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REPORT

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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, i.e. the *acquis* expressed in the Treaties, the secondary legislation, and the policies of the Union.

This report covers the period from October 2010 to September 2011. Progress is measured on the basis of decisions taken, legislation adopted and measures implemented. As a rule, legislation or measures which are under preparation or awaiting parliamentary approval have not been taken into account. This approach ensures equal treatment across all reports and enables an objective assessment.

The report is based on information gathered and analysed by the Commission. Many other sources have also been used, including contributions from the government of the former Yugoslav Republic of Macedonia, the EU 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.

1.2. 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. In October 2009, the Commission recommended to the Council to open negotiations with the country, as well as to move to the second phase of SAA Implementation. These recommendations were reiterated in 2010. The Council has not yet concluded its deliberations on the Commission's proposals.

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

² Enlargement Strategy and Main Challenges 2011-2012 - COM(2011) 666.

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

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

The country has been implementing the commitments undertaken within the **Stabilisation and Association Agreement (SAA)** with the EU, the key priority of the Accession Partnership, including all the commitments provided for under the first stage of implementation of Title V (Movement of workers, establishment, supply of services, capital). The Commission's 2009 proposal on transition to the second stage of the Association, pursuant to Article 5 of the SAA, has been under consideration by the Council.

The SAA structures have continued to serve as the basis for regular **political and economic dialogue** between the country and the EU. Since October 2010, experts from both sides have met at least once a year in seven sub-committees and a special group. Meetings of the highest joint bodies, namely the Stabilisation and Association Committee and the Stabilisation and Association Council, have been scheduled for October and December 2011 respectively. Moreover, the multilateral economic dialogue between the Commission, EU Member States and Candidate Countries in the context of the pre-accession fiscal surveillance continued, including a meeting at Ministerial level in May in Brussels. These meetings focused on the main challenges posed by the Copenhagen political and economic criteria and reviewed the progress made towards fulfilling the Accession Partnership priorities.

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 and the 2010 Progress Report, the government adopted its annual revision of the national programme for the adoption of the *acquis* in December 2010. **Visa liberalisation** for citizens travelling to the Schengen area has been in force since 19 December 2009. The rules for visa-free travel have been respected by the vast majority of travellers. To ensure the continued implementation of the commitments, a post visa liberalisation monitoring mechanism was established in view of increased numbers of asylum seekers from the region. The Commission presented its first monitoring report to the European Parliament and the Council in June 2011. An agreement on readmission with the European Union has been in force since January 2008.

Financial assistance is provided through the Instrument for Pre-Accession Assistance (IPA). In 2011, management of IPA was decentralised to the country authorities. The Multi-Annual Indicative Planning Document for 2011-13 provides for a total EU contribution of € 305 million and adopts a sector-based approach. In addition, the country continues to benefit from various regional and horizontal programmes. Cross border cooperation is also used to promote capacity building and dialogue between the local and regional authorities of neighbouring countries, namely Bulgaria, Greece, Albania and Kosovo³.

Since 2007 the Commission has committed an amount of over €288 million for projects to be implemented in the country, including 92 million in 2010. The EU financial assistance portfolio managed by the EU Delegation in Skopje amounts to € 115 million. By June 2011, 85% of this total had been contracted and more than 60% disbursed. This assistance focuses on strengthening administrative capacities with particular emphasis on the rule of law and

³ under UNSCR 1244/99

public administration sectors, tax and customs reforms, local infrastructure improvements for socio-economic development, and the ability to assume the obligations of EU membership. Furthermore, support is given to the implementation of the National Strategy and an Action Plan of the Decade of Roma Inclusion and the Ohrid Framework Agreement. In the context of pre-accession, the EU has already transferred the management of four out of five components of IPA to the national authorities under the Decentralised Implementation System (DIS). Further fine tuning of the necessary management and control systems is still needed in order to ensure higher quality standards when carrying out this responsibility.

Civil society has received extensive financial support from the EU under the IPA Civil Society Facility and national programmes, as well as through the European Instrument for Democracy and Human Rights. Aid objectives include the wider involvement of civil society in decision making and an increased capacity of independent civil society organisations. The national programmes currently being implemented provide significant support to improve the development and sustainability of civil society organisations and further capacity building of the government unit for NGO cooperation. Under DIS, civil society can now start to be involved in the monitoring of the overall implementation of EU aid.

The former Yugoslav Republic of Macedonia participates in the following **EU Programmes**: 'Entrepreneurship and Innovation programme' (EIP) of the 'Competitiveness and Innovation Framework Programme', the 'Seventh Research Framework Programme', 'Progress', 'Culture', 'Europe for Citizens', 'Fiscalis 2013' and 'Customs 2013'.

2. POLITICAL CRITERIA

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

2.1. Democracy and the rule of law

Parliament

Dialogue between the political forces, which is a key priority of the accession partnership, was temporarily interrupted by a parliamentary boycott during the course of the year. This was brought to an end by early elections leading to a new parliament.

The Parliament worked until January 2011 on the basis of dialogue between political parties. Several key laws related to the EU *acquis* were enacted.

The Committee on EU Affairs and the National Council for EU Integration, which is chaired by the opposition, continued to hold regular sessions. They discussed, in particular, the 2010 Progress Report, the related Action Plan and the annual revision of the National Programme for the adoption of the *acquis* (NPAA), as well as its implementation. The Committee examined all draft laws under the National Plan for the Adoption of the *Acquis*.

Efforts to strengthen the institutional capacity of the parliament continued, in line with the 2009 Law on Parliament. Five further public oversight hearings were successfully held and

the Government implemented their conclusions. The operational budget of the parliament was increased by 40%. This allowed thirty permanent posts to be created within the Parliament service, as well as the renovation of the building.

The amendments to the rules of procedure adopted in 2010, which aim to strengthen parliamentary cooperation, were implemented. The right of the opposition to table issues on the Parliament's agenda was confirmed in practice. All seven agenda items proposed by the opposition were discussed in plenary.

The implementation of the Law on languages has moved forward. Draft laws and other motions in the parliament are translated into Albanian. The use of Albanian in oral procedure continues in committees and in hearings, including by the chair, as well as in the plenary. The parliamentary TV channel is also interpreted into Albanian. The amendments adopted in July provide that all officials elected or appointed by the Parliament may use Albanian when addressing the parliament and its bodies.

The improved responsiveness of all members of the parliamentary Committee on inter-ethnic relations enabled three sessions to be held before the Parliament was dissolved.

However, at the end of January the main opposition party, the *Social Democratic Union of Macedonia* (SDSM), led a boycott of the parliament by a majority of opposition parties. SDSM stated it was protesting against undemocratic rule. This included action by the authorities, on charges of tax evasion, against a television channel known to be critical of the government. The boycott continued until the early elections in June. Convening several meetings of political party leaders, the President of the Republic made efforts to mediate a resolution, but was not successful.

The ruling *Internal Macedonian Revolutionary Organisation* (VMRO-DPMNE) and *Democratic Union for Integration* (DUI) coalition, which had a two-thirds and a 'Badinter majority'⁴, were able to continue to enact laws despite the boycott. Amendments to the Constitution, the Electoral Code and the Law on Lustration were among over 200 acts enacted without the opposition.

The Parliamentary Institute, whose function is to enable all parties to have greater access to information and analysis, is still not operational and its staff have yet to be recruited. This is essential in order to allow Members of Parliament to properly fulfil their role.

Parliamentary oversight of intelligence and counter-intelligence services remains weak. In 2010, only one session of the parliamentary Committee was convened. There is insufficient cooperation between the parliamentary Committee and the Bureau for Security and Counterintelligence.

Implementation of the Law on Lobbying continues to create selective access by interest groups to policy making. Lobbying can only be undertaken at the invitation of the relevant legislative body, and is permitted for civil associations but not for foundations. So far no lobbyist has registered.

The committee of inquiry on an incident in the Parliament in July 2010 did not complete its work before the dissolution of the parliament, and the responsibilities were not clarified. No

⁴ majority among both the majority and non-majority communities

practical steps were undertaken to prevent future similar occurrences. A code of ethics for Members of Parliament has not been established.

The parliament voted for its dissolution on 14 April, 34 months into its 4-year mandate, and early parliamentary elections were called for 5 June. A cross party agreement was reached on a code of conduct for the elections. The parliamentary elections resulted in the third consecutive victory of the VMRO-DPMNE-led coalition (56 seats), followed by the SDSM-led coalition (42), DUI (15), DPA (8) and NDP (2).

The finding of the OSCE/ODIHR election observation mission was that the elections were competitive, transparent, and well-administered throughout the country. On election day, the voters were able to freely express their choice in a peaceful atmosphere from a diverse and pluralistic choice of candidates. Freedom of expression, movement and assembly was respected. The media provided extensive coverage of the campaign, enabling voters to make an informed choice. The number of women who were heads of list increased from six in 2008 to 15 in 2011. Out of 1679 candidates, 34% were women. There was a high voter turnout of 63%. The political parties largely endorsed the elections and SDSM was returned to the parliament. Few official complaints were filed with State Election Commission. The five lawsuits with the Administrative Court were all rejected.

However, gaps and ambiguities remain, especially in relation to provisions for complaints, out of country voting and use of administrative resources. ODIHR reported credible allegations of insufficient separation between state and political party, and pressure on civil servants. Political parties campaigned almost exclusively along ethnic lines, reflecting the ethnic polarisation of society. The public broadcaster, contrary to legal obligations and its public mandate, favoured the government and strongly criticised the opposition in its coverage.

Some of the ODIHR recommendations from 2009 were addressed prior to the elections. In particular, the amended Electoral Code provided that the Broadcasting Council could issue a rulebook on the conduct of broadcasters; the campaign financing rules were tightened; the counting process was improved. The Electoral Code was amended by a slim majority and only two months before the election, which is not consistent with best practice. Also, the recommendation for a thorough audit of the Voters' List has not been implemented. This contains over 1.8 million voters for a population of 2.05 million, and concerns remain that the list is inflated. Questions remain about the arrangements for out-of-country voting.

The new Parliament, still under the technical government, enacted in shortened procedure amendments to the Laws on Use of Flags of Communities, Languages, Broadcasting Council, Judicial Council, Council of Public Prosecutors and adopted an authentic interpretation of the Law on Amnesty.

Overall, there has been progress in the conduct of elections. The elections were competitive and well-administered throughout the country. The government needs to implement fully the conclusions and recommendations of the OSCE/ODIHR election observation mission. Some progress has been made on the reform of the parliament. The implementation of the law on languages and of the rulebook of procedure has moved forward, and the operational budget has been increased. However, political dialogue needs to be further strengthened in order that problems can be resolved through the institutional framework. The boycott by the opposition hampered the functioning of the parliament.

Government

The new government coalition has actively taken forward the EU reform process and given it new impetus. The early election had delayed the adoption of certain measures. A revised 2011 National Programme for the Adoption of the *Acquis* (NPAA) was adopted in December 2010. Nonetheless, the NPAA does not specify deadlines, staffing requirements and budgetary implications.

The coalition partners enacted the sensitive Law on the census in November 2010. Following the decision to hold early elections, the coalition agreed to postpone the census from April to October. Reaching agreement between coalition partners on the decision concerning the ethnic composition of the census enumeration teams was also postponed.

Coalition relations were challenged in January by the construction of a church-shaped museum inside the Kale Fortress in Skopje, in a historic and ethnically mixed area. Protests over the construction led to an inter-ethnic clash.

The new governing coalition was formed swiftly after the elections and was sworn in on 28 July. The Government Work programme 2011-15 maintains the same five priorities as the previous government: increasing economic growth; integration into the EU and NATO; fighting against corruption and economic crime; maintaining good interethnic relations on the basis of the Ohrid Framework Agreement; investment in education, science and a knowledge based society.

Decentralisation of government - which is a basic principle of the Ohrid Framework Agreement - continued. The action plans for implementing decentralisation were approved up to 2013. An additional five municipalities (bringing the total to 79 out of 85) entered the second and last phase of the fiscal decentralisation process, enabling a more substantial transfer of competencies and financial management to the local level. Under the Law on financing the units of local self-government, the share of VAT transferred to municipalities increased to 3.7% in 2011.

The Law on management of state-owned land was adopted and entered into force in July 2011. Capacity-building programmes are being implemented to assist municipalities in the areas of property tax administration, human resources and financial control. Financial affairs units were established in three more municipalities; 52 municipalities established internal audit units and in 46 municipalities an internal auditor is operating. More than 1000 municipal civil servants have been trained, and progress was made in implementing annual training programmes.

However, four of the six municipalities which remain in phase 1 of the decentralisation process have sizeable debts, and two lack financial management capacity. Additional efforts are needed in order to prepare them for moving to phase 2. Blocked accounts remain a problem for municipalities in both phases 1 and 2. Mechanisms to address the significant disparities in delivery of public services are limited, and rural and small municipalities are especially disadvantaged. Some municipalities remain weak in the areas of monitoring or enforcing collection of the property tax.

Progress in meeting the objectives of decentralisation needs to be accelerated through the impetus of the Ministry of Local Self Government (MoLSG). The Ministry of Finance also needs to strengthen its capacity to develop policy on local government budget issues. The inter-ministerial committee for monitoring the financing of municipalities meets infrequently.

There is a lack of transparency and coordination of central funding for municipal projects, particularly for infrastructure projects.

Administrative bottlenecks continue to impede the opening of new schools. Social care services are still operated centrally by the Ministry of Labour and Social Policy and they have yet to be decentralised. Exchange of data between the land registry, the civil registry, the revenue office and the municipalities has yet to be strengthened within a unified data-base system.

Significant additional efforts are needed at central and local levels in order to strengthen the administrative capacity of certain municipalities, particularly in the areas of financial control, strategic planning, human resources management and economic development. The State Audit Office reported numerous shortcomings by the MoLSG in applying financial control standards and procurement rules, as well as poor follow-up of previous recommendations.

Overall, the government coalition has overcome difficulties and strengthened its internal cooperation. The new government has given fresh impetus to the EU reform process. The decentralisation process needs a stronger impetus. In particular, the financial framework for local service delivery needs to be more transparent and equitable.

Public administration

There was progress as regards the framework for public administration, which is a key priority of the Accession Partnership. The political responsibility for public administration (PA) reforms remained with the High Committee on Public Administration, led by the Prime Minister. A new recomposed Committee was appointed in August. The Special Group on Public Administration Reform meets regularly with the EU. The government adopted a new PA reform strategy for the period 2010-2015, as well as a financial assessment and an action plan for its implementation.

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

The Law on public servants entered into force in April 2011, and was further amended and harmonised with the Law on civil servants. MISA adopted most of the relevant implementing legislation on both the civil and public service. The Law on civil servants was amended to introduce new elements in selection and promotion rules. However, these amendments fall short of providing strategic solutions to all the existing challenges. The legal framework in the area of civil servants and public employees remains fragmented, allowing certain institutions to be regulated differently, including in the area of salary-related provisions. Major shortcomings remain, in particular regarding the rules on recruitment, appraisal and promotion; appointment of senior managers; and termination of employment. Further improvements to the key laws are necessary in order to ensure that the principles of transparent, apolitical, merit-based recruitments and promotions are embedded in the legal framework.

The Law on general administrative procedures was amended to increase accountability by streamlining administrative and appeal procedures, including the procedures for the setting-up and functioning of second-instance appeal commissions. A State second instance Commission for decision-making in administrative procedures and labour relations procedures was established. In general, however, the amendments to the Law have not rectified all its shortcomings. The law does not define the right to an administrative appeal as a principle with clearly defined exceptions. The principle of 'silence is consent' is subject to a complex appeal procedure which undermines the application of the principle in practice. To bring about a systemic change, a new, contemporary and well-structured law would be necessary.

The registry of public servants foreseen by the Law on public servants to bring together all data on staff-related needs, requirements and procedures into one database, is not operational. The AA started handling complaints by public servants as a second instance body. While the administrative capacity of the human resources units in some ministries was increased, a number of these units at local and central level, on the other hand, remain understaffed. There is still insufficient capacity to perform proper staff appraisals.

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

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

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

MISA took practical steps to improve the services offered to citizens. A 'one-stop-shop' system for electronic exchange of documents among key institutions was established. A new 'scoreboard' grading system for use by citizens was introduced in selected institutions. The government adopted the Code of conduct for cooperation with the civil society organisations. The knowledge and use of the citizens' charter among the public remains rather tenuous.

Regarding financial management, managerial accountability has yet to be linked to public internal financial control. The reports of the State Audit Office continue to highlight a number of shortcomings with regard to the application of internal financial control standards, procurement rules and human resources policy. The quality of strategic planning within

central and local institutions is insufficient, and is still confined to budgetary planning. The General Secretariat of the government does not perform an effective administrative governance role. Regulatory impact assessment is not applied systematically.

A High Administrative Court was established to consider appeals (*see also the section on 'judicial system'*).

The public bodies carried out the recommendations of the Ombudsman in 80% of cases. The second instance government commissions and Ministry of Interior remained the least responsive bodies, followed by the Ministry of Finance and local self-government units.

The Constitutional Court increased the number of annulments of new legislation by 5% to nearly 30% of laws. This raises concerns about the quality of legislative drafting by the central and local administration.

The number of complaints received by the National Commission for Protecting Access to Information rose by two thirds in 2010. More than half of the complaints were successful. However, the work of the Commission was hindered by budget cuts and lack of co-operation by some state administration bodies. Information related to public expenditure continued to be only partially available to the public.

There was some progress on police reform with the entry into force of the Act on Systematisation. It provides the basis for strengthening the efficiency of police; however additional human resources are needed in order to implement it. After conducting a performance evaluation process, a merit-based career and appraisal system was introduced. At the same time, a large number of positions were filled without publishing vacancies, which raised doubts about a transparent and merit-based process.

Overall, progress was made in the area of public administration reform in terms of policy co-ordination and legislative developments. A Ministry responsible for public administration reform was created and the Law on General Administrative Procedure was amended. An e-government interoperability system was launched among several institutions. Progress in implementing the reforms was limited. Significant additional efforts are needed in order to guarantee transparency, professionalism and independence of the public administration in practice. Further improvements of the current legal framework are necessary, in particular as regards the Law on general administrative procedures.

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

Further amendments were made to the legal framework, which was a key priority of the accession partnership.

The Minister of Justice's voting rights on the Judicial Council were removed in line with European Standards and his *ex officio* participation on the Council of Public Prosecutors was abolished.

A judicial reform package was enacted consisting of a new Criminal Procedure Code and amendments to the Law on courts, the Law on the Judicial Council, the Law on administrative disputes, the Law on the court budget and the Law on the court service, and amendments to the Law on Litigation entered into force.

The purpose of the new Criminal Procedure Code is to improve the efficiency of criminal procedures by strengthening the role of the public prosecutor, establishing a judicial police, streamlining the investigation phase and introducing new investigative techniques. It aims to considerably improve the capacity to tackle complex organised crime and corruption cases. Training of law enforcement agents, prosecutors and judges on implementing the new provisions has begun, although there are concerns that the organisational and institutional arrangements for such a major reform as not sufficiently advanced. The new framework will apply as from November 2012.

Amendments to the Law on Litigation entered into force in September 2011, introducing electronic service of documents, audio recordings of hearings, tighter procedural deadlines, the use of a preparatory hearing and an obligation on courts to inform the parties of the possibility of mediation. The changes aim at improving the civil procedure in order to shorten the duration of court proceedings, as well as promoting alternative dispute resolution.

The Law on Administrative Disputes was amended in order to establish a High Administrative Court with jurisdiction to decide on appeals against decisions of the Administrative Court, which itself hears appeals against decisions of misdemeanour commissions in the administrative bodies, government second instance commissions and acts of local self-government bodies. The court became operational in July 2011. 15 judges have been appointed, the court service staff has been recruited and adequate premises and equipment were secured.

The amendments to the Law on the court budget introduced an increase in state budget allocations from 0.4% to 0.8% of GDP, to be phased in by 2015. There is also a provision protecting the court budget in the event of a rebalancing of the national budget and a requirement that at least 2.5% must be spent on vocational training for the judiciary and judicial staff. However, in practice, inadequate funding of the courts is hampering further progress.

The amendments to the Act on Courts and the Act on the Judicial Council refined or introduced measures to ensure the competence of judges, including minimum educational and professional requirements, psychological and ethics testing and annual evaluation criteria. The complaints mechanisms available to parties to court proceedings, both under the competence of the Supreme Court (in the case of unreasonable length of proceedings) and the Judicial Council (in the case of judicial misconduct) were refined. Measures aimed at improving transparency and public confidence were introduced. However, the entry into effect of new minimal requirements of judicial experience for Appeal Court and Supreme Court judges was delayed until mid-2013 and new grounds for dismissal of judges linked to poor efficiency or performance may have a negative impact on independent decision-making.

In 2010, the Judicial Council appointed 43 first instance judges and 27 higher instance judges. The principle of equitable representation was observed, as was gender balance. In the same period, the Council of Public Prosecutors appointed 23 public prosecutors.

The Parliament dismissed the former President of the Constitutional Court in April after the Supreme Court, on appeal, confirmed the finding of the Lustration committee that he had cooperated with secret services of the former Socialist Federal Republic of Yugoslavia.

The Academy for Training of Judges and Prosecutors (ATJP) continued to make a vital contribution to the professionalism and competence of the judiciary. The third generation of

candidates successfully completed their initial training at the end of 2010, and the fourth generation began theirs. The ATJP also continued to provide ongoing in-service training. However, the ATJP's human resources and premises need to be reinforced in light of the high number of training activities it carries out each year.

Greater efforts are needed in order to ensure merit-based recruitment, drawing on qualified graduates from the ATJP rather than from other sources. 22 of the candidate judges and prosecutors who graduated in the last 3 years have not yet been recruited. Moreover, the current threshold for recruitment of non-graduates to first instance judicial posts (50%) was considerably exceeded and the transitional period, after which all newly appointed first instance judges must be ATJP graduates, was extended to January 2013.

Overall, further amendments were made to the legal framework as regards independence, efficiency and transparency of justice. In November a judicial reform package was adopted and in July, the Minister of Justice's voting rights on the Judicial Council were removed. However, considerable efforts are now needed in order to strengthen the quality of justice, in particular through continuous training and merit-based recruitment procedures, and to safeguard the independence of judges in the context of evaluation and dismissal procedures. Further organisational and institutional coordination is also needed to ensure the smooth implementation of the new legal framework and structures introduced by the Criminal Procedure Code.

Anti-corruption policy (See also Chapter 23 – Judiciary and fundamental rights)

Further amendments to the legal framework, which are a key priority of the accession partnership, were made.

Legislative amendments were adopted with a view to implementing GRECO's third round recommendations concerning incrimination and transparency of party funding. The amended Criminal Code refines the scope of incrimination for bribery and trading in influence and introduces criminal liability for failure to report funds used to finance electoral campaigns. The amended Electoral Code introduced a requirement to submit financial reports for all election campaigns to the relevant authorities. The new Criminal Procedure Code, which becomes applicable in November 2012, strengthens the role of the public prosecutor in the pre-trial procedure and introduces a number of special investigative measures. However, the Law on financing of political parties still remains to be amended.

In 2010, the Sector for Internal Control and Professional standards within the Ministry of Interior brought criminal charges against 29 police officers for criminal offences, including 16 cases of alleged abuse of an official position. Five police officers from one border crossing point were charged as part of a single operation. On the whole the number of instances of corruption among the border police has been decreasing as a result of anti-corruption programmes, anticorruption training, CCTV monitoring and salary increases. The Customs Administration should be prioritized as a high corruption risk in the development and implementation of future anti-corruption programmes.

The case of high level corruption concerning the former Director of the Public Revenue Office was completed when the conviction was confirmed by the Supreme Court. The four other high-level corruption cases in which the defendants (including a former prime minister, a former minister of defence and a former governor of the National Bank) had previously been sentenced to imprisonment, were quashed on appeal and returned to the first instance

courts for retrial, due to insufficient examination of the facts. The capacity of the judiciary to deal with sensitive high level corruption cases remains weak.

The lack of systematic content checks on asset declarations and conflict of interest statements hampers the effectiveness of the reporting obligation in deterring corruptive practices in the public administration. The SCPC, in cooperation with a number of other institutions, has introduced a methodology for carrying out verifications of asset declarations; the process needs to be taken forward. Legislative changes are still necessary before systematic content checks can be carried out on conflict of interest statements. Conflicts of interest are not sanctioned in practice.

The legal framework and the measures taken as regards the financing of political parties are deficient. The governing coalition parties spent more on election financing in 2011 than their declared income. Questions have also been raised about the legality of SDSM's campaign financing. However the institutional structure for addressing campaign financing and the sanctioning system remain unclear.

Transparency of public expenditure remains unsatisfactory. The SCPC recommended pressing criminal charges for the misuse of public funds, but none of the cases forwarded in 2009 and 2010 to the Public Prosecutor's Office have been resolved. Existing legislation on public access to information has yet to be amended in order to ensure full transparency. The internal control mechanisms in public administration remain critically weak. Legal and institutional protection of whistle blowers continues to be problematic and insufficient, discouraging reporting of suspicious cases.

The competent bodies tasked with combating corruption continue to lack a pro-active approach and failed to dispel widespread allegations of corruption in key areas of concern, such as public procurement and financing of political parties. A convincing track record has yet to be established for prosecutions and convictions. The new Criminal Code provisions on extended confiscation, illicit enrichment and criminal liability of legal persons have yet to be implemented.

The State Commission for the Prevention of Corruption (SCPC), the Anti-corruption Unit within the Organised Crime Department of the Ministry of Interior and the Basic Public Prosecutor's Office for the Fight against Organised Crime and Corruption all remain understaffed and underfinanced. The specialisation of law enforcement agents and the judiciary at local level, particularly in the area of petty corruption, remains insufficient.

The Law on prevention of corruption was amended to confer professional status on the SCPC; however, public confidence in its independence remains fragile. Questions have been raised about the criteria used by parliament in the selection of the seven new members of the SCPC in April. The SCPC itself concluded in its 2010 annual report that the significant cut in its budget and mandate called into question the political will to combat corruption effectively.

Cooperation between the Ministry of Justice, SCPC and law enforcement agencies needs to be strengthened. Meaningful analysis of the level and type of corruption in various areas has yet to be carried out. Collection and processing of relevant data for measuring the extent and nature of corruption, as well as the effectiveness of anti-corruption measures, remain deficient. Corruption remains a serious concern.

