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THE REPUBLIC OF MACEDONIA
2009 PROGRESS REPORT

accompanying the

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

Enlargement Strategy and Main Challenges 2009-2010

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COMMISSION STAFF WORKING DOCUMENT

The Republic of Macedonia 2009 Progress Report

1. INTRODUCTION

1.1. Preface

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

This report on progress made by the 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 Republic of Macedonia and the Union;
- analyses the situation in the Republic of Macedonia in terms of the political criteria for membership;
- analyses the situation in the Republic of Macedonia on the basis of the economic criteria for membership;
- reviews the Republic of Macedonia's capacity to assume the obligations of membership, that is, the *acquis* expressed in the Treaties, the secondary legislation, and the policies of the Union.

The period covered by this report is from early October 2008 to mid-September 2009. Progress is measured on the basis of decisions taken, legislation adopted and measures implemented. As a rule, legislation or measures which are under preparation or awaiting parliamentary approval have not been taken into account. This approach ensures equal treatment across all reports and permits an objective assessment.

The report is based on information gathered and analysed by the Commission. In addition, many sources have been used, including contributions from the government of the 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 Republic of Macedonia in its separate communication on enlargement², based on the technical analysis contained in this report.

¹ The rapporteur for the Republic of Macedonia was Mr Erik Meijer. Since September 2009, the new rapporteur is Mr Zoran Thaler.

² Enlargement Strategy and Main Challenges 2009-2010 (COM(2009) 533 of 14.10.2009).

1.2. Context

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

1.3. Relations between the EU and the Republic of Macedonia

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

As concerns the **Stabilisation and Association Agreement** (SAA) with the EU, the country is currently implementing all the commitments undertaken with the agreement, which is a key priority of the Accession Partnership. In particular, the country continues to fulfil all the commitments foreseen under the first stage of implementation of Title V (Movement of workers, establishment, supply of services, capital) of the SAA. On this basis, the Commission in October made a proposal on the transition to the second stage of the Association, pursuant to article 5 of the SAA.

The regular **political and economic dialogue** between the EU and the country has continued through the SAA structures. The Stabilisation and Association Committee met in June and the Stabilisation and Association Council in July. Seven sectoral sub-committees have been held since November 2008.

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

The Accession Partnership identifies eight key priorities for progress in the accession process by the Yugoslav Republic of Macedonia. The Commission assesses these key priorities as benchmarks in this Progress Report. A recommendation on the start of accession negotiations will depend on the results achieved.

The **visa facilitation** and readmission agreements between the Republic of Macedonia and the European Community continued to be implemented. In the framework of the **visa liberalisation** dialogue process, the country made important progress in the areas of justice, freedom and security and fulfilled the roadmap benchmarks. On the basis of this progress, the Commission in July 2009 proposed lifting the visa obligation for citizens of the Republic of Macedonia.

As regards **financial assistance**, the new Instrument for Pre-Accession Assistance (IPA) started on 1 January 2007. The 2009-2011 Multi-Annual Indicative Planning Document (MIPD) for the country was adopted in June 2009. In 2009, the national programme amounted to € 81 million. In addition the country continues to benefit from regional and horizontal programmes. Cross border cooperation is used to promote dialogue between local and regional authorities of neighbouring countries.

The EU financial assistance portfolio managed by the Commission Delegation in Skopje amounts to €91. By July 2009, more than 25% of this total had been contracted and more than 21% disbursed. Assistance focuses on support to the implementation of the Ohrid Framework Agreement, strengthening of administrative capacity with particular emphasis on the rule of law sector, economic development, and the ability to assume the obligations of EU membership. The EU aims to transfer the management of IPA Funds to the national authorities under the Decentralised Implementation System (DIS) once the national authorities have developed the necessary capacity to assume this responsibility. Further attention is needed to developing accountable administrations and institutions with appropriate capacity.

Extensive EU financial support has been provided to **civil society** through different national and regional horizontal IPA programmes under the Civil Society Facility, including aid to establish the national civil society forum, capacity building to civil society organisations, and the establishment of regional NGO support centres to the amount of €8 million. The national programmes provide significant support to improve the development and sustainability of civil society organisations and further capacity building of the government unit for NGO cooperation. The Cross Border Cooperation programmes with Bulgaria and Greece also promote social, economic and cultural projects by civil society organisations.

In response to the economic crisis, an IPA **crisis package** has been created, comprising €200 million for the Western Balkan region which are expected to leverage investments of at least €1 billion, co-financed by the partner financial institutions. The country will benefit from a share of multi-beneficiary funds for competitiveness, SMEs, energy efficiency and banking sector regulation. As a candidate country, the Republic of Macedonia has been allocated more than €40 million since 2007 from funding under IPA Component III, mainly for reinforcing the competitiveness of the economy - thus helping to cope with the crisis - through major infrastructure projects in the fields of transport, environment, as well as support to SMEs.

The Republic of Macedonia has so far signed memoranda of understanding for participation in the following **Community Programmes**: 'Entrepreneurship and Innovation specific Programme' (EIP) of the 'Competitiveness and Innovation Framework Programme', 'Progress', 'Culture', 'Europe for Citizens', 'Fiscalis 2013' and 'Customs 2013'.

2. POLITICAL CRITERIA

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

2.1. Democracy and the rule of law

Constitution

The Constitution was amended in January to lower the threshold for the voter turn-out in the second round of presidential elections from 50% to 40%.

Parliament

The work of the parliament proceeded on the basis of dialogue between the governing coalition and the opposition, a key priority of the Accession Partnership. The strengthened spirit of consensus resulted in the adoption with broad consensus of several laws related to EU integration. Weekly meetings between the parties' parliamentary coordinators have been held, with the presence of the Deputy Prime Minister for EU integration for EU related matters.

For the first time the parliament and its bodies examined thoroughly the European Commission's Progress Report. The National Council for EU Integration (NCEI) and the Committee on EU Affairs continued to promote public hearings thus increasing the participation of civil society. These discussions accompanied the adoption by the government of an Action Plan to address the findings of the 2008 Progress Report. The NCEI, which is chaired by the opposition, continued to meet on a monthly basis, with a high level of participation of its members. The NCEI has secured additional staff which will enhance its functioning.

A new Committee on Local Self-Government was established. The e-parliament was introduced which introduces a fully automatised legislative process from the moment of submission of the documents by the Government, and until their publishing in the Official gazette.

The parliament was in recess from 26 February until 10 April because of the presidential and local elections. Following the elections it resumed work promptly. Three new Members of Parliament were sworn into office to replace those who were elected as mayors.

The new rules of procedure of the parliament have increased efficiency and effectiveness in handling parliamentary business. Nonetheless, the Venice Commission has pointed to the need to further improve the rules, in particular as regards the rights of the opposition. The transparency of the legislative process was further improved with the introduction of public hearings in parliament.

Parliament reviewed the annual reports of the institutions required to report to it. The emergency procedure was applied only for a number of laws intended to address the consequences of the global economic crisis. Several measures from the action plan for the parliament were implemented in advance of its adoption, such as establishment of the Budgetary Council and the Council for the Parliamentary TV Channel. Most of the vacancies in the new administrative service of the parliament have been filled. The budgetary resources of the parliament were increased by 11%.

A new Law on the Parliament was enacted in August which aims to further strengthen and codify the functioning of the parliament. In particular it creates a legal obligation for coordination between the Speaker and the political parties as well as for relations between the Members of Parliament and their constituencies; strengthens the powers of the Speaker to maintain order; establishes a specific budget for the running of parliament; establishes a Parliamentary Institute to provide analysis and research to MPs; provides for public hearings to strengthen oversight over the work of the parliament.

The Committee on inter-ethnic relations played a limited role in addressing issues of concern such as the introduction of ethnic shifts in education in some parts of the country. The

Committee limited its activity to the application of double majority ('Badinter majority') rules in Parliament for non-majority community related legislation.

The parliamentary committee for the oversight of the work of the intelligence agencies and the newly established committee for the oversight of implementation of the Law on Monitoring of Communications have held no hearings so far.

In August, the 'Democratic Party of Albanians' (DPA), which has 5 Members of Parliament, began a boycott of parliament, alleging lack of implementation of the Ohrid Framework Agreement.

The investigations of irregularities in the 2006 parliamentary elections were completed without any cases being brought to court, raising concerns about impunity of the perpetrators. However, progress was made in prosecuting the perpetrators of the irregularities in the 2008 parliamentary elections. Following the instruction from the President of the Supreme Court to give priority to these cases, a total of 29 perpetrators have been sentenced to prison terms by the courts. The cases involving 96 perpetrators are still pending. Seven police officers were dismissed after being sentenced to imprisonment. Five cases are being considered by the appeal courts.

The presidential and local elections were held in two rounds on 22 March and 5 April. The OSCE/ODIHR and Council of Europe observation missions concluded that the elections '...met most OSCE commitments and other international standards for democratic elections.'

Most of the 28 OSCE/ODIHR recommendations issued after the parliamentary elections in 2008 were implemented. A restrained but visible police presence contributed to a peaceful atmosphere on the election days. The political climate was calm and the conduct of voting showed a marked improvement over the 2008 parliamentary elections. The elections were administered by a three tiered administration comprising the State Election Commission (SEC) the Municipal Elections Commissions (MECs) and the Election Boards at local level. Overall, these bodies responded well to the challenge of organizing these complex elections. The composition of electoral boards reverted to a mixed professional-political model, including one member nominated by the parties in government and one by the parties in opposition. The State Electoral Commission (SEC) organised training for all involved in administering elections. The Administrative Court upheld all except one of the SEC decisions when deciding upon complaints against them. Civil society organisations fielded a significant number of domestic non-party observers.

However, the number of credible reports of pressure on or intimidation of citizens, particularly public servants, throughout the election period detracted from the overall quality of the election process.

The SEC did not handle complaints regarding the first round of voting within the legal deadlines and delayed issuing the final results of the first round, which complicated preparations for the second round. It was inconsistent in some decisions concerning complaints about election material. The Administrative Court sessions on election-related lawsuits were not open to the public, except during the reading of their content, despite a requirement in the Electoral Code that decisions be taken in public sessions.

The media, as a whole, generally complied with the guidelines and regulations issued by the Broadcasting Council and allowed voters to make an informed choice. Nonetheless, some media did not provide equal access to all political parties and extensive coverage of

government projects during the campaign period amplified the advantage of the incumbent parties.

Certain OSCE/ODIHR recommendations were not fulfilled. In particular, the inaccuracy of the voter lists, particularly as regards the inclusion of large numbers of citizens living abroad, created scope for possible irregularities. Parliament nominated the three remaining members of the Broadcasting Council only after the elections had taken place.

Seven candidates took part in the first round of the presidential elections, which saw a voter turn-out of 57%. For the first time, one of the ethnic Albanian candidates received significant support from voters across the ethnic spectrum. In the second round face-off between the two leading candidates, backed respectively by the 'Internal Macedonian Revolutionary Organisation-Democratic Party for Macedonian National Unity' (VMRO-DPMNE) and the 'Social Democratic Union' (SDSM), the required 40% turn-out of voters was achieved by a margin of 3 percentage points. The participation of ethnic Albanian voters to the second round was very low.

Elections in the 85 municipalities in which the country is divided (plus the city of Skopje) resulted in 57 mayoral posts for VMRO-DPMNE, up from 21 in 2005. SDSM, in opposition, lost 29 municipalities and now governs seven. The two main ethnic Albanian-dominated municipalities (Tetovo and Gostivar) were won by DPA and an independent candidate, respectively, while all the others were won by the 'Democratic Union for Integration' (DUI). None of the 13 women who ran for mayor were elected. Five of the 33 candidates from smaller communities were elected.

Overall, as regards political dialogue, which is a key priority of the Accession Partnership, there has been good progress. The political climate has improved and the work of the parliament has become more effective, including the legislative process. New parliamentary procedures are being implemented and the Law on Parliament was adopted. The National Council for European Integration, chaired by the opposition, meets regularly. Continued efforts to deepen political dialogue, including on inter-ethnic issues, would consolidate the engagement of all parties. Good progress was made in the conduct of elections, which met most international standards. Allegations of intimidation need to be addressed.

Government

During its first year, the government coalition between VMRO-DPMNE and DUI has been stable and, overall, has functioned effectively. It has maintained EU related reforms, including as regards visa liberalisation, as a high priority. A reshuffle took place in July, with changes to five ministerial posts, including the Deputy Prime Minister responsible for European integration. However, relations within the government coalition were not strong and sometimes suffered from weak inter-ministerial coordination.

Cohabitation within the executive remained strained, with divergent public stances on how to solve the name issue, until a new President backed by VMRO-DPMNE was sworn in for a five-year term on 12 May.

The government adopted its annual revision of the national plan for adoption of the *acquis* (NPAA), in response to the findings of the 2008 Progress Report. The Secretariat for European Affairs ensured the participation of relevant Ministries in the exercise, notably by allowing direct on-line updating.

Decentralisation, which is a basic principle of the Ohrid Framework Agreement, continued. The Law on Inter-Municipality Cooperation, which is intended to help municipalities exercise their powers more effectively, was enacted in June. Another six of the 85 municipalities entered phase 2 of the fiscal decentralisation process, which provides for a more substantial transfer of competencies to the local level, leaving 17 in phase 1. Municipal tax collection improved. Municipalities received a higher share of the revenue collected from management of State-owned land. Efforts were made to strengthen the capacity of municipalities in the areas of property tax administration, public financial management, debt management and financial control. Internal audit units were established in ten more municipalities, bringing the total up to 38. In 36 municipalities service centres and their branch offices were established. Staff was trained and working procedures were put in place. Municipalities performed better in the field of education.

However, revenue remains insufficient to allow municipalities to perform their tasks properly. Management of State-owned land is still centralised. The municipalities which remain in phase 1 have sizeable debts. The accounts of 22 municipalities, 12 of which are in phase 2, have been blocked by legal proceedings relating to arrears. There is no consistent set of data on arrears accumulated by municipalities. The Association of Municipalities (ZELS) continues to hold important responsibilities for taking forward the decentralisation process. The administrative capacity of some municipalities, particularly the smaller ones, remains low in the areas of financial management, tax administration and financial control. In some municipalities property tax collection is not adequately monitored or enforced and the databases of taxpayers are not updated. The transparency and accountability of local government administrations remain inadequate. In several instances, trained staff of municipal service centres was replaced following the election of a new mayor.

Exchanges of data between the cadastre, the civil registry, the Public Revenue Office and the municipalities need to be strengthened. The Ministry of Local Self-Government is not facilitating the decentralisation process sufficiently. The local government budget unit in the Ministry of Finance lacks capacity to support fiscal decentralisation. The inter-ministerial working group on implementation of decentralisation did not meet for a year prior to August 2009.

Overall, the government coalition has been stable and functioned effectively in its first year. It maintained EU related reforms, including as regards visa liberalisation, as a high priority. Decentralisation, which is a basic principle of the Ohrid Framework Agreement, continued with a further transfer of competencies to municipalities. However, increased efforts are needed, in particular as regards the financial framework for municipalities.

Public administration

Further progress was made in the reform of the civil service, which is a key priority of the Accession Partnership.

A High Committee on public administration reform, chaired by the Prime Minister, was established in July with the aim of leading the reform process.

Subsequently, the amendments to the Law on the Civil Service adopted in September significantly improved the legal framework by strengthening the role of the Civil Servants Agency (CSA) and strengthening merit based recruitment in the civil service. The Civil Servants Agency has been empowered to draft by-laws, oversee the internal organisation of

the administrative bodies, approve the recruitment of civil servants and inspect the progress towards equitable representation. The scope of the law on the civil service has been extended to include the Public Revenue Office, the State Audit Office and the Customs Office.

The new recruitment criteria require that state secretaries must have a minimum of three years experience of senior management in public administration. Procedures for recruitment of other civil servants have been streamlined and made more transparent: clear deadlines have been introduced, all decisions will be published on the CSA website and a re-publication of a vacancy may only take place after six months. Furthermore, elements of a vertical promotion system have been introduced, whereby positions may be filled by means of internal announcements open to career officials.

The CSA continued to oversee disciplinary proceedings, which remain at a high level. As a result of 121 disciplinary proceedings, 42 civil servants were fined, 5 were reassigned to lower positions and another 5 were dismissed.

New methods were introduced for strategic planning and preparation of annual work programmes to ensure alignment with the budget and with government EU planning documents, notably the national programme for adoption of the *acquis*. Also, strategic planning sectors or units have been established in every ministry.

The provisions regarding career-related supplements are not being consistently applied.

A civil servants' training system has been established. The Training Council and the Training Department of the CSA are overseeing implementation of a three-year training strategy which is financed by a specific budget allocation. A larger number of annual training programmes were submitted to the Civil Servants Agency on time by the State administrative bodies, thus helping improve consistency and effectiveness.

The capacity of the recently established human resources units within the ministries began to be strengthened by providing initial training and establishing a working group to create and coordinate a network. New staff have been appointed to these units.

The EU sectors in some line ministries were strengthened with a total of 20 additional staff. The 2009 version of the NPAA envisages a total of 1,168 new civil service posts, for which appropriate budgetary provision was made. Staff in municipalities is gradually being trained to implement parts of the *acquis* assigned to local level and to manage EU funds.

The regulatory impact assessment (RIA) procedure came into force in January, requiring all legislative proposals to be accompanied by an RIA.

