the manuals on feed-in tariffs for electricity produced from bio-mass, geothermal energy and photovoltaic systems which offer advantageous tariffs to potential investors. The implementing legislation on renewable energy sources has been adopted. The administrative capacity for developing renewable energy sources has been strengthened. Two bio-fuel refineries were commissioned. In the area of renewable energy the country is moderately advanced.

Some progress has been made in the area of **energy efficiency**. The manual on guarantees of origin of electricity has been adopted. The Energy Agency recruited additional staff. In the area of energy efficiency, the country has started to address its objectives.

Further progress has been made regarding **nuclear safety and radiation protection**. The Law on radiation protection was amended to include provisions on nuclear safety. The administrative capacity of the Radiation Safety Directorate (RSD) has been reinforced and is now satisfactory. The amended law clarifies the role and responsibilities of the different organisations involved in radiation protection matters, but does not provide for financial independence of the directorate. An appropriate storage facility for materials has been identified. The IAEA considers that the storage of radioactive waste now complies with international standards and recommendations. However, a project on management and storage of low and medium radioactive waste was reported to be underway. Issues to be addressed include dismantling of radioactive lightning rods and management of institutional radioactive waste. Efforts have been made to prevent and combat illicit trafficking of radiation sources. The training of the customs and police services has been improved, but maintenance of portal monitors is not sufficient. The country has not yet acceded to the Joint Convention on the safety of spent fuel management and on the safety of radioactive waste management.

Conclusion

Progress has been made in the energy sector, in particular as regards transposition of legislation and liberalisation of the electricity market. However, certain outstanding issues related to tariffs and electricity distribution still require attention. The administrative capacity to enforce energy-efficiency policy and radiation protection regulations has improved, but requires further strengthening. The degree of independence of the energy regulator and the radiation protection regulator remains inadequate. In the field of energy, the country is not yet sufficiently prepared.

4.16. Chapter 16: Taxation

No progress has been made in the area of **indirect taxation**. A reduced rate of *value-added tax* (VAT) was introduced for public cleaning services and waste treatment, which is allowed under the *acquis*. However, a reduced rate for agricultural machinery, computers and thermal solar systems, deviating from the *acquis*, is still applied. The *excise* duties on several products are still lower than the minimum required by the *acquis*.

In the area of **direct taxation**, profit tax and personal income tax were reduced further, from 12% to 10%, with effect from 1 January 2008. Micro-enterprises and self-employed people with a gross annual income of less than €9 000 are subject to a simplified tax procedure. Tax

relief of 50% was introduced on the personal income tax payable by employees of companies operating in the technological/industrial development zones. Preparations in the area of direct taxation are moderately advanced.

There has been some progress in the field of **administrative cooperation and mutual assistance**. Double taxation agreements with Austria and Lithuania have been ratified. In total, there are currently 22 agreements with EU Member States.

Good progress can be reported in the field of **operational capacity and computerisation**. The Public Revenue Office has enhanced its capacity to implement tax legislation and to fight tax evasion. It has developed and started to implement an external audit strategy. A strategy for human resources development and new working standards have been prepared and implementation of a new Code of Ethics has begun. In combination with the ongoing computerisation, the simplification of tax payments and enhanced communication with the public have led to a significant increase in registered taxpayers and in the revenue collected. A new centre for data collection and processing has been established.

The fight against tax evasion and corruption benefited from closer cooperation with the public, resulting in an increase in the number of misdemeanour and criminal cases initiated by the Public Revenue Office.

The Public Revenue Office started to participate in the Fiscalis 2013 programme.

Conclusion

Good progress has been made on strengthening the administrative capacity of the Public Revenue Office, but no progress on legislative alignment. The level of legislative alignment in indirect taxation is sufficient but needs to be improved in direct taxation. The administrative capacity for tax collection has markedly improved and tax revenue has increased, but efforts are still needed to ensure effective implementation and enforcement of tax legislation, in view of reducing the informal economy. Significant efforts have been made to curb corruption, and need to be continued.

4.17. Chapter 17: Economic and monetary policy

No progress can be reported in aligning the legal framework with the *acquis* the area of **monetary policy**. The central bank has continued to monitor and report on the main developments and potential risks for participants in the financial system. A separate unit for financial stability has been established, and some staff assigned to it. Also, an inter-institutional body has been established, to promote financial stability in the country. It brings together the regulatory and supervisory bodies in the financial sector: the Securities and Exchange Commission, the Agency for supervision of fully funded pension insurance and the Ministry of Finance. Preparations in the area of monetary policy are on track.

Progress has been made in the area of **economic policy**. The country is participating in the EU's Pre-accession Fiscal Surveillance. It presented its second Pre-accession Economic Programme in December 2007 and the third fiscal notification in April 2008, but the data provided are not yet sufficiently in line with ESA 95. The government adopted two inter-linked medium-term strategies: a public investment programme for 2008-10, aimed at increasing public investment to 6% of GDP in 2008, and a public debt management strategy for 2008-10, with the objective of keeping general government debt within the range of 34%

to 37% of GDP and overall public debt within the range of 37% to 40% of GDP. Administrative capacity is still inadequate, in particular as regards policy implementation at municipal level. Preparations in the area of economic policy are on track.

Conclusion

There has been some progress in economic and monetary policy. Legislative alignment with the *acquis* and administrative capacity has improved, but some gaps remain.

4.18. Chapter 18: Statistics

Progress can be reported in the area of **statistical infrastructure**. The statistical council was established with members from various institutions and academia. The government adopted a five-year statistical programme for 2008-2012 covering the national statistical system. There has been some improvement in the capacity of the State Statistical Office (SSO). The budget for 2008 was increased by 15% compared with 2007 and 17 new staff were recruited. Human resources management tools, such as assessments and training plans, have been implemented. Internal and external communication has improved. However, the human and financial resources of the SSO remain relatively weak.

Good progress has been made in the area of **classifications and registers**. The SSO began revising the economic classifications. A classification of statistical regions in line with the relevant EU standards was agreed with Eurostat. The latest international classification of diseases was introduced. The pilot business census was carried out. The basis for the statistical business register has been developed. However, no routines have been established yet to ensure that the register contains up-to-date information.

Progress has been made in the area of **sector statistics**. As regards demographic and social statistics, preparations have begun for the population census, which is planned for 2011. The planning is not yet thorough enough to ensure that the census will be carried out in a timely manner. Labour force survey results for 2006 were transmitted to Eurostat. In the field of macroeconomic statistics, work on improving the national accounts continued, but further alignment with the *acquis* is needed. In the area of business statistics, the short-term indicators on building permits were published. Furthermore, several pilot surveys were conducted on manufacturing, construction, energy, external trade and tourism. Cooperation with the Ministry of Finance and the Central Bank has improved; however, roles have still to be clearly defined. As regards agriculture and fisheries statistics, full data from the agriculture census were published by the end of 2007, i.e. six months after the census. For all sector statistics the gaps in quality have been addressed to only a limited extent. Reporting of statistical data to Eurostat needs to be further enhanced.

Conclusion

Overall, progress has been made towards improving both the statistical infrastructure and sector statistics. Alignment of the classifications with the *acquis* has advanced well. Further efforts are needed in order to achieve and maintain sufficient quality in the statistics.

4.19. Chapter 19: Social policy and employment

Little progress has been made in the area of **labour law**. In August, amendments to the Law on labour relations were enacted. However, the legislation still does not effectively regulate all forms of employment. One obstacle to regulating low-wage contracts was removed by

considerably lowering the tax wedge on wages in January 2008. The number of labour inspectors was increased from 96 to 129, but the inspectorate still lacks proper facilities. Cooperation between the relevant institutions is low. Administrative capacity to ensure proper implementation and enforcement of the labour law is weak. Preparations in this area are being launched.

Progress can be reported in the area of **health and safety at work**. Implementing legislation to the Law on occupational health and safety at work was adopted. However, administrative capacity is insufficient to ensure proper implementation and enforcement of the legal provisions. The number of injuries and deaths in the workplace remains significant. The data provided by the labour inspectorate, indicating that 18 fatal accidents occurred in 2007, were challenged by non-governmental sources, whose data indicated 47 cases. Alignment with the *acquis* in the area of health and safety at work is moderately advanced.

There has been little progress in the field of **social dialogue**. The collective agreement with public-sector employees was signed. The Economic and Social Council (ESC) met more frequently but its composition remained unchanged and contrary to the provisions of the labour law. The eligibility of the trade union representatives is challenged by others who consider that they have a stronger claim. A working group has been set up to draft the criteria for eligibility of the trade unions in the ESC. Until the criteria have been established and the labour law amended accordingly, it will not be possible to ensure a functional and representative social dialogue. The lack of clarity is also undermining the bipartite social dialogue. Social partners are consulted on draft legislation, but lack the capacity to make sufficient contributions to planning, implementing and evaluating employment policies. Preparations in this area are at an early stage.

Some progress has been made in the area of **employment policy**. In order to implement the National Employment Strategy for 2010 and the National Action Plan for Employment, the government adopted an operational plan on active labour market measures and allocated € million for this purpose. Labour market data have improved, but labour market participation and employment rates are still very low and the unemployment rate very high compared with the EU averages (*see Economic criteria*). Estimates suggest that one third of all jobs remain in the informal economy. The recently adopted Law on adult education provides the institutional framework for education and training for the long-term unemployed. However, a plan for vocational education and training that properly reflects labour market conditions is still missing. In July, a law on older "redundant" workers improved the financial security of people who are unemployed as a result of the privatisation of State-owned enterprises between 2000 and 2004. Although some progress has been made on strengthening administrative capacity, the overall capacity remains insufficient to match the ambitious employment strategies and plans. The work of the Employment Service Agency is still geared too closely to administering unemployment and the health insurance of the registered unemployed. The Agency requires a major upgrade of its hardware and software and further capacity-building to make a more decisive shift towards active measures eventually. Preparations in this area have started.

Some progress has been made in the preparations for participation in the **European Social Fund**. Measures have been taken to complete the setting up of administrative capacity in the Operating Structure, and training activities are ongoing. However, the capacity of the Ministry of Education is still weak. Preparations in this area are on track.