Overall, further amendments were made to the legal framework for anti-corruption policy, which is a key priority of the accession partnership. GRECO recommendations were addressed and the legal framework is well advanced. Limited progress was made in implementation. A track record in handling high level corruption cases has yet to be established. The verification of declarations of assets and conflicts of interest needs to be systematised and institutionalised. Transparency of public expenditure and of the funding of political parties remains insufficient. More pro-active inter-institutional cooperation is necessary. Corruption remains prevalent in many areas and continues to be a serious problem.

2.2. Human rights and the protection of minorities *(see also Chapter 23 – Judiciary and fundamental rights)*

Observance of international human rights law

No progress was made as regards the ratification of **international human rights instruments**. The European Charter for regional or minority languages has still not been ratified.

During the reporting period, the **European Court of Human Rights** (ECtHR) delivered 8 judgements finding that the former Yugoslav Republic of Macedonia had violated rights guaranteed by the European Convention on Human Rights (ECHR). A total of 374 new applications allocated to a decision body have been made to the ECtHR since October 2010. In September 2011, 1,111 allocated applications regarding the former Yugoslav Republic of Macedonia were pending before the ECtHR.

Limited progress can be reported in the **promotion and enforcement of human rights**. The implementation of legal framework was uneven, while the institutional set up was expanded with the recent establishment of the Commission for protection against discrimination. The three new units within the Ombudsman Office remain understaffed, with three employees in each.

In November 2010 the country concluded its chairmanship of the Council of Europe Committee of Ministers. The country's programme focused on the three priorities of strengthening human rights protection, fostering integration while respecting diversity, and promoting youth participation.

Civil and political rights

As regards the prevention of **torture and ill-treatment** and the fight against impunity, legislative provisions in this area are yet to be translated into a consistent and comprehensive practice. Systemic deficiencies remain with regard to combating impunity within the law enforcement agencies. Allegations continued of ill-treatment by the special 'Alpha' mobile police unit, which now operates only in Skopje. A member of the unit was charged with the murder of a young man during a post-election rally in the centre of Skopje on 6 June. This has increased calls for the Alpha unit to be disbanded.

The effectiveness of prosecutors and judges in taking appropriate action when there are indications of ill-treatment by the police remains a concern. The complaints system remains weak and the data-collection system is poor. The number of allegations regarding ill-treatment or the use of means of restraint towards persons detained in police custody remains high. In 2010, 238 complaints were filed with the Ombudsman with regard to police behaviour, 23%

of which related to ill-treatment. There are still a significant number of police stations with substandard cells.

Knowledge of international and European standards among police officers is low and safeguards against ill-treatment in police stations are not adequately enforced. Decisions by the ECtHR requiring an independent mechanism for oversight of the police, in the light of ill treatment of the Roma population, have still not been implemented. Ill-treatment of the Roma remains a concern.

In the field of **prison system** reform, the government adopted an annual programme for the construction, refurbishment and maintenance of prisons for 2011. Parts of the prisons where degrading and inhumane conditions had been reported, including the semi-open wing of Idrizovo prison, were renovated.

The country has yet to develop an effective national strategy for the prison system. Overcrowding and poor health-care remain causes for concern. Most of the prisons remain underfunded, understaffed and unable to cover their basic maintenance expenses. However the conditions of some prisons, in particular the Idrizovo closed ward, remain below the required standard. Conditions in the Tetovo Educational-Correctional Institution for rehabilitating minors continue to raise serious concerns. An effective independent inspection mechanism is needed in order to safeguard against human rights violations in prisons.

There has been no response to the European Parliament's recommendation of 2007 on follow-up to the Khaled El-Masri case of alleged extra-judicial detention.

The first year of implementation of the Law on legal aid has helped to improve **access to justice**. Two types of legal aid are provided: initial counselling provided by the local units of the Ministry of Justice and registered civil society organisations (CSO), and legal aid in judicial and in administrative procedures. However, only two CSOs were able to register as providers of legal aid. Also, no legal aid was provided for asylum seekers.

The overall constitutional and legal framework for the protection of **freedom of expression** is generally in place, but attention needs to be paid to ensuring that its implementation is consistent, transparent and in line with the case law of the European Court of Human Rights.

As regards the media, the first independent trade union of journalists and media employees has been established with the aim of improving working conditions. The collection rate of the monthly broadcasting fee has been increased to strengthen the financial viability of the public service broadcaster. Nonetheless, additional efforts are needed to ensure its sustainable funding as well as that of the Broadcasting Council. The public service broadcaster is currently failing to play its statutory role.

Media ownership remains opaque, highly concentrated and with strong political links. The government is one of the biggest advertisers in the country and there are concerns that funds are directed to television channels which are supportive of the government. Certain television channels are major donors to political parties. The investigation, on charges of tax evasion, and subsequent closure of a television channel AITV and newspapers which are critical of the government has raised concerns about the proportionality and selectivity of the procedure. The diversity of the media landscape has been weakened. Printing of the newspapers *Vreme*, *Shpic* and *Koha e Re* stopped in early July. Editors and journalists are faced with increasing undue political pressure and intimidation.

Defamation has not been decriminalised and the penalties specified by law include unlimited fines or imprisonment (although in practice no journalists were sentenced to imprisonment). Individual journalists are held personally liable for reporting content and therefore are exposed to potentially very high fines. In this context, intimidation of journalists and increasing self-censorship remains a cause for concern.

Amendments to the Law on the Broadcasting Council have increased the number of appointees from bodies controlled by the government. The amendments were adopted without consulting the Broadcasting Council or any public debate. The amendments raise concerns about weakening of the independence of the body and increasing bureaucratisation. There is currently no Press Council for the print media.

In September the government launched a round table process with journalists and the media in order to establish a dialogue on issues of concern and find solutions.

With regard to **freedom of assembly and association**, the overall situation is satisfactory. The government's strategy and action plan for cooperation with civil society organisations continues to be implemented. The Code of Good Practices for Participation of Civil Society Organisations in Policy Making Processes was adopted in July 2011. Involvement of civil society in the policy development process and in legislative drafting is making modest progress. A consistent approach encouraging all-inclusive public participation in decision making, including appropriate institutional mechanisms, needs to be further developed.

The system for the allocation of state financing to civil society organisations needs further improvement, in particular as regards public benefit organisations. Civil society organisations remain heavily dependent on foreign funding and the lack of sufficient financial resources remains a serious constraint.

Officials of political parties and Members of Parliament and some media launched public attacks on critically oriented CSOs, with allegations of politicisation of CSOs and money laundering. The Executive Director of the Open Society Institute was found guilty by the Lustration Committee of collaboration with the former Yugoslav State Security Service. Two members of the committee have been boycotting its work in protest at this decision.

As regards **freedom of thought, conscience and religion**, 28 religious entities were registered under the Law on the legal status of churches, religious communities and religious groups, while 6 were rejected, including the application from the Bektashi community from Tetovo on the grounds of using the same name as the already registered Bektashi community from Kičevo.

Overall, whilst civil and political rights are broadly respected, further progress was limited. Parts of the prisons were renovated. The financial viability of the public broadcaster is beginning to be addressed. However, weaknesses with regard to combating impunity within the law enforcement agencies remain. The country has yet to develop an effective national strategy for the prison system. Editors and journalists have faced increasing undue political pressure and intimidation. In this context, journalists and editorial policies are easily influenced, resulting in widespread self-censorship.

Economic and social rights (see also Chapter 19 – Social policy and employment)

As regards **women's rights and gender equality**, implementation of the national strategy against domestic violence has continued. Awareness of domestic violence among the population improved and some initiatives have been undertaken to respond better to the needs of victims. The capacity of the national coordination body for the national strategy to combat domestic violence was strengthened. Some progress was made to address women's health needs. The equal opportunity issue is not a political priority of the government. Discriminatory customs, traditions and stereotypes are widespread and undermine women's basic rights. Participation of women in political life at local level remains low. Roma women and girls still suffer from both racial and gender discrimination. Some very limited actions targeting Roma women have been implemented and a more pro-active approach is needed to implement the existing national action plans.

Some progress was made in the area of **children's rights**. The National Strategy on Prevention of Juvenile Delinquency was adopted by the recently established National Council for Prevention of Juvenile Delinquency. Adequate financial and administrative resources and close inter-institutional cooperation are needed to properly implement the amended Law on Juvenile Justice. The number of specialized staff to deal with juvenile victims and children in conflict with the law is insufficient, and further training is much needed. Police detention and educational-correctional centers fail to meet standards on administration of juvenile justice, in particular on the employment of psychologists and social workers in courts. The Ombudsman reported violations of basic human rights of juveniles in detention, including limited or no access to medical service, no access to education and enforcement of solitary confinement.

The percentage of children living under the poverty line rose further to nearly 37%. Institutional support for the prevention of abuse and protection of children's rights is not adequate. Care and response services for the victims are very limited and suffer from a lack of sufficient professional skills. The number of reported cases of sexual abuse and paedophilia remained approximately the same, but reported cases are considered to be only a small proportion of the total problem. For the first time, the Ombudsman investigated the trafficking of children inside and outside the country. Street children, almost exclusively Roma, remain a phenomenon often linked to begging. Strategies need to be developed and implemented to further engage them in the educational system. There is a pressing need to employ specialised staff as psychologists and educational specialists dealing with children with disabilities.

Concerning **socially vulnerable persons and/or persons with disabilities**, efforts have been made towards deinstitutionalisation, such as including civil society in the provision of mental health care services and opening further communal housing units. However, material conditions and inhumane and degrading treatment in psychiatric institutions, notably Demir Kapija, Demir Hisar and Negorci, remain a concern. The implementation of the national strategy on equality of rights of people with disabilities 2010-2018 has not progressed. Overall, social integration of people with disabilities remains limited.

Some progress can be reported in the area of **anti-discrimination policies**. The Commission for protection against discrimination has become operational and has started to act on the complaints submitted. The majority of the complaints were on political and ethnic grounds. However, the law on anti-discrimination remains to be fully aligned with the *acquis*. Discrimination on grounds of sexual orientation is still omitted. Also, the capacities of the Commission need to be strengthened. The Lesbian, Gay, Bisexual and Transgender (LGBT) community continue to be subjected to discrimination and stigmatisation. University and high school text books treat homosexuality as a disease. There is a major need to raise awareness

not only of the new provisions contained in the enacted law, but also with reference to the principles of respect and tolerance of diversity.

As regards **labour and trade unions rights**, there are 39 trade unions listed in the register of the Ministry of Labour and Social Policy and 7 employers' associations. The criteria for representative participation of social partners in the bipartite and tripartite social dialogue provisioned in the labour law were implemented. The signing of collective agreements in the public sector by the trade unions was initiated. However, the capacity of social partners has not improved, as trade unions still do not have stable finances and management capacity. Participation by social partners in the policy development process continues to be weak. Bipartite and tripartite social dialogue has not improved.

As regards **property rights**, the process of returning property confiscated during the period of the Socialist Federal Republic of Yugoslavia continues to extend substantially beyond the legal deadlines. The Constitutional Court annulled the retroactive effect of the amendments to the Law on denationalisation. Return of property was substituted by reimbursement in bonds. The Constitutional court also annulled the provisions of the Law on denationalisation that excluded its applicability to religious communities. The enforcement of restitution claims for which a final decision has been taken remains unsatisfactory. The backlog of property dispute proceedings continued to cause delays.

Overall, social and economic rights are broadly in place, and some further progress was made. Awareness of domestic violence among the population improved. New criteria for representative participation of the social partners were implemented. The National Council for Prevention of Juvenile Delinquency and the Commission for protection against discrimination have become operational. The law on anti-discrimination remains to be fully aligned with the *acquis*, notably as regards discrimination on grounds of sexual orientation. The capacity of the anti-discrimination Commission needs to be strengthened.

Respect for and protection of minorities, cultural rights

As regards **minorities**, the 10th anniversary of the Ohrid Framework Agreement (OFA) provided an important opportunity for enhanced dialogue between the communities in the country. The President of the Republic and the Prime Minister both participated in events marking this milestone. An institutional framework has been developed to protect the rights of minorities and to support inter-ethnic dialogue.

The current Secretariat for the Implementation of the Ohrid Framework Agreement (SIOFA) strategic plan embraces a more comprehensive understanding of different policy aspects deriving from OFA, such as integrated education, use of languages, decentralisation and cooperation with civil society. The SIOFA budget for 2011 was significantly increased.

However, SIOFA faced problems in recruiting sufficiently qualified senior staff. Limited funds were allocated to increase its capacities and efficiency. SIOFA strategic planning capacities and internal control standards remained low.

Some progress was made in the implementation of the Law on the use of Languages spoken by at least 20% of the citizens. In parliament, implementation of the Law on Languages made headway, with the recruitment of more skilled translators and interpreters.

However, no clear mechanism for the overall monitoring and assessment of the implementation of the Law on languages has been established to date. Some institutions continue to face a shortage of qualified and experienced interpreters. Optional teaching of the languages of smaller ethnic communities is not equally available because of the limited availability of textbooks and the shortage of qualified teachers.

Efforts were made to promote and implement the Strategy on Integrated Education, in close cooperation with the OSCE. An inter-ministerial coordination working group was established. There are close consultations with the international donor community on the implementation and concrete planned activities of the strategy in order to guarantee efficiency and avoid duplication. However, the Ministry of Education and Science lacks the human and financial capacities necessary to support the implementation of the strategy. Despite government efforts to promote the principles of integrated education, the practice of separating pupils along ethnic lines or language shifts continued in a number of schools. Cases of inter-ethnic violence in secondary schools persisted.

Inter-ethnic relations were strained by certain incidents. The urban plan 'Skopje 2014' created inter-ethnic sensitivities. Members of non-majority communities complained about the neglect of their respective historical and cultural monuments. In February the construction of a museum in the shape of a church inside the Kale fortress in Skopje led to a violent confrontation between members of the two main ethnic communities. The direct involvement of politicians of one of the parties of the government coalition in the events caused concern.

Committees for relations among communities were established in the 20 municipalities where they are required by law, as well as in 14 other municipalities on a voluntary basis. A small number of them improved their capacities and visibility among their community. However, the majority of them continue to face lack of resources, unclear competencies and insufficient representation of ethnic communities living in the municipality.

The administrative capacities and visibility of the agency for protecting the rights of minorities which represent less than 20% of the population have increased slightly. However, due to an unclear mandate and significant reduction of the budget in 2011, the Agency is unable to accomplish most of its tasks defined by the law.

The overall number of civil servants from the non-majority ethnic communities reached 30%, which is broadly in line with the demographic structure. Efforts were made to increase the representation of the smaller communities in the civil service, notably the Roma and the Turkish community. In 2010 there was a 46% increase of members of Roma and a 12% increase in the Turkish community. However, more efforts are needed in order to improve the quality of the recruitment process. A large number of newly recruited civil servants received salaries, even though they were not assigned any tasks or responsibilities. Representation of the non-majority communities at senior level remains very low.

Some progress can be reported in the area of **Roma** inclusion. In July, the country took over the one-year Presidency of the Decade of Roma Inclusion. It also held a seminar with the European Commission which adopted new recommendations for action and agreed to meet regularly to monitor progress. Efforts were made to implement the action plan for education by carrying out projects in the area of education and in the social sphere. Enrolment rates of Roma children in secondary and university education steadily increased. Changes were made in the law on social protection in order to address the over-representation of Roma in special

schools for children with learning disabilities. The Roma health mediator programme was initiated in 8 municipalities.

Some active labour market measures targeting Roma continued to be implemented. Despite budgetary restrictions the financial support for Roma programmes was maintained at the 2009 and 2010 levels.

However, no measures were taken to systematically address the issue of personal documents, which represents a major obstacle to accessing social, housing and health benefits. Also, Roma children continue to be over represented in classes for children with special educational needs. A recent report concluded that about half the children were Roma whereas they make up only 2.6% of the population. This is not inline with ECtHR judgements which reaffirm the right of Roma children to non-discriminatory schooling. The pace of implementation of the Roma Strategy and the action plans in the framework of the 2005-2015 Decade of Roma Inclusion, which had reached its halfway point, continued to slow down. There are no clear evaluation and monitoring mechanisms in place. State funds allocated to the implementation of the Action Plans remain insufficient to meet the needs. There was no improvement in the administrative capacities of the office of the Roma minister without portfolio and of the unit for implementation of the Roma Strategy. No significant steps were taken to produce official data on Roma.

High unemployment rates persist, especially among Roma women and youth, and lead to precarious housing and living conditions, poor health as well as low school attendance, low income and high mortality rates among Roma.

Allegations of police brutality and excessive use of force towards the Roma continued. Many Roma are reluctant to lodge complaints, especially when ill treatment by police is involved.

In June 2011, there were 1,554 **refugees and internally displaced persons (IDPs)** in the country, the majority of whom continue to be Roma from Kosovo; of these only 24 were recognised refugees and a long term solution for the remainder needs to be found. The government provides some financial assistance to Roma refugees from Kosovo. Positive decisions have been adopted by the Administrative Court in judicial review and appeal procedures. These decisions continued to be handed down on procedural and not on substantive grounds. However, the mechanism for determining refugee status still faces shortcomings. Roma refugees from Kosovo continue to encounter particularly difficult conditions.

The number of registered IDPs decreased from 621 in 2009 to 611 in 2010. The majority of the complaints lodged by IDPs against the State for damage caused by the 2001 conflict are still pending in court.

Overall, some progress was achieved as regards the respect for and protection of minorities and cultural rights. The Ohrid Framework Agreement continues to be an essential element for democracy and rule of law. In parliament, implementation of the Law on Languages moved forward. Representation of the Roma and Turkish community in the civil service increased. The integration of the Roma in the education system improved, with increased enrolment in secondary and university education. Continued dialogue amongst all the communities is necessary in order to foster trust, especially in the areas of education, culture and language. Roma continue to face very difficult living conditions and discrimination and additional efforts are necessary.

2.3. Regional issues and international obligations

The former Yugoslav Republic of Macedonia continues to cooperate fully with the **International Criminal Tribunal for the former Yugoslavia (ICTY)**. There are no remaining cases or appeals pending in The Hague. The four cases that the ICTY transferred back to the national authorities in 2008 reached the domestic court system. In July the Parliament adopted an Authentic Interpretation of the Amnesty Law which stated that the amnesty should cover the suspects of all cases that will not be processed by the ICTY. Consequently, in September, one of the cases was dismissed by the Criminal Court in Skopje at the request of the Public Prosecution. It was also stated in the hearing that injured persons in the case could demand compensation through a separate lawsuit. The status of the other case files remains to be determined. Ethnic Albanian political parties assert that all the cases are covered by the 2002 Amnesty Law.

The former Yugoslav Republic of Macedonia has aligned with the Council Decision advancing universal support for the International Criminal Court and promoting the widest possible participation in it⁵. However, it still maintains the 2003 bilateral immunity agreement with the United States granting exemptions for US citizens from the jurisdiction of the **International Criminal Court**. This does not comply with the EU Common Positions on the integrity of the Rome Statute or the related EU guiding principles on bilateral immunity agreements. The country needs to align with the EU position.

Regional cooperation and good neighbourly relations form an essential part of the country's process of moving towards the European Union. The country remained fully engaged in regional initiatives, including the South East European Cooperation Process (SEECP), the Regional Cooperation Council (RCC), the Central European Free Trade Agreement (CEFTA), the Energy Community Treaty and the European Common Aviation Area Agreement. The country signed the additional protocol for further liberalisation of agriculture under the CEFTA agreement. The country continued to contribute to the EU ALTHEA mission in Bosnia and Herzegovina. In March, within the framework of the SEECP, the former Yugoslav Republic of Macedonia endorsed the *Regional Strategic Document and Action Plan on Justice and Home Affairs 2011-2013*. The country supports the RECOM initiative on reconciliation.

The former Yugoslav Republic of Macedonia continues to play a constructive role as regards **bilateral relations with neighbouring Member States and other enlargement countries**. Relations with *Albania* remained good and an agreement for full liberalisation of bilateral and transit transportation between the two countries was signed. Relations with *Bosnia and Herzegovina* continued to be good and negotiations started on agreements on cooperation in the field of health and medical sciences, mutual enforcement of court decisions in criminal matters and on legal aid in civil and criminal matters. Relations with *Croatia* remained good. As regards *Montenegro*, agreements were signed for economic and social cooperation, and for cooperation in the fields of education, science and technology, and on extradition of citizens involved in organised crime, corruption and money laundering. Furthermore, a bilateral investment protection agreement and an agreement for coordination of social security systems were concluded.

⁵ Council Decision 2011/168/CFSP of 29 March 2011.

Relations with *Serbia* remained good. A bilateral readmission agreement was signed. Furthermore, a protocol for joint border patrols was signed and a joint contact centre for the police and border patrol was established. The country provided humanitarian assistance to Serbia after the Kraljevo earthquake. Serbia continued to maintain its policy of non-recognition of the border demarcation agreement between the former Yugoslav Republic of Macedonia and Kosovo. Unresolved issues remain concerning relations between the Orthodox churches.

Relations with *Kosovo* intensified further. An agreement for customs cooperation envisaging the setting-up of a joint customs checkpoint in line with European standards, an agreement for avoidance of double taxation, and three agreements on criminal law matters were signed. Joint monitoring patrols along the border have been launched.

The close political and economic cooperation with *Turkey* was maintained.

Relations with *Greece* remained close, particularly in the economic sphere, but they continued to be adversely affected by the unresolved name issue. The country remains engaged in talks, under the auspices of the UN, as well as through direct meetings of the prime ministers, in order to resolve it. The government erected a statue in the centre of Skopje which was seen by Greece as a provocation because of its resemblance to Alexander the Great. Actions and statements which could adversely affect good neighbourly relations should be avoided. The hearings started on the legal proceedings initiated by the country against Greece before the International Court of Justice in The Hague regarding the bilateral interim accord of 1995. Maintaining good neighbourly relations, including a negotiated and mutually acceptable solution to the name issue, under the auspices of the UN, remains essential.

Relations with *Bulgaria* have remained good. The law ratifying the agreement on economic cooperation between the two countries was enacted. A joint police and customs cooperation centre was established and a protocol for joint border patrols was signed. In September the countries also signed a memorandum of cooperation on European and Euro-Atlantic integration. Ethnicity-based issues continue to be an area of concern.

Overall, the former Yugoslav Republic of Macedonia is a constructive partner in the region. Bilateral relations with neighbouring and other enlargement countries continued to improve. The name issue continues to affect relations with Greece.

3. ECONOMIC CRITERIA

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

3.1. The existence of a functioning market economy

Economic policy essentials

A broad consensus regarding the fundamental features of the country's economic policy setup has been maintained. A number of programmes describe the medium-term policy framework. In January 2011, the authorities submitted their fifth Pre-accession Economic Programme,

which presented a feasible, albeit sometimes optimistic macroeconomic and fiscal framework and displayed improved drafting capacities. The authorities adopted a public investment programme for 2011-13, a fiscal strategy for 2011-2013 and a public debt strategy for 2011-13. In late 2010, the government agreed with the IMF on a pre-cautionary credit line. This was aimed at strengthening international markets confidence. Communication with the business community has improved and a number of economic and financial committees have been established to improve the economic dialogue. Cooperation with the World Bank and other IFIs continued. Structural reforms were further pursued in a number of areas. *Overall*, a broad political consensus on the fundamentals of economic policy has been maintained.

Macroeconomic stability

Real GDP rose by 1.8% in 2010, compared to a decrease of 0.9% the previous year. In 2011, output continued growing by 5.2% in the first half of the year. The main sources for growth shifted from net exports in the first half of 2010 and the first quarter of 2011. In the second quarter of 2011, private consumption was the main driver for growth, increasing by 8.4% year-on-year, while equipment investment declined by 7.5%. As a result of the drop in investment, import growth slowed down in the second quarter, from 36.5% in the first quarter to 4.5% in the second. Export growth also decelerated, from 34.8% in the first quarter to 8.9% in the second. The strong growth in the half quarter of 2011 reflects a weak base in the previous year. The performance of industrial production and retail trade points to a marked year-on-year acceleration in the first half of 2011. Industrial production recovered in the first seven months of 2011, rising by 8.6% compared to the same period the year before. However, the overall level of industrial production is still lower than before the crisis. Average per capita GDP remained largely stable in 2010, at 35% of the EU-27. *Overall*, economic activity started to regain strength and depth since autumn 2010. However, government spending for construction played an important part in the strong rise of gross fixed capital formation.

The current account deficit widened, reflecting increased domestic economic activity. After a decline from -6.7% of GDP in 2009 to -2.8% in 2010, the mid-2011 current account deficit rose to some 3.5% of the estimated GDP of 2011. Higher imports were the main reason for the increase in the trade deficit. However, the rise in the current account deficit was accompanied by an even bigger increase in capital inflows, accounting in June 2011 to some 4.5% of the estimated annual GDP. The two main sources were capital inflows related to the partial use of the IMF pre-cautionary facility, amounting to some 3% of the estimated GDP and FDI inflows, which in the first quarter of 2011 were significantly higher than a year before. However, in the second quarter, FDI inflows were less buoyant, bringing the FDI inflows during the first half of 2011 to 2% of the estimated GDP for 2011.

Gross external debt was about 60% of GDP in the first quarter of 2011, compared to 56% of GDP a year before. The main source for the increase was public debt, which contributed 2.6 percentage points of GDP to the increase. Private bank lending pushed up the external debt ratio by 1.4 percent points. Foreign reserves rose to €2.0 billion (29% of GDP) in August, reflecting a marked increase in FDI inflows, but also the partial drawing of the country's pre-cautionary credit line with the IMF. As a result, the reserve coverage of prospective imports recovered to close to three and a half months, although the strong increase in imports limited the improvement. *Overall*, external accounts registered a marked increase in the current account deficit, although this was more than offset by higher capital inflows, in particular FDI, but also by loans from the IMF and other international financial institutions.

Unemployment was very high during 2010, at 32% on average. In 2011, the labour market situation improved slightly, as unemployment fell to 31.4% in the first quarter of 2011. Employment increased by 5.5% year-on-year in the first quarter of 2011, (i.e. by 34,000 persons), compared to a decline of 0.4% in the previous year. The main sectors where there were employment gains were agriculture, but also manufacturing. However, new employment in agriculture is largely due to new registrations of subsistence farmers. The number of unemployed persons fell by 4.8% in the first quarter of 2011, i.e. a drop of 15,000. There is a positive trend in youth unemployment (age bracket 15-24 years), falling from 57.1% in the first quarter of 2010 to 52.5% in the first quarter of 2011. Youth unemployment as a share in total unemployment dropped from 20.1% in 2010Q1 to 17.7% in 2011Q1. A key factor for this decline was a big reduction in youth unemployment among women. Furthermore, easier access to higher education courses helped reduce unemployment rates. Even though the existence of a substantial informal sector means that actual unemployment may be overstated, the very high unemployment remains an important issue, in particular among young people and the less educated. *Overall*, the situation in the labour market has improved slightly, but unemployment continues to be very high, particularly among the young and less well educated.