The citizens' charter project is being regularly implemented in all 15 ministries and 9 State administrative bodies. Its effectiveness is analysed regularly.

Some progress was made on implementing the Law on Access to Information. A training programme was given to the information holders and a website was created for the public. The number of complaints received by the National Commission for Protecting Access to Information rose from 350 in 2007 to 670 in 2008, of which 426 resulted in the information being made available.

Cooperation between public bodies and the Ombudsman remains good. State bodies continue to carry out the large majority of the Ombudsman's recommendations.

Further steps were taken to implement the outstanding elements of the police reform, a key priority of the Accession Partnership. They included making the national coordination centre for integrated border management fully operational and further decentralising the police, with the appointment of mid-ranking officers in the regional headquarters and police stations. Out of the 38 police station commanders, four were replaced at the request of the municipal councils by a procedure that formally complied with the Law on Police. Until July, the absence of a well-developed human resources management system meant that the procedure did not fully adhere to best international standards. Thereafter, the Ministry of Interior adopted a rulebook regulating the dismissal of commanders of police which establishes an administrative procedure to be followed. Management of the available resources, training and budgetary planning improved. Efforts to tackle corruption continued.

The new Law on Internal Affairs, which regulates the management of the police service, was enacted in July. It provides for significant progress in the human resources management system by introducing a career and appraisal system. It also introduces a legal provision that prevents police officers from holding office in political parties. Furthermore, it also clarifies the distribution of responsibilities between the Administration for Security and Counter-intelligence of the Ministry of the Interior and the Bureau for Public Security in the fight against organised crime. The law also enhances the accountability of the intelligence agencies to parliament.

(See also Chapter 24 – Justice, Freedom and Security.)

However, additional efforts are needed to ensure full implementation of the Law on the Civil Service. In particular, the capacity of ministries and municipalities to perform staff appraisals needs to be strengthened. Full reporting to the Civil Servants Agency in line with the legal obligations is a prerequisite for the transparency and accountability of decisions of individual administrative bodies on the appointments and promotions of civil servants.

The Civil Servants Agency reported that since September 2008 there have been 77 unlawful promotions, out of which 38 were in the Ministry of Economy. Only one decision has been annulled so far, raising concerns about respect of the Law on the Civil Service.

The increased recruitment of temporary staff, which does not fall under the Law on the Civil Service, undermines merit-based recruitment. Many of the temporary staff are junior, lack appropriate office space and have no clear job descriptions. This practice takes place across State administrative bodies (SABs) and municipalities, and is discouraging for regular civil servants.

Despite the obligation in the Code of Ethics, no civil servant reported an illegal act by another civil servant during the reporting period.

Planning of the human resource needs across the entire civil service needs to be significantly strengthened, in particular in order to reduce use of temporary staff and ensure a coherent approach to equitable representation. Availability of appropriate training facilities needs to be ensured at central and local level so that the training strategy may be delivered. Also, a framework for effective social dialogue between the government and the organisations representing civil servants remains to be established.

Further efforts are needed to improve accountability in the public administration, in particular in the decision-making process. The capacity to implement the Regulatory Impact Assessment procedures needs to be developed.

Overall, some progress was made on implementing public administration reform, including reform of the civil service, which is a key priority of the Accession Partnership. The amendments to the Law on the Civil Service strengthened the provisions aiming to ensure merit based recruitment and promotion of civil servants. A functioning training system has been established and some additional staff has been allocated in key areas. However, further efforts to ensure transparency, professionalism and independence of public administration are required. Respect for the provisions and the spirit of the law needs to be ensured in practice. Further progress has been made as regards reform of the police, which is a key priority of the Accession Partnership. All the new local and regional commanders are operational, management has improved and the law on internal affairs has introduced a career system into the police service. The reform of the police is well advanced.

Judicial system

Progress was made on implementing reform of the judiciary, a key priority of the Accession Partnership.

Further progress was made towards ensuring the independence of judiciary. Since October 2008 the Judicial Council appointed a total of 38 new judges as well as 4 new presidents of courts. The first cycle of appraisal of the judges was completed in June. The Council of Public Prosecutors assumed full responsibility for appointing new public prosecutors (21) and completed extending the expired term of office to over 159 prosecutors elected in 2003 for 6 years period.

These appointments were made in line with the new procedures which provide for independent appointments by the two Councils. The most recent appointments by the two Councils include also the first successful graduates coming from the Academy for training of judges and prosecutors.

Also the Judicial Council completed the first performance appraisal of the serving judges and presidents of courts and found that most of them have performed according to the required standards.

Efforts were made to improve efficiency. The President of the Judicial Council assumed the chairmanship of the Court Budget Council and promoted better use of the court budget. The budget was increased by 8% compared with 2008, which represents a significant rise, despite the difficult economic context. The IT centre connecting all judicial institutions is operational and the automated case management system has been installed in all courts.

The administrative court and the court of appeal in Gostivar were established in 2008. Since then they have settled approximately 3200 and 2070 cases respectively. The new Higher Prosecutor's Office in Gostivar was established, after some delay, and five prosecutors were appointed to it. Amendments to the laws on litigation procedure and on enforcement of civil judgments, designed to improve execution of court rulings, were enacted in June.

However, the absence of a human resource management system has slowed down the recruitment of graduates from the academy for training judges and prosecutors into the judiciary. The judiciary continues to face budgetary constraints. The Skopje 2 basic court, which is the court with the largest number of cases, and the four courts of appeal along with the administrative court were unable to reduce their backlogs. The administrative court, the court of appeal in Gostivar and most of the Public Prosecutor's offices remained understaffed, which affected their performance. Not all the enforcement cases were transferred to the

bailiffs by the end of 2008 thus delaying enforcement of a number of court rulings. Implementation of the 2006 Law on Mediation has had a limited impact so far. Full implementation of the 2007 Law on Public Prosecutor's Offices requires parallel changes to the Law on Criminal Procedure.

In April, VMRO-DPMNE, the governing party, questioned the legitimacy of the Constitutional Court which had ruled against the introduction of religious education into state schools. The Constitutional Court responded with a press release denouncing the 'unprecedented pressure' and 'attempts to harm its reputation' it was being subjected to. This incident raised concerns about the independence of the judiciary, although the government provided assurance that it would respect the rulings.

Some documented irregularities regarding recent judicial proceedings have raised questions about the independence and impartiality of parts of the judiciary.

Overall, further progress was made on reform of the judiciary, which is a key priority of the Accession Partnership. The first graduates from the Academy of Judges and Prosecutors have been appointed, the new courts and judicial bodies are being staffed and are taking up their activities and the budget has been increased very significantly. Continued efforts are needed to ensure the independence and impartiality of the judiciary, in particular through the implementation of the provisions regarding appointments and promotions.

(See also Chapter 23 - Judiciary and fundamental rights)

Anti-corruption policy

Good progress has been made in strengthening and implementing the anti-corruption framework, which is a key priority of the Accession Partnership. Amendments to the Electoral Code introduced more specific provisions on transparency of election campaign financing. Most of the recommendations of the Group of States against Corruption (GRECO) are being followed up. The Government Council for monitoring implementation of the anti-corruption action plan met frequently, underlining the political priority attached to the issue. Progress was made towards establishing a national intelligence database.

The amendments to the Law on Financing of Political Parties were adopted in July. They enhance the transparency of donations, strengthen the provisions against illegal donations, tighten reporting obligations of the political parties and introduce more dissuasive sanctions. The supervisory authorities, the Public Revenue Office and the State Audit Office, have an important role to play in ensuring full implementation.

Amendments to the Criminal Code including new provisions on extended confiscation of proceeds of crime, illicit enrichment and criminal liability of legal persons for trading influence were enacted.

The databases of the State Commission for Prevention of Corruption (SCPC) and the Public Revenue Office were interconnected. This allows information to be exchanged swiftly and more accurate records of asset declarations to be compiled. In 2008, 47 procedures for checking officials' assets were initiated.

The SCPC began to implement the action plan on conflict of interest. Several cases on conflict of interest were initiated in the reporting period. In 11 of them a conflict of interest

was found. Amendments to the law on conflict of interest were adopted in September which extend its scope of application and strengthen the control mechanism.

The SCPC adopted a strategic plan on public relations in order to raise public awareness of its role.

Prison sentences were imposed in first instance court decisions in some high-profile cases, including a former Prime Minister, a former Deputy Prime Minister and the former mayor of a Skopje municipality. Appeal procedures are under way in these cases.

However, the fragmented legal system continued to generate difficulties when it came to implementation.

The legislation on financing of political parties and election campaigns has so far not had a substantial impact. In particular, the mechanism for following up reports and recommendations from the SCPC and the State Audit Office is not fully effective. A consistent track record on checking asset declarations, following up irregularities on election finance thresholds and reporting donations has yet to be developed. Interception of communications is used in a rather low number of corruption cases, notably corruption cases not connected to organised crime. The capacity of the specialised anti-corruption units within the prosecution service and the Ministry of the Interior should be further strengthened. Sentences were suspended in a high number of court decisions on abuse of office.

The SCPC should make efforts to be more pro-active in pursuing anti-corruption policy. It is limited by the part-time role of its members. Public trust in the independence and impartiality of the SCPC remains low.

Overall, good progress was made on implementing anti-corruption policy. The electoral code, the law on financing of political parties and the law on conflict of interest were amended to strengthen transparency and new provisions on illicit enrichment were adopted. There were further indictments and convictions in high level cases and cooperation between law enforcement agencies improved. Nevertheless, corruption remains prevalent and continues to be a serious problem in many areas. Continued efforts are needed, in particular as regards implementation of the legal framework.

(See also Chapter 23 – Judiciary and fundamental rights)

2.2. Human rights and the protection of minorities

Observance of international human rights law

There was progress on **ratification of human rights instruments**. The Optional Protocol to the Convention against Torture was ratified. So too was the Council of Europe Convention on Action against Trafficking in Human Beings. The European Charter for Regional or Minority Languages was signed, but has yet to be ratified. Revised Protocol No 2 to the European Social Charter was not ratified.

The European Court of Human Rights (ECtHR) found that the Republic of Macedonia had violated the European Convention on Human Rights in 13 cases. A total of 501 new applications were made to the ECtHR since October 2008. As of September 2009, there were 1093 cases pending before the ECtHR regarding the Republic of Macedonia, mostly related to trial in a reasonable period of time. Two new laws were enacted

– one on representing the country before the ECtHR, the other on enforcement of ECtHR judgments.

The legal and institutional framework for the protection of human rights and minorities is broadly in place. The Office of the Ombudsman continues to make a valuable contribution. However, limited further progress was made on **promotion and enforcement of human rights**. The officials in the law enforcement agencies are receiving continuous training on human rights. The parliamentary permanent oversight committee on human rights tackled a wide range of issues with relevant stakeholders, but its work has not yet been followed up by the government. The inter-ministerial body for protection of human rights made limited progress on promoting the human rights agenda. The country remains without a focal institution for protection of human rights.

Civil and political rights

With regard to **prevention of torture and ill-treatment and the fight against impunity**, in 2008 the Sector for Internal Control and Professional Standards in the Ministry of the Interior dealt with 34 cases of ill-treatment, far fewer than in 2007, when there were 52. There was no case of illegal arrest. Criminal charges were brought against 75 police officers. The number of written complaints received from the public rose to 594, from 496 in the previous year. The number of anonymous complaints to the Sector for Internal Control and Professional Standards dropped from 104 in 2007 to 67 in 2008.

The Ministry of the Interior's decision to disband temporarily all special "Alpha" police units, save the one in Skopje, brought a drastic decrease in complaints of ill-treatment, as confirmed in the Ombudsman's report. Control over the police in general, and special units in particular, was more effective, partly because of increased use of internal audits to ensure that professional standards were respected. Investigations were carried out in accordance with international standards, which have already been largely transposed in the national legislation and practices. An independent external mechanism to monitor cases of police misconduct is still missing, although oversight of police work has been further improved, notably by strengthening the powers of the Public Prosecutor in the investigative phase. The decisions of the European Court of Human Rights were not implemented.

Access to justice remained limited, as the Law on Legal Aid was not enacted. The duration of court cases was shortened: the basic courts resolved 39% of cases within three months and another 45% within a year. The second instance government commissions which decide on complaints about decisions by administrative bodies were, as in previous years, the least responsive to the Ombudsman's instructions.

Some progress was made with the **prison system**. Some steps were taken on long-term planning. The government adopted an action plan for construction, refurbishment and maintenance of prisons for 2009. The refurbishment works for the section for chronically ill and disabled detainees within Idrizovo prison were finalised and a new remand wing in the Skopje prison was completed. The Ombudsman's mail-box system installed in prisons proved effective. Somewhat more account was taken of merit-based criteria in the appointment of prison directors.

However, additional efforts are needed to address the dire state of some prisons, notably Idrizovo, where inhuman and degrading conditions persist. Overcrowding remains a major problem. The healthcare system in prisons is inadequate. In 2008 there were eleven deaths

including four suicides in prisons, compared with eight and two respectively in 2007. The Council of Europe's Committee for Prevention of Torture has repeatedly raised concerns about ill-treatment of inmates and the deleterious conditions in prisons.

No effective mechanisms are in place to prevent and combat corruption among prison staff. Political interference in appointments to some prison management positions persists, which disrupts the continuity and sustainability of strategic planning. Prison staff is not systematically trained. The treatment of vulnerable prisoners is not satisfactory. The procedures for dealing with allegations of ill-treatment of prisoners are still not effective. Little progress was made in improving the living conditions in the Tetovo Correctional and Educational Centre (located since 2001 in Skopje prison). The juveniles continue to mix with adult prisoners. Access for juveniles to vocational training is poor. The conditions of detention cells in many police stations remain sub-standard.

The European Parliament's recommendation to follow up the Khaled El-Masri case of alleged extra-judicial detention has still not been responded to.

With regard to **freedom of expression**, overall the situation is satisfactory. However, the public broadcaster still lacks financial independence, as the rate of collection of the viewing licence fees is close to zero. The Broadcasting Law still allows the public service broadcaster to be declared bankrupt or liquidated at any moment. The ownership of the printed media is still highly concentrated and non-transparent. Political interference in the media is a source of concern as it leads to self-censorship and limits freedom of expression.

(See also Chapter 10 – Information society and media).

With regard to **freedom of assembly and association**, the overall situation is satisfactory. However, there were two occasions when peaceful and legal public events were violently disrupted. One was a student protest in Skopje against the government's plan to build a church on the main square, the other a debate in Struga organised by a civic group.

Involvement of **civil society organisations** in policy-making and in legislative drafting progressed moderately. The government introduced mechanisms for consulting civil society organisations. Changes in the government's rulebook stipulate that draft legislation should be accessible on the relevant ministry's webpage for public consultation and that civil society can participate in working groups for drafting laws. A new government decision improved selection procedures and evaluation criteria for public financing of civil society organisations. An evaluation grid, a scoring system and an obligation to inform all applicants of the outcome were introduced.

However, progress on implementing the government's strategy and action plan for cooperation with civil society organisations slowed. Implementation of the Law on Sponsorship and Donations progressed slowly, because of the complex administrative requirements and lack of public awareness. Civil society organisations remained heavily dependent on foreign funding. The lack of sufficient financial resources continued to be a serious constraint. The government only partially respected the existing consultation mechanisms and, overall, failed to engage in a meaningful dialogue with civil society. Most of the draft legislation and regulatory impact assessment forms were not available to the general public for review. There is no systematic and transparent mechanism for consulting civil society on national development policies, legislation, programmes or other strategic documents.

As regards **freedom of religion**, implementation has begun of the 2008 Law on the Legal Status of Churches, Religious Communities and Religious Groups. However, several religious communities or groups, including the Bektashi, remained without any regulated status. The Constitutional Court annulled the provisions on religious education in the Law on Primary Education, finding them contrary to the principle of separation of church and State. According to the Court, the Constitution guarantees the right to practise a religion, but citizens should not be influenced by the state as to whether or how to practise a religion.

Overall, some steps have been taken to strengthen civil and political rights, in particular to address allegations of ill-treatment by police. However, further significant efforts are needed, in particular as regards the prison system and transparency and independence of the media. The country is moderately advanced in this area.

Economic and social rights

As regards **women's rights**, efforts were made to deal with the problem of domestic violence. A national body was set up to coordinate implementation of the national strategy against domestic violence (2008/2011). Implementation of the strategy has started, but some ministries show little interest in it. Progress was made towards coordinating the fight against human trafficking better at national level. Coordination remains weak at local level.

The participation of women in political life is limited. No woman was elected for one of the 85 vacant positions as mayor in the recent local elections, compared to 3 under the previous elections.

A strategic approach to equal opportunities is missing. Little progress was made on implementing the Law on Equal Opportunities between Men and Women, although specific funds were allocated for the first time in 2009 for the work of the Department of Equal Opportunities. 71 coordinators have been appointed at local level, plus 13 within ministries. Most of them lack experience in the field and are not familiar with equal opportunities policy. Despite the requirement in the law, no mediator has been appointed yet to deal with complaints about unequal treatment. The national action plan for gender equality lacks coherence. (*See Chapter 19 – Social policy and employment*)

The national action plan for Roma women received no dedicated funds for 2008. As is the case with the Equal Opportunities Law, the realisation of the operational plans largely depend on external contributions. The Department for Equal Opportunities does not have adequate capacity to fulfil its responsibility to monitor ministries and its inter-ministerial role in coordinating gender issues. The practice of family voting, along with other discriminatory customs, traditions and stereotypes are still widespread and undermine women's basic rights. Little has been done to address women's rights in rural areas. Insufficient attention is paid to women's health, discrimination in the workplace and sexual harassment. Roma women and girls still suffer from both racial and gender discrimination.