Little progress has been made in the field of **social inclusion**. Eight Roma centres were opened in 2007-2008. The government adopted a 10-year national strategy for deinstitutionalisation of social care. Day-care centres for street children and drug addicts have been opened. However, no targeted steps have been taken to prevent social exclusion. Policy measures to improve access to the labour market for vulnerable groups, including people with disabilities, remain insufficient. Statistical data and analyses on poverty are deficient. Vulnerable groups, such as Roma children, rural girls and children with disabilities, continue to show a high drop-out rate in the early years of education. In general, administrative capacity in the field of social inclusion is insufficiently developed. Coordination between the institutions involved in implementing social inclusion policies remains inadequate, as does the evaluation of policies. The decentralisation of social inclusion policies is facing major problems. The municipalities which have entered the second phase of decentralisation have insufficient capacity to take on the social policy responsibilities transferred to them. Participation by non-governmental players and people experiencing poverty in drafting and coordinating social inclusion policies is limited. Overall, the measures taken are insufficient to address the needs of the most disadvantaged people, including the working poor, the rural poor, low-educated, jobless households, women from vulnerable groups living in rural areas, the Roma, big families, people with disabilities, children living in homes and others. Preparations in the area of social inclusion are at an early stage.

Limited progress can be reported in the field of **social protection**. The three pillars of the pension system are now operational. Amendments to the Law on pensions and disability clarified the definition of disability and the related rights. However, administrative capacity is insufficient to develop a sustainable and equitable social protection system. Preparations in this area are moderately advanced.

Little progress has been made in the area of **anti-discrimination**. As the draft framework law on anti-discrimination has not yet been enacted, the existing legislation is still not fully in line with the *acquis*. Moreover, the country has not signed the UN Convention on the rights of people with disabilities. Administrative capacity in this area remains weak. Vulnerable groups, including some ethnic minorities, are discriminated against in various spheres of economic and social life. The situation of people with disabilities has not improved. The limited statistics available do not allow different types of discrimination to be monitored as required by the *acquis*. Preparations in this area have been launched.

There has been some progress in the field of **equal opportunities**. The number of municipalities with equal opportunities committees increased from 30 in 2007 to 73 in 2008. The section for equal opportunities within the Ministry of Labour and Social Policy took on the role of coordinating gender equality issues at national and local levels. However, it lacks adequate capacity and a clearly defined mandate. Limited efforts have been made to promote women's rights in rural areas and to increase female participation in the labour market. The administrative capacity in this area remains insufficient. Notwithstanding some progress towards gender equality for women from ethnic minorities, discriminatory customs and traditions, along with stereotypes, remain very present. Preparations in this area are moderately advanced (*See also Political criteria – Economic and social rights*).

Conclusion

Limited progress can be reported in social policy and employment. A moderate level of legal alignment has been reached. While administrative capacity is slowly being strengthened, it remains insufficient to implement properly the legislation and policies adopted.

4.20. Chapter 20: Enterprise and industrial policy

In the area of **enterprise and industrial policy principles**, the country has made good progress. By September 2008, 39 of the 64 primary laws, and 382 of the 481 pieces of implementing legislation identified in the first phase of the regulatory guillotine process had been abolished as unnecessary and business-unfriendly legislation. The rulebook on government procedures was amended to introduce a systematic assessment of the impact of new regulations from 2009 on. The process of starting up a company has been further simplified, shortened and made cheaper. The number of staff in the SME department of the Ministry of Economy was increased from seven to nine. Implementation of the European Charter for Small Enterprises is proceeding at a moderate pace. The SME Agency still lacks sufficient human and financial resources to implement all the measures in the SME strategy and action plan and in the European Charter. Preparations in this area are moderately advanced.

Some progress has been made in the area of **enterprise and industrial policy instruments**. The country has joined the 'Entrepreneurship and Innovation' pillar of the Competitiveness and Innovation Programme and the first projects have been approved. The investment promotion programme has been strengthened with additional funding and more intense promotional activities. The Law on technological-industrial development zones was amended, removing the discrimination favouring companies listed in the Fortune Global 500 and the Business Week Global 1200. Only one zone is operational, although decisions have been made to set up a total of four. Three new business incubators have been established, making a total of ten. Only two of the ten regional business support centres planned have been established. The single SME information portal and the on-line applications for SMEs have not yet been developed. The new legislation on profit tax for SMEs simplifies tax procedures, but may result in some micro-enterprises incurring higher tax liabilities, contrary to the intended effect. The access of SMEs to financial services is inadequate and is still hampered by the high interest rates and rigid lending criteria of the commercial banks. The credit guarantee scheme is still unused and the government is slow to address the design flaws of the scheme. Business education has been introduced in the secondary school curriculum. The *acquis* on combating late payments has still not been transposed. Preparations in this area are moderately advanced.

There has been good progress with **sector policies**. A total of ten clusters are functioning. The funding provided by the State for co-financing cluster development is modest. The SME forum set up for consultation with the private sector works satisfactorily. Policy design on key sectors of the economy is slowly improving, particularly in the steel and textile industries. The European Commission approved the revised restructuring programme for the steel industry. A new tourism development strategy was adopted. Preparations in this area are advancing well.

Conclusion

Good progress has been made in the field of enterprise and industrial policy, in particular regarding the regulatory framework and the sector policies. Implementation of the European Charter for Small Enterprises is proceeding at a moderate pace. Alignment with the *acquis* in this chapter is moderately advanced.

4.21. Chapter 21: Trans-European networks

In the area of **transport networks**, the country has made good progress. It continued to participate actively in implementation of the Memorandum of Understanding, signed in 2004, for development of the Core Regional Transport Network and in the South-East Europe Transport Observatory (SEETO) by starting to implement the multi-annual plan for 2008-2012. The annual revision of the national transport strategy was completed. There were no developments on coordination of investment. Progress was made towards implementing the priority projects along Pan-European Corridors VIII and X. A 12km-long section of the Skopje bypass was completed. National co-financing was made available for these projects. Progress is hampered by the substantial financial resources needed to upgrade the infrastructure. In this area, preparations are advanced.

In relation to **energy networks**, progress was made with implementation of the Energy Community Treaty. A technical study for a 400 kV connection with Serbia has been prepared and a Memorandum of Understanding was signed between the two transmission operators. The 400kV connection with Bulgaria was commissioned in mid-2008. The government adopted a decision to upgrade the existing transmission line to Kosovo from 220 kV to 400 kV. There were no new developments in the energy connections with Greece and Albania. In this area, preparations are moderately advanced.

No progress can be reported in the area of **telecommunication networks**. In this area, the country is not prepared.

Conclusion

Progress has been made in the area of trans-European networks. The country continues to participate actively in the South-East Europe Transport Observatory. The sizeable financial resources needed to upgrade the infrastructure remain a major impediment. Preparations in this area are advanced.

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

Some progress has been made in the **legislative framework**. The Law on regional development entered into force. Amendments to the budget law further improved the legislative framework for financial management and control. Alignment of legislation in the areas of public procurement and competition was completed, while legislation on State aid and the environment is still not fully aligned.

Statistical regions that are fully compliant with the NUTS Regulation have been agreed with Eurostat. They will serve as the basis for collecting, processing and publishing the regional and local statistics which will be used in drawing up regional policy in the country. For statistical regions equivalent to NUTS 3 level, two municipalities from the Eastern region were shifted to the Vardar region. The Vardar region now has more than 150,000 inhabitants and thus complies with Eurostat's criterion for the number of inhabitants in a region. In this area, preparations are further advancing.

There has been progress in the **institutional framework**. In accordance with the Law on regional development, a start was made on establishing specific administrative structures for implementation of the Regional Development Law, with a clear distribution of responsibilities. Regional development councils were set up for all eight regions and

chairpersons were elected from among the mayors. The National Regional Development Council was established, along with one regional centre. The other seven regional centres have yet to be established. The regional centres will provide administrative support for the regional development councils. The capacity for coordination between the various bodies has been strengthened. Preparations for implementation of the Regional Development component (III) and Human Resources Development component (IV) of the Instrument for Pre-accession (IPA), as pre-cursors to the Structural and Cohesion Funds, have been slowly advancing. Implementation of IPA components III and IV is not likely to be possible until mid-2009. Preparations for establishing implementation systems for the future Structural and Cohesion Funds have not been initiated yet. Preparations in this area are at an early stage.

There has been progress in the area of **administrative capacity**. The administrative capacity of the line ministries has been strengthened with the establishment of IPA units and units for monitoring and evaluation, but is still inadequate. The capacity at regional and local levels has still to be developed. The administrative capacity at all levels in terms of necessary staff, training and equipment remains weak. Preparations in this area are at an early stage.

In the area of **programming**, some progress has been made. The operational programmes on transport and the environment and on human resources under IPA were adopted by the Commission. The National Regional Development Strategy has not been finalised yet. Preparations in this area are slowly advancing.

There has been some progress in the area of **monitoring and evaluation**. Operating structures have set up sectoral monitoring committees (SMC) to monitor implementation of the operational programmes. Three meetings for components III and IV were held in December 2007 and in February and June 2008. The membership and rules of procedure of the SMC for the regional development programme have been agreed with the Commission. Systems and mechanisms for monitoring and evaluating the quality and impact of regional development programmes have been developed in the line ministries within the units for monitoring and evaluation. The administrative capacity in terms of necessary staff and training remains weak. Preparations in this area are slowly advancing.

Some progress can be reported in the area of **financial management and control** (*see also Chapter 32 – Financial control*), with the establishment of relevant systems and procedures under IPA components III and IV. Preparations for establishment of financial management and control systems for the future Structural and Cohesion Funds have not started yet. Preparations in this area are slowly advancing.

Conclusion

Some progress can be reported in the area of regional policy and coordination of structural instruments with structures set up as a result of the Regional Development Law and as part of the preparations for implementation of IPA. Substantial work still lies ahead for implementation of the components of IPA serving as pre-cursors to the Structural Funds. The administrative capacity at regional and local levels and in the line ministries is still poor. Overall, alignment with the *acquis* in this chapter is not very advanced.

4.23. Chapter 23: Judiciary and fundamental rights

There has been some progress in the area of the **judiciary**.

The *independence* of the judiciary was strengthened as, after a serious delay, the Judicial Council reached its full strength of 15 members in December 2007 and has become more effective. Also, the Council of Public Prosecutors became functional in August 2008 after parliament made the last three appointments.

The law on the public prosecutor's office, adopted after some delay in December 2007, determines the competence, organization, and establishment of the public prosecutor's office. The number of basic public prosecutors' offices remains at 22. The new specialized unit for combating organized crime and corruption shall have competence over the entire country. The public prosecutors now have increased competences in leading and coordinating the pre-investigative procedure: they can request staff to be assigned from other law enforcement agencies, and can act on behalf of the Ministry of Interior, Financial Police and the Customs Administration if these bodies fail to act on matters within their competence.