Monetary policy cautiously supported the gradual recovery, while the exchange rate policy remained oriented towards maintaining price stability and the de facto peg to the euro. The Central Bank has continued to lower its key policy rates, such as the rate on 28-day Central Bank bills from 4.5% to 4.0%. *Overall*, the exchange rate policy and monetary policy have remained sound.

Inflation accelerated in the last quarter of 2010, reaching 3.0% at the end of the year, while the annual average in 2010 was 1.6%, as compared to -0.8 % in 2009. The main factors driving the strong increase towards end-2010 were higher prices for energy, base metals and food. During the first three months of 2011, consumer price inflation continued to accelerate, driven by prices for food and transport services. However since then, inflation has been slowing down, declining to 3.6% in August. This brought average inflation to 4.2 for the first eight months of the year. Core inflation, which excludes the impact of energy and food prices on the overall price level, was close to zero in 2010, but increased to around 1.3% in the first five months of 2011.

The overall fiscal policy stance has been oriented towards achieving the deficit targets. In order to reach the 2.5% deficit target for 2010, the authorities responded to lower than anticipated revenues by reducing spending on goods and services and strongly limiting the planned increase in capital spending. Consequently, the 2010 deficit target of 2.5% of GDP was reached, although revenues were 7.8% lower than envisaged. The deficit target for 2011 is 2.5%. In the first seven months of 2011, revenues as a share in GDP were on a similar level as a year before, while spending was slightly higher. This brought the accumulated central government deficit in July to about 2% of the year's estimated GDP, compared to a deficit of 1¼% of GDP the year before. However, a part of this increase reflects front-loaded spending, mainly in construction, related to early elections in June. The authorities have a solid track record of meeting prudent fiscal target. However, the quality of public spending suffers from still weak planning capacities and short-term oriented spending decisions, which delay the accumulation of productive investment. Higher deficits, but also increased public spending financed by debt, contributed to an increase in the public debt ratio, from 31.9% in December 2009 to 35.7% in December 2010.

Fiscal decentralisation has continued. By mid-2011, 79 out of 85 municipalities have advanced to the second stage of decentralisation. Furthermore, additional measures have been taken to strengthen the fiscal viability of indebted municipalities. The efficiency of the public administration still suffers from insufficient staffing, lengthy procedures, a high degree of political interference leading to high turnover of qualified staff. *Overall*, fiscal policy was oriented towards achieving its fiscal target, despite lower than expected revenue performance. The spending profile maintained its focus on transfers, although lowering its current spending for goods and transfers. Capital spending was raised slightly, however the growth and employment stimulating effect of this investment was reduced by the high import content of the spending.

As in the past, the overall macroeconomic policy mix was largely sound, Monetary conditions were still relatively favourable to growth, while taking into account the country's policy of a de facto peg to the euro. Public spending was largely kept in line with revenues. The structure of spending was broadly maintained, focussing on transfers, with a small increase in capital investment and a further reduction in current spending for goods and services. However, some of the capital investment could have been spent in a more growth supportive manner. *Overall*, the general policy mix continued to be sound, remaining stability oriented while trying to support the recovery. However, the quality of public finances has not improved significantly and the issue of high unemployment, in particular among the young, remains a major policy challenge.

Interplay of market forces

Privatisation is largely completed and the economy is mainly driven by market forces. The share of state activities has remained largely unchanged, however, largely as a result of a fall in private activities, the share of the private sector declined, from 87% of total value added in 2008 to 86% in 2009. In terms of employment, the share of private sector employment dropped from 77.8% in 2009 to 77.2% in 2010. The share of administered and regulated prices in the CPI basket was down from 14.4% in 2009 to 13.1% in 2010, partly due to changes in the CPI basket. Most of those administered and regulated prices are cost recovering. The asset value of fully or partly state-controlled companies has remained at around 13.5% of GDP. The majority of this capital - nearly 80% - is concentrated in five companies, mainly public utilities such as the production and transmission of electricity, where the state is majority owner and telecommunication, where the state is a minority owner in the highly profitable incumbent telecom company. *Overall*, as a result of the crisis, the role of the state has increased, while state ownership has remained concentrated mainly on telecommunication, energy and public utilities.

Market entry and exit

The government has continued taking steps to facilitate market entry and exit. The second phase of the 'one-stop-shop' has been completed, improving in particular the possibilities for the electronic registration of mortgages, bankruptcy proceedings, documentation delivery etc. The costs of registration have been reduced further. The implementation of the third phase of the so-called 'business guillotine' aimed at simplifying regulation has continued. Contact with the business community was strengthened. The process of closing down unviable companies has continued. In the second half of 2010, the number of bankruptcy procedures was about one quarter higher than a year before. However, during 2011, the number of new bankruptcies has declined again towards pre-crisis levels. As a result of the rapid increase in the number of bankruptcy procedures, the backlog of pending bankruptcy procedures has increased in the

second half of 2010, from 338 cases at the end of 2009 to 358 cases at the end of 2010. There is still room for a further shortening of bankruptcy procedures. *Overall*, some further progress has been achieved in reducing barriers to market entry and exit.

Legal system

The legal system for a functioning market economy is largely in place. Steps have been taken to increase the efficiency of courts, to improve the transparency of court decisions, to accelerate legal procedures and to improve enforcement of contracts, for example by transferring jurisdiction on payment orders to notaries. The registration of real estate ownership rights is practically completed. The number of pending court cases has been reduced from 6014 cases end-2009 to 5492 cases end-2010. Furthermore, the duration of court procedures has been reduced, with the percentage of cases solved within three months rising from 25% in 2009 to 36% in 2010, while the percentage of cases lasting more than one year has declined, from 17% in 2009 to 13% in 2010. Contract enforcement is still difficult, hampering the business environment, in particular for small-and-medium-sized enterprises. The introduction of electronic procurement has increased the transparency of public spending. However, despite strengthened legal and financial independence of regulatory and supervisory bodies, the administrative capacities and the enforcement record of some of those institutions, such as the railway regulatory agency, the energy and the telecom regulators, the agencies regulating and supervising the fully funded pension funds and the securities and exchange commission still need to be strengthened. *Overall*, the functioning of the legal system has improved, which should have a positive impact on the business and investment climate. However, weaknesses in the rule of law, particularly in the judiciary, which is characterised by slow procedures, insufficient resources and unreliable enforcement of contracts, and the prevalence of corruption, continue to adversely affect the business environment.

Financial sector development

The financial sector's significance and its intermediation function has increased, reflecting additional capital from foreign investors but also increased deposits and lending. In the banking sector, total assets as a share of GDP were up from 67% mid of 2010 to 69% of the estimated GDP by mid 2011. Credits as a share of GDP increased from 43.5% in October 2010 to some 45% of the estimated GDP end of August 2011, while the level of deposits rose from 48% end of October 2010 to around 50% of the projected GDP in August 2011. Deposits continue to be the sector's main source of liquidity. The coverage of loans by deposits is still above 100%. The sector continues to be predominantly owned by foreign companies with 14 out of 17 banks dominated by foreign owners. The share of foreign ownership has increased from 68.6% end of 2009 to 78% mid of 2011. The share of state ownership in the sector remains low, at 7% of the sector's assets. The main state asset is the majority share in the country's only development bank and a limited number of remaining minority shares. Market concentration remains high, but has decreased slightly during the past year. The assets of the five biggest banks as a share of total assets declined only marginally, from 77.4% end of 2009 to 77.2% end of 2010. However, the three biggest banks lost some market shares to medium-sized banks. The efficiency of the banking sector has remained largely unchanged. Profitability of the sector as a whole remains low, with slightly negative returns-on-assets and equity in the first quarter, and slight profits in the second quarter (0.2% return-on-assets, and 2.1% return-on-equity). However, larger banks performed better than smaller ones. Credit growth accelerated since autumn last year, reaching some 8% in August. Private-sector weighted interest rates declined following their peak in the last quarter of 2009. Rates for denar loans declined from 9.2% in September 2010 to 8.9% in July 2011, while the

rates for denar deposits declined from 6.8% to 5.8%. As a result of the faster decline of deposit rates, spreads widened from 2.4 percentage points in September 2010 to 3.1 percentage points in July 2011. Financial stability has been maintained, with sound liquidity, solvency and capital adequacy ratios. The share of non-performing-loans has started to decline again, from a peak of 10.6% in September 2010 to 9.3% by end-June 2011

Banking regulation and supervision is largely in line with international standards. However, the proper functioning of regulatory and supervisory agencies, such as the Agency for the supervision of fully funded pension insurance (MAPAS) or the security exchange commission (SEC), is still hampered either by still insufficient financial independence and/or by insufficient human and IT resources. Furthermore, sometimes institutional competences are not sufficiently defined. As a result, the leverage of those institutions has not yet reached an adequate level. Transparency of the credit market has improved through the establishment of a private credit bureau, providing credit history reports.

The relevance of other financial market intermediaries is limited, with assets accounting for some 10% of the financial sector's assets or some 8% of GDP. Insurance institutions account for some 4% of the sector's assets, while leasing companies and pension funds account for about 3% each. The value of the capital market accounts for some 30% of GDP

Overall, the financial sector continued its gradual process of deepening and widening. However, the level of financial intermediation and competition in the market are still low, impeding more dynamic growth in the private sector, particularly for SMEs. Furthermore, some regulatory and supervisory agencies have not yet reached a sufficient level of independence, resource endowment and leverage.

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 despite the continued global economic turbulence. Market entry and exit procedures have been improved and the rule of law has been strengthened. However, structural imbalances on the labour market are still very pronounced and the business environment is still suffering from slow judiciary, and a number of weak and not fully independent regulatory and supervisory institutions.

Human and physical capital endowment

The level of human capital endowment is still low. The authorities continued to improve both the physical infrastructure for education and the regulatory framework in order to improve the performance of the educational system. The number of teachers was increased by 4.4% in 2010, in particular in primary and lower-secondary schools. Enrolment rates have been improved. Budgetary allocations for education were marginally increased, from 3.7% of GDP in the 2010 budget to 3.8% in the budget for 2011. As in the past, spending has been focused on renovation and construction of school buildings and the purchase of IT equipment. Despite continued efforts, the overall level of education and training of the labour force is still relatively low and the mismatch of skills is still substantial. There remains significant room for improving the efficiency of public spending on education and for raising the quality of education. *Overall*, measures to improve the level of qualification have continued. However,

the still low level of education calls for further sustained efforts in order to improve the country's human capital endowment.

The country's capital endowment continues to be relatively low and its quality is hampered by previous decades of underinvestment. The low level of education and the weak capital endowment contribute to a low general level of productivity. Some further progress has been made on improving transport infrastructure. Gross fixed capital formation showed a marked acceleration in the second half of 2010 and in particular in the first quarter of 2011. However, overall investment levels in 2010 and early 2011 were still lower than a year before. The stock of foreign investment stands at 51% of GDP. Foreign direct investment inflows increased markedly in the fourth quarter of 2010 and the first quarter of 2011, but were less buoyant in the second quarter. Overall, the interest of foreign investors in the country has improved. In some cases, persistently slow legal procedures, such as those involving work permits for foreign employees, or fragmentation of responsibilities between central and local governments continue to be an impediment to FDI. Spending on strengthening the knowledge-based economy has remained low. The accumulation of the public capital stock is impeded by weak implementation capacities, but also the use of funds for less productive purposes, such as the beautification of the capital. *Overall*, the country's capital stock continued to be low. Infrastructure improved, but it continues to require repair and modernisation.

Sectoral and enterprise structure

There were no major changes in the area of enterprise restructuring. Network industries, such as railways, energy production and transmission, are still state owned to a considerable degree. Recent amendments to the energy law adopted in spring 2011 should increase competition and transparency in the electricity sector. Gas and electricity markets are dominated by a very small number of suppliers, which undermines effective competition. In the telecommunication sector, the number of service providers has increased, leading to a lower market share of the incumbent operator for fixed-line and mobile telephony. There was no significant structural change in the transport sector.

The focus of economic activity has continued to move away from manufacturing towards services, in particular retail trade, and – recently - also towards construction. Manufacturing increased its share from 12.4% of GDP in the fourth quarter of 2009 to 14.4% in the fourth quarter of 2010, and construction rising from 5.6% to 7.8% of GDP. At the same time, the share of value added in agriculture declined, from 12.8% to 10.9% of GDP. In terms of employment, agriculture registered the highest employment gains in the fourth quarter, increasing its share from 16.7% of total employment to 19.2% while the share of manufacturing in total employment dropped from 23.9% to 22.5% in the fourth quarter of 2009. The increase in agriculture employment and the simultaneous reduction of the sector's productivity suggests an important share of 'administrative' job creation and not new capacities.

Small and medium-sized companies (SMEs) are by far the most important group of companies, providing employment for some 82% of private sector employees or 56% of total employment. In 2010, in line with the general decline in economic activity, the number of SMEs fell by 8.3%. This mainly reflected a sharp drop in the number of micro-enterprises, while the number of larger SMEs increased. In terms of employment, the number of employees increased by 1.5% in 2010, while among large companies employment declined by 14%. The availability of an EIB financed SME facility worth €100 million improved access to

financing. Furthermore, the government is subsidizing interest costs for export oriented SMEs and has increased budgetary allocations for SME support schemes.

The informal sector, fuelled by weaknesses in tax and expenditure policies as well as in law enforcement, and the fight against corruption, remains a major challenge. It reduces the tax base and the efficiency of economic policies.

Overall, structural change towards diversification and activities with higher value-added has remained limited. Competition in network industries remains constrained by dominant incumbent suppliers. SMEs still face difficulties in accessing capital and markets despite increased support.

State influence on competitiveness

The overall level of systematic state intervention is limited. Official data point to a relatively low level of State aid, i.e. less than 1% of GDP. However, this figure is not comparable with the State aid data compiled in accordance with EU standards. The institutional setup for monitoring State aid and competition issues, the Competition Commission, is in place. However, the current resource endowment is still insufficient to cover the agency's full range of responsibilities. *Overall*, state influence on competitiveness remained limited.

Economic integration with the EU

The country has a small, open economy, with total trade in goods and services recovering to a level of 114% of GDP in 2010, following the 2009 recession. Trade integration with the EU is advanced, with about 63% of all exports currently going to and about 53% of imports originating from the EU. The CEFTA region is the country's second most important trading region, accounting for around 24% of exports and around 10% of imports. The export structure continues to be highly concentrated on a limited range of products, with textiles and clothing accounting for about 17% of total exports and manufactured iron products for 26% in 2010. The stock of FDI increased to about 51% of GDP, with the Netherlands, Slovenia and Austria being the biggest investors. In total, EU countries accounted for about 60% of total FDI inflows. Switzerland, Turkey and Serbia are the most important non-EU investors. The exchange rate against the euro has remained stable in nominal terms. Price competitiveness has remained largely unchanged. *Overall*, trade integration with the EU is well advanced, but exports remain concentrated on a few price-sensitive products. International price competitiveness remained largely unchanged.

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

There was some progress in the area of **general principles**. Out of the 42 identified measures within the action plan for achieving compliance with Articles 34 to 36 of the TFEU, 14 measures having an equivalent effect to quantitative restrictions on imports and exports have already been amended or repealed. There is a clear delay in the implementation of the action plan.

Progress can be reported in the field of **horizontal measures**. The Strategy with milestones for implementation of the *acquis* for the relevant horizontal institutions is closely followed and implemented via annual plans of operation of the quality infrastructure institutions.

In the area of *standardisation*, good progress was achieved. European and international standards were adopted in the fields of machinery, construction products and processes, chemicals, food and electro-technical devices. 21,131 European standards (ENs) have been adopted as national standards, mostly by endorsement. A total of 2,998 national standards give a presumption of conformity to New Approach directives. The notification of EU standards and standardisation related documents to the European Committee for Standardisation (CEN) and the European Committee for Electrotechnical Standardisation (CENELEC) continued, as did the withdrawal of conflicting standards.

The number of the assembly members of the Institute of Standardisation (ISRM) increased to 90 stakeholders. The administrative capacity remains insufficient, especially with regard to the commitment of the ISRM to become a full member of the CEN/CENELEC. The ISRM has signed cooperation agreements with the standardisation institutes of France, Azerbaijan, and Ukraine. The government does not allocate sufficient funds for membership fees in the European standardisation organisations, contrary to the Law on Standardisation. The shortfall is covered by the modest revenues of the ISRM.

Following the new Law on *accreditation* and the recommendations of the European cooperation for Accreditation (EA), the Institute of Accreditation (IARM) amended its Charter and a number of rulebooks and documents on procedures. The IARM currently employs 16 full time employees, 16 lead assessors, 49 assessors, 57 experts, and 44 candidate assessors. By 1 September 2011, the IARM has accredited a total of 76 conformity assessment bodies and withdrawn 11 accreditations. Most of the accreditations granted in 2010 refer to testing and calibration laboratories and inspection bodies. The 2011 operational budget of the IARM has increased by 77% compared to 2010. Significant resources are allocated for the procurement of equipment. The multilateral agreements for testing laboratories, calibration laboratories, inspection bodies and product certification bodies with the EA have not been signed yet.

As regards *conformity assessment*, the number of conformity assessment bodies has further increased to a total of eight. The Law on Product Safety has been revised in 2011, but it is still not in conformity with the horizontal framework *acquis* of 2008 (i.e. the New Legislative Framework).

In the area of *metrology*, the Ministry of Economy set eighteen new standards for measuring instruments and adopted regulations on alcohol meters and alcohol hydrometers, as well as on essential requirements for bottles used as measuring containers, with the aim of transposing the relevant EU *acquis*. In 2010 the number of calibration certificates issued by the Bureau of Metrology (BoM) increased by 35% compared to 2009. The 2011 operational budget of the

BoM was increased by about 59% to nearly €1.6 million. Most of the budget is allocated to the procurement of equipment for the BoM laboratories. However, the equipment in the laboratories is not regularly calibrated and none of them have been accredited. The planned increase of staff did not take place and administrative capacity remains insufficient.

In 2010, the State Market Inspectorate (SMI) conducted a total of 331 *surveillance* actions. Subsequently, it imposed a total of 75 corrective measures and initiated 10 misdemeanour procedures. The SMI enhanced the efficiency of its market surveillance activities by modifying its internal operational practices. Furthermore it improved its visibility by launching a website and enabling electronic submission of complaints by citizens. It also issued brochures for consumers and businesses and a 'Guide through SMI'. The National Programme for coordination and taking effective measures for market surveillance for 2011-2012 was adopted in November 2010 and the Memorandum of Understanding and Cooperation between the customs authorities and the market surveillance authorities was signed in February 2011. The members of the coordinative body for market surveillance were appointed and, as from January 2011, joint actions were undertaken by market surveillance authorities for the surveillance of some products (e.g. toys, medicinal devices and telecommunications equipment). However, the *market surveillance* authorities still have limited human and financial capacities to conduct comprehensive checks on technical compliance of products. Preparations in the area of horizontal measures are advanced.

Little progress can be reported in the area of the **'Old Approach' product legislation**. A new Law on chemicals was enacted, but full transposition of the EU *acquis* in this area has yet to be ensured through implementing legislation. Preparations in the area of old approach product legislation are advancing.

There was some progress in the area of **product legislation under the 'New and Global Approach'**. The rulebooks on toy safety and recreational craft, as well as radio equipment and telecommunications terminal equipment and by-laws on medical devices came into force. Their alignment with the *acquis* remains to be confirmed. In the area of New and Global Approach product legislation, the country is advanced.

No progress can be reported in the area of **procedural measures**. In this area, the country is advanced.

Conclusion

There has been some progress in the area of free movement of goods, especially in the area of adoption of EN standards and operational activities of the SMI. The budget for the implementation of the comprehensive strategy on the horizontal institutions has increased. However, the framework legislation is still not fully aligned with the horizontal *acquis* in the area of free movement of goods. The quality infrastructure institutions still have insufficient funds for development and financing the cooperation with their relevant EU counterparts. Full membership and efficient exchange of information with the relevant EU bodies are yet to be ensured. Overall, preparations in the area of free movement of goods are moderately advanced

4.2. Chapter 2: Freedom of movement for workers

No progress can be reported in the field of **access to the labour market**. The government adopted a decision determining the number of work permits to be issued to foreigners in 2011 at 3000, and 1146 work permits were issued to foreign citizens in the first half of the year.

The Law on public servants remains to be modified in order to give EU citizens access to posts in the public service. Preparations in this area are starting.

Some progress was made towards preparing for the country's participation in the **EURES** (European Employment Services) network. The action plan outlining the measures and activities for participation in EURES is being implemented. The administrative capacity of the Employment Service Agency was strengthened by the employment of two more staff members. Preparations in this area remain on track.

Little progress can be reported in the area of **coordination of social security systems**. Training has been carried out to strengthen the capacity of the public authorities. An agreement with Montenegro for coordination of social security systems came into force. Preparations in this area are moderately advanced.

There was little progress in the area of the **European health insurance card (EHIC)**. An agreement on the use of the EHIC entered into force with Belgium in July 2011. Preparations in this area are at an early stage.

Conclusion

There was little progress in the area of freedom of movement for workers. Alignment with the *acquis* is at an early stage.

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

Progress can be reported in the area of the **right of establishment**. Implementing legislation was adopted aimed at simplifying the procedures for granting authorisations. Efforts were made to eliminate unnecessary formalities and administrative barriers. Electronic submission of application for establishment was enabled. The licensing regime under the amended Law on Construction is not yet harmonised with the *acquis*.

Regarding the services directives, which have effects on both establishment and cross-border services, the Law on tourism was amended as to provide for automatic licensing; however, licensing requirements for tourist guides remain. The action plan for harmonisation with the Services Directive was updated and its implementation is on track. The horizontal law transposing the Services Directive has not yet been adopted and the 'Point of single contact' has still to be designated. Coordination among the authorising bodies under the leadership of the Ministry of Economy has improved. Local authorities and also judicial authorities are not yet part of the coordination process which is aimed at increasing knowledge of European case law among the relevant services.

There was some progress in the area of the **freedom to provide cross-border services**. The Law on trade was amended in order to align with the Services Directive. The Law on the real estate cadastre was amended, removing the reciprocity and nationality requirements and providing for cross-border services. Foreign operators need to establish either a subsidiary or a branch in order to provide services in the country, which is incompatible with the *acquis*. There is no general legal provision in place allowing the cross border provision of services. Although reciprocity requirements for legal persons from the EU were removed, the nationality requirement is still present in several service sectors, including in the veterinary, private education, tourism and regulated professions. There is an increased awareness of the

obligations arising from the *acquis*. However, the administrative capacities of the various authorising bodies remain weak. Preparations are starting in the area of cross-border services.

Significant progress can be reported in the area of **postal services**. A new law on postal services was enacted on 6 December 2010 and the level of alignment with the postal *acquis* is well advanced. Further work is required, in particular on further market opening; period of designation; financing of net costs of universal service obligation. Besides the adopted primary legislation, the Postal Agency continued with the adoption of the relevant implementing legislation. The postal market is growing and there are many operators now active in the market. However, it is also important to strengthen supervision of the market with a view to preventing the circumvention of existing legal requirements. Full liberalisation of the postal services is expected by 2015. The designated universal postal service provider that holds a monopoly for services weighing below 50 grams has enhanced its performance, but further improvement of its services is necessary. Preparations started for privatisation of the part of the designated universal postal service provider, which is currently fully owned by the state. The Postal Agency as a national regulatory authority is sufficiently staffed and self-financed. The regulator has improved capacities to supervise the provision of the universal postal service and has also imposed regulatory remedies in that regard. It set up dispute settlement procedures and increased its capacities to enforce its decisions. Cooperation with the competition authority is at a satisfactory level. The policy-making capacity of the Ministry of Transport and Communications in the field of postal services remains weak. In the area of postal services the country is well on track.

There was progress in the area of **mutual recognition of professional qualifications**. The Law on recognition of professional qualifications was enacted, distinguishing between professional and academic qualifications. However, the law is not fully in line with the Directive on Recognition of Professional Qualifications, in particular with regard to temporary mobility. In addition, requirements concerning nationality, language and reciprocity remain in the legislation regulating various professions. The action plan for upgrading the system for mutual recognition was implemented. A coordination group among the authorising bodies has not been formed yet. A National Coordinator of the bodies and institutions responsible for recognition of professional qualifications has not been nominated yet as required by the Professional Qualifications Directive. Alignment with the Lawyers' Directives and the *acquis* on commercial agents and toxic products has yet to be achieved

Conclusion

In the area of the right of establishment and freedom to provide services, the country is on track, particularly in the area of postal services. The level of coordination among the various bodies responsible for authorising cross-border services has improved. In the area of mutual recognition of professional qualifications the country is at an early stage. Overall, preparations in the area of the right of establishment and freedom to provide services are at an early stage.

4.4. Chapter 4: Free movement of capital

The country already met the requirements of the first stage of the Stabilisation and Association Agreement (SAA) in the field of **capital movements and payments** in 2008. Further liberalisation is conditional on the transition to the second stage of the SAA, pending a decision by the Council. Progress was limited to relaxing some of the restrictions on residents regarding portfolio investments in foreign markets; however, all restrictions

remained. The restrictions for the amounts of cash that may be carried across borders and on the amounts of transfers that non-residents can perform through their local and foreign currency accounts are not aligned with the *acquis*. EU citizens are not allowed to purchase agricultural land. This constitutes an effective barrier to the free movement of capital. Foreign investment has not kept pace with neighbouring economies. Modernisation of infrastructure has to be reinforced. The legal provisions preventing nationals from buying foreign securities, opening accounts in foreign banks, or purchasing real estate abroad remain. Preparations in the area of capital movements and payments are moderately advanced.

There was no progress in the area of **payment systems**. Preparations for transposition of the Payment Services Directive were launched. Most of the charges for cross-border electronic payment transactions remain disproportionate to those for domestic electronic payment transactions. In the area of payment systems, the country partially meets its targets.