As regards **children's rights**, an action plan has been adopted on preventing and combating sexual abuse of children and paedophilia for the period 2009/2012. Attendance in primary and secondary schools has increased, accompanied by increased investments; 94% of primary school pupils go on to attend secondary school. However, disparities persist, affecting children from vulnerable groups. Roma children have the lowest literacy rate and still a very low rate of enrolment, attendance and completion of both primary (61%) and secondary education (17% according to recent study in 2008). The Council of Europe Convention on the

Protection of Children against Sexual Exploitation and Sexual Abuse has not been ratified. Reforms in line with international instruments such as the UN Convention on Rights of the Child are not being implemented. Implementation of the 2006/2015 action plan for the protection of children's rights remains slow.

The number of reported cases of physical and sexual abuse of children and paedophilia increased. The number of some 1000 street children has not decreased, 95% of them are Roma. Children with disabilities are highly disadvantaged: appropriate social services are lacking and these children are not integrated into formal education and regular recreation programmes. Poor physical access also seriously constrains their integration into society. Juvenile delinquency remains very high, particularly among Roma. Some progress was made on implementing and monitoring the action plan on juvenile justice. However, the funds allocated to this action plan are still insufficient. The law on juvenile justice which had been adopted in July 2007 entered into force in June 2009. The law establishes the institutional framework for the juvenile justice system, based on modern principles. However, further efforts are needed to prevent juvenile delinquency and to increase the capacity of law enforcement agencies to deal with juveniles.

As regards **socially vulnerable people and people with disabilities**, reforms are under way in line with the priority goals set in the 2008/2018 national strategy to de-institutionalise the system of social care. The de-institutionalisation process is slowly being reinforced and financial resources are being provided, but remain inadequate. Provision of services via non-institutional forms of social care, such as day-care centres, small communal houses and support for families accepting people with disabilities, has been initiated. The first partnerships in social care provision between the national and local authorities, civil society and the private sector were set up. However, the staffing and facilities for treatment of patients in community health institutions have not improved. The allegations of ill-treatment of patients in the Demir Kapija psychiatric hospital reported in 2008 were not followed up. Municipalities have insufficient administrative capacity to fulfil the social policy responsibilities that were transferred to them as part of the second phase of decentralisation. In general, social integration of people with disabilities has not improved; their access to education, employment and public services remains limited. Overall, long term social inclusion policies for the socially vulnerable, including people with disabilities, have not been initiated and participation by relevant stakeholders is lacking.

Little progress can be reported in the field of **labour rights and trade unions**. Members of the Joint Consultative Committee with the EU Economic and Social Committee have been nominated. The first meeting Joint Consultative Committee was held on 25 September. The criteria for membership of the Economic and Social Committee have not been clarified, and it still does not fulfil its role. Tripartite, bipartite and social dialogue remained very weak. The capacity of the social partners remained low. An all-inclusive social dialogue remains to be established.

Little progress has been made in the area of **anti-discrimination policy**. Mechanisms to identify, pursue and criminalise all forms of discrimination by State and non-State bodies against individuals or groups do not yet exist. A framework law on anti-discrimination remains to be adopted. Discrimination based on sex, ethnic origin, disability and sexual orientation persists. Minorities, the Roma community and people with disabilities, particularly children, suffer most from discrimination in various walks of economic, social and cultural life. Neither the Constitution nor the existing legislation identifies sexual orientation as a basis

of discrimination. Lesbian, gay, bisexual and transgender (LGBT) people are not protected against direct or indirect discrimination and are stigmatised, particularly in rural areas.

As regards **property rights**, the process of returning property confiscated during the period of the Socialist Federal Republic of Yugoslavia is yet to be completed. A rulebook on internal organisation of the cadastre put in place a new structure. Administrative capacity was strengthened with the aid of some training. However, progress on dealing with restitution claims was slow. Property dispute procedures tended to be delayed beyond the legal deadlines, and in some cases both the decision on a claim and the appeal against it were dealt with by the same people. There has again been no progress on returning property of religious communities.

Overall, some steps have been taken to strengthen social and economic rights. However, further significant efforts are needed, in particular as regards children's rights and anti-discrimination policies. Domestic violence remains a cause for concern. The protection of women against all forms of violence needs to be strengthened. Commitment to relevant social inclusion policies and stakeholder dialogue are still lacking. The country partially meets its objectives in this area.

Minority rights, cultural rights and protection of minorities

In the field of **cultural rights**, there has been some progress on implementing the Law on Use of Languages spoken by at least 20% of the citizens. As provided for by the law, some chairpersons of parliamentary committees began using Albanian. Little progress can be reported regarding use of the languages of the smaller ethnic communities. There is a lack of facilities for teaching in their mother tongue.

As regards **minorities**, inter-ethnic tensions were generally low. They intensified at times, in particular in schools. The Ohrid Framework Agreement remains a crucial guarantee of the rights of the non-majority communities³ in the country.

The capacity of the Secretariat for the Implementation of the Ohrid Framework Agreement needs to be strengthened so that it may coordinate effectively the implementation of policies such as equitable representation and the provisions on the law on languages. It also needs to provide more regular and comprehensive information about progress in implementation.

As provided for in the Law on Protection and Enhancement of the Rights of Ethnic Minorities which represent less than 20% of the population, a specialised agency for protecting the rights of these minorities was set up as an independent State administrative body. The agency is intended to act as an advisory body to the government on minority issues. Already two successive directors have been appointed and the agency is still not operational, in the absence of adequate staff and budget.

Committees for inter-ethnic relations have been set up in most municipalities where they are required by law and also in 14 other municipalities with sizeable minority populations. However, elections of members were often not transparent and the effectiveness of these committees is limited by poor operational capacity, unclear competences and weak status. The public are largely unaware of their role and their recommendations are often disregarded by

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

the municipal councils. In several municipalities, the composition of the committees does not reflect the ethnic structure of the local population.

Initial steps were taken to enhance cooperation between the Parliamentary Committee for inter-ethnic relations and the committees for inter-ethnic relations in the municipalities.

Some progress was made on implementing the strategy for equitable representation of ethnic communities in the public sector. The law on civil servants establishes an obligation on public bodies to comply with their annual recruitment targets for non-majority communities. The number of civil servants from the non-majority ethnic communities increased to 26% at central level by September 2009. However, recruitment targets for non-majority communities in the public administrations have not yet been met; no sanctions are provided by the regulatory framework. The ethnic Turkish and Roma communities are still particularly under-represented. A single data collection system for the entire public sector has not yet been established.

There is no strategic human resources planning to ensure gradual fulfilment of the recruitment targets for non-majority communities. In order to meet these targets, a number of civil servants from non-majority communities were recruited irrespective of the SABs' needs and failed to meet the required criteria. Some were not provided offices or equipment.

The high schools in Struga municipality, where ethnic shifts were introduced following fighting between pupils from different ethnic communities, partly restored ethnically mixed education at the start of the 2009-10 school year.

Nonetheless, several other municipalities are maintaining separate ethnic shifts. This raises concerns about long term damage to inter ethnic- relations. The recommendations of the OSCE High Commissioner for National Minorities, which aim to support integration of ethnic communities through education, should be fully taken into account.

The authorities have taken practical measures to address the issue of social inclusion of Roma, but with limited results so far. Between 3,000 to 5,000 Roma, ethnic Albanians and ethnic Turks still lack personal documents, such as birth certificates and medical insurance or employment cards, which are necessary to benefit from social insurance, healthcare and other social services.

A broad consensus on implementation of the Constitutional Court decision to annul some provisions of the Law on Use of Flags of the Communities has not emerged.

In July 2009 there were about 1,700 **refugees/asylum-seekers** in the country, of whom the vast majority were Roma from Kosovo⁴: 25 were recognised refugees, 1,093 were under humanitarian protection and, by decision of the Ministry of the Interior, are being transferred to subsidiary protection, 93 were asylum-seekers and 481 were from minorities from Kosovo whose asylum claims had been rejected or whose humanitarian protection status had been terminated by a final decision. In 2008 the number who had received recognised refugee status reached 36. A new Law on Asylum and Temporary Protection brought national standards even closer to European ones. The government commission hearing appeals against first instance decisions on refugee status was abolished and the administrative court became the final instance body on refugee status. Yet there are shortcomings in its procedures for

⁴ Under UNSCR 1244/99.

decisions on appeals, notably on decisions on terminating temporary protection status for people from Kosovo and on the period for which residence is granted to people under subsidiary protection.

The number of registered **internally displaced persons** (IDPs) decreased from 778 in 2007 to 736 in 2008.

Little progress can be reported regarding the **Roma**. The four action plans in the framework of the 2005-2015 Decade of Roma Inclusion were recently revised and continued to be implemented slowly. State funds were allocated to implement the action plans. Implementation of the Roma strategy and of the 2005-2015 Decade of Roma Inclusion has been placed under the responsibility of a new unit within the Ministry of Labour and Social Policy and is coordinated by a Roma minister without portfolio. SABs initiated several projects related to the priority fields of the Roma strategy.

However, the commitment on the part of line ministries and of municipalities is still insufficient. The inter-ministerial coordination working group on implementation of the Roma strategy was not operational for most of the reporting period. Adequate financial resources for implementation of the action plans were lacking. The administrative capacity of the office of the Roma minister without portfolio and of the unit for implementation of the Roma strategy and the 2005-2015 Decade of Roma Inclusion needs to be significantly strengthened. Representation of Roma in many areas of public life, at both local and national levels, remained low.

Roma continued to be the most disadvantaged ethnic group. Unemployment among Roma was still the highest (as high as 73% compared to around 30% among the general population). Roma continued to have the lowest incomes (about 63% live below the poverty line) and the highest mortality rate. An estimated two thirds of Roma households live below the poverty line. The number of Roma children attending school was still low and the drop-out rate high. Segregation of Roma pupils was still practised. The practice of sending Roma children with learning difficulties to special institutions for mentally disabled children continued. The number of Roma street children is growing. No cases of police violence or targeting of Roma were reported through official channels. Reportedly, Roma suffer disproportionately from police abuse, but are reluctant to lodge complaints. There are no disaggregated data on Roma.

Overall, there has been some progress with cultural rights and minority rights. There has been some progress on equitable representation and the government undertook initial steps to address the issue of implementation of the law on languages and to foster inter-ethnic integration in the education system. Nonetheless, integration of ethnic communities remains limited. Effective implementation of the Ohrid Framework Agreement needs to be maintained, in a spirit of consensus. The concerns of the smaller ethnic communities should be more thoroughly addressed. Little progress can be reported regarding the Roma. They continue to face very difficult living conditions and discrimination, particularly regarding access to personal documents, education, social protection, healthcare, employment and adequate housing.

(See also Chapter 23 – Judiciary and fundamental rights)

2.3. Regional issues and international obligations

The Republic of Macedonia continued to cooperate fully with the **International Criminal Tribunal for the former Yugoslavia (ICTY)**. No decision has yet

been taken on the ICTY prosecutor's appeal against the acquittal of a former Minister of the Interior, in the Ljuboten case in 2008. Of the four cases that the ICTY referred back to the national authorities, three have reached the domestic court system. Two of these cases are still with the investigative judge. The third case went to trial, but has encountered numerous procedural obstacles. The fourth case, which relates to senior members of DUI remains extremely sensitive and is still in the Office of the Public Prosecutor. Ethnic Albanian political parties assert that all the cases are covered by the 2002 Amnesty Law.

The Republic of Macedonia still maintains the 2003 bilateral immunity agreement with the United States granting exemptions 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 process of integrating with the European Union. The country has continued to actively participate 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 (ECAA). The country continued to contribute to the EU ALTHEA mission in Bosnia and Herzegovina.

As regards **bilateral relations with other enlargement countries and neighbouring Member States**, relations remained good with *Albania, Bosnia and Herzegovina, Croatia, Montenegro* and *Turkey*. Several high-level visits involving these countries took place. Implementation of the agreement with *Albania* on the free movement of citizens without visas has started and the agreement on joint patrolling of common borders entered into force. With *Bosnia and Herzegovina* an agreement on cooperation on security matters and a new readmission agreement were ratified. An agreement with *Croatia* on the exchange and mutual protection of classified data was ratified. Cooperation with *Montenegro* has been strengthened. An agreement on dual citizenship was signed, as were agreements on cooperation on EU affairs, air traffic, tourism, agriculture and protection in the event of natural disasters. Defence cooperation has been intensified. Negotiations on an agreement on social security are ongoing.

A strategy was signed to intensify bilateral relations with *Turkey*, providing for closer cooperation in the areas of security, defence, customs, economy, trade, education and culture.

Relations with *Serbia* improved, following difficulties linked to the country's recognition of Kosovo⁵'s independence. A new ambassador to Belgrade was appointed in April. There have been several high-level visits involving the authorities of both countries. Economic cooperation is continuing to improve. Unresolved issues concerning relations between the Orthodox churches in the two countries had no major political implications.

The demarcation of the Republic of Macedonia's border with *Kosovo* has not yet been fully completed, but the authorities have maintained a constructive approach throughout the process. (*See also Chapter 24 – Justice, freedom and security*).

⁵ Under UNSCR 1244/99.

Relations with *Greece* continue to be close, notably in the form of trade, investment and tourism, but relations between the two governments were affected by the unresolved name issue. The country is engaged in talks under the auspices of the UN on resolving it. The government initiated legal proceedings against Greece before the International Court of Justice in The Hague regarding the bilateral interim accord of 1995. The government named a motorway which forms part of trans-European transport corridor X after 'Alexander of Macedon'. This was received as a provocation by Greece, which consequently suspended its financial contribution towards construction of the motorway. Actions and statements which could negatively impact on good neighbourly relations should be avoided. Maintaining good neighbourly relations, including a negotiated and mutually acceptable solution to the name issue, under the auspices of the UN, remains essential.

Relations with *Bulgaria* have remained good, with several meetings at senior political level. However, some controversial issues arose, related to ethnic self-identification of individuals and political representation of groups on an ethnic basis in the two countries.

Overall, the Republic of Macedonia is participating actively in regional cooperation and further developing its bilateral relations with its neighbours. The name issue continues to affect relations with Greece.

3. ECONOMIC CRITERIA

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

3.1. The existence of a functioning market economy

Economic policy essentials

The country is participating in the EU pre-accession fiscal surveillance procedure. It presented its third Pre-accession Economic Programme in January 2009 and submitted its fourth fiscal notification in April 2009. However, the programme and its assumptions quickly became outdated, as a result of the rapidly changing international environment. Another corner-stone of the country's economic policy framework has been cooperation with the World Bank. Furthermore, a number of medium-term strategies define the policy framework, such as the national development plan, the public investment programme for 2009-2011 and the public debt strategy for 2009-2011. Although the government was geared strongly to the local and presidential elections, structural reforms continued in a number of areas. *Overall*, a broad political consensus on the fundamentals of economic policy has been maintained.

Macroeconomic stability

GDP growth decelerated from 5.9% in 2007 to 5% in 2008. However, after strong growth in the first three quarters of 2008 of nearly 6% on average, output growth dropped to 2% in the fourth quarter, reflecting the negative impact of the global financial crisis. Economic activity continued to slow down in the first half of 2009, with a year-on-year output drop by 1% and 1.5% in the first and second quarters. Production and employment in key export-oriented industries, such as steel and textiles, have started to decline. Exports declined markedly in late

2008 and early 2009, while investment and imports began to decline substantially in the second quarter only. Industrial production declined by an average of around 11% during the first half of 2009, mainly as a result of lower output of basic metals. Average per-capita income (in PPS) has increased, from 31.2% of the EU-27 average in 2007 to 32.5% in 2008. Overall, after strong growth in the first three quarters of 2008, economic activity slightly contracted in the first half of 2009, mainly reflecting lower external demand. However, so far the slowdown has been limited.

The current account deficit declined from some 16% of GDP in the first half of 2008 to about 14% in the first half of 2009. The main reason was a significant decline in imports, in particular in mid-2009, while the drop in exports remained limited. However, falling private transfers from abroad prevented a stronger decline in external imbalances. At the same time, capital inflows, such as FDI declined. Overall, external imbalances remained elevated, as strong public spending during the first months of the year kept imports high, while capital inflows were affected by the global crisis. This contributed to pressure on the country's foreign exchange reserves.

The official reserve assets of the *National Bank of the Republic of Macedonia* (NBRM) dropped sharply in early 2009 but recovered by July to about €1,4 bn (20% of GDP). This is some 20% below their peak in September 2008. The import coverage has dropped to around five months of imports. Major factors driving this decline were dividend payments, government purchases of equipment, foreign exchange withdrawals by private households in spring 2009, reflecting increased uncertainty, and Central Bank intervention to defend the *de facto* peg to the euro. Gross external debt has continued to rise (from 51% of GDP in September 2008 to 53% in June 2009), mainly reflecting increased borrowing abroad by private companies. In July, the authorities issued an €175 million eurobond (2.5% of GDP), in order to strengthen foreign exchange reserves and to cover public sector financing needs. External vulnerability has increased, as exports and capital inflows dropped while substantial public spending boosted imports. Public borrowing on the domestic financial market has contributed to a rise in lending rates, while private and public borrowing on foreign capital markets has increased the country's external indebtedness. Overall, the crisis and increased public spending had a negative impact on level of foreign exchange reserves and external debt.