The law on the council of public prosecutors, also adopted after some delay in December 2007, is closely interlinked with the law on the public prosecutor's office. It introduces new procedures for the appointment of the State Public Prosecutor and selection of public prosecutors. The new procedures seem transparent, fair and objective and in line with international standards. The legislative process included a wide process of consultation.

The State Public Prosecutor (6-year term renewable once) is appointed by the Parliament upon a proposal of the Government. The Council of Public Prosecutors is consulted by the government on the candidates for the position of State Public Prosecutor before they are submitted to the parliament. The Council may, in certain circumstances, block the nominations, thus helping to avoid politicisation of the post. The State Public Prosecutor may be dismissed by the parliament upon the proposal of the government and with an opinion of the Council of Public Prosecutors if certain criteria set in the law are met, for example unlawful and untimely performance of the function.

The public prosecutors, whose mandate is indefinite, are selected and appointed by the Council of Public Prosecutors, on the basis of the results obtained during the training in the Judicial Academy. The candidates make their choice between being judges or prosecutors at the end of the process. Public Prosecutors may be dismissed by the Council of Prosecutors if certain criteria set in the law are met, for example unprofessional performance. A commission of five members will be established to deal with such cases.

The new Council of Public Prosecutors will have 11 members selected for four years (renewable once) who elect a president for two years (not renewable). The Minister of Justice and the Public Prosecutor are *ex officio* members with a right to vote. One member comes from the Public Prosecutor's Office, one from each area of competence under the four higher prosecutor's offices, one from the ethnic communities, and three are elected by the Parliament. Its decisions require a majority of all of its members.

The Judicial Council continued efforts to combat corruption and ensure *impartiality*. It dismissed seven judges and initiated procedures against twelve others; five disciplinary procedures are ongoing. The State Public Prosecutor demoted two experienced prosecutors from the specialised unit for the fight against organised crime and corruption. This decision was taken before the Council of Public Prosecutors became operational and the criteria and the proportionality of the decision remain to be clarified.

As regards *professionalism and competence*, the academy of judges and prosecutors has carried out continuous and started initial training. The first 27 students for initial training completed the theoretical training, and started the practical training. However, 63% of the academy's budget is funded by international donors. A more balanced and sustainable financial framework needs to be established.

Efforts to improve the *efficiency* of the judiciary continued. Adoption of amendments related to the law on misdemeanours has been completed as approximately 200 laws have been harmonised. Out of 38 administrative bodies, only 12 have established, between them, 43 misdemeanour commissions. To date, these commissions have received over 27,000 cases of which over 8,000 have been resolved.

The implementation of the 2006 law on mediation proceeded slowly. Only 30 cases have started and 20 have been completed.

The Judicial Council assumed full responsibility for recruiting judges and presidents of the courts. 115 judges were recruited, of whom 12 as presidents of courts, as well as the President of the Supreme Court. Most vacancies have now been filled.

A total of 37 new posts were created for the Administrative Court and the Court of Appeal in Gostivar but some of these posts are still vacant, which hinders the efficiency of these courts. The former issued approximately 1700 decisions and the latter issued approximately 1400 decisions by mid June.

The budget for the Public Prosecutor's Office was increased slightly, to €4 million.

However, a significant number of vacancies remain open in the public prosecution service, and the Higher Prosecutor's Office in Gostivar has yet to be set up. Furthermore, prosecutors are not using their competences to the full, in particular as regards the coordination of investigations in the pre-trial phase.

The new system of enforcement has had a mixed record. At the end of 2007, only 27% of court decisions transferred to bailiffs had been implemented, compared with 45% at the end of 2006. The ratio increased to 45% again in the course of 2008. The deadline for transferring the enforcement cases to bailiffs was extended from end-2007 to end-2008, which delayed proper and full execution of a large number of court rulings.

Of the 27 basic courts, 22 managed to reduce the very big backlog of cases, which again mainly comprised enforcement and misdemeanour cases as well as administrative cases dealt with by the new Administrative Court. The courts of first instance and courts of appeal dealt with almost 2 million cases during 2007. The Public Prosecutor's Office received 35,671 cases in 2007, i.e. 11.8% more than in 2006.

Judicial reform continues to be hampered by a shortage of human resources. Whilst the number of judges and prosecutors has increased (632 and 187, compared to 597 and 186 in 2007) the number of employees in the judicial administration has dropped by 6%. Some basic courts still lack basic IT equipment, as do most of the public prosecutor's offices.

The budget of the courts was too low to cover their running costs their debts to utility companies. This recurrent weakness was remedied again by providing a supplementary budget in the course of the year but nonetheless it continues to jeopardize the efficiency of the judicial system. Computerisation of the courts continued to be funded mostly by foreign

donors. The centre designed to connect the IT systems of all judicial institutions became operational with all 12 employees, but is not fully utilised as the IT offices in the courts are not staffed.

Progress continued in implementing the strategy on *judicial reform*. The judicial council is complete and the two remaining laws needed to complete the legislative framework for the judiciary – the laws on the public prosecutor's office and on the council of public prosecutors – were enacted. The new Administrative Court and the new Court of Appeal in Gostivar were set up. However further strengthening of the judiciary is required as regards its budgetary framework, human resources and efficiency. A track record of implementation of the new legislative framework and of the functioning of the new institutions needs to be established.

There has been some progress in the area of **anti-corruption policy** and measures. The legal and institutional framework has continued to be strengthened. Co-operation and coordination among the relevant bodies has increased.

Further progress was made in implementing the second set of recommendations of the Council of Europe Group of States Against Corruption (GRECO): two thirds have been implemented, and those outstanding are in the process of being implemented.

The law on criminal procedure was amended to permit the use of special investigation measures for corruption cases. This represents a significant strengthening of the tools available to the law enforcement agencies.

The law on prevention of corruption was amended to allow the State Anti-Corruption Commission (SACC) to publish the asset declarations of all appointed and elected officials, directors of public enterprises, public institutions or other legal entities with state-owned capital, without a letter signed by the person concerned authorising the SACC to do so. Other amendments further enhanced the competence of the Public Revenue Office (PRO) to examine property, obliging all those under investigation to submit evidence of the sources of the funds with which property had been acquired. All public bodies were obliged to submit all data requested by the PRO within a fixed period. Failure to do so is punishable by a prison sentence.

A new law on public procurement and related implementing legislation entered into force. It provided for a new remedies system and provisions to make publication and awarding of contracts more transparent. A new law on the Public Prosecutor's Office extended the jurisdiction of its organised crime unit to corruption-related offences.

The SACC continued to monitor the implementation of the state programme for prevention and suppression of corruption. Some of the foreseen activities were undertaken. A performance monitoring system was put in place. A new state programme on conflict of interest and a related action plan were adopted. Forty-seven cases of conflict of interest were initiated, of which 38 were completed. In eleven cases a conflict of interest was determined.

The SACC has continued to monitor the asset declarations of elected and appointed officials. More than half of the misdemeanour procedures brought against officials who failed to meet their obligations with regard to asset declarations following the 2006 elections have been completed. The SACC benefited from additional human and financial resources as well as from new premises.

A government council to coordinate, monitor and ensure the implementation of the anti-corruption measures and activities contained in the government's anti-corruption plan was established and began to hold regular meetings. The supplementary budget made a specific allocation for the implementation of the plan.

The capacity of and cooperation between law enforcement agencies and watchdog bodies has continued to strengthen. Increased coordination in investigations has led to some high-profile cases being pursued. Progress was made towards adopting a unified methodology and system for collecting and sharing intelligence, in particular in the Ministry of Interior. There has been some evolution in the perception of corruption.

Training was given to customs officers and police officers within the framework of anti-corruption programmes. A steady number of customs officers, police, tax officials, judges and prosecutors have faced disciplinary measures for bribery and abuse of office. Some resulted in dismissals and prison sentences. Continuous training for entities applying the new public procurement law was undertaken.

The 2008 supplementary budget introduced specific budget lines for anti-corruption activities in line with the anti-corruption Action Plan, for a total of €1.5 million.

However, the legal framework still needs to be completed and rationalised. Deficiencies in the legal provisions on the financing of political parties and electoral campaigns were addressed after the elections and a track record of implementation needs to be established. The conflict of interest law contains loopholes, in particular it does not apply to civil servants. The GRECO recommendation to introduce guidelines for MPs when they are deciding on requests to lift immunity has not been implemented. The OECD Convention on combating bribery of foreign public officials has not yet been signed.

More effective implementation of the preventive measures provided by the anti-corruption legal framework, including the law on general administrative procedures and the law on free access to information, would narrow the opportunities for corruption. Too little attention is given to monitoring legislation to ensure that it is consistent.

The approach to tackling corruption is still not comprehensive. The SACC is not sufficiently fulfilling its leadership role and should be more active in particular in awareness-raising and engagement with the public. It needs to catch up with its backlog of work, cooperate more with other bodies and ensure it is seen to be impartial and independent in the way it acts.

State Audit Office reports and recommendations made by the SACC are not consistently followed up. The judiciary remains weak, and delivery and enforcement of court decisions are deficient. Efforts to pursue a zero tolerance policy are still not comprehensive and consistent. Decisions made in the public administration are not sufficiently transparent. There is a need for general training on the freezing and confiscation of proceeds from criminal activity. The public procurement remedy system is not yet in place, and reforms in the health care sector have not achieved the expected results in fighting corruption.

Also, mutual access to databases relating to the fight against corruption and organised crime is still limited. A scoping exercise to identify the nature and extent of corruption in the public sector is missing.

Further progress has been made in strengthening the legal and institutional framework for fighting corruption and some further results have been achieved in implementation. However, corruption remains a serious cause for concern and key weaknesses remain, notably as regards financing of political parties and election campaigns.

Some progress has been made in the area of **fundamental rights**. (*See also under political criteria and Chapter 19: Social policy and employment.*)

In 2007, the Ombudsman's office received 3029 complaints, a number slightly lower than in 2006 (3076). The largest number of complaints received in 2007 related to the judiciary for delayed procedures 27.2%; followed by labour relations, 12.1%; police procedures, 11.4%; property rights, 10.4%; and urban planning and construction, 6.7%.

About a quarter of the complaints reviewed in 2007 were found by the Ombudsman to involve justified complaints. Of these, cases involving police actions accounted about half, although the absolute number decreased in comparison to 2006. The responsiveness of the state bodies in implementing the instructions of the Ombudsman has increased: they implemented the recommendations in 88% of cases. The Ministry of Interior complied with the instructions of the Ombudsman in 97% of cases.