Some progress can be reported in the area of the **fight against money laundering**. The Office for Prevention of Money Laundering and Financing of Terrorism (OPMLTF) and the central bank have issued additional implementing legislation on the prevention of money laundering and financing of terrorism. Reporting from the financial institutions on all transactions above € 15,000 and from the customs administration for cash transfers over € 10,000 is now automatic, via a secured channel. The OPMLTF started to perform inspections in the reporting institutions (over 54 legal entities in 2010), issued misdemeanour fines, and carried out temporary seizures of assets. Cooperation with the investigative and prosecuting bodies and with the foreign financial intelligence units, which are members of the Egmont group, has improved. (However, in 2010 the number of reports on suspicious transactions fell by a further 15%; half of them being sent by banks. The OPMLTF sent 28 reports and 140 notifications to the investigating and prosecuting institutions. Statistical data-base on the number of court cases and sentences on money laundering has been established (*see chapter 24 – Justice, freedom and security*). Overall, preparations in the area of combating money laundering are moderately advanced.

Conclusion

Progress in the area of free movement of capital was uneven and focused on enforcement in the area of combating money laundering and financing of terrorism. There are still restrictions on short-term portfolio investments and on cross-border payment transfers. There are plans for the further liberalisation of the capital movements and payments after the transition to the second stage of the SAA. Preparations in the area of free movement of capital are on track.

4.5. Chapter 5: Public procurement

Progress was made as regards **general principles**. The unit responsible for concessions in the Ministry of Economy improved its cooperation with other institutions involved in the public procurement system. The Public Procurement Bureau (PPB) established a separate IT and accounting unit. The PPB coordinates and monitors the implementation of the strategy for the development of the public procurement system for 2010-2012. In 2010, 354 representatives from both contracting authorities and economic operators were trained in the training centre of the PPB. Conflict of interest, ethics and anti-corruption in procurement procedures became a separate training module of the annual training programme. The PPB continued to cooperate with the State Audit Office, the State Commission for Prevention of Corruption (SCPC) and the Commission for Protection of Competition (CPC). However, court statistics on public procurement related court cases need to be strengthened. The trend of tender cancellations and

failures continued. The capacity of the unit responsible for concessions in the Ministry of Economy remains insufficient to deal with large-scale projects. Coordination with other state bodies should be strengthened in the field of Public Private Partnerships. As regards general principles, the country is well on track.

Some progress was made regarding transparency in the **award of public contracts**. The ceiling for mandatory e-procurement was raised from 30% of the total estimated value of all public contracts to 70%. In 2010, 693 contracting authorities and economic operators received specialised training on the use of the integrated electronic system for public procurement. The rulebook on the use of this system was amended to define the criterion of economically most advantageous tender. A customer support centre became operational. The public prosecutor's office pressed criminal charges against mayors and directors of medical institutions for violating the law on public procurement. However, some of the works contracts under "Skopje 2014" were amended as regards the criteria prevailing at the time of their award by multiplying the amounts contracted and increasing the scope of works. The SCPC confirmed that state funds were often misused for public awareness campaigns, and supplies were delivered while the respective tender was still ongoing. With regard to the award of public contracts, the country is moderately advanced.

Progress can be reported as regards the **remedies** system. About 12% of all the tenders launched in 2010 were the subject of appeals. The State Appeals Commission (SAC) maintained the level of case resolution of around 95% in 2010. The website of the SAC is regularly updated with both the cases received and the respective decisions taken. The Law on public procurement was amended to ensure timely enforcement in case of appeal of decisions of the SAC. The number of staff increased to 12, but the SAC remains seriously under-budgeted and understaffed. Full alignment with the amended EU Directive on remedies has yet to be achieved. As regards the remedies system, the country is moderately advanced.

Conclusion

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

4.6. Chapter 6: Company law

Good progress can be reported in the area of **company law**. The Company Law was amended with the aim of aligning it with the company law directives on disclosure requirements in respect of certain types of companies; on the exercise of certain rights of shareholders in listed companies; on cross-border mergers of limited liability companies and on consolidated accounts of companies with limited liability. The Law on the one-stop shop was amended to introduce electronic company registry; alignment with the *acquis* remains to be confirmed. Alignment with the Tenth Company Law Directive on cross-border mergers is significant, but the transposition of Article 16 on employee participation has yet to be achieved. In the area of company law the country remains well on track.

Little progress was made on **corporate accounting**. The rulebook on the form and content of the annual accounts has been adopted. Full alignment with the Seventh Company Law Directive, including the conditions for preparation of consolidated accounts, has still to be achieved. A Law on public oversight in the area of accounting has still not been adopted.

Good progress can be reported as regards **auditing**. A new Audit Law was enacted with the aim of partially aligning with the Directive on statutory audits of annual accounts and consolidated accounts. The law provides for the establishment of a public oversight body to supervise and promote the audit profession. The Council for audit promotion and supervision is in the process of being established as an independent regulatory body. The Institute for Chartered Auditors (ICA) undertakes quality control reviews and has become an affiliated member of the International Federation of Accountants (IFAC). The ICA now has the status of a legal entity; however, it remains understaffed. Chartered auditors' qualifications obtained abroad have yet to be recognised. Overall, in the area of corporate accounting and auditing the country is moderately advanced.

Conclusion

Good progress was made in the area of company law. The Company Law was amended to further align it with the *acquis*. A quality control system and a public oversight body are being established; however, the legal framework in the area of auditing remains only partially aligned with the *acquis*. The Institute for Chartered Auditors is now an affiliated member of the International Federation of Accountants, but its administrative capacity remains weak. Qualifications obtained abroad have yet to be recognised. Overall, preparations in the area of company law partially meet their targets.

4.7. Chapter 7: Intellectual property law

There was some development in the area of **copyright and neighbouring rights**. The Law on copyright and neighbouring rights improved the framework for the licensing of collective rights management (CRM) societies and set a deadline of September 2011 for renewal of the old licences. Alignment of the law with EU *acquis* remains to be confirmed. However, the CRM societies remain inactive and/or are still to obtain their licences under the new Law on copyright. The administrative capacity of the unit responsible for copyright in the Ministry of Culture remains weak. In the area of copyright and neighbouring rights, the country is moderately advanced.

Good progress was made in the area of **industrial property rights**. The Law on industrial property was amended to better protect the geographical names of agricultural products and to increase the competences of the State Market Inspectorate (SMI) when seizing counterfeit items. Furthermore, the Law on ratification of the Lisbon Agreement for the Protection of Appellations of Origin and their International Registration was adopted. The State Office for Industrial Property (SOIP) signed a 2010-2012 action plan for cooperation with the European Patent Organization. Some management staff of the SOIP resigned; however, a total of 33 staff is sufficient. Activities to raise awareness of intellectual property rights (IPR) continued. Under the TEMPUS programme, the Centre for Intellectual Property Education launched the first specialised master studies on IPR starting with the 2010-2011 academic year. As part of the curriculum for continuous training of the Academy for Judges and Prosecutors, 405 members of the judiciary were trained on IPR in 2010. In the area of industrial property rights, the country remains well advanced.

Progress can be reported as regards **enforcement**. The Coordination Body for Intellectual Property (CBIP) in 2010 undertook 23 coordinated actions throughout the country to combat piracy and counterfeiting. The CBIP continued to seize counterfeit goods, mainly audio/video CDs, clothing, cigarettes and alcohol, but also toys, software and broadcasting equipment. Cooperation with the Agency for Managing Confiscated Property continued and about 180,000 goods that were the subject of a court decision were publicly destroyed in 2010. The distribution of competences between the law enforcement institutions (SMI, the Customs administration and the Ministry of Interior) remains unclear. Seizure of counterfeit pharmaceutical products started in cooperation with the Bureau on pharmaceuticals, but consumers' awareness of their health risks and threats to their safety remains limited. The number of misdemeanour, civil and criminal proceedings increased; 91 out of 152 cases dealt with by the specialised IPR departments of the 13 basic courts were completed in 2010. 34 fines of between €200 and €1,600 were imposed on legal entities, and 10 individuals were sentenced to 6 months' imprisonment. However, counterfeit products continued to be sold on temporary stalls in the streets, markets and outlets. The trade in counterfeit medicines and fake products via the internet is not subject to criminal prosecution. There is still no reliable enforcement record. A methodology for collecting statistical data has yet to be developed. A system for exchanging data between the law enforcement institutions has yet to be established. Counterfeit channels remain untraced and little was done to tackle the 'counterfeit pyramid'. A central body is needed in order to bring together the various institutions and authorities involved in enforcement related activities and to fully assess the current situation and develop a national strategy and action plan.

Conclusion

Some progress was made in terms of the IPR legal framework. The framework for the licensing of collective rights management societies was improved. The powers of the State Market Inspectorate when seizing counterfeit items were increased. Law enforcement institutions continue to cooperate, but their respective responsibilities with regard to enforcement of intellectual property rights remain unclear. Although the actions of the CBIP continued on a regular basis, counterfeiting and piracy remains widespread. The track record on investigation, prosecution and judicial handling of piracy and counterfeit is not satisfactory. Counterfeit and piracy are not addressed as an aspect of organised crime. The level of awareness of intellectual property rights among the public remains low. Overall, preparations in the area of Intellectual property law are advancing.

4.8. Chapter 8: Competition policy

Good progress can be reported in the area of **anti-trust, including mergers**. The new law on protection of competition entered into force in November 2010. It strengthens the enforcement powers of the Commission for Protection of Competition (CPC) in the anti-trust area by introducing leniency measures, and removes the suspension clause for sanctions under administrative decisions. However, in the case of misdemeanour procedures the suspension clause can still delay the enforcement of the decisions of the CPC.

The number of staff in the CPC dealing with anti-trust and mergers increased by one, but is still insufficient. The enforcement record remains low in the area of cartels. The general budget of the CPC for 2011 has decreased slightly compared to last year and remains inadequate. Judges in the Administrative Court working on competition cases received some training on anti-trust and mergers. Overall, preparations in the area of anti-trust, including mergers, are at an advanced stage.

The percentage of CPC decisions confirmed by the Administrative Court has increased. Compared to 2010, the enforcement record has increased in the field of mergers but remains low in the area of cartels. Since October 2010, the CPC has adopted one decision on a prohibited agreement, four decisions in cases involving abuse of dominant position and fourteen decisions on mergers.

There was some progress in the field of **State aid**. The new law on State aid was enacted. It allows for simpler administrative procedures before the CPC. The number of staff dealing with State aid is sufficient. The number of decisions taken by the CPC in the field of State aid has increased - since October 2010, it has adopted six decisions. However the quality of the decisions, in particular with regard to the question of the qualification of the aid, needs to be improved. Awareness activities were organized for State aid providers, particularly on the provisions of new law. The number of reporting institutions increased, in particular among large providers of aid. However, some are still reluctant to notify aid to the CPC.

There was little progress in the field of market liberalisation. Recent amendments to the energy law, adopted in spring 2011, have led to an increase in competition and transparency in the electricity sector. In the energy sector, most of the (lignite) coal reserves are still being managed by the electricity generation company and there is still no clear legal and financial separation between the lignite excavation activities and operation of the thermal power plants. Gas and electricity markets are dominated by single suppliers who undermine effective competition.

Conclusion

Some progress was made in the area of competition. In the field of mergers and State aid the enforcement record has improved in quantitative terms, but it remains low in the field of cartels. The quality of the decisions in the area of State aid needs to be further improved. The CPC does not have adequate budgetary resources. The number of staff is adequate to cover State aid matters, but insufficient in the area of anti-trust and mergers. Overall, preparations in the area of Competition Policy are moderately advanced.

4.9. Chapter 9: Financial Services

There was good progress in the area **banks and financial conglomerates**. The law on the deposit guarantee fund, increasing the amount of guaranteed deposits, was adopted. It will be fully applied by the time of accession. The law on financial companies which regulates the non-bank credit institutions was also adopted.

Preparation of legislation in the area of banks and financial conglomerates is well advanced. However, further efforts are needed in order to keep track of the latest regulatory developments at international level. Moreover, financial intermediation is hampered by weak competition in the sector and a high risk-aversion of the banking sector.

New legislation has been introduced requiring the banks and the financial institutions to provide consumers with full information on their products and services. However, the implementation of this legislation remains a challenge and the protection of consumers is not properly addressed.

The central bank, the *National Bank of the Republic of Macedonia* (NBRM), issued several pieces of implementing legislation relating to credit and operational risk management and

management of banks under administration. Cooperation continued with the supervisory authorities of those countries whose banks own some of the largest banks in the country. The capacity of the NBRM for proper implementation and enforcement of regulations is satisfactory. The Basel II Accord for risk-based supervision is being applied gradually: pillars 2 and 3 are fully applied. However pillar 1, crucial for Basel II, will only be applied from January 2012 onwards. The transposition of the Capital Adequacy Directive for investment funds and credit institutions has not been completed.

Good, but uneven, progress can be reported in the area of **insurance and occupational pensions**. The law on insurance supervision was amended in order to bring it into line with the law on prevention of money laundering and the Criminal Code. Some of the *acquis* under the Solvency I directive, including the *acquis* on risk-based supervision and off-site reporting requirements, was transposed; alignment remains to be confirmed. The enforcement record of the Insurance Supervisory Agency (ISA) improved; it now performs both on-site and off-site supervision. The capacity of the ISA and its cooperation with the supervisory authorities of the insurance companies that have local subsidiaries are adequate. Foreign-owned insurance companies reinsure most of the risk undertaken by the local subsidiaries, in particular that related to larger clients. The guarantee fund for insolvency of insurers is now sufficient; the required capital and solvency margin are above the required levels. However, there is no enforcement record in combating offences committed by uninsured drivers. The legislation implementing the Law on vehicles, which regulates vehicle registration and insurance, will be applied from the 1 January 2012. The provisions in the Law on compulsory insurance of road vehicles authorising the Ministry of Finance to set the premiums for motor vehicle insurance, which constitute an effective barrier to competition among the insurance companies, have not been removed.

The law on fully-funded pension insurance was amended in order to lower the sanctions. Further legislation implementing the Law on fully funded pension insurance was issued by the Agency for the supervision of fully funded pension insurance (MAPAS). The MAPAS launched the preparations for the introduction of risk-based supervision. The new regulations will be modelled on International Organisation of Pension Supervisors best practices; however, they are not linked to the Basel principles. The country's pension scheme, which is based on defined contributions, differs from the model applied in most of the EU countries; hence the respective EU *acquis* for supervision of the institutions for occupational retirement provisions cannot be applied. Pension funds can now invest a small part of their portfolio in equity capital and in municipal bonds, in order to stimulate SMEs and local development. The limitation on investing in non-domestic securities continues, which is contrary to the principles of EU law. However, the limit was relaxed to 50% (30% in 2010). The financial independence of MAPAS was not fully ensured, despite the separation of the MAPAS budget from the Ministry of Finance, which still gives prior approval regarding the management of MAPAS assets. No previous experience related to financial supervision or capital markets is required for appointment to the MAPAS management. Its overall administrative capacity is weak, and exposed to turnover of experienced staff. MAPAS has limited leverage over the institutions it supervises. In the area of insurance and occupational pensions the country partially meets its objectives.

Progress was made in the area of **financial market infrastructure**. The financial stability committee and the financial services supervisory committee meet regularly. A new law on leasing, introducing soft supervisory standards was adopted. In the area of financial market infrastructure the country is moderately advanced.

Progress can be reported in the area of **securities markets and investment services**. Most of the present directives on market abuse, markets in financial instruments, investors' compensations schemes, transparency and prospectuses, are already transposed; alignment remains to be confirmed. Further steps need to be taken to achieve alignment with Directive 2007/16 and other developments in the EU *acquis* relating to undertakings for collective investment in tradable securities (UCTIS IV package). Furthermore, the frequency with which the supervisory regulations are amended makes implementation by the capital market undertakings cumbersome. As regards administrative developments, the Parliament has elected four new members and re-elected the President of the regulator, the Securities and Exchange Commission (SEC); all of them will be full-time employees of the SEC. Moreover, steps were taken to distinguish the competences of the Central Bank and the SEC in the area of licensing and supervision of trading in securities, while the SEC's cooperation with other domestic authorities was strengthened. The IT system of the SEC was upgraded and is now adequate. However, the number of SEC staff is still not sufficient. On an international level, the SEC has signed the International Organization of Securities Commissions Multilateral Memorandum of Understanding.

Conclusion

There was overall good progress in the areas of banking, insurance and securities markets and investment services. The laws on the deposit guarantee fund and on distance marketing of financial services were adopted, the Basel II accord for risk-based supervision is being gradually applied and the preparation of remaining legislation in the area of banks and financial conglomerates is advancing. The Insurance Supervisory Agency has started with enforcement through on-site and off-site supervisions. New legislation regulating other financial services has been introduced, such as leasing and non-banking financial companies and steps were taken to distinguish the competences of the Central Bank and the SEC in the area of licensing and supervision of trading in securities. However, alignment remains to be confirmed for some newly transposed legislation. The independence and the enforcement capacity of the MAPAS remain to be addressed. Recent developments in the EU law will need to be taken into account. Overall, in the area of financial services, alignment with the *acquis* is on track.

4.10. Chapter 10: Information society and media

There was good progress in the area of **electronic communications and information technologies**. The regulator adopted implementing legislation aimed at improving competitive conditions and introduced most of the key competitive safeguards. The implementation of cost accounting obligations would ensure that operators follow fair, objective, and transparent criteria when allocating costs to services. The regulator has obliged operators to make provision for greater protection of consumer rights by adopting consumer rights regulation by obliging service providers to publish all conditions for access, pricing and tariffs. The MVNO regulation (mobile virtual network operator) was introduced and procedures were launched for the regulation of next generation access networks. The regulator analysed all relevant markets for electronic communications and made headway in imposing regulatory remedies. Relevant markets that are sufficiently competitive are no longer subject to ex-ante regulation. High fees charged by the regulator to the operators exceeding the level necessary to cover the administrative costs called into question the non-profit nature of the regulator and may constitute a barrier to market entry, in contradiction to the *acquis*. The regulator appointed a new Director; however, the appointment process raised concerns about possible politicisation. The level of cooperation with the competition authority has improved

as a start was made on coordination of ex-ante measures imposed by the regulator with ex-post measures by the competition authority. A universal service provider was designated. Preparations for the introduction of the emergency number 112 have advanced. The administrative capacity within the competent ministry has yet to be strengthened. In the area of electronic communications and information technologies, the country is advanced.

There was progress in the area of **information society services** under the responsibility of Ministry of Information Society and Administration, notably in the area of online public services. Amendments to the Electronic Commerce Act were adopted which were aimed at completing alignment in this field, in particular by establishing a national contact point, which has yet to be put into operation. An e-inclusion strategy was adopted. Internet shopping in the country remains at a low level. A new 'threshold' on internet trading with a high customs tariff is not in line with the current strategy to promote the digital economy. A national internet exchange point is yet to be established. In the area of information society services, the country is advanced.

There was some progress in the area of **audiovisual policy**. The Broadcasting Law was amended, putting the Public Revenue Office in charge of collecting the broadcasting fee on behalf of the Public Service Broadcaster. The number of members of the Broadcasting Council increased from the current 9 to 15. The Broadcasting Council's market monitoring activities increased, but remain insufficient. Cooperation with the competition authority intensified, but legislation on copyrights and on media ownership and concentration is still not fully enforced. Piracy is widespread, notably in the cable TV networks. Sustainable funding of the public service broadcaster and the Broadcasting Council is yet to be secured. The public service broadcaster does not currently fulfil its statutory role to provide informative, educational and entertaining programmes. The process was launched for the adoption of a new Law on electronic media aimed at aligning with the Audiovisual Media Services Directive. Preparations have started for the introduction of mobile TV services and second generation digital television. The government adopted an Action Plan for digital switch-over and use of the digital dividend; however, the switch-over was postponed to 2013, thereby hindering investments in the market. Use of the operators' money for the digitalisation of the public broadcaster is not in line with best European practices. Intrusions into media freedom hindered the uninterrupted functioning of the media without political interference. Large fines are imposed for defamation of public figures, which is contrary to European case law. In the area of audiovisual policy the country needs to step up its efforts to align with the *acquis*.

Conclusion

Progress was made in the field of electronic communications and information society services. Alignment with the EU *acquis* is advancing and most of the key competitive safeguards were introduced. The country's approximation with Digital Agenda Europe actions is progressing. Some progress can be reported in the area of audiovisual policy, including an Action Plan for full digital switch-over and use of the digital dividend. However, the country only partially meets the EU requirements in this area. Further efforts are necessary with regard to the capacity of the Broadcasting Council whose ability to monitor the market effectively remains inadequate. The public broadcaster is failing to fulfil its statutory role.

4.11. Chapter 11: Agriculture and rural development

Horizontal progress was made. Implementing legislation was enacted in the fields of agricultural and rural development support policy, including direct payments, and market

support measures. For 2011, a total of € 101 million is allocated for direct support schemes; this includes area and headage payments, premium payments for strategically important products, and non-commodity based payments. Institutional capacity remains a concern, with restrictions in budgetary allocations in 2011 for salaries of public servants in the sector compounded by uneven progress in filling vacant posts.

Good progress can be reported towards setting up an Integrated Administration and Control System (IACS). The Land Parcel Identification System (LPIS) is in an advanced stage of development; and farmer registration is on-going. The real estate register currently covers 99% of the country. The farm register, with a supporting automated IT system, is fully functional and is being used in the supervision of national support schemes in 2011. However, internet and server capacity is a constraint, particularly at times of peak activities. Compatibility of data registers is progressing, although it has not yet been fully achieved. Institutional capacity to manage and maintain a functioning IACS is insufficient.

There was some progress in improving the capacity of the paying agency (the Agency for Financial Support for Agriculture and Rural Development — AFSARD). Staff employed in AFSARD has a wide range of responsibilities, covering both national support schemes and existing and planned additional Instrument for Pre-Accession Assistance for Rural Development (IPARD) measures under Component V. However, despite high levels of motivation and training, their number is insufficient. Preparations for implementation of the European Agricultural Guarantee Fund (EAGF) (direct payments) are being initiated through the introduction of relevant implementing legislation. Limited progress is evident in the development of a sustainable and efficient agricultural information system. The activities of the Pilot Farm Accountancy Data Network (FADN) continue. Provision of support in agriculture was strengthened. Preparations in the area of horizontal issues are moderately advanced.

Regarding **animal products**, implementing legislation for poultry and eggs and honey has been adopted. Harmonisation of legislation with the *acquis* has continued for specialised crops, principally through the adoption of implementing legislation on wine. Institutional capacity to implement and enforce the legislation in force has been strengthened. The legal basis is in place for implementation of market support measures such as intervention for a restricted number of commodities, consumption promotion, and producers' organisations. Alignment with the EU common market organisation is limited. Preparations in this area are being initiated.

Alignment with the *acquis* in the area of specialised crops is on track, particularly for *wine*. Implementing legislation on *wine* was introduced, relating principally to the registration of producers and control of processing facilities. However, the implementing law concerning geographical indications remains to be fully aligned with the *acquis*. Implementing rules for fruits and vegetables have been enacted and an ambitious timetable has been set for other products.

Further progress can be reported in the field of **rural development**. Implementation of the IPARD programme under component V continues for three measures 'Investments in agriculture holdings', 'Processing and marketing' and 'Diversification in rural economy'. To date, three calls for proposals have been completed and fourth launched. The associated commitment for the four proposals under IPA Component V totals €M 4.67. Nevertheless, the absorption of allocations for 2007 and 2008 under IPA Component V, totalling €M 8.8, remains a concern. The institutional capacity of the Ministry of Agriculture, Forestry and

Water Economy (MAFWE) Managing Authority was strengthened. Preparations for accreditation of the Technical Assistance measure were renewed with a view to finalisation by the end of 2011.

Continuing progress can be reported in the field of **quality policy**. Implementing legislation for the legal framework covering regulation of marketing standards, requirements on presentation and consumer labelling, and the establishment of quality schemes were introduced. This was supported by institutional restructuring and strengthening.

There was further progress with **organic farming**. The law on organic production was strengthened, principally in the fields of registration of producers, and control of permitted and non-permitted inputs. Alignment with the *acquis* remains to be confirmed. Numbers of registered organic producers, as well as total organic production, continue to increase. A budget of € 1.79 million was allocated in 2011 to support organic production. Administrative capacity is insufficient to meet *acquis* obligations. Preparations in this area are back on track.

Conclusion

Further progress was achieved in the field of agriculture and rural development. Key support policies for agriculture and rural development are gradually being aligned with EU requirements. Alignment with the *acquis* requires continuing sustained efforts. Administrative capacity remains a concern throughout the sector. Overall, preparations in the area of agriculture and rural development are moderately advanced.

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

Good progress was made as regards the **general** principles. A new food safety law was enacted. The Law lays down the general principles and requirements of an integrated system for safety of food and animal feed, general and specific hygienic requirements for food safety, and organisation of the food safety system, including official controls. Starting from 1 January 2011, an independent Food and Veterinary Agency (FVA) was established by a merger of the Food Directorate of the Ministry of Health and the Veterinary Directorate of the Ministry of Agriculture, Forestry and Water economy, to provide more coherent approach in the sector. Staffing of the FVA still needs some strengthening.

Progress was made in the area of **veterinary policy**. Additional implementing legislation on control systems was adopted. A system for the collection, processing and disposal of animal by-products remains to be put in place. The capacity of systems for the control of imports was improved by opening two new border inspection posts at the border crossing point of Tabanovce and Skopje Airport. Since January 2011 all formalities for import of animals and animal by-products are the responsibility of the veterinary inspection at the border.

The part of the system for *identification and registration* of bovines, sheep and goats which deals with movement control has been improved, but it does not cover all the movements. Corrective measures have been adopted to address shortcomings in identification and registration of animals, but the FVA administrative capacity remains weak. Good progress was made in the area of *control measures for animal diseases*. The FVA is implementing the programme for oral vaccination of foxes, based on a developed action plan and corresponding implementing legislation. Surveillance programmes for rabies and classical swine fever are in an initial phase of implementation. A programme for the control and eradication of transmissible spongiform encephalopathies was adopted. Measures for control and eradication

of Newcastle disease and African horse sickness have been adopted, alignment remains to be confirmed. The FVA is implementing a programme for eradication of brucellosis. Although clear progress has been made in the areas where small ruminants are mass vaccinated against brucellosis, the prevalence of disease is maintained or increased in other regions. The national control plan on salmonella in hens is not implemented due to lack of funds. The capacities of the FVA, although strengthened, remain insufficient to perform systematic controls in relation to transmissible animal diseases. The 2011 budget for *veterinary expenditure* on measures for animal health was reduced by 18% as compared to 2010; the total budget is required for payment of arrears carried over from 2010. The costs of implementation of the 2011 programme are foreseen to be paid from the 2012 national budget.