Unemployment remained very high. It dropped slightly from 34.9% on average in 2007 to 33.7% in 2008. The Labour Force Survey (LFS) and national statistics point to a slight decline in unemployment when compared to a year before. For example, unemployment rates dropped from 34.8% in the first quarter of 2008 to 32.8% in the first quarter of 2009, while until May 2009, the number of registered and actively labour seeking unemployed is below the previous year levels. However, data from June and July indicate an increase in unemployment, probably related to the crisis. Recent government measures to fight unemployment have focused on youth unemployment and may have contributed to the slight drop in the unemployment rate. In the age group of 15-27 years, unemployment has declined a bit faster than in other age groups, from 58.4% in the first quarter of 2008 to 54.4% in the first quarter of 2009. The existence of a substantial informal sector still seems to lead to significant over-estimation of actual unemployment. However, even when taking this factor into account, very high unemployment remains an important issue, in particular among young people and the less educated. Overall, the trend towards a slightly improving labour market situation, notably among youth, seems to have continued. However, the level of unemployment of some 33% remains very high.

Monetary and exchange rate policy have remained stability-oriented. The Central Bank has managed to maintain the *de facto* peg, keeping the exchange rate stable at 61.2 denar to the euro. In April the Central Bank raised interest rates for short-term Central Bank bills from 7% to 9%, largely to neutralise the impact of the government's expansive fiscal policy. Private-sector weighted interest rates started to rise in spring 2009. Rates for denar loans increased from 9.6% in August 2008 to 10.2% in July 2009, while the rates for denar deposits rose in the same period from 6.0% to 7.2%. Spreads have continued to narrow, from 3.6% in August 2008 to 3.0% in July. The originally high growth in credit to the private sector decelerated from 38.4% in September 2008 to 14.2% in July 2009, reflecting lower growth in deposits but also Central Bank measures to tighten credit expansion. Overall, the exchange rate and monetary policy have remained sound, notably by maintaining the level of the *de facto* peg to the euro, which has helped to maintain confidence in the stability of the financial system.

Inflation reached 8.3% in 2008 compared with 2.3% in 2007. However in the first eight months of 2009, the average price level was 0.3% below the level a year before, mainly due to lower prices for food and transport. This profile is in line with the decelerating economic activity. Overall, inflation has decelerated markedly.

The fiscal policy stance has become more expansionary, envisaging a further increase in the deficit from an actual deficit of 0.9% of GDP in 2008 to a target of 2.8% in 2009. In the last quarter of 2008, the government embarked on a large spending programme, which turned the previously accumulated surplus of some 2% of GDP into a year-end deficit of close to 1%. The main spending measures at the end of 2008 were income transfers to farmers, subsidies to the State-owned electricity companies and additional budgetary allocations to other policy areas. Between December 2008 and May 2009, the government announced three crisis-related packages. The first consisted mainly of a payment amnesty of accrued tax arrears and the transformation of tax arrears of three former State-owned enterprises into State shares. In addition, reinvested earnings were exempted from profit taxation, which lowered tax revenues by some 1% to 2% of GDP. Furthermore, deadlines for tax collection were eased. In March the authorities announced their annual update of their five-year investment programme, planning to raise public investment from some 3% of GDP to about 7%. In May and August the authorities responded to lower than expected revenue by submitting to parliament two rebalancing budget proposals, cutting public spending in total by some 12% compared with the initial budget proposal. However, compared with the actual spending in 2008, the revised budget still envisages substantial spending increases. The impact of automatic stabilisers is likely to be very limited. General government debt declined from 26% of GDP in 2007 to 21% in 2008. The main factors behind this decline were strong nominal GDP growth and a low fiscal deficit. However, as a result of deficit financing, public debt increased to about 25% of GDP by mid-2009⁶. Overall, increased public spending coupled with a crisis related decline in revenues led to a significantly higher public sector financing gap and increased public debt.

In the area of fiscal reforms, the government proceeded with lowering the tax wedge on labour by reducing social contributions and simplifying collection. Furthermore, the authorities have continued to improve the efficiency of tax administration and to simplify the tax system. Fiscal decentralisation has continued. The legal framework for local cooperation and also for auditing has been strengthened. However, the central government's

⁶ Public-sector data are not yet presented in accordance with the European standard (ESA 95), thus

limiting comparability.

administrative capacity for monitoring and auditing fiscal decentralisation remains limited. The new responsibilities continue to pose significant challenges to the municipalities and require close monitoring by the central authorities. Overall, the quality of public finances continues to be hampered by weaknesses in medium-term budget planning and priority-setting, leading to a high proportion of discretionary and short-term spending decisions.

The overall macroeconomic policy mix suffered from the low quality of government spending, with many measures geared more to election-related promises than to combating the crisis. Some spending contributed to an increase in the trade deficit. As a result, the country's external vulnerability increased and the *de facto* peg of the denar to the euro – which is the core monetary policy anchor - came under pressure. Inflation decelerated, reflecting declining international energy and commodity prices. Additional measures to address structural unemployment, which is a key Accession Partnership priority, seem to have produced some initial positive results. However, the very high level of unemployment remains a key challenge. *Overall*, the expansionary fiscal policy was poorly targeted and contributed to the pressure on external balances and the foreign exchange anchor. However, macroeconomic stability was maintained.

Interplay of market forces

Privatisation is largely completed and the economy is mainly driven by market forces. The private sector accounts for some 82% of total output generation and some 77% of total employment. However, during the last year some of the anti-crisis measures led to an increase in the State's involvement. For example, the measure to offer debt-equity swaps to troubled companies with substantial payment arrears increased the number of companies under State ownership from 58 to 70 (15%), leading to a rise in the share of State capital from 11% of GDP in mid-2008 to 13% in mid-2009.

More than 90% of the State capital is concentrated in five companies, mainly public utilities, such as for electricity production and transmission. The persisting practice of setting electricity prices below cost recovery is a significant burden on public spending and distorts the domestic price structure. *Overall*, the State's role in the economy has increased slightly as a result of some of the anti-crisis measures. However, market forces are still the predominant feature of the economy.

Market entry and exit

The government has continued improving legislation on market entry and exit. The second phase of establishing a 'one-stop shop' for business start-ups has been launched, focusing on facilitating the exchange of information between the various data-collecting institutions, such as the central registry, the Employment Agency and the health insurance funds. Updating the legal framework for electronic registration and reporting has been another important step. The costs of registration have been reduced further. The second phase of the 'regulatory guillotine' to reduce unnecessary administrative burdens has been completed, adopting measures to accelerate and simplify customs procedures. With regard to closing enterprises, voluntary liquidation has been introduced and the backlog of overdue cases has been reduced further. However, the number of newly created enterprises dropped by some 20% in the first eight months of 2009, compared with the same period the year before. The number of enterprises exiting the market has increased. This reflects to a large extent impact of the international financial crisis. However, the number of new bankruptcies was lower in the first eight months than a year before. The average duration of bankruptcy procedures has fallen

slightly, from two years and two months to around two years. The backlog in bankruptcy cases has been further reduced. *Overall*, further progress has been made on reducing barriers to market entry and exit.

Legal system

Some further measures have been taken to improve the business environment, which is a key Accession Partnership priority. The legal system for a functioning market economy is largely in place. Good progress has continued to be made with registration of property rights, by further extending the coverage of the real estate cadastre to more than 90% of the country's territory compared with 82% in September 2008. The backlog of unresolved property disputes has been reduced further, from some 7,500 in autumn 2008 to some 2,400 by September 2009. However, in general, legal procedures are still slow and sometimes the quality of court decisions is low. This is continuing to have a negative impact on legal certainty and is impeding the proper functioning of market mechanisms, with an adverse impact on the business environment and the country's attractiveness to foreign investment. The financial independence and administrative capacity of regulatory bodies were strengthened. However, some regulatory and supervisory agencies are not yet fulfilling their role as guardians of the rule of law and providers of a level playing field for all economic operators. The large informal sector is fuelled by weaknesses in tax and expenditure policies, as well as in law enforcement, including the fight against corruption and organised crime. The informal sector remains an important challenge, as it reduces the tax base and the efficiency of economic policies. *Overall*, clarification of property rights has further advanced. However, weaknesses in the judiciary, including slow procedures and insufficient resources, are continuing to have an adverse impact on the business environment, for example in the area of contract enforcement. Corruption has been addressed by policy measures, but remains prevalent in many areas.

Financial sector development

The financial sector remained stable and so far has withstood well the turbulence on international financial markets. Deposits are the sector's main source of liquidity. The value of its financial assets declined slightly, from 65% of GDP in September 2008 to 63% in mid-2009. The volume of credits rose slightly, from 41% of GDP in September 2008 to about 42% in mid-2009. Deposits have declined as a share of GDP, from 45% in September 2008 to 41% in mid-2009. As a result, the coverage of credits by deposits has declined, but is still slightly above 100%. Two voluntary pension insurance funds started operation in 2009, but overall, financial intermediation by the non-banking sector has remained very low. After a strong decline in 2008, the capitalisation of bond and stock markets has recovered slightly in recent months, reaching some 29% of GDP (stocks 25% and bonds 4%), which is the level recorded at the end of 2006.

The structure of the sector has remained largely unchanged. However, the share of foreign capital in it has increased, due to foreign investments in three domestic banks. The share of State ownership in the sector remains low, at some 6.5% of the sector's assets. The main State assets consist of a majority share in the country's only development bank and a limited number of remaining minority shares in other private banks.

There are 18 banks and 11 savings banks operating in the market, with the five largest banks accounting for some three quarters of the sector's assets and deposits. The efficiency of financial intermediation has increased, as indicated by the continued narrowing of spreads

between lending and borrowing rates, from 3.5 percentage points in September 2008 to 3.2 percentage points in April 2009. Following the outbreak of the crisis, profitability in the sector dropped sharply, with the average return on equity declining from 16.5% in September 2008 to 1.8% in March 2009. The return on assets declined from 1.9% in September 2008 to 0.2% in March 2009. In order to contain the originally rapid expansion of credit and to lower the pressure on foreign exchange reserves, the Central Bank introduced a number of administrative measures.

Despite increased uncertainty, the stability of the sector has been maintained, benefiting from the stricter regulatory standards and stronger supervisory capacity introduced in the last few years. The exposure of the banking sector to non-performing loans rose slightly in the first half of 2009. Their share in total loans rose to 7.5% at the end of March 2009, compared with 6.6% in September 2008, thus returning to the level recorded in 2006. Loans with a foreign currency component remained largely stable at some 54% of total loans. The capitalisation of the banking sector remained high, with an average capital adequacy ratio of 17% in the first quarter of 2009. Large banks reported an average capital adequacy ratio of 14% and small banks as high as 60%. *Overall*, the financial sector maintained a sound performance, weathering relatively well the negative impact of the global financial crisis. The size of the sector remained stable, with total assets accounting for some 60% of GDP.

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 negative impact of the global financial turbulence. Further progress has been made on improving conditions for market entry and exit, registration of property rights and addressing impediments to job creation. However, the slow pace of judiciary procedures and the at times deficiencies of supervisory and regulatory agencies are still hampering the functioning of the market economy, in particular with respect to contract enforcement and establishment of a level playing field for market participants. Structural unemployment remains very high, pointing to structural weaknesses, such as skills mismatches, and insufficient functioning of the labour market.

Human and physical capital

The authorities maintained their efforts to provide education to a greater number of pupils and to improve vocational training for adults. Budgetary allocations for education increased, from around 3% of GDP in 2007 to about 4% in 2008. A significant share of the additional spending has been on renovation and construction of school buildings and the purchase of IT equipment. The number of teachers in primary and secondary schools has been increased by some 4%, in particular in the area of primary education. However, there is still room for improvement in the efficiency of public spending on education and the quality of education. Despite these efforts, the overall level of education and training of the labour force is still relatively low and the mismatch between the qualification profile of the labour force and the requirements of enterprises still seems substantial. *Overall*, measures to improve the level of qualification have continued. However, further sustained efforts are necessary.

The country's capital endowment has remained relatively low and its quality is still suffering from previous periods of under-investment. Some further progress has been made on

improving the electricity network and upgrading further parts of European North-South transport corridor - Corridor X. Largely as a consequence of the crisis, inflows of FDI have decelerated after relatively strong growth in recent years, falling to some 5% of GDP in the first quarter of 2009, compared with about 12% the year before. In some cases, persistently slow legal procedures and fragmentation of responsibilities between central and local governments are an impediment to FDI. *Overall*, the country's capital stock remains relatively low, in particular in the light of the need to accelerate growth. Infrastructure continues to require repair and modernisation.

Sectoral and enterprise structure

In terms of output generation, the overall trend towards a larger contribution by manufacturing, construction and trade in services and a declining share of agriculture has continued. In terms of employment, services and agriculture grew in importance, while in terms of enterprise creation the trading sector appears to be the most dynamic. To a certain extent, this increase in trading companies might reflect a relative reduction in unregistered economic activities more than a structural change. However, this overall picture could also point to a trend of increasing employment in activities with low capital and skill requirements but also low value added and, thus, also low income. The informal sector remains large, although there are indications that it has been reduced somewhat, for example by improving tax collection, lowering the tax burden, reforming collection of social security contributions and providing financial incentives for registration. Liberalisation of the telecommunication industry continued. However, gas and electricity markets remain dominated by single suppliers, undermining effective competition. *Overall*, limited progress has been made on structural change towards diversification and activities with higher value-added. Competition in network industries remains constrained by dominant incumbent suppliers

State influence on competitiveness

Direct State influence on competitiveness is low but has increased, partly as a result of government intervention to shield troubled companies from the negative impact of the crisis. Indirect State aid is still leading to distortion in relative prices, in particular in the electricity sector. Energy prices still do not cover the full costs, which distorts the price structure, leads to substantial losses on the part of State-owned energy providers and requires significant budgetary transfers. Official data on State aid point to a low level of about 1% of GDP. However, this figure is not comparable to State aid data compiled in accordance with EU standards. *Overall*, State influence on competition is low in most areas.

Economic integration with the EU

The country has a small, open economy, with total trade in goods and services accounting for some 130% of GDP in 2008. Trade integration with the EU is advanced, with about 60% of all exports being directed to and about 50% of imports originating from EU-27. CEFTA is the country's second most important trading partner, with about 37% of exports and about 11% of imports. The importance of CEFTA as an export destination has continued to increase. The export structure remains highly concentrated on a limited range of products, with textiles and clothing accounting for about 24% of total exports and manufactured iron products for some 26%. *Overall*, trade integration with the EU is well advanced, but the commodity mix remains concentrated on a few price-sensitive products.

International price competitiveness remained unchanged. The exchange rate against the euro has remained stable in nominal terms, while *de facto* wage increases took into account international price developments.

4. ABILITY TO ASSUME THE OBLIGATIONS OF MEMBERSHIP

This section examines the 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 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 has been some progress in the area of **general principles**. An action plan for achieving compliance with Articles 28 to 30 of the EC Treaty was adopted by the government in August. Activities for its implementation still need to be launched.

Some progress can be reported on **horizontal measures**. A working group for development and implementation of framework laws and related implementing legislation was established. The framework legislation is still not fully aligned with the *acquis*. A comprehensive strategy with milestones for implementation of the *acquis* for the relevant horizontal institutions has yet to be prepared. Separation of tasks has improved, but very few independent bodies for testing, certification and inspection exist.

In the area of *standardisation*, the pace of adoption of European standards (ENs) has accelerated, but the country is still far from the target set for 2010. By August 2009 a total of 6,011 European and international standards had been adopted as national standards, mostly by endorsement. They relate mainly to the new approach directives regulating electromagnetic compatibility, machinery and construction products. A total of 3,300 national standards give presumption of conformity, following the new approach directives. Of these, 326 relate to construction products.

The number of technical committees within the Institute for Standardisation (ISRM) has increased to 32 and the membership of the ISRM assembly has risen to 70. The administrative capacity of the institute was strengthened by recruiting six new members of staff, making a total of 19, but this is still not sufficient. In order to accelerate the process of adoption of standards, two ad hoc technical boards were established. No further progress was made towards full membership of the European standardisation organisations.

The Ministry of Economy authorised six legal entities to undertake *conformity assessment* of motor vehicles and two to undertake conformity assessment of lifts.

Operation of the Institute for Accreditation (IARM) was enhanced by changes to a number of internal acts regulating the accreditation procedure. Six new technical committees and a training centre were established. The number of full-time staff rose to 13, which is still insufficient. The institute also draws on the expertise of 12 lead assessors, 51 technical assessors and 44 experts. So far 36 conformity assessment bodies have been accredited by the IARM. The Institute for Accreditation became an associate member of International

Laboratory Accreditation Cooperation (ILAC) and signed cooperation agreements with the accreditation bodies of Bulgaria and Kosovo. In February 2009 it applied to sign the European co-operation for Accreditation (EA) multilateral agreement covering testing laboratories, inspection bodies and product certification bodies.

In the area of *metrology*, a rulebook on maintenance and preservation of national measurement standards and reference standards as well as a rulebook on requirements for pre-packaging were adopted. The capacity of the Bureau of Metrology was strengthened with the aid of a new organisational structure, including sectors for calibration, for verification of measuring instruments and for type-approval of vehicles and a unit for human resources. The number of staff rose to 37. The bureau signed a bilateral cooperation agreement with the national metrology institutes of Albania, Bulgaria and Slovenia, and memoranda of understanding with the IARM and ISRM. The bureau does not have enough laboratory equipment or trained staff to function efficiently.