As regards the *prohibition of torture and inhuman or degrading treatment or punishment*, there has been some further training on the code of police ethics. However, further significant efforts are needed to investigate and prosecute allegations of ill-treatment, in line with the decisions of the European Court of Human Rights. The Committee for the Prevention of Torture has expressed deep concern about conditions in prisons which in some cases, such as at Idrizovo prison, are inhuman and degrading.

With regard to *respect for private and family life*, in particular the right to the protection of personal data, the law on data protection was amended and is being implemented. Amendments have been adopted that are intended to further align the law with the *acquis*. The Directorate for Personal Data protection organised press conferences, interviews and reports, as well as a number of workshops and roundtables, with the aim of informing the public about the right to personal data protection and privacy. However, the Directorate for Personal data Protection remains understaffed. The additional protocol to the Council of Europe convention for the Protection of Individuals with regard to Automatic Processing of Personal Data regarding supervisory authorities and trans-border data flow was ratified in September.

Good progress can be reported in the field of *freedom of thought, conscience and religion*. The law on the legal status of churches, religious communities and religious groups came into force in May 2008. The law is intended to remove all impediments to the free practice of religious belief. However, it has yet to be fully implemented.

With regard to *freedom of expression including freedom and pluralism of the media*, the legal framework continues to meet most international standards. However, poor implementation leads to weaknesses in practice. The economic and financial autonomy of the public service broadcaster and the regulatory body has still not been ensured. Most of the broadcast media are related to political or business interests, which affect their content. Ownership of the leading print media remains highly concentrated. The media continue to be subject to significant political interference.

In the area of *freedom of assembly and association, including the right to form political parties and the right to establish trade unions*, as of May 2008, 43 trade unions and 5 associations of employers were registered in accordance with the labour law.

No progress can be reported in the field of *treatment of socially vulnerable and disabled people and the principle of non-discrimination*. The framework law on non-discrimination has yet to be adopted.

With respect to the *right to education*, compulsory education was extended by law from eight to nine years, between the ages of six and 15 as of September 2008. However, there is insufficient capacity to deal with the expansion of the school population and the allocated budget is insufficient.

The *right to property* is protected, but the process of restitution of property confiscated during the Yugoslav regime is still not complete. Final decisions have been taken on approximately 24.000 of the 30.744 applications filed between 2000 and 2007. No progress has been made on the issue of returning properties of the Orthodox Church and the Muslim community. The authorities should take practical measures to improve the administration of the restitution process in line with the Ombudsman recommendations, paying particular attention to possible allegations of corruption.

Limited progress can be reported in the field of *gender equality and women's rights*. Equal opportunity committees have been established in 73 municipalities. The Ministry of Labour and Social Policy has drafted the national strategy on protection from domestic violence. The draft strategy covers all aspects of the issue, including prevention (through education), awareness-raising, legal protection, and assistance to both victims and perpetrators. The definition of rape in the criminal law was amended and is now wider, thus making successful prosecutions more likely. However, discriminatory practices against women continue, including violence within the family.

Concerning *children's rights*, compulsory education is being widened. The Criminal Code has been strengthened to protect children from crimes such as child pornography and sexual abuse. However, significant efforts are needed to improve the situation in practice, especially for children from deprived backgrounds as regards access to education, health care and juvenile justice.

As regards *liberty and security* as well as the *right to a fair trial*, the legal framework for witness protection is not adequate. No state funds are available for legal aid in civil cases.

There was some progress in the field of *minority rights and cultural rights* but further significant efforts are required. A law on languages was adopted which establishes a comprehensive legal framework for the use of minority languages in public institutions: de facto it applies to the Albanian language because of a 20% population threshold. Agreement was achieved on the scope of application of the double majority system for laws affecting minorities. There has been progress in achieving equitable representation in public administration for the Albanian community. However the integration of ethnic communities remains limited and the ethnic fragmentation of primary and secondary education is a concern. The smaller communities have not been sufficiently supported as regards education and public employment. A broad political consensus remains to be found on the law on use of flags of the communities. Little progress was achieved regarding the Roma as the action plans

are being implemented slowly. There are several cases pending at the European Court of Human Rights concerning police abuse of Roma.

There were no developments in relation to **EU citizens' rights**.

Conclusion

Some progress has been made in the area of judiciary and fundamental rights. As regards judicial reform, the judicial council is functioning, the Council of Public Prosecutors has been established and the law on the public prosecutor's office has been adopted. However, a track record of the functioning of these new institutions needs to be established. Further strengthening of the judiciary is required as regards its independence, budgetary framework, human resources and efficiency. The law on criminal procedure was amended to allow the use of special investigative measures in corruption cases. The anti-corruption Action Plan was allocated a specific budget. Further efforts are necessary, notably as regards implementing provisions on financing of political parties and election campaigns. Concerning fundamental rights, a law on languages was adopted which extends the use of the Albanian language in public life. However, little progress can be reported regarding the other minorities, including the Roma. Overall, the country is moderately advanced in this area.

4.24. Chapter 24: Justice, freedom and security

Good progress can be reported in the field of **migration**. Implementing legislation to the Law on employment of foreigners was adopted. The Law on aliens and the associated implementing legislation entered into force. The readmission agreement with the European Community entered into force. As the number of returned people rose compared with the previous year, efforts should be put into integration of readmitted persons. Secondary legislation on migration policy and an integration policy plan are still lacking. A readmission agreement was signed with Bosnia and Herzegovina, bringing the number of readmission agreements with non-EU Member States to five. Readmission agreements were concluded with Moldova and Ukraine and are being negotiated with Serbia and Montenegro. In the course of 2007 the border police detected 1,085 illegal crossings (compared with 3,302 over the previous reporting period) and prevented 1,919 illegal attempts to cross the green border. The Law on employment of foreigners and the Law on aliens are not yet being fully implemented. Administrative capacity improved, but remains unsatisfactory. Staffing levels at the Ministry of Labour and Social Policy are still insufficient. In this area the country is advanced.

There has been further progress in the area of **asylum**. The new reception centre is operational. The first steps have been taken to develop the central database for aliens, covering asylum, migration and visas. However, asylum procedures are not yet fully in line with European standards. The identity documents stipulated in the implementing legislation were still not being issued to people covered by the law. The decision-making procedures and appeals system require further improvement. Amendments to the Law on asylum and temporary protection, notably in the area of subsidiary protection, have yet to be enacted. The authorities have still not fully taken over from the international community responsibility for providing financial and material assistance for asylum-seekers. There is still a lack of properly trained staff, proper equipment and adequate budgetary support. In this area, legislative alignment is advanced and development of the administrative capacity is well on track.

Further progress has been made in the area of **visa policy**. The Law on aliens and the implementing legislation regulating issuance and processing of visas entered into force. Visas

are no longer issued at the borders, save in exceptional cases. An agreement on a visa-free regime with Albania was ratified by parliament. Visas for citizens of Albania will be issued at the borders until the agreement enters into force. A visa facilitation agreement with the EC entered into force, and a visa liberalisation dialogue with the EU was launched. Bilateral visa facilitation agreements were signed with Norway and Russia. New biometric passports and temporary and permanent residence permits are being issued in line with international security standards. High-quality travel and identity documents have begun to be delivered. A new visa sticker has been developed, based on the Schengen visa model. A national IT visa management system and a visa centre are in operation. The relevant staff are undergoing the necessary training. However, the administrative capacity of the Department for consular affairs needs to be strengthened, especially its human and budgetary resources. Visa provisions are still not fully aligned with the EU negative list. Preparations in this area are well advanced.

There has been progress in the area of **external borders and Schengen**. The integrated border management strategy and action plan were almost fully implemented. The Law on State border surveillance and the related implementing legislation are being implemented. The process of border demarcation with Kosovo is almost complete. International cooperation is established at all levels and contacts have been established with FRONTEX with a view to concluding a working arrangement.

The national border management coordination centre assumed its functions and is partially operational. Improvements have been made to the planning and conducting of training for border police, but there is still too much variation in the level and sorts of training that the different border officers receive. An overall strategy on human resource management for the border police has not yet been adopted and an in depth analysis of the staffing situation is lacking. The data communication network for the border crossing points (BCPs) is still only partially operational. The main database and software to connect the BCPs to this database, which would permit effective border control in line with Schengen criteria, are still lacking. The first steps have been taken to develop the database. Some of the premises and offices, especially of the small BCPs and border police stations, remain in dilapidated condition and are not adequately equipped. Although BCPs generally seem to have enough equipment for checking documents, added value will be derived only if proper use is made of the equipment in combination with profiling. More attention should be paid to profiling by the border police at the road border crossing points and to providing them with risk information to combat illegal migration effectively. The budgetary support is unsatisfactory. In this area the country is advanced.

Little progress can be reported in the area of **judicial cooperation in civil and criminal matters**. The country has neither ratified the Convention of 19 October 1996 for the protection of children nor signed or ratified any of the other conventions mentioned in this section in last year's report. Also the Second Additional Protocol to the European Convention on mutual assistance in criminal matters remains to be ratified. In this area, the country is not prepared.

Progress has been significant in the area of **police cooperation**. The decentralisation element of the police reform strategy has been implemented. All the implementing legislation has been adopted, and the necessary organisational arrangements were made by the Ministry of the Interior to prepare for effective implementation of the Police Law, a key priority of the Accession Partnership. The strategic agreement with EUROPOL entered into force in March 2008. Work on conclusion of an operational agreement, which would allow exchanges of

personal data, is ongoing. All 38 commanders of the main police stations have been appointed, in consultation with the municipal councils, albeit with some delay. A comprehensive annual training programme for 2008 was adopted. Major investments in equipment, including replacement of the vehicle fleet, were decided.

The human resources department of the Ministry of the Interior was reorganised. A general human resources strategy has been designed and its implementation is at an early stage. Merit-based career development and appraisal are not yet ensured and politicisation, in particular of senior police officers, is a problem. The police academy has trained a new generation of police cadets using up-to-date methodology, but overall the focus was too much on academic training and its potential has not fully been used. In early July, parliament enacted amendments to the Law on internal affairs relating to the police academy. The amendments created a Training Centre as a new organisational unit within the Bureau for Public Security (Ministry of the Interior) with the tasks of carrying out basic and continuous training.

Although some progress has been made as regards the institutional response to small arms and light weapons, the issue poses a considerable challenge. Regulations on private possession of arms are still insufficiently enforced, and the level of illicit arms possession is alarmingly high, with an impact on crime and private violence.