Some progress was made in the area of *animal welfare*. Implementing legislation transposing the *acquis* was adopted; alignment remains to be confirmed.

Some implementing legislation on *intra-Community trade in live animals, semen, ova and embryos*, remains to be adopted. The aim of the existing legislation on *non-commercial movement of pet animals and on import requirements for live animals and animal products* aims is to transpose the *acquis*; alignment has yet to be confirmed. No new *international veterinary agreements* were signed during the reporting period. The capacity to transpose and implement the *acquis* on *zootechnical issues* was strengthened. A programme for livestock breeding was adopted.

The laboratories of the veterinary faculty were nationally accredited to ISO 17025 standard for an additional 89 laboratory methods. A system for the supervision of veterinary inspectors and veterinary stations was established. The administrative capacity of the veterinary inspection remains insufficient, at both central and local level, to implement an EU-compatible control system. In the area of veterinary policy, the country is advanced.

Some progress was made in the **placing on the market of food and feed**. The aid schemes for HACCP were prolonged to 2011 and training events provided for food business operators (FBO). The FBOs do not always apply the HACCP based procedures correctly and official controls are not always conducted in accordance with the legal requirements. The new food safety law provides a comprehensive legal basis for the formal categorisation and upgrading of the food business operators. Evaluation of food processing establishments for compliance with EU standards is not always performed correctly. The existing legislation transposes the *acquis* on *hygiene rules, specific rules for animal products, control rules and specific control rules for animal products* still remains to be adopted. Planned activities for improving the quality of the raw milk are not implemented.

Implementing rules, covering the control and management of animal by-products, were adopted. The necessary collection and treatment systems have not yet been set up. Development of a strategy for management of animal by-products is in progress. Preparations in this area are being initiated.

Some progress can be reported in the area of **food safety rules**. Implementing legislation was adopted on the safety of food for particular nutritional uses and food supplements. The legislation aims at transposing the *acquis* on food contact material, labelling, food additives, flavourings, quick-frozen foodstuffs, contaminants, novel food, ionising radiation and mineral waters. Implementing legislation on *extraction solvents* and *fortified food* has yet to be adopted. The capacity of the laboratory in the Institute for Health Protection is still insufficient to provide reliable results with respect to both human resources and procedures.

The capacity of the food inspectorate was strengthened, but the number, training and competence of staff remain insufficient. The annual monitoring programme for food safety was adopted and is in the implementation phase. Preparations in this area are being initiated.

Progress was made on **specific rules for feed**. A law on animal feeding was enacted. The implementing legislation remains to be adopted.

Progress can be reported in the area of **phytosanitary policy**. Implementing legislation was adopted in all areas, including on *plant health, plant protection products, quality of seeds and propagation materials* and *plant variety rights*. A new list of authorised active substances intended for *plant protection products* was adopted. No action was taken to implement the international standards for phytosanitary measures, in particular for surveillance, export certification and determining pest status in an area. Despite some recruitment, the administrative capacity of the phytosanitary directorate needs further strengthening.

Coordination among the various competent authorities in the area of phytosanitary policy has not improved. Two new phytosanitary border inspection posts were opened at the border crossing point of Tabanovce and Skopje Airport. Preparations for accreditation of the state phytosanitary laboratory are ongoing. Its capacity has improved, but remains under-used due to its undefined role in the national food safety monitoring system and the lack of samples received on a regular basis. Preparations in the area have been initiated.

No progress has been observed in alignment with the *acquis* as regards the release into the environment of *genetically modified organisms (GMOs)* and genetically modified food and feed.

Conclusion

There was good progress in the area of food safety, veterinary and phytosanitary policy, in particular with respect to the adoption of the new food safety framework law, establishment of the new Food and Veterinary Agency and implementation of various animal disease eradication programmes. The administrative capacity of the Food and Veterinary Agency, in terms of both the number and the competence of its staff, is still insufficient to ensure proper implementation of the *acquis*. Preparations in the area of food safety, veterinary and phytosanitary policy are well on track.

4.13. Chapter 13: Fisheries

There was limited progress in the field of **resource and fleet management**. Preparations in this area are on track. The *acquis* requirement on fleet registration is not applicable.

Limited progress was made in the area of **inspection and control**. Implementing legislation was enacted that reinforces the Law on Fisheries and Aquaculture. However, the administrative capacity of the unit for fisheries and aquaculture within the Ministry of Agriculture, Forestry and Water Economy (MAFWE), and of the relevant unit within the Agricultural Inspectorate, is insufficient. Preparations in this area are being initiated.

Some progress was made in the field of **structural actions**. Implementing legislation was enacted to cover the control of, and procedures related to, recreational fishing. For 2011, €1 million is allocated for support schemes.

Progress was achieved in the field of **market policy**. MAFWE has established a register of all **State aid** approved in the fisheries sector. National schemes remain to be aligned with the EU's structural and State aid policies, in particular regarding support for the stocking of fish waters.

There are no formal **international agreements**. Informal working arrangements continue with Albania and with Greece, covering the management of resources in Lakes Ohrid, Prespa and Dojran, whose waters are shared.

Conclusion

There was some progress in the area of fisheries. Administrative capacity is still insufficient. Since the country is landlocked, a large proportion of the fisheries *acquis* is not relevant. Preparations for implementation of the common fisheries policy are being initiated. Preparations in the area of fisheries are moderately advanced.

4.14. Chapter 14: Transport policy

Good progress can be reported in **road transport**. The work of the Road Safety Council was improved; safety campaigns were implemented according to their annual plan. Implementation of the legislation on digital tachographs has started and all the necessary structures were put in place. The Law on road transport was amended with a view to aligning it with the *acquis* on market access. The State transport inspection capacity was strengthened, and specialised equipment and further training events were provided. However, the number of inspections is still insufficient. The administrative capacity for implementing the road safety policy, and the social *acquis*, needs further improvement. Preparations in the area of road transport are well advanced.

There was considerable progress in the **rail transport**. A new law on interoperability was enacted by the Parliament. The Safety Authority was established as entity within the transport ministry, but its administrative capacity needs to be strengthened. Legislation on the licensing of train drivers was adopted to transpose EU rules, but it will only be applicable after accession of the country to the EU. The safety authority issued a series of vehicle authorisations, some of them according to EU Technical Specifications of Interoperability. The accident investigating body, established in early 2010, was not effective. Preparations for a new, full-time body within the government Secretariat General are ongoing. Additional efforts are still needed in order to implement and enforce the *acquis*. The level of track-access charges still adversely affects the competition of rail with road transport. The Railway Regulatory Agency is a regular participant in the EU working group of rail regulators. Burdensome, non-transparent and costly licensing and safety certification procedures and ensuing court proceedings have had a discouraging effect on companies from entering this monopolistic market. As a result, there is still only one operator. The Joint Border Crossing Agreement with Kosovo has been signed.

Little progress was made in the area of **inland waterways transport**. Implementing legislation on the requirements of ships' crew members was adopted. A safety inspection and licensing function was established and started to operate. Preparations in this area are advanced.

No progress can be reported in the area of **combined transport**. Preparations are on track.

Limited progress can be reported in the area of **air transport**. The Civil Aviation Agency, which is the independent regulatory body, has become operational. However, the human resources have not yet been strengthened. The reduction of the financial resources of the Civil Aviation Authority in the amendment to the Aviation Law has not been resolved. For some of the requirements under the first phase of the European Common Aviation Area agreement as regards air traffic management, aviation safety and security, national implementation measures have been put into place. Several important pieces of the Single European Sky legislation have been correctly transposed, but significant efforts are needed in order to complete regulatory alignment. In order to meet the obligations of the first transitional period in accordance with Protocol V of Annex V to the ECAA Agreement, the transposition of the interoperability regulation and the airspace and the flexible use of airspace regulations need to be finalised, and the airspace needs to be reconfigured into a functional airspace block. Although the associated National Supervisory Authority has been established, efforts are still needed to ensure its proper functioning and sustainable structure. The Air Accident Investigation Committee still needs to be established. The air-navigation services company staff still lacks relevant expertise. The administrative capacity of the air traffic department of the Ministry of Transport and Communications was strengthened. Overall, there is still a lack of adequate administrative capacity in the air transport sector. In the area of air transport, preparations are moderately advanced.

No development can be reported in the area of **satellite navigation**. Preparations for establishing technical assistance for the implementation of the satellite navigation programme, once it is operational, are ongoing.

Conclusion

Progress can be reported in the area of transport policy, particularly in the area of road and rail transport. The implementation of digital tachographs has started. A new law on railways interoperability was adopted and a Safety Authority was established. The Safety Authority needs to introduce safety certification procedures. The administrative capacity in each regulatory transport authority needs further strengthening. The Accident Investigation Committees, in both rail and air transport, need to be strengthened in order to act as an independent body for investigating accidents and serious incidents. Overall, preparations in the area of Transport policy are advanced.

4.15. Chapter 15: Energy

Progress can be reported in the area of **security of supply**. Legislation was aligned with the directives on security of electricity and natural gas supply. The Directorate of Compulsory Reserves of Oil and Oil Derivatives proceeded to implement the medium-term programme 2010-2015 for the establishment of mandatory reserves. At the beginning of September 2011, oil stocks were equivalent to only 33 days' average consumption. Alignment with the new oil stocks directive remains to be achieved. In the area of security of supply the country partially meets its objectives.

There was good progress in the area of the **internal energy market**. A new comprehensive energy law, aligned with the obligations deriving from the Energy Community Treaty, was enacted. The new energy law envisages the full opening of the electricity market to all non-household customers by mid-2012, and it strengthens the competences and independence of the Energy Regulatory Commission (ERC). The ERC adopted rulebooks on licences and on awarding cross-border transmission capacities. The ERC amended the rulebook on the

method and conditions for regulating electricity prices, and started preparations on a new tariff system for electricity transmission and distribution for the 2012 regulatory period. The subsidy scheme for vulnerable customers was extended to 2011. The dispute with the distribution system operator, a major EU investor, was resolved. The dispute settlement procedure opened by the Energy Community Secretariat on this case has been closed. Electricity prices for households increased in 2011 by more than 5%, but still do not reflect costs. Market rules are still under preparation. Collection rates for power bills remain insufficient to ensure the viability of the system.

The new energy law stipulates the unbundling of natural gas supply from transmission. The ownership of the gas transmission pipeline system remains unresolved between the government and the distribution company.

The administrative capacity of the ERC was further strengthened: two new staff members were employed, and the ERC continued to benefit from extensive training activities of two IPA 2007 projects. The staff numbers of the energy department of the Ministry of Economy stayed unchanged at 14. The administrative capacity remained insufficient to address all energy policy challenges. In the area of the internal energy market the country is moderately advanced.

Progress was made in the area of **energy efficiency**. The national energy efficiency action plan, in line with the commitments of the Energy Efficiency Task Force of the Energy Community, was adopted in April. An energy saving campaign was carried out. The Ministry of Economy adopted rulebooks on labelling and high –efficiency co-generation plants, and a decree on eco-design. The Energy Agency still lacks the necessary resources and administrative capacity to effectively promote energy efficiency and renewable energy sources. In the area of energy efficiency, the country has started to address its objectives.

In the field of **renewable energy**, a new rulebook on renewables and the decree for feed-in tariffs were adopted. The government took a decision confirming the renewable energy target for 2020 of 21%, and submitted a simplified renewable energy action plan for implementation of the strategy to develop renewable energy sources to the Energy Community Secretariat. The country was for the first time eligible for participation in the 2011 call for proposals for the Intelligent Energy program. However, the memorandum for participation in the program is not yet signed. The first 8 small hydropower plants are currently under construction. The government issued an authorisation for the construction of the pilot wind farm Bogdanci with an installed capacity of around 50MW. Preparations in the area of renewable energy are ongoing, but the country is not making full use of its renewable energy potential. Further efforts are needed to improve the share of renewable energy in final energy consumption.

The country has no **nuclear energy**. A study was commissioned for assessing the feasibility of constructing a nuclear power plant as an option to meet energy demand from 2020.

Some regulatory progress was made regarding **nuclear safety and radiation protection**. The national emergency plan was adopted in June. The compliance with the *acquis* of existing regulations in force remains to be verified. Memorandum of understanding for cooperation between the Radiation Safety Directorate (RSD) and its counterpart in Montenegro was signed. The administrative capacity of the RSD remains satisfactory; however, implementation of the law cannot be effectively monitored as the RSD has only two inspectors. The 2011 budget for the RSD was substantially reduced, and the RSD is still not financially independent from the Ministry of Health, although it is still in charge of licensing

medical practices. The envisaged storage facility for radioactive waste has not yet been licensed: the current design does not meet international standards and the necessary environmental impact assessment has not been carried out.

Conclusion

Good progress was made in the energy sector, in particular in enacting the new comprehensive energy law and resolving the long-standing dispute with the distribution system operator. However, an effectively functioning electricity market has yet to be established, and conditions for competition ensured. The country's energy efficiency and renewable energy potential has not yet been adequately exploited, and the financial independence of the radiation protection regulator is still not secured. Preparations in the area of Energy are moderately advanced.

4.16. Chapter 16: Taxation

There was limited progress on harmonisation of legislation in the area of **indirect taxation**. The rate of *value added tax* (VAT) for medical equipment and other devices for personal use to alleviate or treat disability was reduced from 18% to 5%, which is compatible with the *acquis*. The VAT registration threshold was increased from 2011 to approximately € 32,000 which is generally in line with the thresholds applied by some EU Member States. The Law on *excise* duties was amended with a view to discouraging the misuse of marked mineral oils as fuel for vehicles instead of for heating and to increase the amounts of fines for certain types of offences. Legislation on VAT and excise is only partially aligned with the *acquis*, some rates for excise remain lower than the minimum required. Preparations in this field remain on track.

No progress was achieved in the area of **direct taxation**. The Law on profit tax was amended, however issues such as potential discrimination against non-resident legal persons for payment of tax on dividends and the future application of the Parent-Subsidiary Directive have yet to be addressed. Relief from personal income tax for employees in the technological industrial development zones was increased from 5 to 10 years. The introduction of taxation of interest on deposits was postponed until 2013. Preparations in this field remain moderately advanced.

There was limited progress in the field of **administrative cooperation and mutual assistance**. A double taxation agreement with Belgium was ratified. The number of agreements concluded with EU Member States remains at 23. Double taxation agreements were concluded with Kosovo and Norway. However the agreements do not cover debt recovery and automatic exchange of information.

Progress was made in the area of **operational capacity and computerisation**. The amended Law on registration of cash payments reinforced the penalty policy. The twice-amended Law on tax procedure introduced policies for taxpayers to correct irregularities, clarified the penalty policy and improved the tax appeal procedure by involving the State Administrative Inspectorate in cases where appeals are not dealt with within the legal time limits. An amendment to the Law on the Public Revenue Office (PRO) created new competences for the office, including the collection of administrative and misdemeanour fines, as well as television and radio licence fees. The PRO updated its strategic plan for 2011-2013 and prepared action plans for 2011. Taxpayers' services were further decentralised and new Service Points offering taxpayer services were opened. The PRO office for large taxpayers

increased the number of companies it covers from 235 to 255. Enhanced audit activities were combined with new risk assessment tools, arrears collection was stepped up, e-filing of tax returns was extended and internal audit capacity was somewhat strengthened. Horizontal monitoring agreements with taxpayers were introduced in order to improve compliance with limited inspection and desk audit was launched. Intensive communication strategies through the web, telecommunication tools and new publications led to increased voluntary compliance. Training on professional standards and management took place and a staff appraisal system was implemented. A Centre for debt collection, a Centre for seized goods, a Tax Academy for training and a special audit unit to collect information on high-risk fraud and tax evasion were established within the PRO. The new Rulebook for implementation of the Law on excise duties became effective and guidelines for control procedures for excise levied on liquid petroleum gas were adopted. However, staff shortages persist, especially in the area of auditing. The IT capacity of the tax administration remains weak. Internal audit, enforced collection, tax investigation, tax audit, as well as efforts to reduce the informal economy, need to be further improved. The PRO lacks tax investigation and intelligence capacity, and co-ordination with the financial police remains to be substantially strengthened. A code of conduct for business taxation is not yet in place. Preparations in this area remain advanced.

Conclusion

Limited progress can be reported in the field of harmonisation of taxation legislation with the *acquis*. Operational capacity for the administration of taxes continued to improve, however enforced collection, investigation, audit performance, IT and staffing capacity remain to be addressed. Effective means of combating tax fraud and reducing the informal economy have yet to be introduced. Preparations in the area of taxation are on track.

4.17. Chapter 17: Economic and Monetary policy

Significant progress can be reported in the field of **monetary policy**. A new Law on central bank was enacted, outlining the organisation and the operations of the central bank, its legal status, independence and its relations with the parliament and the government, as well as its tasks and responsibilities after accession to the EU and after accession to the eurozone. The law addresses the prohibition of monetary financing of the public sector and the prohibition of preferential access for the public sector to financial markets. The central bank is responsible for the monetary and other operations, such as last instance creditor and other monetary policy instruments; foreign exchange rate and foreign currency reserves policy; issuance of banknotes and coins; organisation of the payment system; supervision of the financial institutions; financial stability; statistical analysis; and keeping of credit register. The institutional and administrative capacity of the central bank is adequate. The quality of monetary statistics and their compliance with international standards has improved. In the area of monetary policy the country is in compliance with the requirements.

There was some progress in the area of **economic policy**. The fifth pre-accession economic programme (PEP), covering the period 2011-2013, was submitted on time. The presentation of information in the PEP, especially the fiscal and macroeconomic framework, has improved. There is still room for improvement of the calculation of outputs and quality of data for the capital stock and the labour market. The structural part lacks a more comprehensive description of the reform strategies. The PEP is still not used as a core document for economic policy-making. The administrative capacity of several central state institutions for the formulation and implementation of economic policy has increased. However, the

administrative capacities of some municipalities, in particular the smaller ones, remained weak. Preparations in the area of economic policy are moderately advanced.

Conclusion

There was significant progress in the area of economic and monetary policy. A new law defining the operations, organisation and independence of the Central Bank was enacted. The quality of the pre-accession economic programme improved. Administrative capacity for policy implementation varies widely between the central and local level. Overall, preparations in the area of economic and monetary policy are advanced.

4.18. Chapter 18: Statistics

Progress was made in the area of **statistical infrastructure**. The amended Law on State Statistics was adopted by Parliament and has strengthened the State Statistical Office's (SSO) role as coordinator of the national statistical system, and advanced the introduction of the principles of the European Statistical Code of Practice. The new strategy on data dissemination for 2010-2012 and the action plan for its realisation were adopted. About 40 new employees from the non-majority communities were recruited, improving the equitable representation and staff situation. The resource situation in SSO needs to be further improved, but overall preparations in this area are advanced.

Some progress was made in the field of **classifications and registers**. The national classification of occupations was prepared in line with the International Standard Classification of Occupation ISCO-08. The database for the statistical farm register was completed and the procedures for updating it were improved. Preparations in this area are moderately advanced.

Good progress was made in the area of **sector statistics**. Following intensive preparations for the census of population and housing, originally scheduled for April 2011, the census was postponed to October 2011. However, the State Census Commission only reached an agreement on the composition of the enumerator teams in mid-September, which caused delays in the recruitment and training of enumerators.

Improvements were made in agricultural statistics, and the results of the first farm structure survey were published in 2011. Overall, progress was made on national accounts, including methodological improvements to supply and use tables and quarterly accounts; and on further development of sector accounts. Cooperation between the SSO and the Ministry of Finance was reinforced. It has not been decided which institution is to be responsible for the financial accounts statistics. Progress was made in business statistics. The development of structural business statistics continued and preliminary data were submitted to Eurostat. SSO introduced methodological improvements in the area of short-term statistics and released the first data under the new classification for economic activity, NACE Rev. 2. The number of data transmitted to the European Commission increased, and SSO and the other producers of official statistics are encouraged to continue this trend. However, substantial effort and financial resources will be needed in order to achieve full alignment with ESA 95, including improved exhaustiveness of data. Preparations in the area of sector statistics are advanced.

Conclusion

There was good progress in several areas, but full alignment with the *acquis* on statistics has yet to be achieved. Substantial effort is needed to improve sector statistics, in particular in economic statistics. The scope of data transmission has increased, but efforts need to be stepped up. Preparations in the area of statistics are advanced.

4.19. Chapter 19: Social policy and employment

There was little progress in the area of **labour law**. Several amendments were made to Law on Labour Relations and Law on Temporary Employment Agencies. Implementation of the applicable laws is slow. The administrative capacities of the institutions responsible for implementation and enforcement of the labour law have not been further strengthened. Cooperation between the relevant institutions has not improved. Preparations in this area have slowed down.

There is some progress to report in the area of **health and safety at work**. The National Council for Occupational Safety and Health is functioning. The number of inspectors increased slightly and training was provided. Nevertheless, the inspection capacity remains insufficient. The number of workplace inspections of the State Labour Inspectorate continues to be high. In the legislative area, a Rulebook concerning risks related to exposure to biological agents at work was adopted. Amendments were prepared to the Law on Health and Safety at Work to bring it further into line with the Framework Directive 89/391/EEC. The lack of coordination between relevant authorities is still hindering the finalisation of the strategy for the further development of health and safety at work. There is still no consolidated recording of data on accidents at work. Overall, the administrative capacity needs to be strengthened to ensure proper implementation and enforcement of the legal provisions.

There was some progress in the field of **social dialogue**. The Economic and Social Council has met regularly. The three largest trade unions signed a memorandum for co-operation, providing for their coordinated participation in the social dialogue. Bipartite and tripartite social dialogue needs to be further improved, and participation by the social partners in the policy development process further developed. Preparations in this area continue to make slow progress.

Limited progress was made in the area of **employment policy**. Employment in the grey economy has not diminished. The State Labour Inspectorate continued to implement some initiatives at central level in order to raise awareness of the need to combat undeclared work. However, the impact has been rather limited. Efficient cooperation and coordination between enforcement bodies is still lacking. The unemployment rate remains high and labour market participation is still very low. The budget allocated to the active labour market programme decreased for the second year and is still inadequate. The Employment Service Agency has undertaken to analyse the existing active labour market measures, but is still without a comprehensive approach to monitoring and evaluation. Preparations in this area are not very advanced.

There was some progress in the preparation for participation in the **European Social Fund**. The procurement of projects co-financed under the Human Resources Development Operational Programme (IPA component IV) has started, but encountered significant delays, which put at risk part of the funds. Administrative capacity within the line ministries involved in the implementation of this component is still insufficient, in terms of both numbers of staff and expertise. Preparations in this area are advancing.

Some progress was made on **social inclusion**. The national strategy for alleviation of poverty and social exclusion was adopted, and the related action plans were prepared. The corresponding budget for implementation of the operational programmes has not been ensured. Implementation of the national programme for development of social protection 2010-2021 started with the analysis of decentralised social inclusion services. Local action plans for social inclusion were prepared in eight municipalities. The transition from institutional to community-based care has continued, particularly for people with mental disabilities. Progress in the field of administrative and fiscal decentralisation of social services remains limited. The full impact of the economic situation on poverty remains to be assessed; the poverty rate is still high. The high drop-out rate in the early years of education improved slightly, but still remained significant, in particular for Roma children. Implementation of the national strategy on equality of rights of people with disabilities 2010-2018 has not progressed. Overall, the potential of social policies still needs to be fostered. The progress in implementing the measures set by the adopted strategic plans concerning poverty reduction, Roma, people with disabilities and other socially excluded people, lacks the adequate human and financial resources. Preparations in this area are at an early stage.

Little progress can be reported in the field of **social protection**. The Law on social protection was amended and new provisions for totally visually impaired and physically disabled people were introduced. Implementation of the Law on social protection continued to be slow. Administrative capacity is still insufficient to develop a sustainable and equitable social protection system. Preparations in this area are moderately advanced.

Some progress can be reported in the area of **anti-discrimination**. The framework law on anti-discrimination has begun to be implemented. However, it is not fully in line with the *acquis*, particularly because it does not explicitly prohibit discrimination on grounds of sexual orientation in employment and occupation. The restrictive three-month time limit for complaints and the wide scope of exceptions were maintained in the law. The Commission for Protection against discrimination was established and started work, but there are concerns about the functionality and independence of that body. The financial and administrative capacity and expertise of the Commission still need to be strengthened and a significant track record established. The administrative capacity of the secretariat of the Commission is particularly critical. The Secretariat lacks sufficient resources and equipment to support the work of the Commission. Civil society organisations are monitoring the implementation of the law and the activities of the Commission. The majority of the complaints submitted were based on ethnic grounds. The Roma are the community who suffer most from discrimination. The collection, elaboration and analysis of data are still very limited. Preparations in this area are moderately advanced.

Little progress can be reported on **equal opportunities**. The mechanisms are in place to allow the Ministry of Labour and Social Policy to deal with complaints of unequal treatment. However, the section for equal opportunities within the Ministry of Labour and Social Policy still lacks the appropriate human and financial resources. Also the capacities of the equal opportunity commissions at local level remain inadequate. Support for activities and initiatives aiming at combating discriminatory customs, traditions and stereotypes remains limited. The female employment rate has increased at 36%, but remains very low compared to the EU average. Little was done to improve women's rights in rural areas.

Conclusion

Limited progress was made in aligning with the *acquis* in the area of social policy and employment. The unemployment and poverty rates remain high. Effective employment and social inclusion policies should be further implemented. Inclusion of Roma, people with disabilities and other socially excluded people is slow. The framework law on anti-discrimination has started to be implemented; however, its full alignment with the *acquis* is yet to be achieved. Tripartite and bipartite social dialogue should be further strengthened. The overall administrative capacity is still insufficient. Preparations in the area of social policy and employment are not very advanced.

4.20. Chapter 20: Enterprise and industrial policy

Progress can be reported in the area of **enterprise and industrial policy principles**. Business regulatory reform continued. So far 48 measures have been implemented under the regulatory guillotine project, as well as 19 measures under the fourth anti-crisis reform package. These measures aim at lessening the penalties for misdemeanour violations, auctioning of construction land in state ownership to businesses on favourable terms, simplifying and reducing the costs of construction permits, creating legal conditions for the regularisation of businesses operating in the grey area and abolition of the profit tax for re-investment in the country. The one-stop shop for company registration was upgraded. The central register was further expanded with the addition of a register of bankruptcy proceedings and a register of persons disqualified to act as company managers. However, the data entry, functionality and interoperability of the new registers have yet to be ensured. A survey of 150 companies was conducted with a view to identifying obstacles faced by businesses. The government continued its regular dialogue with the business community representatives and companies, including consultation on business related legal acts and strategic objectives. The 'think small first' principle has been taken into consideration by the authorities, but further work is still needed. The central database of all legal acts is not being regularly updated and is not yet fully functional. The Strategy for craftsmanship development was adopted, but no budget was allocated for its implementation. The human resources of the SME Department and the SME Agency continue to be insufficient. In the area of enterprise and industrial policy principles, the country is moderately advanced; however, the business environment remains weak, with low investment rates.