Market surveillance remains weak. The State Market Inspectorate (SMI) improved its organisational structure by establishing three new specialised departments for product safety, human resources and misdemeanours which, however, still lack adequate staffing. The SMI's operational capacity was strengthened with IT equipment. In the first semester of 2009 the SMI undertook 365 inspections related to the Law on General Product Safety and 85 related to the Law on Construction Products. The wide scope of responsibilities, understaffing, inadequate powers of the inspectors and poor funding seriously limit the ability of the SMI to conduct checks on technical compliance of products and to detect potentially defective products. The State Technical Inspectorate, too, is understaffed (it has 12 employees, of whom only seven are inspectors) and under-equipped. The functioning of the coordination body for market surveillance has improved since a new chairperson was appointed. However, its administrative capacity remains insufficient.

Preparations in the area of horizontal measures are moderately advanced.

There has been some progress in the **old approach product legislation**. A Law on Motor Vehicles and secondary legislation in the form of twelve rulebooks have been adopted to transpose part of the relevant *acquis*. In addition, a number of manuals have been issued, notably on hazardous chemicals, pharmaceuticals and homeopathic medicine. They aim to transpose the relevant EC directives; their alignment remains to be confirmed. In the case of the old approach product legislation, the country is slowly advancing.

Some progress can be reported in the **new and global approach product legislation**. Further alignment with the sector-specific *acquis* continued, with the adoption of implementing legislation on medical devices, electromagnetic compatibility and safety of lifts. In the case of the new and global approach product legislation, the country is also advancing slowly.

There has been no progress in the area of **procedural measures**.

Conclusion

Some progress has been achieved in the area of free movement of goods. A significant part of the horizontal and sectoral *acquis* has yet to be transposed. The administrative infrastructure and capacity are still inadequate for full and efficient implementation and enforcement of the legislation.

4.2. Chapter 2: Freedom of movement for workers

Little progress can be reported on **access to the labour market**. No progress has been made concerning employment of EU citizens in the public service and exercise of public authority. Preparations in this area are starting.

There has been some progress towards preparing for participation in the **EURES** (European employment services) network. Implementing legislation was adopted that allowed the Employment Agency to bring into operation an electronic system ensuring on-line access to all job vacancies communicated to the agency. The classification of vacancies complies with the EURES requirements. However, the human resources available are insufficient to implement the system. Preparations in the area of EURES are on track.

There has been progress in the area of **coordination of social security systems**. Bilateral social security agreements with Belgium and Luxembourg were ratified, bringing the total to ten. However, the capacity available remains insufficient to coordinate social security schemes. In this area, the country is moderately advanced.

Progress can be reported towards introduction of the **European health insurance card**. Agreements on applying the card were concluded with Bulgaria, Poland and Germany, bringing the total to five. However, the capacity available remains insufficient to introduce the card. Preparations for introduction of the European health insurance card are at an early stage.

Conclusion

There has been some progress in the area of freedom of movement for workers. Alignment with the *acquis* is at an early stage. The administrative capacity is insufficient for participation in EURES, for coordination of social security systems and for introduction of the European health insurance card.

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

Some progress has been made on the **right of establishment**. Efforts have been made to increase the transparency and objectivity of decisions granting authorisations, although some decisions, particularly in certain sectors, are delayed or reversed. In this area the country is moderately advanced.

Little progress can be reported on the **freedom to provide cross-border services**. The legislative requirements which impose nationality, residence and establishment requirements for some service activities have been removed. However, not enough work has been undertaken to differentiate between the treatment of foreign operators providing many cross-border services and of those providing services via a permanent establishment in the country. . The administrative capacity of the various authorising bodies is not satisfactory. Coordination between them needs to be reinforced. In the area of cross-border services the country is not yet prepared.

Good progress can be reported in the area of **postal services**. Legislation implementing the new Postal Law has been adopted with the aim of aligning with the first two Postal Directives. Alignment remains to be confirmed. The Postal Agency became fully operational and self-financing. Its administrative capacity has been strengthened with the employment of four additional experts raising the total number of staff to eleven. The agency has signed a memorandum of understanding with the Commission for Protection of Competition. The

Postal Agency performs the duties of regulating the postal market and enforcing postal legislation independently. It ensures transparent and non-discriminatory application of the postal legislation. Preparations in the area of postal services are advanced.

No progress has been made regarding **mutual recognition of professional qualifications**. Work on alignment of training with the requirements of Directive 2005/36/EC on the recognition of professional qualifications has started, but tangible results have yet to be seen. Preparations for recognition of foreign professional qualifications are being launched. The Ministry of education has published the procedures and the format for registration of professional qualifications obtained abroad. No procedure has been set as regards the recognition of professional qualifications and its differentiation from the recognition of academic qualifications. The current administrative structures allow academic recognition of foreign professional qualifications only. Nationality and reciprocity clauses still exist. Alignment with the Lawyers' Directives (77/249/EEC and 98/5/EC) has yet to be achieved. In the area of mutual recognition of professional qualifications, the country is not yet prepared.

Conclusion

Progress in this chapter has been partial and mainly confined to postal services and right of establishment. No substantial progress can be reported on mutual recognition of professional qualifications. There is a lack of coordination between the various bodies responsible for authorising cross-border services.

4.4. Chapter 4: Free movement of capital

Some progress was made in the area of **capital movements and payments**. The country already met the requirements of the first stage of the SAA in 2008. Some of the implementing legislation on foreign-exchange operations has been adopted. It partly transposes the *acquis*. Amendments to the Law on Pension Insurance slightly eased the stringent restrictions and requirements regarding the type and volume of domestic securities in which pension funds may invest. EU citizens are allowed to purchase building land, but restrictions remain on the purchase of agricultural land. There are ceilings on the amounts that non-residents can transfer through their denar and foreign exchange accounts. The Law on Foreign Exchange Operations imposes some restrictions on the amount of cash that may be carried across the borders which are not fully aligned with the *acquis*. Nationals are still not allowed to buy shares in non-domestic companies, to open accounts in foreign banks or to purchase real estate abroad. As provided for by the Foreign Exchange Act, the remaining restrictions on residents regarding portfolio investments will be removed automatically when the second stage of the Stabilisation and Association Agreement begins. Overall, preparations in the area of capital movements and payments are advanced.

There was no further progress in the field of **payment systems**. A new Payment Services Law was adopted, but it is not aligned with Directive 2007/64/EC. Full implementation of the law was postponed, as the Ministry of Finance amended the regulations on the payment instruments and prolonged the deadline for their implementation in the country from 1 August 2009 to 1 January 2010. The definition of 'global electronic money system' in the Law on Fast Money Transfers creates an effective barrier to entry to the money remittance market. The charges for cross-border electronic payment transactions are still disproportionate to those for domestic electronic payments. In the area of payment systems, the country has only partly met its targets.

Some progress has been made in the **fight against money-laundering**. Relevant implementing legislation has been adopted. The central bank issued a manual on the setting up and implementation of the anti-money-laundering programme, requiring each bank to adopt a programme on combating money laundering, including a centralised database and continuous training to relevant staff. The Council of Europe Convention on Laundering, Search, Seizure and Confiscation of the Proceeds from Crime and on the Financing of Terrorism (the 'Warsaw Convention') was ratified and entered into force in September. A new three-year strategy, covering the period 2009-2011, was adopted on prevention of money-laundering and financing of terrorism. It includes measures to implement the 2008 Moneyval recommendations issued to the country. The Office for Prevention of Money-Laundering and Financing of Terrorism has adopted several implementing measures which tighten up the reporting requirements and has enhanced the database and connectivity with the reporting institutions. The office developed guidelines for supervision of the reporting entities for the purpose of detecting and reporting suspicious transactions. It signed memoranda of cooperation on sharing information with its counterparts from the United Kingdom, Portugal, Belgium, Monaco, Turkey and eight other non-EU-Member States, bringing the total of such memoranda to 31. The administrative capacity of the office has been reinforced by recruiting four new members of staff. The awareness of some of the reporting institutions is still not adequate and the office does not have sufficient access to the databases of some of them. The number of reports of suspicious transactions was very low and there is no credible enforcement record. More than half of the employees in the office are on a temporary contract and it is not clear for how long they will be employed. Overall, the preparations in the area of money laundering are moderately advanced.

Conclusion

Progress in the area of free movement of capital was uneven and mainly confined to the fight against money-laundering. The obligations stemming from the first stage of the SAA regarding free movement of capital were met in 2008. There are restrictions on short-term capital movements and on cross-border transfers and no progress was observed as regards payment systems. The legislative preparedness and administrative capacity to combat money-laundering have increased, but there is no proper feedback on enforcement by the courts.

4.5. Chapter 5: Public procurement

Progress has been made as regards **general principles**. The Law on Public Procurement (LPP) was amended. It is fundamentally aligned with the *acquis*, although it does not reflect the full flexibility of the arrangements on utilities permitted under the *acquis*. The current Law on Concessions and Public-Private Partnerships is not aligned with the *acquis* and diverges from good international practice. The Public Procurement Bureau (PPB) cooperates with the State Audit Office, the State Commission for Prevention of Corruption and the Commission for Protection of Competition. However, several major tenders have been cancelled or failed. Statistics on corruption cases related to public procurement handled by the courts are missing. The general level of awareness as regards conflicts of interest is still insufficient. The unit responsible for concessions in the Ministry of Economy responsible for concessions lacks sufficient human and budgetary resources. In the area of general principles, the country is well on track.

Progress has been made on **award of public contracts**. The legislation implementing the LPP was adopted in full, including the common procurement vocabulary. The level of alignment of the adopted legislation has yet to be confirmed. A unified nomenclature for public tenders

above certain thresholds became obligatory for all State institutions and all public companies. The PPB became a separate legal entity. It was moved to suitable premises and recruited two new members of staff, but the staffing remains insufficient. The administrative capacity of the contracting authorities and economic operators has increased and the electronic system for public procurement is used more frequently. Standard tender documentation and user-friendly manuals are available on the website of the PPB, which is regularly updated. Numerous training courses were provided for contracting authorities and economic operators. A training centre for public procurement has been established and approximately 40 trainers have been trained. Activities to raise awareness on conflicts of interest are needed.

Progress can be reported as regards the **remedies** system. The State Appeals Commission (SAC) has been established. The president and four members were appointed by parliament, after an open competition, for a five-year term of office and five staff were recruited. However, the SAC's move to its new premises was delayed and it has a limited budget which does not cover expenses for technical advice from external experts. Alignment with the amended EC Remedies Directives has yet to be achieved. A fee for filing complaints was introduced, but the number of complaints submitted remained high. The SAC holds weekly sessions. Decisions are taken at a satisfactory pace and published on the website of the PPB. However, the perception of economic operators is that decisions focus on procedural issues and are biased in favour of the contracting authorities. Overall, as regards the remedies system, the country has started to address the most urgent priorities.

Administrative capacity and coordination mechanisms of the main stakeholders in the public procurement system still need further strengthening, in particular to reduce the scope for corruption.

Conclusion

Good progress has been made in the area of public procurement. Significant steps have been taken towards aligning the legislation with the *acquis*. However, further work is needed on the legislation on concessions and public-private partnerships. Contracting authorities have been making increasing use of the e-procurement system. The work of the Public Procurement Bureau is well perceived by stakeholders, but the success of the remedies system depends on an authoritative track record of review decisions. Further work is required to enhance the administrative capacity at all levels.

4.6. Chapter 6: Company law

There has been good progress in the area of **company law**. Links between the central registry, the employment agency and the health, pension and disability funds are operational. A disaster recovery system was put in place by the central registry. However, the provisions in the Company Law on approval of interested-party transactions and cross-border mergers have still not been amended.

Little progress was made on **corporate accounting**. A rulebook on the requirements for submitting annual accounts in electronic form was adopted. Soft and hard copies of the annual accounts are now submitted via the central registry, either electronically or directly. The Department for Financial Systems in the Ministry of Finance is now sufficiently staffed to prepare instructions and properly enforce accounting and financial reporting requirements. The delays in translating and transposing international accounting standards (IAS),

international financial reporting standards (IFRS) and the accounting *acquis* have persisted. The 2003 edition of the IFRS and the 2004 edition of the IAS were still being used.

No progress can be reported as regards **auditing**. The provisions of the Directive on Statutory Audit regarding the public oversight system have yet to be transposed. Chartered auditors' qualifications obtained abroad are still not recognised. The Institute for Chartered Auditors (ICA) now has two full-time employees, but remains understaffed. Overall, in the area of accounting and auditing the country has started to meet its priorities.

Conclusion

Good progress has been made in the area of company law. However, alignment of the legal framework for accounting and auditing is lagging behind. The administrative capacity of the Institute for Chartered Auditors is still not satisfactory and no public oversight system aligned with the *acquis* has been established yet.

4.7. Chapter 7: Intellectual property law

Some progress has been made on **copyright and neighbouring rights**. The amendments to the Criminal Code regarding breach of copyright and increasing the maximum prison term have had a positive impact. The number of court proceedings has increased. They lasted between one month and about three years. The website on copyright protection established by the Ministry of Culture is not regularly updated.

The administrative court instructed the second-instance commission to annul within one month its decisions suspending the activities of two of the three collective rights management societies. However, this has yet to be done. The Constitutional Court annulled some provisions of the rulebook on the levy scheme and the rulebook on the calculation of royalties of the Association for Protection of Copyright on Musical Works (ZAMP). Concerns have been expressed about this decision, which relates to interpretation of Article 146(6) of the current Copyright Law. The court stated that copyright royalties should be calculated only on the profit, not on the income, from using a copyright work. Overall, in the area of copyright and related rights the country is moderately advanced.

There has been good progress in the area of **industrial property rights**. The country became a member of the European Patent Organisation. The State Office for Industrial Property (SOIP) is responsible for implementing the European Patent Convention (EPC). A new Law on Industrial Property provides the basis for implementing the EPC. Alignment has yet to be confirmed. Several pieces of legislation implementing the new Law on Industrial Property have been adopted.

A Law on Plant-Breeders' Rights was enacted. Alignment has yet to be confirmed. The International Convention for Protection of New Varieties of Plants has been ratified. More staff were recruited to the SOIP, bringing the total number to 34. The SOIP and the Ministry of Economy undertook a number of public awareness-raising activities. The SOIP, in cooperation with the European Patent Office, organised seminars on patent applications and drafting patent claims. Alignment of the trademark law is not satisfactory. Overall, in the area of legislative alignment on industrial property rights the country is advanced.

There has been good progress on **enforcement**, both at the borders and throughout the country. However, piracy and counterfeiting remain widespread. A national strategy and an

action plan for building up the capacity needed to implement and enforce the *acquis* in the area of copyright, related rights and industrial property rights was adopted.

The Coordination Body for Intellectual Property (CBIP) was active, taking frequent and well-coordinated action across the country. The government was informed about CBIP activities twice a month and provided support. Appropriate criminal and misdemeanour procedures were initiated and outlets were closed. Seized goods that had been the subject of a court decision were publicly destroyed with media coverage. However, the efforts made to combat counterfeiting are not sufficient. The goods seized were mainly audio/video CDs, clothing, cigarettes and alcohol. Equipment used to produce counterfeit goods and computers running unlicensed software are confiscated but not destroyed. Cooperation with the Agency for Managing Confiscated Property has yet to be established.

Some progress was made on the awareness, experience and qualifications of inspectors and judges. The State Market Inspectorate was provided with extensive IT equipment to strengthen its capacity and received training on intellectual property rights (IPR). The customs administration increased its IPR enforcement activities. IPR protection has been made an integral part of the training curriculum of the academy for training judges and prosecutors from the 2009-2010 academic year on.

The Ministry of Justice has supported the work of the specialised IPR departments of the 13 basic courts and submitted monthly statistics on IPR-related court proceedings to the SOIP. The number of misdemeanour, civil and criminal proceedings is unsatisfactory. About 40 copyright and industrial property cases were completed in 2008. Fines and other sanctions were imposed in about half of them. However, fines were not imposed effectively and averaged €250, ranging from €15 to €10,000. A reliable enforcement record has yet to be established and the method for collecting statistical data on enforcement is weak. Some awareness-raising activities have been carried out, but the overall level of awareness about IPR is still unsatisfactory. Although the country has started to address its priorities, the resources allocated are still insufficient for proper IPR enforcement.

Conclusion

Some progress has been made towards strengthening the legal framework and enhancing administrative capacity and institutional cooperation in the area of intellectual property law. The track record regarding the number and value of goods seized and destroyed and the number of court proceedings initiated and completed is not yet satisfactory. Overall, enforcement, though improving, is not yet satisfactory.

4.8. Chapter 8: Competition Policy

Some progress can be reported in the area of **anti-trust, including mergers**. Amendments to the Criminal Code were enacted that include separating the powers of the Commission for Protection of Competition (CPC) from those of the public prosecutor's office in cartel cases. The CPC issued three more manuals necessary for implementing the Competition Law. The enforcement record in mergers has been strengthened, whilst it remains low in the area of cartels. However, the administrative court annulled most of the CPC's decisions on abuse of dominant positions. The pace at which the administrative court takes these decisions varies. Delays tend to occur in misdemeanour cases only when decisions are not likely to be favourable to the company concerned. The suspension clause for sanctions under both

administrative and misdemeanour decisions has still not been removed, which diminishes the deterrent effect of the sanctions.