Some progress has been made in the fight against **trafficking of human beings**. In January 2008 the criminal code was changed to introduce harsher penalties for traffickers and those using services of trafficking victims. New standard operating procedures on victim identification were adopted and resulted in an increase in the number of victims identified. There were also improvements in cooperation between the police, the public prosecutors and the courts. Progress has been made in profiling organised crime groups and identifying their modus operandi. In 2007, the government prosecuted 55 cases related to trafficking and convicted 70 traffickers involved in 30 cases, compared with 54 convictions in 18 cases in 2006. The Council of Europe Convention on Action against Trafficking in Human Beings has not yet been ratified. Shortcomings in the logistics and funding of the department for witness protection have not been fully addressed.

Progress has been made in the **fight against organised crime**. The legislative activity aimed at progressive implementation of the Action Plan for the fight against organized crime continued. Cooperation between law enforcement agencies and the judiciary remained satisfactory at central level, meeting international best practice. Some improvements were made at field level. Cooperation between public prosecutors and criminal police of the regional police headquarters has improved, but not sufficiently. The sector for special investigative techniques in the Ministry of the Interior remains understaffed and needs further equipment. In early July the code of criminal procedure was amended. Use of special investigative measures is now allowed not only for crimes committed by organised groups but also for crimes either punishable by at least four years of imprisonment or specifically identified. This will close the gap in the law with regard to use of special investigative measures for corruption-related crimes, including monitoring of communications. The new Law on interception of communications addresses the shortcomings of the previous law. It introduces, however, some new elements, such as the role of the Minister of the Interior and the wide conditions for recourse to interception, where proper implementation will be crucial to ensure the primacy of the judiciary and to avoid a too wide interpretation of the conditions for wiretapping.

Serious deficiencies remain in the judicial and parliamentary oversight of the Administration for security and counter-intelligence. The sector for criminal intelligence analysis has become fully operational: it has been staffed, equipped and trained.

The capacity of the organised crime department to gather, collate and analyse criminal intelligence data has been expanded to the eight regional headquarters. However, it is not yet acting as the national cooperation centre, because no common database has been established. An integrated intelligence system for inter-agency use in combating organised crime is not yet in place, but preparatory work is underway. The numerous memoranda of understanding in place help to address the need for more effective cooperation at inter-agency level. Progress has been made with the handling of informants and with measures against trafficking of stolen vehicles. There has been little progress in fight against computer crime, where shortcomings in staffing and in equipment remain.

Preparations in the area of police cooperation and the fight against organised crime are moderately advanced.

Progress has been made in **fight against terrorism**. The Law on prevention of money laundering and financing of terrorism came into force; its alignment with the *acquis* remains to be confirmed. Inter-agency cooperation has steadily improved, notably in connection with the financing of terrorism: the Office for prevention of money laundering now has access to the databases of the Public Revenue Office and of the Administration for Security and Counter-Intelligence of the Ministry of the Interior and efficiently supports the investigation and prosecution capacity of the law enforcement agencies. The number of reports of suspicious transactions sent to the Office has increased, but is still low. Gaps in the criminalisation of terrorism offences, especially in the field of financing, were closed by the Law on financing of terrorism. The 2005 Council of Europe Convention on Prevention of Terrorism has been ratified. Preparations in the area of the fight against terrorism are advanced.

In the area of **drugs** little progress can be reported. The country already largely fulfils the *acquis* requirements, although the question of drugs remains very serious as the country lies at the crossroads of many Balkan drug trafficking routes. The Interministerial Commission for Narcotic Drugs reported growing seizures of illicit substances. Relevant authorities sharpened their focus on a balanced approach to reducing both demand and supply. The national drug strategy, which is in line with the EU drug strategy for 2005-12, and the related action plans are gradually being implemented. The law on narcotic drugs has not been enacted yet. Preparations in this area are moderately advanced.

There has been progress in the area of **customs cooperation**. Cooperation with the South-east European Cooperative Initiative (SECI) was enhanced, as the customs administration participated in international operations and exchange of information on seizures, as well as in exchange of intelligence information through the SECI's Regional Centre for Combating Trans-border Crime. Efforts were stepped up to cooperate effectively with the Regional Intelligence Liaison Offices (RILO) within the World Customs Organization to which 28 cases of seizure of foreign currency were reported. The customs administration has established practices for exchanging information with foreign customs administrations on international prosecutions and court cases in criminal matters.

There has been limited progress in the area of protection against **counterfeiting of the Euro**. Cooperation between the National Bank and the Ministry of the Interior has improved. A

satisfactory proportion of investigations have led to perpetrators being prosecuted, but the number of investigations carried out is still rather low. Preparations in this area are not advanced.

Conclusion

In the area of *justice, freedom and security*, there has been some further progress. The operational capacity of the competent authorities has further improved. Progress can be reported in the areas of police cooperation and the fight against organised crime, migration, asylum, visa policy and border management. However, the politicisation of senior police officers has led to abuse. The legislation is largely in place and implementation is under way. The visa facilitation and readmission agreements between the EC and the former Yugoslav Republic of Macedonia entered into force in January 2008. The visa liberalisation dialogue with the European Commission has been launched. There has been good progress in fulfilling the benchmarks of the roadmap for visa liberalisation, notably as regards the introduction of biometric passports. Progress has been made with profiling and breaking up criminal groups involved in human trafficking, but the country remains a country of origin, transit and destination for trafficking of human beings. Overall administrative capacity has to be further strengthened and organised crime remains a serious concern. Overall, preparations in this area are moderately advanced.

4.25. Chapter 25: Science and research

Progress has been made in the area of **research policy** with the adoption of the Law on scientific research activities and the Law on promotion and support of the technological development. Both laws aim at better structuring the organisation and management of national research funding and better linking research to social and economic development. However, budgetary constraints and weak institutional capacity remain major impediments to development of research.

With respect to participation in **framework programmes**, the positive trend of increasing participation under the Seventh EC Research Framework Programme (FP7) since its association is continuing. The Memorandum of Understanding has been smoothly implemented. As regards integration into the **European Research Area**, the country is part of the Euraxess Jobs Portal (formerly known as Mobility Portal) and Euraxess Service Network (formerly known as the ERA-MORE network) and is in the process of setting up its national Euraxess Portal and Network. Further action is expected to stimulate investment in research. A national action to increase public funding in research and stimulate the private sector to contribute more to the EU objective of investing 3% of GDP in research by 2010 is still missing. The budgetary allocation for science in 2008 is still less than 1% of GDP. The level of private investment in science and research remains symbolic.

Conclusion

Progress has been made on organisation of research cooperation at national level, which now needs to be turned into more effective research funding in support of socioeconomic development. Implementation capacity is still insufficient. The first year of participation in FP7 has produced good results. Substantial efforts remain necessary to strengthen research capacity. Overall, the country is on track in the area of science and research, but further efforts are necessary, in particular as regards the integration into the European Research Area

4.26. Chapter 26: Education and culture

Progress can be reported in the field of **education, training and youth**. In August, a new Law on elementary education was enacted. It establishes the right to primary education of the children of permanently residing EU citizens on the same conditions as children who are citizens of the country. The Law on adult education was enacted. It establishes the institutional framework for education for adults and provides for a national advisory body which will coordinate adult education. It provides for training for long-term unemployed adults in skills for which there is strong demand. A new Law on higher education was enacted. It provides the framework for implementing the Bologna reforms. A programme on compulsory vocational education was prepared by the Centre for vocational education and training. The budget for education increased. However, it was not sufficient to ensure proper implementation of the policy provisions, including the national strategy for reform in education for 2006-15. Human resources are also inadequate. Progress has been made in the preparations for management of the Community Lifelong Learning and Youth in Action Programmes. Work plans for preparatory measures to be implemented in the second half of 2008 and in 2009, including adequate training for the National Agency, have been submitted. The administrative framework remains to be completed, and the National Agency and the National Authorities should build their capacity to implement their respective tasks. Preparations in this area are advanced.

There has been good progress in the field of **culture**. The country has started to participate in the EU Culture Programme. Preparations in this area are advanced.

Conclusion

Progress has been good in the area of education and culture. Capacity to implement the enacted legislation remains insufficient. The country should continue its efforts to prepare for management of the Lifelong Learning and Youth in Action programmes. Preparations in this field are advanced.

4.27. Chapter 27: Environment

Some progress has been made in the area of **horizontal legislation**. The implementing legislation intended to transpose the *acquis* on strategic environmental assessment has been adopted, but is not yet fully aligned. The EIA requirements relating to informing and consulting the public are not yet adequately applied. The Law amending the Law on environment was enacted, and implementing legislation was adopted, so as to transpose the requirements for public access to environmental information. The implementing legislation relating to public participation is not yet fully aligned. Some activities have started to prepare projects aiming at reduction of the greenhouse gas emissions, in line with the clean development mechanism (CDM) under the Kyoto Protocol. Steps were taken to strengthen the capacity of the Directorate for Protection and Rescue. The government recently applied to participate in the Community civil protection mechanism. Preparations in the area of horizontal legislation are advanced.

Some progress has been made in the area of **air quality**. Implementing legislation on assessing ambient air quality was adopted, but is only partially aligned with the *acquis*. A recovery and recycling system for ozone-depleting substances has been established. Progress has been made towards proper functioning of the air quality monitoring system. However, it is not yet fully operational and needs further improvement. A national system to support work

on inventories is still not in place. Cooperation between the institutions involved is not sufficient to ensure proper collection of data. Investments in this field need to be substantially increased. Preparations in the area of air quality are moderately advanced.

Some progress has been made on **waste management**. Implementing legislation was adopted relating to landfills, medical waste, hazardous waste and waste oils, which further transposes the *acquis*. The national strategy for waste management was approved. The national waste management plan is not yet finalised. The process of issuing waste permits has started. A coordination waste management committee was established with the aim to enhance the government's activities in this area. A system to deal with data collection, registration and reporting is not yet in place. More finance has been provided, mainly for preparation of technical documentation for small infrastructure projects, sanitation and closure of municipal dumps. However, the substantial investment required to align standards with the *acquis* has not yet been planned. Preparations in this area are moderately advanced.

Little progress has been made in the field of **water quality**. The new Law on water was enacted. The monitoring system has improved but still lacks sufficient coverage and data collection. The first annual report on water quality and quantity was submitted to the European Environment Agency. The new Law on water has not yet been adopted by parliament. Some investments were made for project preparation and implementation of small infrastructure projects. The polluter-pays principle is not applied, thus impairing the sustainability of investment in wastewater treatment. The substantial investments required for compliance with the *acquis* have not yet been planned. Preparations in the area of water quality are moderately advanced.