There was progress in the field of **enterprise and industrial policy instruments**. The country continue to participate in the EU Entrepreneurship and Innovation Programme. An innovation scoreboard report was prepared and the country was included for the first time in the EU Innovation Scoreboard 2010. The FDI Agency was allocated a sum of €4.9 million and a department for legal matters and investor after-care was established. The 2011 budget for the annual programmes to support competitiveness, entrepreneurship and clusters networking is slightly higher than in 2010. The Ministry of Economy allocated about €173,000 for the Programme for the implementation of industrial policy in 2011. Despite the new measures taken to enhance the business environment, the service provided by some central and local administrative offices still impedes the smooth operation of business. The attraction of foreign direct investments (FDI) and export promotion remain the prime focus of the economic policy, however, the instruments have yet to deliver the desired results. Preparations in the area of policy instruments are moderately advanced, but remain ineffective.

There was some progress in the area of **sector policies**. Amendments were made to the Law on tourism and related implementing acts in order to simplify the enforcement of the law and

to make the subsidy scheme more attractive for foreigners. The 2011 Programme for tourism development was set at €932,000, an increase of 72% over 2010.

Conclusion

Progress was good but uneven in the field of enterprise and industrial policy and principles, but yielded little practical benefit in terms of boosting the economy. Legislation was simplified and administrative procedures for business operation were streamlined. However, enterprise support measures remain dispersed across several programmes run by different authorities with insufficient public funding.

4.21. Chapter 21: Trans European Networks

Some progress was made in the area of **transport networks**. The country has maintained active cooperation under the Memorandum of Understanding on development of the South East Europe Core Regional Transport Network and has continued implementing the South East Europe Transport Observatory multi-annual plan for 2011-2015. The motorway section along corridor X near the border with Serbia (Tabanovce-Kumanovo) was completed. The procurement process of the motorway section Demir Kapija – Smokvica, co-financed by IPA funds, is not yet finished. Strengthening of the administrative capacity with adequate technical expertise still remains to be done. Preparations in the area of transport networks are moderately advanced.

There was progress in the area of **energy networks**. The transmission system operator signed the declaration for establishment of the Coordinated Auction Office in South Eastern Europe. The preparations for the construction of a new 400 kV electricity interconnection line with Serbia made further progress. A memorandum of understanding was signed between the two transmission system operators for the construction of a new 400kV interconnection with Albania (Bitola – Elbasan). The country is moderately advanced in the area of electricity networks.

Progress was made in the area of telecommunications networks. The country took steps to benefit from the Information and Communication Technologies Policy Support Programme of the Competitiveness and Innovation Framework Programme.

Conclusion

Further progress was made in the area of Trans-European networks. Overall, the country is continuing to develop its transport and energy networks and to participate actively in the South East Europe Transport Observatory and the Energy Community. The implementation of corridor X is still delayed, as additional time was needed in order to establish the financial framework. Preparations in the area of Trans-European networks are moderately advanced.

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

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

Limited progress was noted in relation to the **institutional framework**. In line with audit recommendations, some changes were made to the management and control system within the

Operational Structures for IPA Components III and IV, including self-assessment and risk management as well as procedures for reporting irregularities. Roadmaps for the establishment of a decentralised implementation system without 'ex-ante' controls were prepared and submitted to the Commission. Further significant improvements are needed in order to enhance the efficiency of the operating structures of the IPA regional development and the human resources development programmes. This includes overcoming the lack of inter-ministerial coordination within these programmes. Preparations in this area are moderately advanced.

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

Limited progress was made as regards **programming**. Partial changes were made to operational programmes and the preparations for identifying operations and major projects continued, in part with IPA assistance. Nevertheless, the development of a project pipeline remains a major issue, in particular in the education and environment sectors. Significant strengthening of administrative capacity is needed in the area of programming and project preparation. Preparations in this area are advancing.

In the area of **monitoring and evaluation**, limited progress can be reported. The Management Information System (MIS) and the evaluation steering committee under IPA Component IV were established. Interim evaluation of the IPA Component III has not taken place yet. The interim evaluation on the IPA Component IV has been finalised. Preparations in this area are advancing.

Some progress was noted in the area of **financial management and control**. The National Authorising Officer submitted the first interim payment applications for Component III and Component IV, as well as the first advance payment for Component I. The Audit Authority was established in June 2011, however, with a significant delay after the entry into force of the national Law on Audit on the Instrument for Pre-Accession Assistance. The nomination of the Audit Authority's head raised questions about the selection criteria. The administrative capacity under Decentralised Implementation System (DIS) has improved in terms of the necessary staff and training, but remains insufficient. Preparations in this area are in progress.

Conclusion

Some progress was noted in the area of regional development and coordination of structural funds. The implementation of the IPA operational programmes for regional development and human resources development has progressed, but at a slower pace than necessary in order to benefit fully from available resources and avoid the de-commitment of funds. The lack of adequate expertise and sufficient institutional coordination has hampered the preparation of operations/projects and the procurement process. The relevant ministries still need to

demonstrate full ownership of programme implementation. Overall, moderate advancement can be reported in the area of regional policy and coordination of structural instruments.

4.23. Chapter 23: Judiciary and fundamental rights (*see also Political criteria*)

There has been some progress in the area of the **judiciary**. A number of legislative amendments were adopted, covering a range of issues; however, core problems relating to independence, competence and efficiency still remain to be tackled in practice.

As regards the *independence* of the judiciary, the *ex officio* membership of the Minister of Justice in the Judicial Council was amended. The Minister of Justice now participates in the work of the Judicial Council without voting rights, in line with the recommendations of the Venice Commission. The Minister's *ex officio* membership of the Council of Public Prosecutors was removed.

Dismissal proceedings were initiated against 13 judges in 2010, resulting in 7 dismissal decisions (compared with 10 in 2009). 5 judges resigned, including one in the course of dismissal proceedings. No disciplinary proceedings were initiated against any judges (compared with 2 in 2009). Further efforts are necessary in order to safeguard the security of tenure of judges, including the need for clearly defined and predictable legislation outlining less extensive and more precise grounds for dismissal and a better balance between disciplinary and dismissal proceedings. Recent amendments to the Law on courts failed to address the shortcomings, instead adding further grounds for dismissal which may encroach on independent decision-making.

As regards *impartiality* of the judiciary, the random allocation of cases has been operational in all courts since 2010 as part of the Automated Court Case Management Information System (ACCMIS). No judges were subject to dismissal proceedings on the grounds of bias or failure to treat the parties equally during 2010 (compared with 3 in 2009). A total of 11 training sessions on topics relating to judicial ethics, corruption and conflicts of interest were carried out during the reporting period.

As regards *professionalism and competence* of the judiciary, the Law on courts was amended to set out in detail the educational requirements for judges, including mandatory knowledge of English, as well as introducing psychological and integrity testing. New minimum requirements of 4 and 6 years' continuous judicial experience were introduced for Appeal Court and Supreme Court judges respectively. However, the entry into effect of these provisions was postponed until mid-2013, thus considerably delaying the positive impact on the profession.

The third generation of candidates of the Academy for Training of Judges and Prosecutors (ATJP), comprising 10 judges and 7 prosecutors, successfully completed their initial training at the end of 2010. The ATJP also continued to provide ongoing in-service training for judges, prosecutors and other target groups in the justice field with a total of 240 seminars, conferences and workshops carried out in the reporting period, benefiting a total of 7156 participants. Training of trainers has begun in preparation for the implementation of the new Law on Criminal Procedure, which will enter into force in November 2012. Of the 71 graduates of the ATJP from the last three years, only 49 have so far been recruited as judges and prosecutors. By contrast, judicial recruitments from outside the ATJP continued this year, under transitional provisions which have been extended to 2013. In the reporting period, out of a total of 26 available posts for first instance judges, only 6 were filled by graduates of the

ATJP, despite a healthy rate of applications by its candidates. The remainder of judges (considerably more than the 50% set out in the transitional provisions) were appointed by the Judicial Council from the ranks of other legal professions.

New provisions on the monitoring and evaluation of judges' work were introduced by amendments to the Law on the Judicial Council. They seek to improve the functioning of the court system by instilling procedural discipline at the level of individual judges; however, they do not address the quality of judgments and there is no link to training needs. On the contrary, the emphasis on targets and deadlines, as well as the link to dismissal proceedings, may have an adverse effect on independence. The Judicial Council carried out its annual evaluation of the work of 605 judges and presidents of court in 2010. Only one judge was rated as 'unsatisfactory'.

As regards the *efficiency* of the judiciary, the Judicial Council adopted a decision on the number of cases which should be processed per month by judges at different court instances, as well as a methodology for ranking the complexity of cases by subject matter. While the overall aim of these measures is to enhance efficiency, care should be taken to avoid an over-formalistic application of targets at the expense of high-quality, independent decision-making.

The overall duration of court proceedings is still a challenge and the country's ability to address it is hampered by the inadequacy of statistical data. A methodology was adopted in July 2011 for the gathering, analysis and processing of court data on the basis of the European Commission for the Efficiency of Justice (CEPEJ) guidelines. However, this will only be implemented through the ACCMIS from the end of 2012, following the development and testing of the necessary software. Complete and comparable information needs to be developed on the average duration of different types of proceedings, taking all instances as well as enforcement into account. It is important to identify and address unreasonably lengthy proceedings and court backlogs, which have a negative impact on citizens' fundamental right of access to justice as well as the country's attractiveness to foreign direct investment. In 2010 the Supreme Court received 398 complaints concerning unreasonably lengthy proceedings. In the same period it upheld 137 complaints and awarded compensation in 124 cases. The total amount paid out was around €160,000.

Following legislative changes in 2010 around 400,000 enforcement cases will be transferred from the court system to professional bailiffs or closed in the second half of 2011 and around 37,000 payment orders will be transferred to public notaries. Around 90,000 criminal and misdemeanour fines have already been transferred to the Public Revenue Office for enforcement and a further 43,000 remain to be transferred. There are still insufficient numbers of bailiffs (90 out of a target 132), especially in the north-west part of the country. There are currently over 111,000 active enforcement cases being handled by the bailiffs. The jurisdiction for hearing appeals against decisions of the Administrative Court was transferred from the Supreme Court to the newly established High Administrative Court, which became operational in July 2011. This will ease the future workload of the former. It remains to be seen what the impact of these changes will be on the overall average length of proceedings at all levels. Reorganisation of jurisdiction alone can not ensure efficiency and quality of justice, unless it is accompanied by adequate resources, training and improved procedural rules to support the smooth functioning of the court system.

As regards alternative dispute resolution, several laws were amended to promote mediation in civil, criminal, misdemeanour, juvenile and consumer protection cases and a handbook for the training of mediators was prepared. The number of certified mediators is currently 177.

Between April and June 2011 an initiative for free mediation in commercial disputes was carried out in the Basic Court Skopje 2 and 22 cases were directed towards free mediation. However, in general the level of uptake of mediation is still low.

The latest amendments to the Law on court budget introduced an increase of state budget allocations from 0.4% to 0.8% of GDP, to be achieved gradually by 2015. In practice further progress is being hampered by inadequate funding. New buildings for Basic Court Skopje 1 and the Public Prosecutors' Office (PPO) are under construction, but the strategy for improving the working conditions and IT infrastructure of the PPO has not been implemented due to budgetary constraints and the ATJP is both understaffed and lacks adequate premises in view of the high number of training activities it organises.

As regards *access to justice*, there were 174 applications for legal aid, of which 141 were considered by the Ministry of Justice and 58 granted. There are 211 lawyers and 2 citizens' associations registered as providers of legal aid. The annual budget for legal aid is currently €100,000. The system of legal aid is still at an early stage of development.

As regards transparency and public relations, the Judicial Council considered 1 581 citizens' complaints regarding the work of judges and courts in 2010 and 808 in the first half of 2011. These mainly concerned the length of proceedings, failure to schedule trial or hearing dates, non-enforcement of judgments and failure to comply with procedural deadlines. Amendments were made to the Law on the Judicial Council, obliging it to hold public sessions at least once a month to discuss such complaints. Amendments to the Law on courts introduced public relations offices in all courts and also require courts to publish their judgments on their websites within two days of adoption, in order to increase the transparency of their work. So far around 72,000 judgments have been published.

Some progress was made in the area of **anti-corruption policy**. The Criminal Code was amended to refine the scope of incrimination for bribery and trading in influence and to introduce criminal liability for failure to report donations and other funds used to finance electoral campaigns. The amended Electoral Code introduced a requirement to submit financial reports for all election campaigns to the State Electoral Commission, State Audit Office and State Commission for Prevention of Corruption (SCPC) within 15 days of the end of the campaign, to be published immediately on the respective websites of these bodies. The amendments were adopted with a view to implementing GRECO's third round recommendations concerning incrimination and transparency of party funding. The new Criminal Procedure Code, which was adopted in November 2010 and enters into force in November 2012, aims to enhance the role of the public prosecutor in the pre-trial procedure and introduces a number of special investigative measures. The 2011-2015 State programme for the prevention and repression of corruption and the State programme for reduction of conflict of interest, as well as their corresponding action plans, remain to be adopted. The Law on Financing of Political Parties still remains to be amended to take account of GRECO recommendations. The OECD Convention on Combating Bribery of Foreign Public Officials in international business transactions has yet to be ratified.

There are several bodies tasked with combating corruption. The SCPC, the Anti-corruption Unit within the Organised Crime Department of the Ministry of Interior and the Basic Public Prosecutor's Office for the Fight against Organised Crime and Corruption all remain understaffed and underfinanced. The establishment of investigation centres under the new Criminal Procedure Code will require a 30% increase in the numbers of both prosecutors and support staff. The specialisation of law enforcement agents and judiciary at local level, in

particular on petty corruption, remains insufficient. Although the Law on prevention of corruption was amended to professionalise the SCPC, public trust in its independence and impartiality nevertheless remains fragile. Its approach is still reactive rather than proactive, and its impact on the promotion of anti-corruption policies is weak. The SCPC received 457 new complaints or reports of corruption in 2010 and filed 14 requests with the Public prosecutor's Office (PRO) to initiate criminal prosecutions.

The majority of corruption cases prosecuted and brought before courts continue to be for abuse of an official position and fraud. There were 83 convictions for corruption-related offences in 2010 and 58 convictions so far in 2011. The capacity of the judiciary to deal with sensitive high-level corruption cases remains weak. The courts continue to apply lenient penalties. The number of cases in which seizure or confiscation of assets were ordered remains low. Decisions by public prosecutors not to indict are still not being reviewed by the courts. The absence of consolidated statistics which clearly track the investigation, prosecution, conviction and sentencing of corruption-related offences is a weakness which needs to be addressed both in order to facilitate the preparation of strategies for combating the phenomenon and to better inform the public of progress made in suppressing it.

In 2010, the Sector for Internal Control and Professional standards within the Ministry of Interior brought criminal charges against 29 police officers for criminal offences, including 16 cases of alleged abuse of an official position. Five police officers from one border crossing point were charged as part of a large-scale police operation. The Customs Administration should be prioritised as a high corruption risk in the development and implementation of future anti-corruption programmes.

During the reporting period, 496 asset declarations were submitted by public officials upon election, appointment or expiry of office. The SCPC established, for the first time, a procedure for systematic verification of asset declarations, in cooperation with the Ministry of Interior, the Cadastral Agency, the Central Register, the Central Securities Depository and the PRO. Between April and June 2011, 9 out of the 122 asset declarations made by officials from the legislative branch, 28 out of the 124 declarations from the executive branch and 89 out of the 913 declarations from the judicial branch were verified. The SCPC referred 30 cases in which discrepancies had been found to the PRO for further action.

The SCPC received 620 declarations of conflict of interest and submitted 202 requests to initiate criminal proceedings for failure to submit such declarations, including against one MP, 4 mayors and 8 judges. It also received 95 complaints requesting a determination of a conflict of interest. Amendments to the Law on conflict of interest and secondary legislation setting out a procedure for checking the content of such declarations still remain to be adopted.

As regards enforcement of the Law on financing of political parties, 16 political parties submitted annual accounts of financial operation to the State Audit Office (SAO), 8 parties submitted annual financial reports, 6 parties submitted quarterly reports on donations for the second half of 2010 and 7 parties submitted quarterly reports on donations for the first half of this year. All political parties which took part in the parliamentary elections of June 2011 submitted financial reports on the election campaign, including donations, in terms of the Electoral Code. The SAO began auditing these reports in September.

The number of complaints to the National Commission for Protection of the Right to Public Interest Information rose from 340 in 2009 to 540 in 2010. The majority were submitted by

civil society organisations and the most common ground was the inactivity of information-holders. Information related to public expenditure continued to be subject to a number of exceptions set out in the law.

The Academy for Training of Judges and Prosecutors (ATJP) carried out 13 training events for 373 participants on the new provisions of the Criminal Code related to extended confiscation and illicit enrichment and 6 training events on bribery were attended by 162 participants including judges, prosecutors and legal clerks.

Limited and uneven progress was made in the area of **fundamental rights**.

The Office of the *Ombudsman* received 4043 complaints in 2010 (an increase of 11% from 2009). Violations were found in 20% of the cases dealt with (987 out of 4 828) and the Ombudsman's recommendations were accepted in 791 cases, representing an increase of 71% over 2009. The largest number of violations was found in the area of property rights (19%), consumers' rights (12.4%) and the judiciary (10%). The second instance Government commissions continued to be the least responsive to the Ombudsman's instructions, followed by the local self-government units. Three persons were recruited to each of the three new units of the Ombudsman's Office which deal with anti-discrimination, combating torture and ill-treatment and children's rights respectively.

There was some limited progress as regards the *prohibition of torture and ill-treatment*. The Ombudsman's specialised unit on combating ill-treatment, which is designated as a national prevention mechanism for implementing the Optional Protocol to the Convention against Torture, became operational in April. However, it lacks the authority and resources to fulfil its mission effectively. The unit of the Ministry of Interior for internal control and professional standards intensified its monitoring of police work. It increased its coordination with the Ombudsman and the Prosecutor's Office in exercising oversight over police behaviour. However, it is yet to be transformed into an authority that is fully independent from the police with the ability to implement effective investigations. The numbers of cases of ill treatment which were prosecuted was down to 27 criminal charges against 29 police officers in 2010, as compared to 36 criminal charges against 50 police officers in 2009. No cases of illegal arrest were reported.

Some limited progress was made as regards the *prison system*. A manual for the supervision of penitentiary institutions was adopted. A programme of compulsory training of prison staff, including on international human rights standards, was adopted in December 2010 and several trainings have been conducted. Construction and rehabilitation of detention facilities and prisons continued. The semi-open wing of Idrizovo prison was renovated; however, parts of the prison remain below the required standards. The country has yet to develop a strategic plan to comprehensively tackle the challenge of managing a prison system in accordance with international and European standards. The capacity of the Directorate for Execution of Sanctions to pursue prison reform needs to be strengthened.

With regard to *freedom of expression and the media*, the legal framework is generally in place, but attention needs to be paid to ensuring that its implementation is consistent, transparent and in line with the case law of the European Court of Human Rights. Some training targeted at journalists and judges has taken place, but more systematic training and awareness-raising is necessary in this field. The Association of Journalists held a number of consultations in 2011 on the development of self-regulation for both print and broadcasting media. In 2010, the first ever independent trade union of journalists and media employees was

established. However, defamation has not been decriminalised. In 2010 there were 587 defamation cases brought before the courts, of which 139 were against journalists. The level of fines imposed is often high in relation to the average monthly wage and this can lead to self-censorship. The media continue to be subject to interference from political and business interests. Intimidation of journalists and selective enforcement of legislation against media companies are increasing causes for concern. The enforcement track-record against illegal media concentrations is poor, hampered in part by the lack of transparency of ownership.

There was no progress on *freedom of assembly and association*. The Government Commission for Public Benefit Status has yet to be established. Tax legislation has not been harmonized with the Law on associations and foundations, thereby preventing access to tax benefits and the exercise of certain types of economic activities.

Freedom of thought, conscience and religion is generally ensured.

Little progress was made on *women's rights and gender equality*. The sector for equal opportunities policy in the Ministry of Labour and Social Affairs still lacks adequate expertise and human resources. Its financial capacities are negligible. Despite efforts to strengthen the capacities of the local commissions on equal opportunities, they are still faced with a lack of expertise and of political will. Only very limited actions targeting Roma women have been implemented. The participation of women in political life remains low at local level. The work in this field is still at an early stage.

Some progress has been made on *children's rights*. The National Strategy on Prevention of Juvenile Delinquency was adopted and the Law on Juvenile Justice was amended, introducing improvements regarding free legal aid, mediation and procedural rights of juveniles. Proper implementation of both the Law and the 2010-2012 Action Plan requires additional financial and administrative resources, closer coordination between the relevant institutions, the adoption of standards and protocols for implementation and the development of a comprehensive monitoring system. Further efforts are also needed in order to enhance the capacity of specialised staff to deal with juveniles, improve detention conditions and ensure provision of education and medical services for juveniles in custody. Children with psychological and intellectual disabilities continue to be a highly vulnerable group with no specialised medical institutions devoted to them. The lack of resources and capacity of the Centre for Social Work is critical. Preparations in this area are at an early stage.

Limited progress can be reported in the treatment of *socially vulnerable persons and/or persons with disabilities*. The law on social protection was amended to introduce new provisions for people with disabilities. Additional small communal housing units for people with disabilities were opened as part of the social care services, bringing the total number to 14. However, the administrative capacity of municipalities remains insufficient to assume the necessary social policy responsibilities. Social integration of people with disabilities remains limited. The UN Convention on the rights of persons with disabilities is yet to be ratified.

Some progress can be reported in the area of *anti-discrimination policy*. The Commission for protection against discrimination has become operational and has started to act on complaints submitted. The majority of the complaints were made on political and ethnic grounds. However, the law on anti-discrimination has yet to be fully aligned with the *acquis*. Discrimination on grounds of sexual orientation has been omitted. Also, the financial, administrative and technical capacity of the Commission needs to be strengthened.

As regards *property rights*, the land register covers 99,5% of the country's territory, leaving minor areas of Skopje, Gostivar and Kriva Palanka uncovered. The land registry office organised some public awareness campaigns and continued with the regular organisation of open days for the public. E-cadastre was piloted in Skopje, Negotino and Kavadarci. The country joined the European Position Determination System (EUPOS). However, the process of returning property confiscated during the period of the Socialist Federal Republic of Yugoslavia continues to extend substantially beyond the legal deadlines. Breaches of property rights linked to the process of denationalisation alone accounted for 32% of petitions lodged with the Ombudsman. The enforcement of restitution claims for which a final decision has been taken remains unsatisfactory. The backlog of property dispute proceedings continued to create delays. There has again been no progress on returning the property of religious communities.

Little progress was made as regards *respect for and protection of minorities and cultural rights*. The Ohrid Framework Agreement (OFA) remains crucial for ensuring continued inter-ethnic dialogue and cooperation. Steps have been taken to promote inter-ethnic integration in education. The implementing structure of the Decade of Roma Inclusion has improved. Progress was made to ensure equitable representation, in particular with regard to the Roma and Turkish communities. However, the public administration needs to recruit more qualified and experienced civil servants from non-majority communities across all sectors and positions. The implementation of the Roma Strategy and its action plans needs to be strengthened and adequately funded.

Progress was made on *data protection*. Amendments to the law on personal data protection were adopted in order to strengthen the position of the Directorate for personal data protection (DPDP) and to improve implementation. The DPDP's performance continued to be satisfactory and its capacity was enhanced by a small increase in staff. It continued to provide frequent training sessions and interaction with other institutions was on a satisfactory level. However, there is no reference in the law to any form of judicial intervention. The Council of Europe Convention for the protection of Individuals with regard to Automatic Processing of Data had not yet been signed. The DPDP's budgetary allocation has been reduced.

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

Conclusion

Some limited progress can be reported on independence and efficiency of the judiciary, in particular the amendment of the Minister of Justice's role on the Judicial Council and the establishment of the High Administrative Court. Weaknesses remain in the evaluation and security of tenure of judges. Increased efforts are needed to ensure competence within the profession, in particular through the work of the ATJP and the application of more stringent minimum requirements for recruitment. The inadequacy of statistical court data and analysis needs to be addressed as a priority. Some limited progress was made on anti-corruption policy. Legislative alignment has continued and systematic verification of asset declarations by the SCPC has begun. However, implementation of the recently amended legal framework has not fully taken place, consolidated statistical collection and analysis is missing, a track record of high-level corruption cases has yet to be established, a system of verification of conflict of interest statements still remains to be established. The SCPC needs to be more proactive in both referring and monitoring the progress of corruption cases. The country is moderately advanced in the area of fundamental rights. Much needs to be done in order to further promote and safeguard fundamental rights. In the field of freedom of expression,

intimidation of journalists, self-censorship and the frequency of defamation actions remain a concern. Some progress was made as regards cultural rights and minorities. The Ohrid Framework Agreement remains an essential element for democracy and rule of law in the country.

4.24. Chapter 24: Justice, freedom and security

Some progress has been made on **migration**. The implementation of the 2009-2014 action plan on migration policy has continued, although with several notable delays. The Law on foreigners was amended to provide a legal framework for the establishment of a national database for foreigners, covering data on asylum, migration and visas. The database is operable and connected to all concerned institutions and training of users and administrators of the database has been completed; however the secondary legislation necessary for its use and maintenance has yet to be adopted. Exchange of information and coordination on irregular migration with countries from the region was enhanced. In 2010, over 1100 irregular migrants were detected. The readmission agreement with the EU continues to be implemented well. A readmission agreement was also signed with Serbia. In 2010, 839 persons were received under the EU readmission agreement and bilateral agreements. The budget and human resources of the Ministry of Labour and Social Affairs have increased slightly. The national migration profile for 2010 has been adopted. In this area, the country is well advanced.