The number of staff in the CPC dealing with anti-trust and mergers has increased by two, but capacity remains weak. Some training was given, but this was not sufficient to respond to the complex task of ensuring fully transparent and non-discriminatory application of the Competition Law. The CPC moved to more suitable premises. It continued to perform its duties independently, although its budget for 2009 was further reduced. The number of judges in the administrative court working on competition cases is adequate, but they have not been included in the regular training programmes on competition policy. Preparations in the area of anti-trust, including mergers, are advancing.

There has been some progress in the field of **State aid**. The regional aid map was adopted. Amendments to the Law on Technological-Industrial Development Zones, aimed at bringing it in line with the *acquis*, were adopted by the government and submitted to the parliament for enactment in September. The number of *ex ante* State aid decisions increased. Efforts have been made to establish an effective and comprehensive system for *ex ante* control of State aid. The number of reporting institutions has increased. However, the *ex ante* control of State aid is partial and confined to a few large State aid providers. Some institutions, in particular those providing indirect aid, are still reluctant to send notifications to the CPC. The awareness of State aid regulations among government institutions, business and the general public has somewhat increased, but remains inadequate. The administrative capacity of the CPC, though increased, still needs to be strengthened to ensure proper monitoring of State aid. In the area of State aid the country is advanced.

There has been some progress on market **liberalisation** in network industries. The CPC signed a memorandum of cooperation with the Postal Agency.

Conclusion

Some progress was made in the areas of anti-trust, mergers and State aid. A credible enforcement record has been built up, in particular in the fields of concentrations, although the fight against cartels needs to be strengthened. The number of *ex ante* State aid decisions increased. The human and financial resources of the CPC are still inadequate.

4.9. Chapter 9: Financial Services

There has been progress in the area of **banks and financial conglomerates**. Legislation implementing the Banking Law came into force, including decisions on the credit registry, exposure limits, liquidity risk and currency risk. The central bank (NBRM) has transposed further parts of the Basel II framework, which is implemented in the EU by the Capital Requirements Directive. A decision on managing interest rate risks in the banking book was adopted and will enter into force in 2010. A decision on the method for determining capital adequacy was amended and rules on allocating capital for operational risk were introduced. Those provisions will enter into force from the end of 2011. Use of external ratings will be tested in 2009-2010. Standardised approaches for determining capital requirements for credit risk are not expected to be available before 2011 and advanced approaches not before 2013. Since 1 January 2009 banks have been under an obligation to apply most of the 2004 edition of the international financial reporting standards. Alignment with the *acquis* on financial conglomerates and deposit guarantee schemes has yet to be achieved. Transposition of the Capital Requirements Directive has not yet been completed.

Since 2008 the NBRM has been applying risk-based supervision and using supervisory reviews. The administrative capacity of the supervisory department in the NBRM is satisfactory, in terms of number of staff and training, for the current level of banking regulation in the country. However, it will not be sufficient to implement advanced banking regulations. Consumer protection is not sufficiently addressed. In the area of banks and financial conglomerates the country is moderately advanced.

In the cases of **insurance and occupational pensions**, limited progress can be reported on pensions. The guarantee funds of the insurance companies have been increased to €3 million. Transposition and implementation of the relevant *acquis* are lagging behind. The insurance market is not properly regulated and supervised. The management of the independent supervisory authority has been appointed, but it is not yet operational. The regulatory function is still the responsibility of the sector for financial services in the Ministry of Finance, whose capacity remains poor. In 2008 it performed six on-site inspections and imposed sanctions on four entities. The IT system necessary for off-site supervision has not been set up yet. There are no memoranda of understanding with other supervisors in the financial sector and with foreign insurance supervisors. Some insurance companies still lack adequate reinsurance. As regards car insurance, the legislation implementing the Law on Road Safety has not been adopted yet. The provisions in the Law on Compulsory Insurance of Road Vehicles authorising the Ministry of Finance to set the premiums create an effective barrier to competition between insurance companies. The proportion of uninsured vehicles has decreased from 30% to 17%. According to implementing legislation, adopted by the Ministry of Interior, as from July 2010 all vehicles registered in the country will be obliged to carry stickers once they have passed the regular technical inspection.

As regards **pensions**, amendments were enacted to the Law on Pension Insurance, raising the ceiling on the proportion of their capital that pension funds may invest in non-domestic securities from 20% to 30%. However, in September 2009 MAPAS amended several manuals on pension insurance, thereby postponing the liberalisation of the investments by the pension insurance funds due to the global financial crisis. The Agency for Supervision of Fully Funded Pension Insurance (MAPAS) has issued the relevant legislation implementing the law. Two voluntary pension insurance funds are now in operation. The operational and financial independence of MAPAS is not secured. The director and the supervisory board are appointed by the government. The government approves the annual report and then sends it to parliament for information only. The budget of MAPAS is part of the budget of the Ministry of Finance. Preparations in the area of insurance, with the exception of pension insurance, still need to be launched.

No progress has been made on **financial market infrastructure**. The country is at an early stage with transposition of the Settlement Finality Directive and the Financial Collateral Directive. Preparations in the area of financial market infrastructure have not yet started.

Good progress has been made in the area of **securities markets and investment services**. A new Law on Investment Funds entered into force. It reflects the basic principles of the *acquis* on undertakings for collective investment in transferable securities (UCITS) regarding the structure and operational requirements of UCITS and management companies. The Securities and Exchange Commission (SEC) issued 22 pieces of legislation implementing the Law on Securities, including measures transposing the *acquis* on prospectuses. Alignment remains to be confirmed. The SEC has signed memoranda of understanding with the financial police, the Office for Prevention of Money-Laundering and Financing of Terrorism and the Public Revenue Office and also a memorandum of cooperation with its counterpart in Serbia. The

SEC became a signatory of Annex B to the International Organisation of Securities Commissions (IOSCO) Memorandum. E-trading was introduced to improve transparency on the market. The SEC is self-financing, which ensures its operational independence. The number of employees is now sufficient. The members of the SEC have not become full-time employees of the SEC, contrary to the Law on Securities. The IT system of the SEC, though upgraded to ensure electronic connectivity with all stakeholders on the securities market, is not adequate. The overlap between the responsibilities of the NBRM and the SEC in the area of licensing and supervision of trading in securities has not been addressed. The NBRM issued new legislation which further overlaps with responsibilities of the SEC. In the area of securities markets and investment services the country is moderately advanced.

Conclusion

There has been some progress in the area of financial services, mainly related to legislative developments on the banking sector, securities markets investment services and pensions. However, the insurance market is not yet properly regulated and supervised.

4.10. Chapter 10: Information society and media

There has been good progress in the area of **electronic communications and information technologies**. The concession contracts with operators with significant market power were terminated in accordance with the Law on Electronic Communications. Parliament adopted the national strategy on the next generation of broadband internet. Deutsche Telekom sold Cosmofon, thereby complying with a request from the Commission for Protection of Competition to put an end to the dominant position that had resulted from its purchase of Cosmofon's parent company, OTE/Cosmote. The emergency number 112 has still not been introduced.

The director of the Agency for Electronic Communications (AEC) was appointed following an open competition and after several failed attempts. The AEC recruited additional staff. The administrative capacity of the AEC is now satisfactory, but the AEC has not yet allocated sufficient resources for conducting market analyses. The AEC signed memoranda of cooperation with the Commission for Protection of Competition and the Broadcasting Council. It also adopted an amendment to the manual on number portability, *inter alia* reducing to two days the time within which operators have to submit requests for number portability to the new operator, together with porting fees. Requests for number portability in both the fixed and mobile telephony sectors increased. The AEC adopted implementing legislation on retail tariffs, bit-stream access and wholesale line rental. It also granted authorisations for transmission of digital television services via the public communication network (DVB-T) and for a second 3G licence and for radio frequencies for broadband wireless internet access. The administrative capacity of the competent Ministry is not sufficient. The laws regulating issues related to authorisation of construction works and right of way are unclear, particularly the division of responsibilities between the Ministry of Transport and Telecommunications and municipalities. This hinders investment in telecommunications networks. In the area of electronic communications the country is now well advanced.

Progress was made in the area of **information society services**, where a good level of alignment has already been achieved. The secretariat was upgraded into the Ministry of the Information Society and the capacity of the newly established ministry was strengthened. Preparations in this area are on track.

Progress was made on **audiovisual policy**. The Broadcasting Council adopted a manual on balanced media presentation during election campaigns, in accordance with the Electoral Code and the Law on Broadcasting. The manual regulates access to the media and the time allocated to different candidates and establishes the principles for balanced media coverage during elections. The Broadcasting Council implemented these provisions during the presidential and local election campaigns. Protocols on the obligations of public communication network operators regarding the broadcasting of programme services and provision of audiovisual media services were signed by 51 of the 53 operators.

The remaining three members of the Broadcasting Council were nominated, but only after the elections. The administrative capacity of the Broadcasting Council improved but is still not adequate to monitor the market effectively. The system for collecting the broadcasting fee has not been established yet. The sustainability and financial independence of the public broadcaster is therefore not ensured. The legal provisions opening up the possibility of initiating bankruptcy proceedings against the public service broadcaster are still in force. The Broadcasting Council and the public service broadcaster continue to be subject to political interference, partly because of their dependence on financing from the State budget. This dependence also undermines the authority of the Broadcasting Council vis-à-vis broadcasters. Public expenditure on State advertising is a significant source of revenue for some broadcasters, but is not sufficiently transparent and therefore has the potential to undermine editorial independence. The Broadcasting Law, including the provisions relating to concentration of ownership of the media, was not fully implemented. It is not yet aligned with the Audiovisual and Media Services Directive. In the area of audiovisual policy the country has partly met its objectives.

Conclusion

Progress can be reported in the field of electronic communications and information society services. Competition on the electronic communications markets increased as a result of the liberalisation process, to the benefit of consumers. In the area of audiovisual policy, the administrative capacity of the Broadcasting Council was strengthened, but the sustainability of the public service broadcaster has not been ensured. The Broadcasting Council and the public service broadcaster continue to be subject to political interference. Overall, preparations in the area of information society and media are advanced.

4.11. Chapter 11: Agriculture

Progress has been made on **horizontal issues**. A law laying down the operating procedures for the State Agricultural Inspectorate was enacted. This includes responsibilities relating to coordination of pre-accession assistance for agriculture and rural development. Additional staff have been recruited in various departments throughout the Ministry of Agriculture, Forestry and Water Economy (MAFWE) and its agencies. However, the human resources of the MAFWE remain insufficient to deal with its existing and future responsibilities. One key concern is its capacity to maintain and further develop the vineyard register and other management instruments.

For 2009 a total of €63.9 million was allocated to *direct support* schemes. These include a basic income support scheme supplemented by top-ups under certain conditions, premium payments schemes for selected strategic crops and livestock, other direct payment schemes, including insurance schemes, and horizontal support payments for specific groups of farmers or areas. To qualify for any of the support schemes, farmers must be registered in the

integrated register of agricultural holdings. Preparations towards the establishment of a fully functional farm register, with a supporting automated IT system, are at an advanced stage.

Some progress can be reported towards setting up an integrated administration and control system (*IACS*). The MAFWE is developing the backbone of a comprehensive *IACS* system, including a pilot scheme to develop a land parcel identification system (*LPIS*). Administrative responsibility for verifying eligibility for aid has been clarified. The real estate cadastre presently covers 87% of the country and approximately 81% of its agricultural land.

The capacity of the *paying agency* (the Agency for Financial Support of Agriculture and Rural Development – AFSARD) has been significantly strengthened in the field of rural development, particularly with respect to its control activities. The Law establishing AFSARD was amended to make necessary revisions to the regulations for conferred management of EU financial assistance under component V (IPARD) of the Instrument for Pre-Accession Assistance. The number of staff employed in AFSARD has increased, as has their capacity to discharge their responsibilities. The process of national accreditation of AFSARD and its supporting structures has been completed. However, development of administrative structures that meet the standards required for implementation of the European Agricultural Guarantee Fund (*EAGF*) (direct payments) is at an early stage.

The basis for development of a sustainable and efficient agricultural information system exists. A pilot price reporting system is in operation, although consistency with EU standards has yet to be achieved. The legislation on a farm accountancy data network (*FADN*) provides the basic institutional preconditions for a functional *FADN*, although it is not yet fully in line with EU requirements. A law on *State aid* in agriculture has not yet been enacted. The current measures differ from the Community provisions in certain areas.

Preparations in the area of horizontal issues are still at an early stage.

There has been some progress on **arable crops, fibre and sugar**. Selected crops have been identified as the most important and alignment of legislation with the *acquis* has been initiated. Preparations in this area remain at an early stage.

There has been little progress in the field of **animal products**. Some work on alignment of legislation has started. Preparations are not very advanced.

Progress can be reported in the area of **specialised crops**. Several pieces of implementing legislation were adopted. However, the existing legislation on *wine* needs to be aligned with the recently revised *acquis*. Equipment for laboratory controls and registration of producers has been procured and is in operation. However, the administrative capacity to manage the control systems that are being developed is a significant limiting factor. Revised legislation covering support for *tobacco* production has been enacted. Alignment with the *acquis* in the area of specialised crops is moderately advanced.

There has been good progress in the field of **rural development**. The rural development programme 2007-2013 under IPARD has been adapted to increase the financial allocations available under the various investment measures. The IPARD management and control system is in place and the IPARD Agency as well as the MAFWE Managing Authority have received national accreditation. The adoption and systematisation of procedures for the proper implementation of the programme has progressed and the administrative capacity has been further strengthened. Implementing national legislation on the setting up of the IPARD

programme management and control systems has been adopted. The rural development policy is gradually being aligned with EU requirements. Preparations in this area are advancing.

Progress can be reported in the field of **quality policy**. National registration of designation of origin and geographical indications has commenced. A law on the quality of agricultural products has not yet been enacted. Preparations in this area are advanced.

There has been good progress with **organic farming**. Implementation of the 2007-2011 strategy for development of organic agricultural production progressed. A budget of €815,000 has been allocated in 2009 for implementing the programme. The numbers of nationally certified producers and associated areas of land have increased significantly. Preparations in this area are advanced.

Conclusion

Progress has been achieved in the field of agriculture and rural development. The administrative capacity of AFSARD and IPARD operational structures has been strengthened, although in other areas administrative capacity remains weak. Alignment with the *acquis* requires further sustained efforts, in particular on thorough implementation of the legislation adopted.

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

Some progress has been made as regards the **general** principles. The Veterinary Directorate has been designated as the competent authority for coordination in the food safety sector. However, this has yet to be followed up by removing the overlap between the two framework laws in this sector, and putting in place procedures for close and effective cooperation between the various institutions involved in food safety. No tangible steps have been taken to establish a multiannual national control plan. Different authorities operate on the basis of their own individual annual control and monitoring plans. Risk assessment and procedures for reduced-frequency checks have still not been introduced. The Food Directorate gained online access to the EU rapid alert system for food and feed (RASFF) via the RASFF desk.

Progress has been made in the area of **veterinary policy**. Implementing legislation was adopted on *control systems in the internal market* and for *imports* that further transpose the *acquis*. Alignment remains to be confirmed. TRACES-like (TRAde Control and Expert System) software has been developed and is being used at the border inspection posts (BIPs). The implementing legislation for approving BIPs has not yet been transposed. The capacity of the border controls has been upgraded, but is not sufficient. An EU-compatible control system, particularly for import control, is still not in place.

The adoption of the legislation on *identification and registration of the movements* of sheep and goats has been completed. The system for bovines is largely operational, but deficiencies have to be noted with registration of movements. Control of movements is very limited. A strategy and a work plan have been developed for extending identification and registration to pigs. Administrative capacity in the Veterinary Directorate for identification of animals has deteriorated.

Some progress has been made on *control measures for animal diseases*. The contingency plan for eradication of foot-and-mouth disease has been adopted. Its compliance with EU standards remains to be confirmed. Slaughtered animals are tested in accordance with the programme for eradication of transmissible spongiform encephalopathies (TSE). The *acquis* on TSE has

not been fully transposed. The capacity of the Veterinary Directorate for official controls is still not sufficient to tackle transmissible animal diseases systematically.

Some progress has been made in the area of *intra-Community trade in live animals, semen, ova and embryos* with the adoption of legislation transposing the *acquis*. Alignment remains to be confirmed. The administrative capacity for implementing this legislation is still insufficient. Some implementing legislation on *non-commercial movements of pet animals* remains to be adopted. The EC-approved annual programme for monitoring the *prohibition of substances and residue control* has not been amended to add new products. Legislation intended to transpose the *acquis* on *import requirements for live animals and animal products* has been adopted. Alignment remains to be confirmed. No new *international veterinary agreements* have been signed. Legislation implementing the Law on *Animal Welfare* has still not been adopted. The capacity for further transposition and implementation of the *acquis* on *zootechnical issues* is very weak. The 2009 allocation for *veterinary expenditure* on measures for animal health and veterinary public health is €4.43 million. Additional financing is earmarked for possible implementation of contingency plans. The capacity of the laboratories of the veterinary faculty has been improved, although in some areas they are under-equipped and their independence is still insufficient. The laboratories are participating in proficiency tests and annual workshops organised by the Community reference laboratories. The capacity of the veterinary inspectors has improved, but their number, management and training are still not satisfactory. The capacity of the veterinary service at both central and local levels is still not sufficient to put in place an EU-compatible control system. In the area of veterinary policy, the country has started to address its objectives.