Little progress can be reported as concerns **nature protection**. Transposition of the *acquis* in this field has advanced slightly. The management plans for protected areas started to be implemented, and funding for them has been increased. A national strategy and action plan for nature protection have not yet been completed.

Some progress has been made in the area of **industrial pollution control and risk management**. Implementing legislation related to the Integrated Pollution Prevention and Control (IPPC) Directive and establishment of the eco-label scheme was adopted. The process of issuing IPPC permits continues, and the first major "A" installation permit has been issued for a ferro-nickel plant. Some training and information sessions have been provided for companies and municipal experts in this field. Further efforts are still needed in this area.

Little progress can be reported in the area of **chemicals**. The commission for chemicals was established, in charge of classification and notification of chemicals and biocides, as well as issuing authorisations for placing them on the market. Extensive training and awareness-raising of both the institutions and the companies concerned are needed. Preparations in this area are at an early stage.

Some progress can be reported in the area of **GMOs**. The Law on GMOs was adopted. The units responsible for risk assessment of GMOs and for placing GMO products on the market have not been established nor the necessary laboratories installed. Preparations are moderately advanced in this area.

Little progress can be reported in the area of **noise**. Transposition has progressed well but implementation remains at an early stage.

Some progress can be reported in the area of **forestry** where a programme for expanded reproduction of forests was adopted.

Administrative capacity in terms of human and financial resources is insufficient at both State and local levels and its strengthening remains a priority for improving the implementation and enforcement of the legislation. Little progress has been made towards improving coordination between administrative bodies in charge of environment-related issues. Further efforts are needed in this respect, in particular in the area of water quality and nature protection. Environmental protection requirements are not yet well integrated into policy-making and implementation in other areas.

The Strategy for approximation to and implementation of the environmental *acquis* was adopted. An environmental investment strategy, based on estimates of the cost of alignment and of priority measures for investment, has not yet been completed. The annual programme for investment in the field of environment was adopted envisaging a significant budget increase for investments compared to the previous reporting period. The environment monitoring and information system is still not adequate.

Conclusion

Progress has been made in developing the legislative framework in the field of environment, in particular as concerns horizontal legislation and the air and waste sectors. A substantial amount of implementing legislation has still to be prepared. Some sectors, such as water quality or nature protection, are lagging behind. Administrative capacity at both central and local levels requires substantial strengthening. Although significant efforts have been made to increase financial resources, investments in environmental infrastructure are still largely insufficient. Coordination between all institutions involved in environmental protection needs to be improved. Overall, the country is not yet sufficiently prepared in the field of environment.

4.28. Chapter 28: Consumer and health protection

Progress can be reported in the area of **consumer protection**. The administrative capacity of the Consumer Protection Council and the consumer protection NGO was further strengthened. The budgetary support for the consumer protection NGO was increased fivefold. The consumer protection NGO, which is now fully funded by the State budget, conducted a broad campaign on consumers' rights. However, the administrative capacity of the coordinating body for effective and transparent market surveillance has not been strengthened.

As regards *product-safety related issues*, some pieces of implementing legislation to the law on product safety were issued. There is only one recorded case where a dangerous product that had already been placed on the market was recalled and any further distribution prohibited. The competences of the various inspectorates have still not been clarified.

As regards *non-safety related issues*, the remaining implementing legislation to the Consumer Credit Law was issued. Use of mediation increased slightly. However, proper implementation and enforcement are not yet ensured. No progress can be reported on aligning the legislation with the *acquis* on distance marketing of consumer financial services and injunctions. The implementing legislation to the law on consumer loans was adopted to regulate the supervision of the financial institutions extending consumer loans and the methodology for calculation of total costs related to consumer loans.

Progress was made in the field of **public health**. Amendments to the law on patients' rights have been enacted. Substantial sums were allocated for purchasing new medical equipment for clinics and restructuring public health institutions. Two new public health programmes were promoted. The funding for all 15 public health programmes is progressively increasing; yet resources allocated to the hospital sector are still higher than those allocated to public health and primary healthcare. Implementation of public health programmes continues to be hampered by the lack of a proper operational structure and adequate finances.

The Law on protection against smoking and the law on tobacco and tobacco products have been amended, aiming to align with the *acquis*. Preparations in this field have started.

As regards *communicable diseases*, two new vaccines against Human Papilloma Virus and Haemophilus Influenza Type B have been included in the compulsory immunisation programme. An early warning system has been introduced in five cities, but the IT system is not working properly, and there is no comprehensive healthcare database. Preparations in this area have started.

In the area of human *tissues and cells* the Law on artificial fertilisation was enacted. Implementation of the *blood* safety and quality strategy was postponed owing to insufficient financial resources. Preparations in this field have started.

With regard to *mental health*, the funding of community mental health centres has been increased, but they still lack adequately qualified and trained staff and sufficient financial resources.

The public health programmes address the *socio-economic determinants of health* and *health inequalities* by providing funds for prevention of health problems caused by an unhealthy lifestyle and free treatment for uninsured patients. Institutional care for socially vulnerable and disabled people has not improved. To help lower the number of deaths from *cancer*, annual screening for breast and cervical cancer is provided for all women above a certain age. There have been no developments regarding prevention of excessive consumption of *alcohol*, nor in the area of *health and environment*. Preparations in these areas are being initiated.

Conclusion

Progress has been made in the area of consumer and health protection, in particular in building the institutional capacity for consumer protection and increasing funding for healthcare. However, an effective and transparent market surveillance system is not yet in place. Human and financial resources are not sufficient to allow full implementation of legislation, strategies and action plans in the area of public health.

4.29. Chapter 29: Customs union

Good progress has been made on **customs legislation**. Amendments to the Customs Code introduced risk criteria for the control of customs declarations and the status of authorised economic operator (AEO). The amended Law on administrative fees abolished or reduced the level of customs-related fees, but some fees not in line with the *acquis* still remain in force. Moreover, the customs authorities are no longer responsible for checking the labelling and technical specifications of goods, thus reducing waiting times at border crossings. The 2008 customs tariff was adopted, taking into account the obligations stemming from the SAA and the changes in the EU Combined Nomenclature. Tariff quotas are now allotted on a "first

come, first served" principle, which is in line with the *acquis*. The legislation in the area of transit has yet to be aligned. The Law on technological-industrial development zones has been amended with the aim of aligning it with the *acquis*. However, some of its provisions still need to be amended in order to achieve full alignment. In October 2007, the customs administration took over court powers for misdemeanour proceedings, in order to ensure faster, more efficient settlement. Preparations in this area are advanced.

Significant progress has been made in the area of **administrative and operational capacity**. By May 2008, the customs administration had recruited 140 new staff. As a result of the strategy for professional advancement, employees benefited from a large number of training activities, including induction training for new employees. The four mobile scanners purchased in 2007 were put into service. In preparation for setting up a "single-window" system at border crossings, an IT system for issuing authorisations and transit records has been developed. However, a comprehensive IT strategy and a strategy for interconnectivity with the Community IT systems have yet to be developed. Adoption of the single administrative document has not been addressed.

The customs administration continued implementing its strategy on integrity and combating corruption. The toll-free anti-corruption hotline was very successful. A total of 77 disciplinary procedures against customs officers were completed (compared with 10 in 2006), of which 40 resulted in dismissals, 14 in suspensions and 23 in fines. Significant results were achieved in combating cross-border crime and trade in counterfeit goods. The country was granted observer status on the EFTA committees for the Convention on common transit and on simplification of formalities in trade in goods. Cooperation was enhanced with a number of State institutions and also with trading and freight forwarding companies, by signing memoranda of understanding on integrated border management. The revenue collected by the customs administration continued to increase significantly.

The customs administration started to participate in the Customs 2013 programme.

Conclusion

Substantial progress has been made in this chapter, both as regards legislative alignment and administrative capacity. Revenue collection has increased substantially and good results have been achieved in combating cross-border crime, including infringements of intellectual property rights. The customs legislation is well aligned with the *acquis*, but still has to be further harmonised. Administrative and operational capacity has improved significantly and the fight against corruption has led to tangible results.

4.30. Chapter 30: External relations

Progress can be reported in the area of the **common commercial policy**. The country continued gradually to reduce customs duties, in line with its *WTO* obligations and with the Stabilisation and Association Agreement with the EU. For 2008, the average customs duty on industrial products is 7% and the duty on agricultural and fisheries products is 16.46%.

The country is continuing to coordinate closely with the European Commission and to align with the policies and positions of the EU towards third countries and within international organisations. At the EUROMED Ministerial Conference on Trade, it was decided to include the countries of the Western Balkans in the Pan-Euro-Mediterranean system of cumulation of rules of origin. Preparations have started for negotiations with the participating countries. The

country has been granted observer status in the EC-EFTA Joint Committee and the EC-EFTA Working Group.

There were no particular developments to report as regards *export credits*.

The system for control of *dual-use goods* is being implemented. Training was organised for the employees of the institutions that have access to the tracing system. Preparations in this area are on track.

In the area of **bilateral agreements with third countries**, the country is actively participating in the work under an enlarged and modernised Central European Free Trade Agreement (CEFTA), which entered into force for all signatory parties in November 2007. The number of bilateral investment agreements ratified rose to 30, of which 27 are in force and 15 are agreements with EU Member States.

There is no progress to report in the areas of **development policy** and **humanitarian aid**.

Conclusion

There has been some progress in the area of external relations, in particular as a result of implementation of the CEFTA. The institutional capacity is not yet sufficient, especially in the areas of development policy and humanitarian aid.

4.31. Chapter 31: Foreign, security and defence policy

The regular **political dialogue** between the EU and the country has continued to cover foreign policy issues. *For neighbourly relations with other enlargement countries and member states, see the section under Political criteria.*

As regards the **common foreign and security policy (CFSP)**, the country has continued to align itself with EU common positions and statements towards third countries and regions. With regard to the administrative capacity, the unit for CFSP in the Ministry of Foreign Affairs, which is responsible for coordination, was strengthened with the recruitment of additional staff.

The implementation of the law on international *restrictive measures* is ongoing and is reviewed regularly by the working group on CFSP issues led by the Ministry of Foreign Affairs. In particular, the country unilaterally accepted the Council Common Position 2008/104/CFSP on restrictive measures against extremists on its territory and introduced measures against those persons who are not citizens of the country.