There has been limited progress on **asylum**. Rules were adopted establishing the role of each institution in the integration of refugees and foreigners and providing for the appointment of legal guardians for unaccompanied minors and mentally disabled persons. The centre for integration, which prepares family integration plans for recognized refugees and persons under subsidiary protection, became partially government-funded from the beginning of 2011. The government adopted a program for integration of persons granted asylum including assistance for housing. However, a number of concerned families were in practice left without housing support for several months due to delays in implementation. In the first half of 2011 there were 349 requests for asylum (compared with 147 for the whole of 2010). During the same period, 418 asylum seekers were accommodated in the reception centre Vizbegovo. Asylum-seekers still face difficulties accessing information about procedures and social rights. There has been no progress in speeding up the process for providing asylum seekers with ID documents. Free legal aid provided by the state is still not available to asylum-seekers. The legal framework for ensuring access to public health insurance for persons granted asylum is missing. Although the administrative capacity of the section for asylum in the Ministry of the Interior increased slightly, its efficiency in issuing first instance asylum decisions cannot be considered as satisfactory and needs to be improved. Efforts should be made to consider how to prevent potential abuses of the asylum system. Problems providing interpretation persist. Appeal decisions by the Administrative Court continue to be issued largely on procedural rather than substantive grounds. A further appeal instance was introduced with the establishment of the High Administrative Court. The institutional and legal framework is largely in place, but implementation of the existing legislation and strategies remains insufficient and further efforts are needed. In this area, the country is advanced.

Some progress has been achieved on **visa policy**. All diplomatic and consular missions in the country are connected to the national visa system N-VIS. The system is interconnected with the national database for foreigners. The government adopted a decision allowing third-country nationals with a valid Schengen C-type visa to enter the country without a visa.

Alignment with the EU negative and positive lists is not yet fully completed. In this area, the country is well advanced.

Visa liberalisation for citizens travelling to the Schengen area was granted with effect from 19 December 2009. The rules for visa-free travel have been respected by the vast majority of travellers. However, under the visa-free regime, increases in the number of unfounded asylum applications in several EU Member States occurred. To counteract this phenomenon the national authorities introduced a set of measures, including public information campaigns, focusing in particular on the vulnerable groups most likely to be involved, as well as preventive measures like enhanced border checks and profiling. Efforts to address this issue are ongoing. In order to ensure ongoing implementation of the commitments taken, a post visa liberalisation monitoring mechanism has been established. The Commission presented its first monitoring report to the European Parliament and the Council in June 2011.

There has been good progress in the area of **external borders and Schengen**. A new Law on border control was adopted with a view to aligning with the EU *acquis*, in particular the Schengen Border Code. A Joint Contact Centre for Police and Customs Cooperation was opened with Bulgaria and protocols for joint border patrols were signed with Bulgaria, Serbia and Kosovo. Good cooperation continued with Frontex. A Rulebook on developing risk analysis in the area of organised cross-border crime and illegal migration was adopted and several training events were carried out in the area of risk analysis. Two mobile units were created at central level to enhance efficiency in the fight against irregular migration and trans-border crime and operational use of risk analysis. Training of field officers has developed noticeably and a specific training programme for senior and mid-level police officers has been adopted and is starting to be implemented. The central database for false and genuine documents and specimen travel documents has been established and is regularly updated. The second phase of implementation of the TETRA radio communication system is ongoing and it covers 40% of the country's territory. The border police still do not have adequate technical equipment and budgetary resources. Police stations responsible for border surveillance still have no access to the central database of the Ministry of Interior. Overall, preparations in the area of external borders and Schengen are advanced.

Good progress can be reported on **judicial cooperation in civil and criminal matters**. The agreement on judicial cooperation with Eurojust entered into force. Three bilateral agreements were signed with Kosovo on mutual legal assistance in criminal matters, on extradition and on transfer of sentenced persons. A new law on international cooperation in criminal matters was enacted, providing a comprehensive legal framework, but its application will only begin with the application of the new Criminal Procedure Code in November 2012. Training was carried out for 54 judges and 14 prosecutors on the implementation of the new law. The Constitution was amended in order to enable extradition agreements to be concluded in further alignment with international agreements. The Ministry of Justice processed 752 requests in criminal matters and 2 316 requests in civil matters. Cooperation with Eurojust was good. Posting of a liaison officer to Eurojust would further enhance the cooperation. In this area the country is moderately advanced.

Some progress can be reported on **police cooperation and the fight against organised crime**. An international law enforcement coordination unit in charge of the exchange of police and intelligence information (ILECU) was established within the Ministry of Interior. 103 international arrest warrants were issued in the country in 2010. There has been active regional and international law enforcement cooperation, including through Interpol channels. Cooperation with Europol, via a contact point, was also good. The conclusion of an

operational agreement with Europol will significantly facilitate exchange of analytical data in order to improve the fight against organised crime and terrorism.

The Act of Systematisation of the Bureau for Public Security introduced job descriptions and a new organisational structure. The newly established strategic level of the Bureau for Public Security aims to improve efficiency and provide an integrated approach for police operations. The Ministry of Interior completed an annual performance evaluation process for the first time, as a first step in implementing a merit-based career and appraisal system. The sector for Internal Control and Professional Standards of the Ministry of Interior carried out 33 checks under legal provisions restricting the political activity of Ministry officials. A working group was established to develop a training strategy; however this has not yet been done. The Police Training Centre conducted advanced, continuous and specialised training.

Full implementation of the new organisational charts of the regional Sectors for Internal Affairs (SVRs) is however hampered by insufficient staffing. There are also concerns about politicisation of the police and its work, including investigations it carries out. Around 160 cases of non-transparent recruitments for posts of authorised officials within the Sectors for Internal Affairs, without prior advertising of vacancies, were reported. An amendment to the Law on Internal Affairs created the possibility of salary reductions where Ministry employees are deployed to a lower position as a result of organisational changes, which may weaken the stability of employment within the police organisation. The fact that the Training Centre does not have a separate budget line within the Ministry of Interior limits its training outreach and strategic planning capacity.

The Act of Systematisation also introduced changes to the Organised Crime Department of the Ministry of Interior, improving its functionality and integration into the national and international criminal investigation intelligence system. All services dealing with organised crime are now within the Centre for Suppression of Organised and Serious Crime, which will comprise the National Intelligence Database and National Coordination Centre in charge of strategic planning and intelligence gathering. However, there was limited progress as regards the staffing of the Centre for Suppression of Organised and Serious Crime; only around 64% of the total number of posts in the organisational chart has been filled, thereby hampering its effectiveness. The National Intelligence Database will not become operational before the end of 2012 and is currently in the tendering phase. The National Coordination Centre, which could enhance exchange of information between the law enforcement agencies, has not been established so far. The government has adopted a Strategy and accompanying Action Plan for its establishment, however, the relevant budgetary allocations to accompany these instruments is missing.

The new Criminal Procedure Code was enacted and will enter into force from November 2012. Its aim is to improve the efficiency of criminal procedures by strengthening the role of the public prosecutor, establishing the judicial police and improving investigative procedures for complex organised crime and corruption cases.

The direct involvement of the Minister of Interior in authorising the use of interceptions remains in place and the Law on interception of communications has yet to be amended. Moreover the existing parliamentary oversight over the use of interception orders needs to be strengthened. The overly restrictive and centralised application of the interceptions inadequately addresses the increasing threat of organised crime. The customs administration and the financial police have no technical capacity to apply special investigative measures. The number of interceptions used in organised crime cases is relatively low. Generally, the

use of special investigative techniques is still rare and needs to be increased, as does the systematic use of financial investigations.

The witness protection programme was activated in seven cases in 2010. The witness protection unit still lacks adequate equipment. The measures taken to ensure compensation for victims of organised crime were not sufficient.

Structural problems are still evident in law enforcement agencies combating organised crime. Human resources are not efficiently balanced between the different law enforcement agencies. There is a surplus of police and customs officers as a percentage of the population, while the number of investigative judges and trial judges is not sufficient.

The analytical and administrative capacities of the Office for the Prevention of Money Laundering and Financing of Terrorism (OPMLFT) were increased as regards investigation of financial crime. The majority of cases analysed in the reporting period concerned tax evasion. In the reporting period, the OPMLFT submitted 23 reports of suspicious transactions related to money laundering to the investigating authorities and prosecution service and 95 reports relating to other types of economic and financial crime. International cooperation with FIUs in other countries continued, with the OPMLFT receiving 33 requests and submitting 79 requests in 2010. So far, 39 persons have been prosecuted for money laundering in 2011, as compared with 10 persons in 2010. The quality of investigations into money laundering and financial crime still needs to be enhanced.

Some progress has been achieved in the fight against, and prevention of, trafficking in human beings. A national shelter for victims of trafficking was opened, with a capacity for 12 persons. The number of identified victims of human trafficking was 12 in 2010, an increase from 8 in the previous year. In 2010, 25 persons were arrested on suspicion of trafficking, compared with 17 in 2009 and 11 persons were convicted, an increase from zero in 2009. Sentences ranged from four to 8.5 years' imprisonment. A comprehensive, multi-disciplinary and victim-centered approach to trafficking needs to be further ensured. In addition, proactive identification of victims of trafficking both from abroad and from within the country needs to be improved.

The country is advanced in the field of police cooperation and fighting organised crime. However, efforts of relevant law enforcement bodies (the Ministry of Interior, the Public Prosecutor's Office, the Customs Administration and the Financial Police) in fighting organised crime should be strengthened. At the same time, substantial efforts are needed to ensure the full implementation of the police reform in practice, as well as to ensure the establishment of the National Intelligence Database. Concerns remain in connection with the politicisation of the police.

Some progress can be reported in the **fight against terrorism**. The police are adopting an adequate approach to the issue of counter-terrorism. Bilateral and multilateral cooperation has continued. Cooperation with the investigative and prosecuting bodies and foreign financial intelligence units has improved. The strategy on the fight against terrorism (2012-2014), in line with the EU Strategy on counter-terrorism and the Council of Europe Convention on the Prevention of Terrorism, together with the corresponding Action Plan, have yet to be adopted. In the reporting period, five suspicious transactions related to financing of terrorism were reported by the Office for prevention of money laundering and financing of terrorism. Overall, preparations in this area are advanced.

Little progress can be reported as regards **cooperation in the field of drugs**. Implementation of the new action plan of the National Drug Strategy covering the period 2009-2012 is ongoing, in line with the EU strategy on drugs (2005-2012). In 2010, the amount of drugs seized remained relatively low considering the country's location on the main Balkan drug trafficking routes. The customs administration does not significantly detect and seize narcotics at the borders. The human resources capacity of the Illicit Drugs Department of the Ministry of Interior remains insufficient. The country largely meets *acquis* requirements.

Good progress can be reported in the area of **customs cooperation**. The Customs Administration took part in a number of international operations for the detection of illicit trade. Cooperation and exchange of intelligence with the customs administration of neighbouring countries and the wider region was intensified with a view to preventing and detecting illicit trafficking, and combating cross-border crime. Intelligence information was exchanged on a regular basis with the South-East European Cooperative Initiative and the Regional Intelligence Liaison Offices. A customs cooperation agreement was signed with Kosovo, a memorandum of co-operation was signed with Polish customs and a joint contact centre for police and customs cooperation was established with Bulgaria. Preparations in this area are on track.

For the fight against **counterfeiting of the euro**, see chapter 32 –*Financial control*.

Conclusion

Good progress can be reported on external borders and Schengen and customs cooperation. The border police still lack adequate technical equipment and budgetary resources. Some progress has been achieved on migration, visa policy, police cooperation and the fight against organised crime. The implementation of the police reform has continued. At the same time, structural problems, understaffing and lack of budgetary provision still persist. The national intelligence database has not yet been set up. Implementation in the field of asylum needs to be considerably enhanced, including on the provision of legal aid, interpretation and access to social rights. Preparations in the area of justice, freedom and security are on track.

4.25. Chapter 25: Science and research

Little progress can be reported in the area of **research and innovation policy**. The 2011 programme for scientific research activities, technological development and technical culture was adopted. The national strategy for science - research and development activity 2011 – 2020 is not yet in place. The 2011 budget for the programme for research and technological development decreased compared to the 2010 level. Financial resources are limited and the capacities of the research facilities remain weak. Preparations in this area are moderately advanced.

Good progress is being made as regards the country's participation in the **framework programmes**. There was an increase both in the number of applications submitted and selected, and in the amount of funds received, under the Seventh *EU Framework Programme for Research and Development* (FP7). Participation is good in the energy, ICT and environment themes; however, partaking in *Marie Curie* actions and involvement of SMEs remains very low. The Joint Research Committee was established. The Committee monitored progress under FP7 since the association and established at its February meeting that additional efforts are required to increase participation in FP7.

Little progress can be reported in the area of integration into the **European Research Area**. Following the adoption of amendments to the Law on higher education, 40% of the tuition fees are invested in fundamental and applied research and in modernisation of infrastructures. Some equipment was procured for universities and laboratories. However, the investment in research, from both the public and the private sector, remains very low (estimated at around 0.2% of GDP in 2010). In addition, the lack of reliable statistics makes implementation and monitoring difficult. Preparations in this area are moderately advanced. Nominations have been made in most governance bodies, including in the European Research Area Committee (ERAC) and the Strategy Forum for International Cooperation (SFIC). However, attendance at their meetings is irregular, due to the lack of administrative capacity.

Conclusion

Concerning European standards on research and innovation, progress can be reported. There was increased participation in the EU framework programmes. National strategies for science - research and development activity and for innovation policy are not yet in place. Private and public investment in the field of research is low. The administrative capacity to support participation in FP7 and ERAC governance bodies needs to be strengthened. Preparations in the area of science and research are insufficient.

4.26. Chapter 26: Education and culture

Some progress can be reported in the field of **education, training and youth**. Amendments were enacted to the laws on higher education, primary and secondary education. The system of ranking of universities has been established. The implementation of the Bologna process in higher education is progressing. A system of counselling of pupils' parents was established. The possibility was introduced for international public schools to be established with curricula in foreign languages. The government adopted the Integrated Education Strategy that envisages introducing the ethnic communities' languages as the teaching language. The second donor-funded integrated bilingual primary school started classes in Strumica. The council for adult education developed the operational plan for implementation of the adult education strategy. Efforts have continued with a view to developing the national qualifications framework. The centre for vocational education became operational. The country improved its performance in early school leaving and higher education attainment, areas where EU-level benchmarks were set for 2020.

However, additional efforts are needed in relation to all the Education and Training 2020 EU benchmarks, including for early childhood education and participation of adults in lifelong learning. Resources allocated to education remain low. There are still large regional disparities in accessing education, particularly at the pre-school education level.

Increasing interaction between members of ethnic communities at school remains a challenge, as does decreasing of the early school leaving rate among Roma students. The need to provide structured training for teachers is yet to be tackled.

Efforts were made to reinstate the preparatory measures for the Lifelong Learning and Youth in Action programmes. Parliament enacted amendments to the Law on establishing the National Agency for European educational programmes and mobility, thus increasing the accountability of the National Agency. However, the progress made did not reach the level required by EU rules and remained inadequate. The preparatory measures therefore continued

to be suspended. In the area of education, training and youth, the country is partially meeting its priorities.

There was some progress in the field of **culture**. The country has become further involved in both the Culture programme and the Europe for Citizens programme. Amendments to the law on protection of cultural heritage were enacted. The Council of Europe Framework Convention on the Value of Cultural Heritage for Society was ratified. In the area of culture the country is well advanced.

Conclusion

Concerning European standards in the areas of education, training, youth and culture, there was some progress. Reform efforts were made at all levels of education. The country improved its performance in relation to the Education and Training 2020 common benchmarks, notably in areas such as early school leaving and higher education attainment. However, the National Agency for the Lifelong Learning and the Youth in Action programmes did not reach the level required by the EU and the preparatory measures remain, therefore, suspended. Increasing interaction between the ethnic communities in education remains a challenge. Substantial funds were invested in cultural projects and in the renovation and construction of school buildings; however, the investments have not been equitably applied to all municipalities in the country and do not reflect the multi-ethnic composition of the country. Preparations in the area of education, training, youth and culture are moderately advanced.

4.27. Chapter 27: Environment

In the field of **environment**, some progress was made in the area of *horizontal legislation*. A multilateral Agreement among the countries of the South-Eastern Europe for implementation of the Convention on Environmental Impact Assessment in a Transboundary Context and the Protocol on Pollutant Releases and the Transfer Register were ratified. Transposition of the *acquis* continued with adoption of some implementing legislation. The administrative capacity for implementing the requirements for Environmental Impact Assessment (EIA) and Strategic Environmental Assessment (SEA) has improved, but the provisions for public consultation are still not adequately applied. Preparations in this area are advancing.

Some progress can be reported in the area of *air quality*. Transposition of the *acquis* continued with adoption of some implementing legislation. Three more Protocols to the CLRTAP were ratified. Some progress was made in developing the system of air quality monitoring. The administrative capacity remains insufficient at central and local levels. Preparations in this field are moderately advanced.

Some progress was made in the area of *waste management*. The Law on Management of Batteries and Accumulators and Waste Batteries and Accumulators was adopted, following a comprehensive consultation. Some implementing legislation was adopted in the area of waste management planning and packaging waste management. The process for issuing concessions for regional landfills to store municipal solid waste in four regions continued. Administrative capacity is still insufficient at both central and local level. Investment in this area is far from sufficient and needs to be increased. A system of data collection, registration and reporting is still not operational. Preparations in this area are making slow progress.

Little progress can be reported in the area of *water quality*. Administrative reorganization of this sector is underway. The process of transposition of the *acquis* in this field is not very advanced. Some implementing legislation was adopted to further align with the Urban Waste Water directive and the Water Framework Directive. Administrative capacity is still insufficient at all levels. The lack of sufficient coordination between the competent authorities in the water sector is hampering the implementation of the legislation. There is very little progress in addressing the gaps in the water monitoring system. Planning and preparation of infrastructure investments are lagging behind and the funding is far too low in relation to the needs. No progress was made in applying the polluter-pays principle. This creates problems for the sustainability of investments in this sector. Preparations are lagging behind in this area.

Some progress was made on *nature protection*. The process of transposition of the *acquis* related to natural habitats and of wild fauna and flora continued with the adoption of an amendment to the law on nature protection. Implementing legislation was adopted in this area. Good progress was achieved with the introduction of the national information system on biodiversity. Some progress can be reported on the development and implementation of management plans for protected areas, but sustainable financing still needs to be secured. A national strategy and action plan for nature protection has still not been completed. The administrative capacity is still insufficient, at both central and local levels. The stakeholders are not yet sufficiently involved. Preparations in this area are moderately advanced. In the field of forestry, the programme for expanded reproduction of forests 2011 was approved and implementation of the programme commenced.

Little progress was made in the area of *industrial pollution control and risk management*. The process of transposition of the *acquis* continued with adoption of some implementing legislation. However, full alignment remains a considerable challenge for the country. The permissions process is well behind schedule. The requirements for public consultation in relation to the IPPC permitting system are not always properly applied. Administrative capacity needs to be significantly strengthened, in particular for inspection activities. Preparations in this area are slow.

Some progress was made in the area of *chemicals*. The Convention on the import-export of dangerous chemicals (Rotterdam Convention) was ratified. A new Law on chemicals was adopted, aimed at transposing the Regulation on the registration, evaluation, authorisation and restriction of chemicals (REACH). The Bureau for medicines and chemicals published the list of restrictions and prohibitions for the use of chemicals. Administrative capacity is still insufficient. Preparations in this area are at an early stage.

Some progress was made in the area of *noise*. Transposition of the noise directive was completed. Administrative capacity is insufficient in terms of staff and equipment. The preparations in this area are still at an early stage.

As regards *civil protection*, progress has been achieved with the signing of the memorandum of understanding on the country's accession to the EU Civil Protection Financial Instrument and the EU Civil Protection Mechanism. The ratification by the government still needs to take place for the document to enter into force.

Regarding **climate change**, some progress was made on general policy developments. The revision of the national climate action plan was initiated. The country has also initiated a five year program for greening the economy, but the measures, responsibilities, timeframe and the

other details to be covered are still not defined. Significant awareness-raising at all levels is still needed.

At the international level, the country supported the EU's position at the UN Climate Change Conference COP16 in Cancun and has associated with the Copenhagen Accord, but did not formulate pledges for greenhouse gas (GHG) emissions reductions. The country is preparing its Third National Communication to UNFCCC. The country participated actively in the climate work under the Regional Environmental Network for Accession (RENA).

The process of introducing mitigation measures into some national strategies started. Programming of pilot projects to implement the clean development mechanism under the Kyoto Protocol continued. Preparations for the introduction of the emissions trading scheme were initiated, but this remains a considerable challenge. Concrete steps are needed in order to move gradually towards adopting a GHG reduction/limitation target in order to be able to implement EU climate *acquis*, especially the EU Emissions Trading Scheme, and to join the EU Effort-Sharing.

Some progress was made in the area of ozone-depleting substances and fluorinated gases. The process of transposition of the *acquis* continues with adoption of implementing legislation. A national plan for eliminating HCFCs was developed and consulted with various administrative bodies, but further substantial efforts are necessary to align with the EU legislation. The country associated itself with the Declaration adopted at the 22nd Meeting of the Parties to the Montreal Protocol on the global transition away from HCFCs and CFCs.

Very little effort was made to strengthen the **administrative capacity** for implementing and enforcing environmental legislation, which remains largely insufficient, both at national and at local level. The coordination between the administrative bodies responsible for environment-related issues is still not effective. The stakeholders are not sufficiently involved in the decision-making process. Enforcement of legislation has improved, but the system is not yet efficient and a credible record has not been established. The environmental monitoring and information system is still not adequate. The investment in the sector is still extremely low in relation to the needs. Environmental protection requirements are still not well integrated into policy making and policy implementation in other areas. The precautionary principle, the principle of preventive action and the polluter-pays principle are only partially applied. Administrative capacity as well as technical and financial resources need to be considerably strengthened in order for the country to be able to align with, and implement, all the requirements of the EU climate change policy and legislation.

Conclusion

Some progress can be reported in transposing the EU *acquis* into national legislation and in ratifying multilateral environmental agreements. Limited progress was achieved in alignment with climate change *acquis*. However, significant efforts are needed in order to implement the national legislation, especially in the areas of water management, industrial pollution control and climate change. Administrative capacity is still weak at both central and local level across all sectors. Investments need to be significantly increased, especially in the waste and water sectors. Overall, preparations in the field of environment and climate change are moderately advanced.

4.28. Chapter 28: Consumer and health protection

There has been some progress in the area of **consumer protection**. As regards *horizontal aspects*, the regulatory and administrative frameworks have improved. The consumer protection programme for 2011-2012 was adopted. The Organisation of Consumers continues its work on organising awareness raising events, mounting education campaigns and advising consumers, thanks to an increased financial allocation which is, however, still insufficient. Also the activities are concentrated mostly in urban rather than rural areas. The administrative capacity of the consumer protection department within the Ministry of Economy remains low. Preparations in this area are on track.

There has been some progress as regards *product-safety related issues*. An amendment to the Law on product safety was enacted and a rulebook on the safety of children's toys was adopted, with the aim of aligning with the *acquis*. The enforcement of consumer protection legislation improved slightly as a result of increased market surveillance activity, although not all of this activity related to consumer products. The collaboration between the customs administration and the market inspectorates was strengthened by the signature of a Memorandum of understanding between competent authorities. Market surveillance does not yet provide for effective and transparent protection of consumers. The administrative capacity of the coordinating body remains poor.

There has been good progress with regard to *non-safety related issues*. A law on the sale of distance financial services has been adopted. Furthermore, the law on consumer protection has been amended with a view to alignment with the *acquis* on unfair commercial practices and injunctions. Preparations in the area of consumer protection are advanced.

There has been some progress in the area of **public health**. Regarding *horizontal aspects*, the government adopted various health programmes. The overall funding has increased considerably compared to previous years. Preparations in this area are on track.

There has been some progress in the area of *tobacco*. The law on protection against smoking is generally in line with the *acquis*. The enforcement of the law remains at a satisfactory level. The labour and market inspectorate and the state sanitary and health inspectorate intensified joint controls in the field. Public acceptance is good and there are relatively few violations of the law. Preparations in this area are well advanced.

Some progress was made in the area of *communicable diseases*. The rulebook on case definitions was introduced and aligned with the EU criteria on case definitions. However, full alignment with the *acquis* on communicable diseases remains to be confirmed. Specific health programmes for prevention and control of some communicable diseases, such as the programme on obligatory vaccination of the population, were launched. Several training events were organised for health professionals dealing with communicable diseases. Efforts are being made to ensure functionality of the healthcare database, including the national early warning system; further improvement is however needed. The national programme on antimicrobial resistance 2012 – 2016 was adopted. Although the prevalence of HIV/AIDS is currently low, the financing of future activities on prevention, testing, treatment and care of the disease needs to be ensured. Preparations in this area are on track.

There has been good progress in the area of *blood*. A national integrated blood transfusion system was developed and it now comprises an institute for transfusion medicine, three regional centres and 19 units. The national programme for organisation and improvement of

blood donation was adopted. A new law on *organ, tissue and cell* transplantation was adopted aimed at aligning with the *acquis*. Preparations in this area are on track.

There is little progress to report in the field of *mental health*. The programme on healthcare for people with mental disabilities was adopted and its budget was nearly doubled compared to 2010. However, there was no progress in the implementation of the Action Plan on mental health which is supposed to provide community based mental health care as an alternative to institutions. Adequate staff and financial resources are needed in order to provide good quality health care. Preparations in this area are at an early stage.

Progress in addressing the *socio-economic determinants of health and health inequalities* is slow. National strategy for sexual and reproductive health is now in place. Some progress was made in the field of *cancer*. The budget of the programme for the early detection of malignant diseases was more than tripled. Funds were allocated to organise three types of cancer screening for breast, colorectal and cervical cancer screening as recommended by the Council Recommendation. The cancer registry is in place, but not yet fully operational. Preparations in this area are ongoing.

Conclusion

There has been some progress in the area of consumer and health protection. In the field of consumer protection, good progress was made as regards legal alignment with the *acquis*. There was some progress in the field of public health, particularly with regard to the completion of the integrated blood safety system and the enactment of the Law on organ, tissue and cell transplantation. Progress in the area of consumer and health protection is still hampered by the limited financial resources and weak operational structures. Overall, preparations in the area of consumer and health protection are moderately advanced.