Some progress has been made on the **placing on the market of food and feed**. The legislation on *hygiene rules, specific rules for animal products, control rules and specific control rules for animal products* still only partially meets the EU requirements. The *rules for animal by-products* have been transposed. Alignment remains to be confirmed. The necessary collection and treatment systems have not yet been set up. The strategy for treatment of animal by-products, including categorisation of risk material, is in an initial phase.

Guidelines for implementing the hazard analysis critical control point (HACCP) system, good hygiene practices and good manufacturing practices have been developed and training has been provided for food business operators. The aid schemes for HACCP certification have been extended to 2009. Many food business operators have not taken sufficient steps to implement HACCP principles, which became compulsory on the national market with effect from 1 January 2009 for food of non-animal origin and 1 September 2009 for food of animal origin. There is no strategy for enhanced implementation of the HACCP system. Evaluation of food-processing establishments for compliance with EU standards and upgrading programmes is at an early stage. *Funding of checks* is still provided by the producers and importers. Preparations in this area are being initiated.

Limited progress can be reported on **food safety rules**. The existing legislation transposes the *acquis* on *labelling, food additives, flavourings, food supplements, food for particular nutritional uses, quick-frozen foodstuffs, contaminants, novel food, GMOs, ionising radiation and mineral waters*. The registers for food for particular nutritional uses and for mineral water have not yet been established. The implementing legislation on *extraction solvents, materials coming into contact with food and fortified food* has yet to be adopted. The management capacity of the Food Directorate is weak. The capacity of the laboratory of the Institute for Health Protection has been increased, but is still insufficient to provide reliable results. The capacity of the Food Inspectorate has been strengthened, but the number, training and skills of

its staff are still insufficient. In the area of food safety rules, the country has partly met its objectives.

Little progress was made on **specific rules for feed**. The legislation has not yet been transposed. Preparations in this area are being initiated.

Some progress can be reported on **phytosanitary policy**. The implementing legislation on *plant health (harmful organisms)* and *plant protection products* has yet to be adopted. The plant passport system and register of producers, traders and importers of plant and plant products has not yet been established. Responsibility for inspection and control of phytosanitary legislation has been transferred from the Phytosanitary Directorate to the State Agricultural Inspectorate. Implementing legislation on the *quality of seeds and propagating material* has yet to be adopted. A new Law on *Plant Variety Rights* has been enacted. The administrative capacity of the Phytosanitary Directorate is weak.

Coordination between the various authorities responsible for phytosanitary policy has not improved. The responsibilities of the plant health authority are still divided between the Phytosanitary Directorate and the Directorate for Seed and Propagating Material. The equipment and facilities for border controls are still inadequate. The capacity of the State phytosanitary laboratory is still under-used.

As regards *international phytosanitary agreements*, no action has been taken to implement the international standards for phytosanitary measures, in particular for surveillance, export certification and determining pest status. In the case of phytosanitary policy, the country has partly met its objectives.

Conclusion

There has been some progress on food safety and on veterinary and phytosanitary policy, mainly regarding legislative preparedness. The Veterinary Directorate has been designated as the competent authority for coordination between institutions involved in food safety, with a view to improve the efficiency of the system. The administrative capacity, in terms of both the number and skills of staff, is still insufficient to ensure proper implementation of the *acquis*.

4.13. Chapter 13: Fisheries

Progress has been made in the field of **resource and fleet management**. A rulebook on the register of producers' organisations in the fisheries sector was adopted. The *acquis* requirement on fleet registration is not applicable.

Some progress has been made in the area of **inspection and control**. The administrative capacity of the Fisheries and Aquaculture Unit within the Ministry of Agriculture, Forestry and Water Economy (MAFWE) and of the Agricultural Inspectorate, which plays the principal role in control and inspection of fisheries, is not sufficient. Preparations in this area are at an early stage.

Some progress has been made on **structural action**. The 2009 fisheries support programme allocated €407,000 for support measures. Also, a sub-measure within IPARD with a total budget of €456,000 will support investments in aquaculture and fish farms.

No progress has been achieved with **market policy**. The administrative structure for implementing market policy is not yet in place. The MAFWE does not yet have a register of

all **State aid** approved in the fisheries sector and has not adopted the relevant regulations on block exemptions. A significant part of the 2009 fisheries support programme is designed principally to increase indigenous fish stocks.

There are no formal **international agreements**. Informal working agreements, including scientific cooperation, are in place with Albania and Greece covering management of resources in the three lakes whose waters they share.

Conclusion

There has been some progress in the area of fisheries. Administrative capacity still requires further strengthening. Since the country is landlocked, much of the fisheries *acquis* is not relevant. Preparations for implementation of the common fisheries policy are at an early stage.

4.14. Chapter 14: Transport policy

Good progress has been made in the area of **road transport**. The amended Law on Public Roads was enacted. It aims at transposing the *acquis* on road tolls and electronic systems for paying tolls. It also brought the legislation into line with the Law on Misdemeanours. The Agency for Public Roads was set up. Parliament adopted a strategy to enhance road safety. It was prepared by the Road Safety Council, which held broad consultations with relevant institutions. However, road safety rules are not properly enforced and effective road safety campaigns are lacking. Also, there is no clear division of responsibilities between the bodies dealing with road safety. The Law on Road Transport is not fully aligned with the *acquis* on market access. In September 2009, the Law on Public Roads was amended. The road fee for foreign heavy vehicles was abolished. The amendments, which are in line with the Transport agreement and the SAA, constitute an important step towards harmonisation of the legislation with the *acquis* in the field of road charging. Preparations are being made for the introduction of digital tachographs, which will be compulsory by mid-2010. Two by-laws have been adopted. The administrative capacity of the inspectorate is still insufficient. Preparations in the area of road transport are advanced.

Progress can be reported on **rail transport**. Further to the unbundling of the infrastructure manager and train operators, a system of track-access charges was introduced. The infrastructure manager has published the network statement. The procedure for establishing an independent regulatory agency for rail services has begun. The acting director has been appointed by the steering board nominated by parliament.

A safety authority has not yet been established, as required by the railway safety directive. Compensation is still not being paid for public service obligations. A decision was taken in February to resolve the status of the debts of the national rail transport company and the national railway infrastructure company. The licensing procedure for the rail transport company is in progress. The €3 million allocated for the first six months of the year for the 2009 railway investment programme is insufficient. Preparations in the area of rail transport are advanced.

Good progress has been made on **inland waterways transport** with the adoption of implementing legislation on the ship's master examination and certificate. The government adopted a decree on fees for the entry and stay of foreign vessels on inland waterways. Consideration needs to be given to potential security requirements for inland port facilities and ports. In this area, the country is sufficiently prepared.

No progress can be reported on **combined transport**. Preparations are on track.

Some progress can be reported with **air transport**. In December the country became a full member of the Joint Aviation Authorities. A working arrangement with EASA was signed in July 2009. Legislation implementing the Law on Aviation was adopted, covering professional competence, examinations and licences for cabin personnel. The amended Law on Aviation, aiming at full alignment with ECAA obligations, was adopted. Parts of the first phase of the European Common Aviation Area (ECAA) agreement relating to conditions for access to the ground handling market and to aviation safety and security procedures have not yet been implemented. Overall, administrative capacity in the air transport sector remains insufficient. The Civil Aviation Agency has not yet been turned into an independent body. The staffing of the Civil Aviation Agency has not been strengthened. The Committee for Air Accident Investigation lacks sufficient capacity to act as an independent body for investigation of accidents and serious incidents. The Air Traffic Department of the Ministry of Transport and Communications still lacks qualified staff. Further approximation to the *acquis* is required in the area of air traffic management. In that context it is important to ensure appropriate commitment with the context of the ISIS⁷ Programme set up by the European Commission to assist States of South East Europe to transpose Single European Sky legislation. In addition, participation in the Single European Sky Committee (SSC) by national authorities need to be encouraged. Preparations in this area are advanced.

No developments occurred in the areas of **State aid**.

Conclusion

Good progress has been made in the area of transport policy, in particular as regards road transport, including road charging. In general, legislative alignment is advancing in all sectors. However, the administrative capacity in every sector of transport is insufficient, both in numbers and in terms of qualifications. An independent regulatory body and safety authority for rail transport remains to be established. As regards aviation, an independent civil aviation authority and accident and incident investigation body are still lacking.

4.15. Chapter 15: Energy

There has been some progress on **security of supply**. The government adopted a regulation that defines the criteria and conditions for declaring an electricity crisis. The Government appointed the Director of the Directorate for Mandatory Reserves of Oil and Oil Derivatives. In September 2009, oil stocks were equivalent to 42 days of average consumption. The legislation is not yet fully aligned with the directives on security of electricity and natural gas supply. The strategy for long-term development of the energy sector has not been adopted yet. In the case of security of supply, the country has partly met its objectives.

Little progress has been made with regard to the **internal energy market**. The country advanced further towards implementing some of the obligations stemming from the Energy Community Treaty, notably by adopting the Gas Transmission Code in line with the Regulation on access to the natural gas transmission networks. The first of the three planned combined heat and power plants started operation. The Government adopted an Energy Poverty Action Plan that envisages the introduction of a social protection package for the most vulnerable consumers from mid-2010 onwards. The Energy Regulatory Commission

⁷ Implementation of Single European Sky In South Eastern Europe

(ERC) adopted rulebooks on electricity prices, the issuing of licences, district heating, natural gas and geothermal energy. Certain electricity and gas tariffs do not reflect costs and vary significantly between different categories of customer, while collection rates are insufficient to secure the viability of the system. The dispute-settlement procedure, opened in September 2008 by the Secretariat of the Energy Community, on the compliance of the recent amendments to the Law on Energy with the obligations stemming from the Energy Community Treaty is still in progress. The Secretariat issued a reasoned opinion for non-compliance of the country with the Energy Community Treaty pointing in particular at the position and structure of the state-owned generating company that discriminates against non-domestic electricity and forecloses the regulated market to the detriment of consumers, and the fact that regulated distribution tariffs breach the principle of cost-reflectivity. Furthermore, market rules remain to be adopted.

Natural gas supply has not been unbundled from natural gas transmission, as required by the Natural Gas Directive. The ownership of the gas system has still not been resolved. ERC adopted an amended rulebook on gas prices, extending the 2008 regulated tariffs by one year.

A new President of ERC was appointed in June 2009. The process for recruitment of four new staff is underway, but the administrative capacity will still be insufficient to monitor the market effectively. The independence of ERC has not always been respected. The practice of including representatives of the electricity generation company on evaluation panels for tenders continued. The Energy Department of the Ministry of Economy remains understaffed. In the case of the internal energy market, the country is not yet sufficiently prepared.

There has been no progress on **State aid**. Most of the coal (lignite) reserves are still being managed by the electricity generation company. There is still no clear legal and financial separation between the lignite excavation activities and operation of the thermal power plants. Preparations in the area of state aid are moderately advanced.

Some progress has been made in the field of **renewable energy**. The rulebook for obtaining the status of preferential producer was adopted in February 2009. The first photovoltaic solar power plant was put into operation. The Government signed a concession agreement for the construction of 16 small hydro power plants. However, none of the tenders for the construction of large hydroelectricity power plants succeeded. Further efforts to reinforce the administrative capacity for developing renewable energy sources are important. In the area of renewable energy, the country is moderately advanced.

Limited progress has been made on **energy efficiency**. A rulebook on the energy performance of buildings, aimed at partial alignment with the *acquis*, was adopted in November 2008. It will serve as the framework for developing energy-efficiency standards for buildings. The administrative capacity of the Energy Agency is still insufficient to effectively promote energy efficiency and renewable energy sources; its role and interaction with other Government institutions needs to be clarified. An energy-efficiency action plan in line with the commitments of the Energy Efficiency Task Force of the Energy Community remains to be adopted. The Energy Agency still lacks adequate premises. In the area of energy efficiency, the country is at an early stage.

Progress has been made regarding **nuclear safety and radiation protection**. The Radiation Safety Directorate (RSD) prepared several implementing regulations. The RSD has started a process for licensing use of radioactive materials in medical practices. Cooperation between the customs administration and the police to prevent trafficking in radiation sources has been

intensified. The country has acceded to the Joint Convention on the Safety of Spent Fuel Management and on the Safety of Radioactive Waste Management. The financial independence of the RSD is not secured. Preparations in the area of nuclear safety and radiation protection are moderately advanced. The existence of hundreds of radioactive lightning rods spread all over the country still constitutes a radiological thread that needs to be addressed.

Conclusion

Some progress has been made in the energy sector. However, amendments to the Energy Law, as well as a correct implementation of the legislation, are necessary in order to meet the obligations under the Energy Community Treaty. Electricity tariffs still do not reflect costs and the dispute with the distribution system operator, a major foreign investor, has not been resolved. As a consequence, an effectively functioning electricity market has yet to be established. The degree of independence of the energy regulator and the radiation protection regulator needs to be further improved. The promotion of energy efficiency and renewable energy sources needs to be prioritised.

4.16. Chapter 16: Taxation

No progress has been made in the area of **indirect taxation**. A reduced rate of *value-added tax* (VAT) for some products, which deviates from the *acquis*, is still being applied. The *excise* duties on several products are still lower than the minimum required by the *acquis*.

There was limited progress on **direct taxation**. The Law on Profit Tax was amended to exempt retained profits from taxation and to tax only earnings that are distributed as dividends. The profit tax rate for micro-enterprises and self-employed people with a gross annual income of less than €49,000 was lowered further, to 1%. The Law on Tax Procedures was amended to allow companies to pay tax arrears in instalments. The concept of gross salary was introduced, which led to increased administrative compliance and greater discipline on payment of social contributions and personal income tax. Preparations in these areas are moderately advanced.

There has been some progress in the field of **administrative cooperation and mutual assistance**. Double taxation agreements with Ireland and Estonia were ratified, bringing the number of agreements with EU Member States to 24. A joint memorandum of cooperation was signed with the tax administrations of Albania, Bulgaria, Kosovo and Turkey.

Good progress has been made on **operational capacity and computerisation**. The Public Revenue Office (PRO) further strengthened its capacity to implement tax legislation and to fight tax evasion. A new system for integrated collection of social contributions and personal income tax, managed by the PRO, was introduced. As part of the reorganisation of the PRO, five regional directorates and eight local units were established and 72 new tax counters were opened across the country. Efforts were stepped up to curb corruption and reduce the informal economy. The capacity of the PRO at central level was strengthened by establishing a contact centre for taxpayers in the capital and a centre for collection of tax arrears. The control policy is being implemented more rigorously and the capacity for verifying tax returns was strengthened. The human resources development strategy has been implemented. A number of training sessions were organised for professional development of staff and a mentoring programme was introduced. The PRO website was redesigned to enhance communication

with the public. A code of conduct for business taxation has yet to be developed and applied. Preparations in this area are advanced.

Conclusion

Good progress was made on taxation. The level of legislative alignment in indirect taxation is well advanced. Further efforts are required as regards direct taxation. The operational capacity of the Public Revenue Office has been strengthened and tax collection has improved.

4.17. Chapter 17: Economic and Monetary Union

Some progress can be reported in the field of **monetary policy**. The institutional and administrative capacity of the central bank improved. The central bank adopted rules on calculating and announcing the interbank rate on the deposit market and, on 15 October 2008, it started calculating and announcing a reference interest rate on the interbank deposit market (MKDONIA). This information provides a basis for interbank trade and for the interest rate policy of banks. At this stage, there are still some shortcomings in the legal framework in all key areas, such as the full independence of the central bank, the prohibition of monetary financing of the public sector and the prohibition of preferential access for the public sector to financial markets. Preparations in the area of monetary policy are on track.

Progress can be reported in the area of **economic policy**. The government submitted its third pre-accession economic programme, covering the period 2009-2011. It presents a comprehensive macroeconomic and fiscal framework and a broad agenda for structural reforms. Although the quality of the programme has somewhat improved compared with the previous year, it still lacks a discussion of policy priorities and a link to the EU accession process. Due to the rapidly changing external environment, it was of only limited relevance as a core document for economic policy-making.

Progress was made in the area of monetary statistics and their compliance with international standards. The central bank's reporting on the balance of payments improved, with more precise estimates of income from direct investment. General government debt in 2008 totalled 20.9% of GDP, below the range of 34% to 37% of GDP set in the public debt management strategy. In June 2009 the Parliament adopted a new public debt management strategy for the period 2009-2011. Administrative capacity for policy implementation is still inadequate at municipal level. Preparations in the area of economic policy are on track.

Conclusion

Some progress has been made in the area of economic and monetary policy. Alignment with the *acquis* remains incomplete. Administrative capacity for policy implementation diverges widely between the central and local levels. Overall, preparations in the area of economic and monetary policy are on track.

4.18. Chapter 18: Statistics

Progress can be reported in the area of **statistical infrastructure**. The State Statistical Office (SSO) set out its objectives in the strategic plan for 2009-2011. Its budget and number of employees increased, but needs to be increased further. Human resource management tools have been further developed, including a wider range of training and a mentoring scheme. Preparations in the area of statistical infrastructure are advanced.

Good progress was made in the fields of **classifications and registers**. The national statistical classification of economic activities complying with the new version of the European industrial activity classification NACE Rev. 2 as well as new national versions of the PRODCOM and CPA product classifications were adopted by the government. Data from the 2008 business census are being used to update the statistical business register. Some progress has been made on establishing routines to keep the register up to date. Development of a statistical farm register has started.