With regard to *non-proliferation*, the country has ratified the Protocol against the Illicit Manufacturing of and Trafficking in Firearms, their Parts and Components and Ammunition supplementing the United Nations Convention against Trans-national Organised Crime; the Convention for the Suppression of Unlawful Acts against the Safety of Maritime Navigation; the Protocol for the Suppression of Unlawful Acts against Safety of Fixed Platforms Located on the Continental Shelf. The unit for arms control in the Ministry of Foreign Affairs was established in 2007 has now been allocated staff.

The country continued to engage actively in *cooperation with international organisations* (UN, OSCE, Council of Europe, etc.). (As regards the *International Criminal Court*, see *Political criteria – Regional issues and international obligations*).

As regards *security measures (classified information)*, the Certified Computer Unit for Access to the EU network for Electronic Exchange of Classified CFSP Information (ACN) has not yet been installed. The administrative capacity was strengthened but is still not sufficient. There is a lack of human resources and budgetary support.

The country is showing continued commitment to participation in military and civilian crisis management operations in the framework of the **European Security and Defence Policy (ESDP)**. The country continued to participate in the EU led military mission EUFOR/Althea. The country continued to participate in the NATO mission in Afghanistan and in the UN-led peacekeeping mission in Lebanon (UNIFIL). The administrative capacity of the ESDP unit in the Ministry of Defence is satisfactory.

Conclusion

There has been some progress in the area of foreign security and defence policy. Whilst the legal framework is largely in place, further efforts are required to implement it fully. Further efforts are needed to strengthen administrative capacity.

4.32. Chapter 32: Financial control

Progress has been made in the area of **Public Internal Financial Control and External Audit**. A manual on PIFC has been adopted, for use by internal auditors and financial managers of public bodies in preparing annual reports on financial controls.

Out of the 40 internal auditors planned, 24 have been recruited to various institutions. The institutional capacity of the Central Harmonisation Unit will need to be strengthened. Establishment of internal audit units was completed at central level, where 39 units were set up with 84 internal auditors. At local government level, 47 units were established with 33 internal auditors. Two units were established in public enterprises. A number of training activities were organised and new IT equipment was provided for internal auditors. Overall, internal audit capacity has improved, but is still inadequate. The role of centralised inspection will need to be regulated.

The operational capacity of the State Audit Office (SAO) has improved, but this was not reflected in the coverage of its audits: in 2007, the SAO covered 57% of public expenditure, compared with 65% in 2006. In 2007, the SAO carried out 98 audits and produced 188 audit reports, compared with 131 audits and 245 audit reports in 2006. It has begun to carry out follow-up audits. The SAO and the PIFC Department in the Ministry of Finance signed a protocol on cooperation, with the objective of strengthening the system for management and control of public finances. Cooperation between the SAO and parliament remains limited. Audited institutions still do not adequately follow up recommendations made in audit reports. No changes were made to the legislation on external audit. Full independence of the SAO has not yet been achieved. Parliament appointed a new Chief State Auditor, following the resignation of his predecessor. Preparations in this area are advanced.

There has been some progress on **protection of EU financial interests**. The structures for managing and monitoring IPA funds have been put in place. IPA units have been established

in each line ministry, procedures are being developed and training is under way. The head of the Central Financing and Contracting Department (CFCD) was appointed, and some new permanent staff was recruited to the CFCD and the National Fund (NF). Auditors for the CFCD and the NF were appointed and are deployed in the PIFC Department in the Ministry of Finance. The head of the financial police resigned and a successor was appointed by the government.

Parliament enacted amendments to the Organic Budget Law, one of which defined the IPA funds as a source of project financing via the budget and treasury and stipulated that use of these funds must comply with the Commission's Financial Regulation. The amendments also regulate budget planning of EU funds, national co-financing of projects financed by the IPA and the flow of IPA funds through the National Fund. Preparations in this area are advanced.

Conclusion

Limited progress has been made on aligning and implementing the legislation. The *acquis*, on both internal and external audit, has yet to be fully transposed. The administrative capacity of the institutions responsible for public internal financial control and external audit has been strengthened, but is still inadequate to meet the obligations arising from the *acquis*. The SAO is still not fully independent. Progress on protection of the EU's financial interests has accelerated.

4.33. Chapter 33: Financial and budgetary provisions

No significant divergences from the EU system remain concerning the basic principles and institutions in the underlying policy areas linked to the application of the EU's **own resources system**. Efforts to align with the relevant *acquis* chapters (customs, taxation, statistics, and financial control) have continued.

Efforts to combat customs duty and **VAT** fraud were also stepped up. The customs authority intensified its activities, which contributed to increasing revenue collection. The number of criminal cases sent to the public prosecutor in 2007 was twice that in 2006. The Public Revenue Office (PRO) increased its audit and control activities. Further progress on setting up effective instruments to combat customs duty and VAT fraud is vital for protection of the financial interests of the EU.

Although the *acquis* in this area does not require transposition, it is important to establish, in due course, coordination structures and implementing rules to ensure correct calculation, collection, payment and control of own resources and reporting to the EU for implementation of the own resources rules. The capacity within the relevant authorities to apply the rules under this chapter correctly is not yet sufficient.

Conclusion

Some progress has been made, in particular on combating VAT and customs fraud. Overall, preparations for alignment with the *acquis* are under way. Appropriate coordination structures, implementing rules and administrative strengthening in the area of own resources will be needed in due course.

STATISTICAL ANNEX

STATISTICAL DATA (as of 29 September 2008) The former Yugoslav Republic of Macedonia

Basic data	Note	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Population (thousand)	1)	2 002	2 013	2 022	2 031	2 039	2 024	2 030	2 035	2 039	2 042
Total area of the country (km ²)		25 713	25 713	25 713	25 713	25 713	25 713	25 713	25 713	25 713	25 713

National accounts	Note	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Gross domestic product (GDP) (million national currency)		194 979	209 010	236 389	233 841	243 970	251 486	265 257	286 619	310 915	:
GDP (million euro)		3 193	3 448	3 893	3 839	4 001	4 105	4 325	4 676	5 081	:
GDP (euro per capita)		1594e	1713e	1926e	1890e	1963e	2029e	2130e	2298e	2491e	:
GDP (in Purchasing Power Standards (PPS) per capita)		4 500.0	4 800.0	5 100.0	5 000.0	5 100.0	5 300.0	5 600.0	6000.0e	6400.0e	:
SI: GDP (in PPS per capita, EU-25=100)		25.5	25.7	25.8	24.1	24.0	24.6	25.0	25.8e	26.3e	:
SI: Growth rate of GDP (national currency, at constant prices, % change on previous year)		3.4	4.3	4.5	-4.5	0.9	2.8	4.1	4.1	4.0	:
SI: Employment growth (national accounts, % change on previous year)			3.0	-1.0	0.0	-2.0	-1.0	-2.0	-2.0	2.1	2.3
Labour productivity growth: GDP growth per person employed (% change on previous year)			:	:	:	11.4	6.1	10.0	3.6	3.7	:
SI: Unit labour cost growth (national accounts, % change on previous year)			1.7	-1.2	-9.0	-1.6	-2.2	1.3	-7.9	-5.5	4.5
SI: Labour productivity (GDP in PPS per person employed, EU-25=100)			:	:	:	:	:	:	:	:	:
Gross value added by main sectors (%)											
Agriculture		13.2	12.9	12.0	11.8	12.4	13.4	13.2	12.8	12.6	:
Industry		27.1	26.5	26.9	26.1	24.2	24.4	22.7	23.1	23.5	:
Construction		6.7	6.1	6.8	6.0	6.0	6.3	6.5	6.6	6.7	:
Services		52.9	54.5	54.2	56.1	57.5	56.0	57.7	57.6	57.3	:
Final consumption expenditure, as a share of GDP (%)		92.6	90.3	92.6	94.8	99.5	97.0	98.9	96.5	96.7	:
Households and NPISH, as a share of GDP (%)		72.4	69.7	74.4	70.0	77.1	76.3	78.8	77.7	78.2	:
General government, as a share of GDP (%)		20.3	20.6	18.2	24.8u	22.4	20.7	20.0	18.8	18.5	:
Gross fixed capital formation, as a share of GDP (%)		17.4	16.6	16.2	14.8	16.6	16.7	17.8	17.0	18.2	:
Changes in inventories, as a share of GDP (%)		4.8	3.1	6.0	4.2	4.0	3.2	4.1	3.7	3.7	:
Exports of goods and services, relative to GDP (%)		41.2	42.2	48.6	42.7	38.0	37.9	41.1	45.5	48.1	:
Imports of goods and services, relative to GDP (%)		56.1	52.2	63.5	56.6	58.2	54.8	61.9	62.8	66.8	:

Industry	Note	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Industrial production volume index (2000=100)		99.2	96.6	100.0	96.9	91.8	96.1	94.0	100.6	104.2	108.0

Inflation rate	Note	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
SI: Consumer price index (CPI), (total, % change on previous year)		-0.1	-0.7	5.8	5.5	1.8	1.2	-0.4	0.5	:	:

Balance of payments	Note	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Balance of payments: current account total (million euro)	2)	-249	-61	-106	-264	-401	-168	-363	-121	-45	-171
Balance of payments current account: trade balance (million euro)	2)	-460	-465	-750	-589	-856	-753	-914	-859	-1 020	-1 173
Balance of payments current account: exports of goods (million euro)	2)	1 152	1 117	1 433	1 291	1 182	1 203	1 345	1 643	1 903	2 442
Balance of payments current account: imports of goods (million euro)	2)	1 612	1 582	2 183	1 880	2 038	1 956	2 259	2 501	2 923	3 614

Balance of payments current account: net services (million euro)	2)	-53	37	53	-21	-24	-6	-43	-25	22	26
Balance of payments current account: net income (million euro)	2)	-47	-67	-70	-31	-47	-55	-33	-92	-28	-33
Balance of payments current account: net current transfers (million euro)	2)	311	435	661	377	525	646	628	853	982	1 010
of which government transfers (million euro)	2)	33	68	144	55	103	89	56	53	59	24
Foreign Direct Investment (FDI) in the reporting economy (million euro)	2)	134	83	233	500	112	100	261	77	345	239

Public finance	Note	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
General government deficit/surplus, relative to GDP (%)		:	0.3	2.3	-2.5	-0.5	0.1	0.4	0.2	-0.5	0.6
SI: General government debt, relative to GDP (%)		:	32.0	48.1	48.8	43.0	39.1	36.6	39.5	33.1	25.8