4.29. Chapter 29: Customs Union

Good progress was made on **customs legislation**. The 2011 customs tariff was adopted taking into account the obligations arising from the Stabilisation and Association Agreement (SAA) and the changes in the EU Combined Nomenclature. Customs duties for imports from EU countries for all industrial products were completely abolished, in accordance with the SAA provisions. The Customs Code was amended to introduce provisions for the use of customs representation in customs clearance, including licensing for customs representation. Furthermore, amendments to the Customs Code were enacted in order to further align it with the customs *acquis* in the areas of electronic customs declarations, transit procedure, and customs debt and guarantees. Further customs-related fees were abolished in line with the *acquis*, namely fees relating to entrance and stay at customs terminals, processing fees for IPR protection requests and fees relating to printing and distribution of EUR1 forms. Preparations in this area are advanced.

Good progress was made on **administrative and operational capacity**. Several strategies were adopted for the period 2011-2014, including on training and professional development of customs officers, integrity and anti-corruption, risk management, prevention of smuggling of tobacco and tobacco products and protection of intellectual property rights. A new customs clearance guide was published, outlining applicable customs duties and the procedures for customs clearance.

The Customs Administration introduced new IT modules, including an electronic document management system, a human resource management system and an electronic resource planning system. The single-window system for issuing authorisations was further upgraded and a new functionality for transport authorisations was introduced. The strategy for joining the Common Transit Convention and the national plan for implementing a new computerised transit system were adopted and are being implemented. However, the new customs declaration processing system which was installed has not become operational, thus undermining the overall operational capacity of the Customs Administration. A pilot system for exchanging electronic pre-arrival information with several other neighbouring customs administrations started to function.

Operational capacities for customs controls were further enhanced, and co-operation with other government bodies, including the Ministry of Interior and the Public Revenue Office, was strengthened. This led to the seizure of significant quantities of counterfeit and illicit goods. Good progress was made in developing the risk management system at border crossings, with more systematic application of risk analysis and risk-based control measures.

Co-operation with the business community has intensified. The business advisory body meets monthly as a forum for consultation on, and discussion of, initiatives and legislative proposals that might affect businesses. Cooperation with other customs administrations continued to be strengthened, in particular with those of the neighbouring countries. An agreement on customs cooperation was signed with Kosovo and a joint police and customs cooperation centre was established with Bulgaria. Preparations in this area are well on track.

Conclusion

Good progress was made in the area of customs union, both on customs legislation and on administrative and operational capacity. The customs legislation is well aligned with the *acquis*. There was continued improvement in the administrative capacity of the customs administration to implement legislation and to tackle cross-border crime. Preparations in the area of customs union are well on track.

4.30. Chapter 30: External relations

There has been good progress in the area of the **common commercial policy**. The country continued gradually to reduce customs duties, in line with its WTO obligations. The average customs duty on industrial products was reduced to 6.20% (compared to 6.31% in 2010) and the duty on agricultural and fisheries products was 16.61% (compared to 15.98% in 2010). The country continued to coordinate closely with the Commission and to align with the policies and positions of the EU in international trade negotiations.

The Law on control of exports of *dual-use goods* and technologies was amended and several Rulebooks were adopted, with a view to further alignment with the *acquis* on the control of export, transfer, brokering and transit of dual use goods. The responsibilities of state institutions and legal and natural persons engaged in these activities were defined, including the procedure for issuing transit and brokering licences.

In the area of **bilateral agreements with third countries**, the country ratified investment protection agreements with Morocco and Montenegro. The number of bilateral investment protection agreements that were ratified rose to 35, of which 28 are in force and 16 are

agreements with EU Member States. An agreement with Lithuania was signed, but is yet to be ratified.

There is little progress to report in the areas of **development policy** and **humanitarian aid**. Preparations in both areas are at an early stage. Co-ordination between institutions with responsibilities for humanitarian aid was streamlined and they began to meet on a more regular basis. The Ministry of Foreign Affairs co-ordinated the country's humanitarian aid to Serbia (after the earthquake in Kraljevo) and Japan.

Conclusion

Alignment with the common commercial policy has continued in the WTO forum. The country's institutional capacity is not yet developed enough to enable it to participate fully in EU policies in the fields of development and humanitarian aid.

4.31. Chapter 31: Foreign, Security and Defence Policy

The regular **political dialogue** between the EU and the former Yugoslav Republic of Macedonia continued to cover foreign policy issues. (*Concerning relations with other enlargement countries and Member States, see Political criteria 2.3 – Regional issues and international obligations*).

As regards the **common foreign and security policy (CFSP)**, during the reporting period, the former Yugoslav Republic of Macedonia has aligned itself, when invited, with 66 out of the 67 relevant EU declarations and Council decisions during the reporting period (99% alignment). *As regards the International Criminal Court, see Political criteria 2.3 – Regional issues and international obligations*.

With regard to sanctions and *restrictive measures* the country aligned itself with the restrictive measures introduced by the Council's Decisions. Implementation of restrictive measures is ongoing. The Law on international restrictive measures was enacted. It includes more detailed provisions on financial measures and introduces a system for monitoring of the implementation of restrictive measures by a national coordination body, operational from September 2011.

No particular developments can be reported concerning *conflict prevention*.

With regard to *non-proliferation*, the country submitted a letter of intent to become a participating state of the Wassenaar Agreement on export controls for conventional arms and dual-use goods and technologies. It also asked, as a pre-accession measure, to be included in the Wassenaar Arrangement Outreach programme.

The country continued to engage actively in *cooperation with international organisations* (UN, OSCE, Council of Europe, etc.)

With regard to *security measures* (classified information), the Directorate for Security of Classified Information of the Ministry of Foreign Affairs completed the selection of members of the Misdemeanour Commission pursuant to the Law on Classified Information

As regards the **common security and defence policy (CSDP)**, the country continued to demonstrate a sustained commitment to participate in *civil and military crisis management operations*. Currently, the country has a total of 166 soldiers deployed in the ISAF mission in

Afghanistan. The country continued to take part in the EUFOR Althea mission, with a medical team at Camp Butmir and an assistant legal advisor for gender issues. It also participates in the UN-led peacekeeping/UNIFIL mission in Lebanon by providing a staff officer in the Joint Operation Centre in Nagura. The country signed the MoU on the principles of establishment and operation of the EU Battlegroup available for the second half of 2012.

The government approved the initiative for the conclusion of an Agreement with the European Union to establish a framework for participation in crisis management operations.

Conclusion

The country made efforts to ensure better coordination between the competent authorities in the implementation of international restrictive measures. It demonstrated a high level of alignment with EU declarations and Council decisions and a continued commitment to participate in civil and military and crisis management operations. Overall, preparations in the area of foreign, security and defence policy are well advanced.

4.32. Chapter 32: Financial control

Some progress can be reported in the area of **public internal financial control (PIFC)**. Secondary legislation on financial management and control and on Internal Audit has been adopted, although implementation of the legislation remains slow. The strategy for the development PIFC still needs to be updated to include a medium to long-term plan for development of PIFC an action plan to insure its full implementation The government is facing delays in establishing units for financial control and internal audit. Some units which have already been established remain understaffed. The Committees for financial control and internal audit were established by Government decisions, but are not operational yet. A PIFC policy paper remains to be developed, including the legislative separation of internal audit from financial inspection.

As regards **external audit**, the State Audit Office (SAO) continued with the implementation of its development strategy 2010-2014 and has improved the quality of its audits. The annual SAO programme for year 2011 envisages intensive cooperation with the Parliament and creation of conditions for timely discussions of the SAO reports in the Parliament. However, as yet, no formal mechanism for parliamentary follow-up of SAO reports has been established. A procedure for the amendment of the Constitution has been launched which will ensure the functional and financial independence of the SAO.

Some progress was made towards aligning legislation in the area of **protection of the EU's financial interests**. The Decree for procedure for preventing irregularities, mutual cooperation and reporting was adopted. In accordance with the Decree the Ministry of Finance's financial police department serves as the central contact point for cooperation with OLAF, and is responsible for coordinating the system for the prevention of irregularities and fraud, as well as for the admission, control, assessment and reporting of irregularities in the management and use of EU funds.

Progress was made in the fight against **counterfeiting of the Euro**. A Central office for preventing the counterfeiting of money was established, which will coordinate cooperation on the investigation of counterfeiting among the Ministry of Interior, the financial police, the central bank and the customs administration. Preparations for setting up an electronic data base on counterfeited money are underway. The new Central Bank law transferred

responsibility for detection and seizure of forged banknotes from the Ministry of Interior to the Central Bank. The Central Bank set up a national analytical centre and issued a manual on procedures for detection and withdrawal of counterfeited banknotes. About 70% of all investigative procedures initiated on counterfeited bank notes resulted in criminal charges. In 2010 the police hosted a training session under the EU Pericles Programme on recognition of counterfeit euro banknotes and coins. The authorities regularly participate in Pericles events. In the fight against counterfeiting of the Euro, the country is advanced.

Conclusion

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

4.33. Chapter 33: Financial and budgetary provisions

There have been no particular developments as regards **traditional own resources**, the **VAT resource** and the **GNI resource**. For progress in the underlying policy areas, *see chapters 16 – Taxation, 18 – Statistics, 29 – Customs union and 32 – Financial control*.

As regards **administrative infrastructure**, institutions are in place in the underlying policy areas that indirectly affect the own resources system. However, in addition to further strengthening these institutions, a fully operational coordination structure will be required in order to ensure the correct calculation, forecasting, collection, payment and monitoring of own resources and reporting to the EU for implementation of the own resources rules.

Conclusion

There is no particular progress to report under this chapter. Overall there are no significant divergences between the systems in the country and the EU in terms of basic principles and institutions for the underlying policy areas that might affect the correct application of the rules on own resources. The administrative framework for the application of the own resources framework is still not in place.

Statistical Annex

STATISTICAL DATA (as of 30.09.2011) The former Yugoslav Republic of Macedonia

Basic data	Note	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Population (thousand)		2 022	2 031	2 039	2 024	2 030	2 035	2 039	2 042	2 045	2 049	2 053
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	25 713

National accounts	Note	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Gross domestic product (GDP) (million national currency)		236 389	233 841	243 970	258 369	272 462	295 052	320 059	364 989	411 728	410 734	427 172
GDP (million euro)		3 893	3 839	4 001	4 217	4 442	4 814	5 231	5 965	6 720	6 677	:
GDP (euro per capita)		1 921	1 887	1 981	2 081	2 185	2 363	2 564	2 919	3 283	3 253	:
GDP (in Purchasing Power Standards (PPS) per capita)		5 100	5 000	5 200	5 400	5 900	6 600	7 200b	7 700	8 500	8 400	:
GDP per capita in PPS (EU-27 = 100)		27	25	25	26	27	29	30b	31	34	35	35
Real GDP growth rate (growth rate of GDP volume, national currency, % change on previous year)		4.5	-4.5	0.9	2.8	4.6	4.4	5.0	6.1	5.0	-0.9	1.8e
Employment growth (national accounts, % change on previous year)		0.3	-1.7	-0.6	-1.9	-2.2	2.1	3.2	4.4	6.1	2.5	:
Labour productivity growth: GDP growth per person employed (% change on previous year)	1)	4.2	-2.9	1.4	4.8	6.4	3.0	5.6	5.0	6.2	3.9	:
Real unit labour cost growth (national accounts, % change on previous year)		-7.0	-0.8	-0.4	2.7	-9.9	-8.6	3.2	-8.8	-2.0	9.9	:
Labour productivity per person employed (GDP in PPS per person employed, EU-27 = 100)		:	:	:	:	:	:	:	:	:	:	:
Gross value added by main sectors (%)												
Agriculture and fisheries	2)	12.0	11.8	12.4	12.9	12.8	12.3	12.1	10.6	11.6	11.2	:
Industry	2)	26.9	26.1	24.2	23.2	21.6	21.9	22.2	24.3	24.1	21.5	:
Construction	2)	6.8	6.0	6.0	6.0	6.2	6.3	6.4	6.6	5.7	5.9	:
Services	2)	54.2	56.1	57.5	57.8	59.4	59.5	59.3	58.5	58.7	61.4	:
Final consumption expenditure, as a share of GDP (%)		92.6	94.8	99.5	97.3	98.1	95.7	96.3	93.8	98.5	95.7	93.2e
Gross fixed capital formation, as a share of GDP (%)		16.2	14.8	16.6	16.3	17.4	16.6	17.6	19.6	21.0	19.9	:
Changes in inventories, as a share of GDP (%)		6.0	4.2	4.0	2.8	4.6	4.8	3.9	5.0	5.8	6.0	:
Exports of goods and services, relative to GDP (%)		48.6	42.7	38.0	38.1	39.9	44.1	46.6	52.4	50.9	39.0	47.3e
Imports of goods and services, relative to GDP (%)		63.5	56.6	58.2	54.5	60.1	61.1	64.5	70.8	76.2	60.6	66.0e

Industry	Note	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Industrial production volume index (2000=100)	3)	99.4	96.3	91.3	95.5	93.4	100.0	105.9	110.0	115.6	105.6	100.5

Inflation rate	Note	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Annual average inflation rate (CPI, % change on previous year)		5.8	5.5	1.8	1.2	-0.4	0.5	3.2	2.3	8.3	-0.8	1.6

Balance of payments	Note	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Balance of payments: current account total (million euro)	4)	-112	-263	-402	-170b	-362	-122	-23	-421	-862	-449	-191
Balance of payments current account: trade balance (million euro)	4)	-750	-589	-856	-753b	-914	-858	-1 001	-1 181	-1 763	-1 551	-1 468
Balance of payments current account: net services (million euro)	4)	53	-21	-24	-6b	-43	-25	22	25	6	28	60
Balance of payments current account: net income (million euro)	4)	-76	-30	-48	-57b	-32	-93	-26	-278	-91	-58	-149
Balance of payments current account: net current transfers (million euro)	4)	661	377	525	646b	628	853	982	1 012	985	1 132	1 366

of which government transfers (million euro)	4)	144	55	103	89b	55	53	59	24	49	36	32
Net foreign direct investment (FDI) (million euro)		234	499	112	100b	260	75	345	507	409	137	220
Foreign direct investment (FDI) abroad (million euro)	4)	1	-1	0	0b	-1	-2	0	1	9	-8	-1
of which FDI of the reporting economy in EU-27 countries (million euro)		:	:	:	:	:	:	:	:	:	:	:
Foreign direct investment (FDI) in the reporting economy (million euro)	4)	233	500	112	100b	261	77	345	506	400	145	221
of which FDI of EU-27 countries in the reporting economy (million euro)	5)	:	:	:	43	125	41	255	355	264	131	144

Public finance	Note	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
General government deficit/surplus, relative to GDP (%)		2.3	-2.5	-0.5	0.1	0.4	0.2	-0.6	0.6	-1.0	-2.7	-2.5
General government debt relative to GDP (%)		47.9	48.8	42.9	37.9	35.6	38.4	32.0	24.0	20.6	23.9	24.8

Financial indicators	Note	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Gross foreign debt of the whole economy, relative to GDP (%)	6)	42.7	44.2	39.3	35.9	46.8b	52.5	47.9	47.6	49.2	56.6	62.4
Gross foreign debt of the whole economy, relative to total exports (%)	6)	93.6	108.4	108.5	95.7	121.7b	122.8	104.7	92.6	97.7	148.9	135.0
Money supply: M1 (banknotes, coins, overnight deposits, million euro)	7)	368	415	432	461b	470	501	591	772	881	854	933
Money supply: M2 (M1 plus deposits with maturity up to two years, million euro)	7)	690	1 145	1 052	1 260b	1 475	1 708	2 130	2 728	2 913	3 040	3 277
Money supply: M3 (M2 plus marketable instruments, million euro)	7)	786	1 267	1 141	1 324b	1 542	1 777	2 221	2 872	3 184	3 388	3 781
Total credit by monetary financial institutions to residents (consolidated) (million euro)	8)	624	620	657	761b	951	1 153	1 504	2 093	2 803	2 913	3 102
Interest rates: day-to-day money rate, per annum (%)	9)	7.2	11.9	14.4	5.8	8.0	9.2	5.6b	3.5	4.8	6.0	3.7
Lending interest rate (one year), per annum (%)	10)	17.5	23.0	23.0	14.0	13.0	13.0	9.5	7.5	8.5	10.0	5.5
Deposit interest rate (one year), per annum (%)		:	:	:	:	:	:	:	:	:	:	:
euro exchange rates: average of period - 1 euro = ... national currency		60.720	60.910	60.970	61.260	61.330	61.290	61.180	61.180	61.260	:	:
Effective exchange rate index (2005=100)	11)	83.6	88.6	91.9	95.5	98.1	100.0	100.2	99.8	100.8	106.8	106.3
Value of reserve assets (including gold) (million euro)	10)	759	844	771	715	717	1 123	1 417	1 524	1 495	1 598	1 715

External trade	Note	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Value of imports: all goods, all partners (million euro)		:	:	2 105.3	2 031.3	2 354.0	2 601.0	2 979.7	3 795.0	4 587.3	3 615.8	4 119.1
Value of exports: all goods, all partners (million euro)		:	:	1 177.9	1 203.0	1 345.9	1 643.5	1 917.5	2 446.4	2 697.6	1 925.2	2 497.5
Trade balance: all goods, all partners (million euro)		:	:	-927.4	-828.2	-1 008.1	-957.5	-1 062.2	-1 348.6	-1 889.7	-1 690.6	-1 621.6
Terms of trade (export price index / import price index)		95.4	97.1	106.4	94.5	82.9	95.6	100.4	109.3	93.1	98.3	101.5
Share of exports to EU-27 countries in value of total exports (%)		:	:	55.9	58.9	60.3	56.9	61.3	65.2	59.5	56.2	63.0
Share of imports from EU-27 countries in value of total imports (%)		:	:	61.7	60.3	60.8	54.7	52.9	49.6	49.0	52.2	53.1

Demography	Note	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Natural growth rate: natural change (births minus deaths) (per 1000 inhabitants)		5.9	5.0	4.8	4.4	2.7	2.0	1.9	1.5	1.9	2.3	2.5p
Infant mortality rate: deaths of children under one year of age per 1000 live births		11.8	11.9	10.2	11.3	13.2	12.8	11.5	10.3	9.7	11.7	7.7p
Life expectancy at birth: male (years)		70.8	70.9	70.6	70.9	71.5	71.6	71.7	71.8	72.4	72.3	:
Life expectancy at birth: female (years)		75.2	76.1	75.6	75.7	75.8	75.9	76.2	75.9	76.5	76.7	:

Labour market	Note	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Economic activity rate (15-64): share of population aged 15-64 that is economically active (%)		59.7	61.8	59.8	61.3	58.8	60.7	62.2	62.8	63.5	64.0	64.2
* Employment rate (15-64): share of population aged 15-64 in employment (%)		40.3	42.6	40.4	38.5	36.8	37.9	39.6	40.7	41.9	43.3	43.5
Employment rate male (15-64) (%)		49.7	50.6	48.6	45.6	44.4	45.4	48.3	48.8	50.7	52.8	52.8
Employment rate female (15-64) (%)		30.9	34.5	32.0	31.3	28.9	30.1	30.7	32.3	32.9	33.5	34.0

Employment rate of older workers (55-64): share of population aged 55-64 in employment (%)		26.2	27.7	25.8	28.5	24.5	26.2	27.9	28.8	31.7	34.6	34.2
Employment by main sectors (%)												
Agriculture	12)	:	24.9	23.9	22.0	16.8	19.5	20.1	18.2	19.7	18.5	19.1
Industry	12)	:	29.2	27.5	27.3	25.8	25.8	25.0	24.9	24.8	23.2	22.6
Construction	12)	:	5.9	5.8	6.6	7.0	6.5	7.6	6.4	6.5	6.5	6.4
Services	12)	:	39.7	42.6	43.8	50.1	48.0	47.1	50.1	48.9	51.7	51.9
Unemployment rate: share of labour force that is unemployed (%)		32.2	30.5	31.9	36.7	37.2	37.3	36.0	35.0	33.8	32.2	32.0
Share of male labour force that is unemployed (%)		30.5	29.5	31.7	37.0	36.7	36.5	35.3	34.6	33.5	31.8	31.9
Share of female labour force that is unemployed (%)		34.9	32.0	32.3	36.3	37.8	38.4	37.2	35.6	34.2	32.8	32.2
Unemployment rate of persons < 25 years: share of labour force aged <25 that is unemployed (%)		59.9	56.1	58.4	65.7	64.8	62.6	59.8	57.7	56.4	55.1	53.7
Long-term unemployment rate: share of labour force that is unemployed for 12 months and more (%)		26.9	26.5	27.0	31.2	31.7	32.3	31.1	30.1	28.7	26.3	26.7
Social cohesion	Note	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Average nominal monthly wages and salaries (national currency)		10 193.0	10 552.0	11 279.0	11 824.3	12 293.3	12 597.0	13 517.0	14 584.0	16 096.0	19 957.0	20 553.0
Index of real wages and salaries (index of nominal wages and salaries divided by the CPI/HICP) (2000=100)		100.0	98.1	103.0	106.7	111.4	113.6	118.1	124.5	126.9	158.7b	160.8
* Early school leavers - Share of population aged 18-24 with at most lower secondary education and not in further education or training (%)		:	:	32.2	:	:	:	:	:	:	:	:
Standard of living	Note	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Number of passenger cars per 1000 population		147.9	152.1	151.1	148.2	122.7b	124.3	118.7	121.9	128.6	137.7	151.0
Number of subscriptions to cellular mobile telephone services per 1000 population		49.4	109.0	179.7	300.4	491.6	597.6	695.1	884.2	1 157.9	1 036.8	1 098.2
Infrastructure	Note	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Density of railway network (lines in operation, per 1000 km ²)		:	:	:	:	:	:	:	:	:	:	:
Length of motorways (thousand km)		:	:	:	:	:	:	:	:	:	:	:
Innovation and research	Note	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Spending on human resources (public expenditure on education in % of GDP)		:	:	3.4	3.4	:	:	:	:	:	:	:
* Gross domestic expenditure on R&D in % of GDP		0.4	0.3	0.3	0.2	0.3	0.3	0.2	0.2	:	:	:
Percentage of households who have Internet access at home (%)	13)	:	:	:	:	11.2e	11.2e	14.0e	16.5e	29.0e	42.0e	46.1e
Environment	Note	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
* Greenhouse gas emissions, CO2 equivalent (tons, 1990=100)		104.0	92.0	90.0	:	:	:	:	:	:	:	:
Energy intensity of the economy (kg of oil equivalent per 1000 euro GDP)		710.2	720.4	771.4	710.9	681.6	680.3	661.9	646.5	613.9	576.0	:
Electricity generated from renewable sources in % of gross electricity consumption		16.9	9.2	11.0	17.9	18.9	17.5	18.7	11.2	9.3p	15.4	:
Road share of inland freight transport (% of tonne-km)	14)	60.0	87.0	92.0	94.0	91.0	93.0	92.0	88.0	84.0	89.0	89.0
Energy	Note	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Primary production of all energy products (thousand TOE)		1 595	1 642	1 577	1 666	1 598	1 578	1 617	1 504	1 624	1 607p	:
Primary production of crude oil (thousand TOE)		0	0	0	0	0	0	0	0	0	0	:
Primary production of hard coal and lignite (thousand TOE)		1 273	1 419	1 356	1 353	1 293	1 288	1 296	1 254	1 378	1 293p	:

Primary production of natural gas (thousand TOE)		0	0	0	0	0	0	0	0	0	0	:
Net imports of all energy products (thousand TOE)		1 104	1 011	1 486	1 029	1 152	1 248	1 323	1 469	1 403	1 274p	:
Gross inland energy consumption (thousand TOE)		2 765	2 677	2 892	2 740	2 749	2 863	2 925	3 039	3 022	2 811p	:
Electricity generation (thousand GWh)		6.8	6.4	6.1	6.7	6.7	6.9	7.0	6.5	6.3	6.8	:

Agriculture	Note	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Agricultural production volume index of goods and services (producer prices, previous year=100)		101.0	90.2	97.5	104.5	107.0	100.3	105.0	98.0	104.5	102.9	107.7
Total utilised agricultural area (thousand hectare)		1 236	1 244	1 316	1 303	1 265	1 229	1 225	1 077	1 064	1 014	1 120
Livestock: cattle (thousand heads, end of period)		265	265	259	260	255	248	255	254	254	253	260
Livestock: pigs (thousand heads, end of period)		204	189	196	179	158	158	167	255	247	194	191
Livestock: sheep and goats (thousand heads, end of period)		1 251	1 286	1 234	1 239	1 432	1 244	1 249	944	950	849	854
Production and utilisation of milk on the farm (total whole milk, thousand tonnes)		220	201	198	192	213	197	235	374	368	343	347
Crop production: cereals (including rice) (thousand tonnes, harvested production)		565	476	556	466	677	645	595	469	615	609	541
Crop production: sugar beet (thousand tonnes, harvested production)		56	38	44	40	47	58	:	:	:	:	:
Crop production: vegetables (thousand tonnes, harvested production)		680	696	:	:	:	:	588	565	590	650	743

: = not available

p = provisional

e = estimated value

b = break in series

* = Europe 2020 indicator

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

Footnotes:

- 1) GDP in constant prices of the previous year.
- 2) 2003–2009, data are provided according to NACE Rev 1.1.
- 3) Data are recalculated according to NACE Rev.2 for the period from 2005 to 2010.
- 4) 2000-2002, values in Euro are calculated using the annual average exchange rate; from 2003 onwards, the values in Euro are calculated on the basis of the current exchange rate.
- 5) Data on FDI flows by countries are produced only for the categories Equity capital and the Loans component of other capital. Data for reinvested earnings and the remaining components of FDI flows, based upon the Annual FDI Survey, will be available within t+270 days.
- 6) 2000-2003, external debt data are calculated on 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.
- 7) From 2003, data for money supply are revised to include data for saving houses
- 8) From 2006, data cover bilateral transactions over night; 2003, end of year; from 2003, the category Total credits by MFIs (Microfinance Institutions) is expanded with loans granted by saving houses.
- 9) 2000-2006, end of year; until 2005 data cover transactions with all maturities concluded on the Institutionalized Money Market; from 2006, data cover bilateral transactions over night
- 10) End of year.
- 11) NEER (nominal effective exchange rate).
- 12) Data provided according to NACE Rev 1.1.
- 13) Data for 2004 and 2005 are the same figure, obtained from the same ICT survey, conducted in February 2005, as a pilot survey, which covered the end of 2004 and beginning of the 2005.
- 14) Break in series: 2004-2008, revised data (including transport for own account).