Financial indicators	Note	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Gross foreign debt of the whole economy, relative to GDP (%)	3)	:	43.4	42.7	44.2	39.3	35.9	47.9	53.9	49.1	:
Gross foreign debt of the whole economy, relative to total exports (%)	3)	:	108.9	93.6	108.4	108.5	95.7	121.2	122.3	104.8	89.3
Money supply: M1 (banknotes, coins, overnight deposits, million euro)		249	325	368	415	432	445	450	485	568	748
Money supply: M2 (M1 plus deposits with maturity up to two years, million euro)		427	556	690	1 145	1 052	1 240	1 450	1 686	2 100	2 694
Money supply: M3 (M2 plus marketable instruments, million euro)		497	647	786	1 267	1 141	1 318	1 532	1 768	2 208	2 860
Total credit by monetary financial institutions to residents (consolidated) (million euro)	4)	517	527	624	620	657	747	931	1 124	1 467	2 040
Interest rates: day-to-day money rate, per annum (%)		18.1	11.6	7.2	11.9	14.4	5.8	8.3	9.2	:	:
Lending interest rate (one year), per annum (%)	4)	:	:	17.5	23.0	23.0	14.0	13.0	13.0	9.5	7.5
Deposit interest rate (one year), per annum (%)		:	:	:	:	:	:	:	:	:	:
euro exchange rates: average of period - 1 euro = ... national currency		61.070	60.620	60.725	60.913	60.978	61.264	61.338	61.296	61.189	:
Effective exchange rate index (2000=100)		92.9	96.9	100.6	136.1	139.2	143.2	147.1	150.6	151.8	:
Value of reserve assets (including gold) (million euro)		289	422	759	844	771	715	717	1 123	1 417	1 524

External trade	Note	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Trade balance: all goods, all partners (million euro)		:	:	:	:	-927	-828	-1 008	-957	-1 062	-1 349
Value of exports: all goods, all partners (million euro)		:	:	:	:	1 178	1 203	1 346	1 644	1 918	2 446
Value of imports: all goods, all partners (million euro)		:	:	:	:	2 105	2 031	2 354	2 601	2 980	3 795
Terms of trade (export price index / import price index, % change to previous year)		:	-2.9	-1.8	1.7	9.6	-11.2	-12.3	15.4	-7.6	28.4
Share of exports to EU-27 countries in value of total exports (%)		:	:	:	:	55.9	58.9	60.3	56.9	61.3	65.2
Share of imports from EU-27 countries in value of total imports (%)		:	:	:	:	61.7	60.3	60.8	54.7	53.0	49.6

Demography	Note	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Natural growth rate: natural change (births minus deaths) (per 1000 inhabitants)	1)	6.2	5.2	5.9	5.0	4.8	4.4	2.7	2.0	1.9	1.5p
Net migration rate: immigrants minus emigrants (per 1000 inhabitants)		-1.0	-0.8	-1.2	-1.3	-12.2	-1.4	-0.1	-0.4	-0.3	0.1
Infant mortality rate: deaths of children under one year of age per 1000 live births		16.3	14.8	11.8	11.9	10.2	11.3	13.2	12.8	11.5	10.3
Life expectancy at birth: male (years)		70.6	70.7	70.9	70.9	71.0	71.1	71.4	71.4	71.5	:
Life expectancy at birth: female (years)		74.9	75.0	75.6	75.6	75.8	75.7	75.9	76.2	76.4	:

Labour market	Note	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Economic activity rate (15-64): share of population aged 15-64 that is economically active (%)		60.9	59.7	59.7	61.8	59.8	61.3	58.8	60.7	62.2	62.8
SI: Employment rate (15-64): share of population aged 15-64 that is in employment (%)		39.6	40.2	40.3	42.6	40.4	38.5	36.8	37.9	39.6	40.7
Share of male population aged 15-64 that is in employment (%)		49.8	49.4	49.7	50.6	48.6	45.6	44.4	45.4	48.3	48.8
Share of female population aged 15-64 that is in employment (%)		29.3	30.9	30.9	34.5	32.0	31.3	28.9	30.1	30.7	32.3

SI: Employment rate of older workers (55-64): share of population aged 55-64 that is in employment (%)		26.0	26.3	26.2	27.7	25.8	28.5	24.5	26.2	27.9	28.8
Employment by main sectors (%)											
Agriculture		:	:	:	24.9	23.9	22.0	16.8	19.5	20.1	18.2
Industry		:	:	:	29.2	27.5	27.3	25.8	25.8	25.0	24.9
Construction		:	:	:	5.9	5.8	6.6	7.0	6.5	7.6	6.4
Services		:	:	:	39.7	42.6	43.8	50.1	48.0	47.1	50.1
SI: Unemployment rate: share of labour force that is unemployed (%)		34.5	32.4	32.2	30.5	31.9	36.7	37.2	37.3	36.0	35.0
Share of male labour force that is unemployed (%)		32.5	31.9	30.5	29.5	31.7	37.0	36.7	36.5	35.3	34.6
Share of female labour force that is unemployed (%)		37.6	33.3	34.9	32.0	32.3	36.3	37.8	38.4	37.2	35.6
Unemployment rate of persons < 25 years: share of labour force aged <25 that is unemployed (%)		70.9	62.9	59.9	56.1	58.4	65.7	64.8	62.6	59.8	57.7
SI: Long-term unemployment rate: share of labour force that is long-term unemployed (%)		28.6	27.2	26.9	26.5	27.0	31.2	31.7	32.3	31.1	30.1

Social cohesion	Note	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Average nominal monthly wages and salaries (national currency)		9 394.0	9 664.0	10 193.0	10 552.0	11 279.0	11 824.3	12 293.3	12 597.0	13 517.0	14 584.0
Index of real wages and salaries (index of nominal wages and salaries divided by the CPI) (2000=100)		96.8	100.3	100.0	98.1	103.0	106.7	111.4	113.6	114.1	112.5
SI: Early school-leavers: share of population aged 18-24 having not completed upper secondary education and not currently in education or training (%)		:	:	:	:	32.2	:	:	:	:	:

Standard of living	Note	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Number of passenger cars per 1000 population		144.3	144.1	147.9	152.1	151.1	148.2	122.7b	124.3	118.7	:
Number of subscriptions to cellular mobile telephone services per 1000 population		15.0	23.7	49.4	109.0	179.7	300.4	491.6	597.6	695.1	:

Infrastructure	Note	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Density of railway network (lines in operation, per 1000 km ²)		27.2	27.2	27.2	27.2	27.2	27.2	27.2	27.2	27.2	:
Length of motorways (thousand km)		0.1	0.1	0.1	0.2	0.2	0.2	0.2	0.2	0.2	0.2

Innovation and research	Note	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
SI: Spending on human resources (public expenditure on education) relative to GDP (%)		:	:	:	:	3.4	3.4	:	:	:	:
SI: Gross domestic expenditure on research & development, relative to GDP (%)		0.4	0.3	0.4	0.3	0.3	0.2	0.3	0.3	:	:
SI: Percentage of households who have Internet access at home (%)	5)	:	:	:	:	:	:	11.0e	:	14.0e	16.5e

Environment	Note	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
SI: Total greenhouse gases emissions, CO2 equivalent (tons, 1990=100)		:	:	:	:	:	:	:	:	:	:
SI: Energy intensity of the economy (kg of oil equivalent per 1000 euro GDP 2004)		754.8	707.0	659.3	668.5	715.6	659.6	635.6	636.0e	624.7e	:
SI: Share of renewable energy in electricity consumption (%)		15.4	20.5	16.9	9.2	11.0	17.9	18.9	17.5	18.7	:
SI: Road freight transport as a share of total inland freight transport (modal split of freight transport) (%)		69.0	69.0	60.0	83.0	89.0	92.0	90.0	88.0	92.0	85.0

Energy	Note	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Primary production of all energy products (thousand TOE)		1 744	1 698	1 595	1 642	1 577	1 666	1 598	1 578	1 617	:
Primary production of crude oil (thousand TOE)		0	0	0	0	0	0	0	0	0	:
Primary production of hard coal and lignite (thousand TOE)		1 480	1 389	1 273	1 419	1 356	1 353	1 293	1 288	1 296	:
Primary production of natural gas (thousand TOE)		0	0	0	0	0	0	0	0	0	:
Net imports of all energy products (thousand TOE)		1 247	1 009	1 104	1 011	1 486	1 029	1 152	1 248	1 323	:
Gross inland energy consumption (thousand TOE)		2 904	2 837	2 765	2 677	2 892	2 740	2 749	2 863	2 925	:
Electricity generation (thousand GWh)		7.0	6.9	6.8	6.4	6.1	6.7	6.7	6.9	7.0	:

Agriculture	Note	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Agricultural production volume index of goods and services (producer prices, previous year=100)		103.8	101.1	101.0	90.2	97.5	104.5	107.0	100.3	105.0	98.0
Total utilised agricultural area (thousand hectare)		1 293	1 284	1 236	1 244	1 316	1 303	1 265	1 229	1 225	1 077
Livestock: cattle (thousand heads, end of period)		268	270	265	265	259	260	255	248	255	254
Livestock: pigs (thousand heads, end of period)		197	226	204	189	196	179	158	158	167	255
Livestock: sheep and goats (thousand heads, end of period)		1 315	1 289	1 251	1 286	1 234	1 239	1 432	1 244	1 249	944
Production and utilisation of milk on the farm (total whole milk, thousand tonnes)		174	202	220	201	198	192	213	197	235	374
Crop production: cereals (including rice) (thousand tonnes, harvested production)		660	637	565	476	556	466	677	645	595	470
Crop production: sugar beet (thousand tonnes, harvested production)		58	67	56	38	44	40	47	58	0	8
Crop production: vegetables (thousand tonnes, harvested production)		540	688	680	696	:	:	:	:	:	573

SI: Structural Indicator

e: estimate

f: forecast

p: provisional

b: break in series

1. Source: Eurostat. Break in series 2003.

2. For the period 1998-2002, the values in Euro are calculated using the annual average exchange rate; from 2003 the values in Euro are calculated on the basis of the current exchange rate.

3. For the period 1999-2003 external debt data are calculated according to the old methodology, with partial data coverage; since 2004 Gross Foreign Debt data are prepared according to the External Debt Statistics Guide, with full data coverage.

4. End of the year.

5. There are no data for 2005 because the ICT survey was conducted in February 2005, as a pilot survey, and covered 2004 as reference year.