Good progress has been made on **sector statistics**. Progress was made in the preparations for the 2011 population and housing census. The pilot census was conducted in May 2009. As regards business statistics, new surveys were introduced and business censuses were conducted. Preliminary results on retail trade capacity and tourism capacity have been published. Further improvements have been made in the area of social statistics. Data from the labour force survey and the household budget survey were transmitted to Eurostat. A pilot survey on income and living conditions was conducted. Further improvements are needed in agricultural statistics. Work continued on improving the exhaustiveness of the national accounts, but further alignment with ESA 95 is needed. Preliminary work on harmonised indices of consumer prices has started. Cooperation with the Ministry of Finance and the central bank improved. A memorandum of understanding on cooperation in the field of macroeconomics and financial statistics was agreed by SSO, the Ministry of Finance and the central bank. Data transmission to Eurostat has increased, but needs to be further improved, in particular for macroeconomic and business statistics.

Conclusion

Good progress has been made on improving sector statistics and aligning classifications with the *acquis*. The statistical infrastructure has been strengthened, but the resource situation remains weak. Further efforts are needed to meet the Accession Partnership priorities, in particular for macroeconomic and agricultural statistics.

4.19. Chapter 19: Social Policy and Employment

Little progress has been made on **labour law**. The national labour legislation has been reviewed with a view to transposing the *acquis*, but it is still not effectively aligned with all EU requirements. Cooperation between the relevant institutions has not improved. Administrative capacity remains insufficient to ensure proper implementation and enforcement of the labour law. Preparations in this area are moderately advanced.

Little progress can be reported in the area of **health and safety at work**. The 2007 Law on Health and Safety at Work is not being fully implemented. The National Council for Occupational Safety and Health provided for in the law has not been set up yet. The administrative capacity of the labour inspectorate remains insufficient to ensure proper implementation and enforcement of the legal provisions. The number of 35 inspectors remains insufficient and working facilities inadequate. Nevertheless, the labour inspectorate carried out more inspections than in the previous reporting period. Harmonised criteria and methods for recording data on accidents at work are lacking. Alignment with the *acquis* in the area of health and safety at work is moderately advanced.

There has been little progress in the **social dialogue**. A functional and representative social dialogue is still lacking. The membership of the Economic and Social Council (ESC) remained unchanged, thus weakening its position and role. The government organised a

considerable number of consultations of social partners that are not currently members of the ESC. The lack of clarity regarding the eligibility criteria is also an impediment to the bipartite dialogue. The trade unions and employers' associations still have limited capacity to contribute to development, implementation and evaluation of employment and social policies. Members of the Joint Consultative Committee with the EU Economic and Social Committee have finally been nominated. Preparations in this area remain at an early stage.

Some progress has been made in the area of **employment policy**. The 2009/2010 national action plan for employment was adopted. It sets priorities for active labour market measures and lifelong learning. The government also adopted the 2009 national operational plan on active programmes and measures to be implemented by the Employment Services Agency. Successful implementation of this plan is critical in the context of the financial and social crisis. The first signs of the impact of the financial crisis were seen by the end of 2008, when employment growth decreased. Labour market participation remains very low and the unemployment rate of 32,7 % (350,000) registered unemployed in the first quarter of 2009 very high (*see also Economic Criteria*).

The administrative capacity of the Employment Services Agency has been strengthened. Staff were trained and sufficient IT equipment was supplied. The budget allocated to the operational plan for 2009 was doubled compared with 2008. However, the allocation is still insufficient to cover all the needs identified.

The Law on Health Insurance was amended in May 2009 with the aim of providing accessible social insurance for all citizens. These legislative changes are also expected to lead to the Employment Services Agency handing over responsibility to the Health Insurance Fund so that the Agency will be able to concentrate on its core tasks. Employment in the grey economy does not seem to have diminished. Implementation of the Law on Adult Education has been delayed and a plan for vocational education and training that properly reflects labour market conditions is still missing. A disproportionate share of the budget for employment policy is earmarked for passive measures. The work of the Employment Services Agency is still geared too closely to administering the unemployment and health insurance of the registered unemployed. Overall, the financial and human resources available do not match the ambitious employment strategies and plans. Preparations in this area are still at an early stage

Good progress has been made in the preparations for participation in the **European Social Fund**. The institutional arrangements for implementation of IPA component IV were defined, following submission of the accreditation package to the Commission in March 2009. The administrative capacity in the Ministry of Labour and Social Policy was strengthened. The capacity of the Ministry of Education and Science remains insufficient. The Commission decision conferring management powers for IPA component IV was adopted. Preparations in this area are on track.

Limited progress has been made on **social inclusion**. In line with the government's national strategy for deinstitutionalisation of social care, two small communal houses were opened, which together accommodate nine people with disabilities. The introduction of compulsory education for children aged up to 18 is thought to have contributed to diminishing social exclusion. Steps were taken to reduce the high drop-out rate in the early years of education. A project implemented by the Ministry of Labour and Social Policy enabled 243 Roma children aged 4 and 5 to be included in pre-school education. However, many Roma children, rural girls and children with disabilities still do not complete their education. The policy measures to improve access to the labour market for vulnerable groups, including disabled people, are

still insufficient. Statistical data and analyses on poverty remain deficient. Administrative capacity in the field of social inclusion has not improved. It is particularly inadequate in the municipalities that have taken on greater responsibility for social inclusion policies in the second phase of decentralisation. Coordination between the institutions involved in implementing social inclusion policies remains inadequate. Participation by all stakeholders in developing long-term social inclusion policies is lacking. Very few steps have been taken to prevent social exclusion in general. Preparations in this area are at an early stage.

Some progress can be reported in the field of **social protection**. A law extending the coverage of health insurance was adopted in May 2009, and a new Law on Social Protection was enacted in September 2009. A national strategy for development of social protection has also been prepared. However, administrative capacity is still insufficient to develop a sustainable and equitable social protection system. Preparations in this area are moderately advanced.

Little progress has been made in the area of **anti-discrimination**. The UN Convention on the Rights of People with Disabilities has been signed but not ratified. The Framework Law on Non-Discrimination has not yet been enacted and the existing legal provisions are not fully aligned with the *acquis*. Administrative capacity in this area remains insufficient. The monitoring mechanisms required by the *acquis* have not yet been established. Statistics on direct and indirect forms of discrimination are not yet available. Discrimination based on sex, ethnic origin, religion, disability and sexual orientation persists. Ethnic minorities, particularly the Roma community, suffer from discrimination in various spheres of economic, social and cultural life. The situation of people with disabilities has not improved. Preparations in this area have started.

Some progress can be reported on **equal opportunities**. Civil servants were trained in awareness of equal opportunities issues. The administrative capacity of the section for equal opportunities in the Ministry of Labour and Social Policy was strengthened, and its mandate for coordinating gender issues with the relevant bodies was clarified. However, only limited progress has been made towards implementing the Law on Equal Opportunities. Also the capacity of the section for equal opportunities remains insufficient to fulfill its role, as well as administrative capacity to promote the human rights of women in rural areas. Support for activities and initiatives aimed at combating discriminatory customs and traditions and stereotypes remains insufficient. Participation of women in decision-making at both national and local levels is low. Female participation in the labour force remains very low. Preparations in this area are ongoing.

Conclusion

Limited progress has been made in the area of social policy and employment. An effective and representative social dialogue is still lacking. The measures taken to improve access to the labour market for vulnerable groups, including persons with disabilities, remain insufficient. Consultation with relevant stakeholders on social policies needs to be reinforced. The administrative capacity has slowly been strengthened, but remains insufficient to implement properly the legislation and policies adopted.

4.20. Chapter 20: Enterprise and Industrial Policy

Good progress was made on **enterprise and industrial policy principles**. The government started a new phase of the regulatory guillotine project, focusing in particular on customs, transport and agriculture. The electronic register of all legal acts was established and is

operational. Its upgrading and further development are to be regularly pursued. Since 1 January 2009 all draft laws are, in principle, subject to a regulatory impact assessment (RIA). However, wider stakeholder participation in law drafting and sufficient systemic analysis of legal acts by public bodies are yet to be ensured. The industrial strategy for 2009-2020 to promote growth and innovation was adopted. It is based on five main pillars: international cooperation and foreign investment; research and innovation; eco-friendly products and services; SME development and entrepreneurship; and collaboration in clusters and networks. No budget was allocated for implementation of the strategy in 2009. The human and financial resources of the SME Department and the SME Agency remained the same as in 2008 and were still insufficient to improve the country's performance on implementing the SME strategy and the European Charter for Small Enterprises. Preparations in this area are moderately advanced.

There has been good, but uneven, progress with regard to **enterprise and industrial policy instruments**. Annual programmes to support competitiveness, entrepreneurship, clusters and networking were adopted for 2009, totalling about €0.8 million. Public funding for the programmes remains modest and is almost the same as in 2008. The SME support infrastructure was expanded, as 10 regional business support centres were established, bringing the total to 29. Nevertheless, not all the centres are operating effectively. Cooperation between the government and the chambers of commerce improved significantly. The Agency for Foreign Investment and its overseas-based promoters, with a budget of about €4.5 million for 2009, continued an intensive campaign to attract foreign investors. An amendment to the Law on Obligations partially transposed the *acquis* on late payment. Alignment remains to be confirmed. SMEs' on-line access to government services was improved by introducing on-line application systems for company registration, export/import licences, payment of tax and social contributions, etc. The single SME information portal has not yet been established. The design flaws of the credit guarantee scheme have not been rectified and the scheme remains little used. Good progress has been made in the field of education and training for entrepreneurship. The Ministries of Economy and of Education took important steps towards a more concerted cooperation on policies and measures. 'Business and entrepreneurship' is now a compulsory subject in the curricula for secondary and vocational education. Also, in connection with availability of skills, a working group has been formed to identify training needs for SMEs. In this area, the country is moderately advanced.

Some progress can be reported with regard to **sector policies**. Implementation of the national programme for restructuring the steel industry progressed slowly, because of a steep decline in production and exports. The 2009 programme for development of tourism is being implemented with a significantly bigger budget. The Agency for Tourism was formally established, but proper staffing and operation are not yet ensured. The programme for restructuring the textile industry, which is designed to help textile companies find new markets, to introduce new technologies and to support human resource development, started modestly, with about €46,000 for 2009. Public funding for cluster development was limited. Preparations in this area are on track.

Conclusion

Good, but uneven, progress has been made in the field of enterprise and industrial policy. The financial resources and administrative capacity of public bodies for implementation of enterprise and industrial policy instruments are modest. Alignment with the *acquis* in this chapter is moderately advanced.

4.21. Chapter 21: Trans European Networks

In the area of **transport networks**, the country has made some progress. It has continued to participate actively in implementation of the 2004 memorandum of understanding on development of the core regional transport network and in the South East Europe Transport Observatory (SEETO), particularly by updating and implementing the multi-annual plan for 2009-2013. Construction of a new section of motorway along corridor X near the border with Serbia (Tabanovce-Kumanovo) began. Sound preparation of transport projects needs to be strengthened, in particular on Corridor X. Special attention needs to be given to a comprehensive environmental impact assessment. Substantial financial resources are needed to upgrade the infrastructure, in particular as regards rail. Greece has suspended its bilateral contribution to the financing of Corridor X. In this area, preparations are advanced.

Progress has been made on **energy networks**. The new 400 kV transmission line with Bulgaria entered into operation, improving the overall stability of the electricity transmission network. Preparations for construction of a new 400 kV transmission line with Serbia have started. The transmission system operator subscribed to the memorandum of understanding on establishment of a coordinated auction office in the South-East Europe region. The government endorsed the concept of the Energy Community gas ring. A feasibility study was launched to identify priority gas interconnections. In this area the country is moderately advanced.

No progress can be reported on **telecommunications networks**. The country is not yet a member of the ICT Policy Support Programme.

Conclusion

Progress was made in the area of trans-European networks. The country is continuing to participate actively in the South-East Europe Transport Observatory. Preparations in this area are advanced.

4.22. Chapter 22: Regional Policy and Coordination of Structural Instruments

Limited progress has been made with the **legislative framework**. The eight statistical regions became planning regions. Decisions were adopted on the classification of planning regions for 2008-2012 and on determining the level of development of planning regions, i.e. the socio-economic, demographic and development indexes which will have an impact on the future European territorial cooperation objective. In this area, preparations are moderately advanced.

There has been good, but uneven, progress in the **institutional framework**. The national authorities have submitted the accreditation package for the operational programmes under the IPA regional development component (III) and the human resources development component (IV). In July 2009, conferral of management powers was granted under the Regional Development Operational Programme. However, the coordination capacity of the National Development Council is still weak. Preparations for establishing systems for implementation of the future Structural and Cohesion Funds have not yet been initiated. Preparations in this area are slowly advancing.

There has been good, but uneven, progress with **administrative capacity**. The administrative capacity of the line ministries to manage EU pre-accession programmes, i.e. of IPA units and monitoring and evaluation units, has been further strengthened. However, in order to be able

to absorb IPA funds, substantial further strengthening of administrative capacity is needed. Preparations in this area are slowly advancing.

Little progress has been made with **programming**. Administrative capacity for programming and project preparation remains insufficient. Further substantial efforts are needed to build up a pipeline of quality and mature projects under IPA. Preparations for programming under the future Structural and Cohesion Funds have not been initiated yet. Preparations in this area are advancing.

There has been progress on **monitoring and evaluation**. Sectoral committees to monitor implementation of the IPA operational programmes meet regularly, twice a year. The administrative capacity of the monitoring and evaluation units in the line ministries, in terms of both number of staff and their training, has improved, but not sufficiently. Preparations in this area are moderately advanced.

Some progress can also be reported in the area of **financial management and control**. The administrative capacity, in terms of the necessary staff and training, has improved, but not sufficiently. Preparations for establishment of financial management and control systems for the future Structural and Cohesion Funds have not yet started. Preparations in this area are advancing.

Conclusion

Some progress can be reported in the area of regional policy and coordination of structural instruments, notably in the form of enhanced efforts and preparations for implementation of the components of IPA serving as pre-cursors to the Structural Funds. Administrative capacity needs to be substantially strengthened and a solid pipeline of quality and mature projects needs to be built up under IPA in view to secure absorption of EU funding in the short and longer term. Overall, alignment with the *acquis* in the area of regional policy and coordination of structural instruments is advancing.

4.23. Chapter 23: Judiciary and fundamental rights

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

The Judicial Council and the Council of Public Prosecutors have striven to ensure the *independence* of the judiciary. By mid-July the Judicial Council had completed the first appraisal of the performance of serving judges and found that most of them have been up to the standards.

The Council of Public Prosecutors assumed full responsibility for appointing new public prosecutors and extending the term of office of prosecutors appointed in 2003 for a six-year period, which was about to expire. Since October 2008 a total of 38 new judges were recruited, as well as 4 new presidents of courts and 21 new public prosecutors had been recruited and the term of office of 159 public prosecutors had been extended. The most recent appointments by the two councils include also the graduates of the first generation of the Academy for training of judges and prosecutors.

The Judicial Council continued to combat corruption and ensure *impartiality*, dismissing 12 judges for abuse of office. However, some documented irregularities regarding recent judicial proceedings have raised questions about the independence and impartiality of parts of the judiciary.

As regards *professionalism and competence*, the first 27 students of the Academy for Training of Judges and Prosecutors (ATJP) graduated. The ATJP provided continuous training, with over 200 events. By July the Judicial Council and the Council of Public Prosecutors had appointed 23 of the graduates from the academy.

Efforts were made to improve the *efficiency* of the judiciary. The budget for the Public Prosecutor's Office was again increased to €4.5 million. The budget of the courts was increased by 8%, despite the difficult economic context. The part of the budget of the ATJP funded by foreign donors decreased to 16.5% thanks to an increase in State budget funding. The increase in the budget was used to recruit extra staff and purchase new equipment. The President of the Judicial Council assumed the chairmanship of the Court Budget Council and a new method for use of the court budget is being implemented.

The Council of Judicial Administration was set up to follow implementation of the 2008 Law on Judicial Administration and improve human resources management. The number of employees in the judicial administration increased and 82% of them received a salary increase of 20%. The IT centre connecting all judicial institutions and allowing regular exchanges of information between them and with the public is operational. The IT offices in the courts were staffed with 38 experts. All courts have operational websites and some have already started publishing their decisions. In 2009, personal computers for the courts for the Public Prosecutor's Offices were purchased with State funds. The automated court case management system (ACCMIS) has been installed in all courts. In 14 basic courts all current cases have been transferred to this system, which allows automated generation of reliable statistics on courts.

In 2008 the courts received 12.3% fewer cases than in 2007. The Public Prosecutor's Office received 5% more cases than in 2007. Of the 27 basic courts, 26 managed to reduce their combined backlog by 16%. The number of cases resolved within six months also increased somewhat. In the first quarter of 2009 the misdemeanour commissions resolved 68.3% of new cases.

Since they were established last year the Court of Appeal in Gostivar has settled over 4,500 cases and the Administrative Court over 7,000. Initial analysis of key aspects of their operations has started. The new Higher Public Prosecutor's Office in Gostivar, which now consists of five public prosecutors, including the head of the office, has started processing cases.

However, the absence of a human resources management system has slowed down the recruitment of graduates from the ATJP into the judiciary. The Skopje 2 basic court, which is the court with the largest number of cases, and the four courts of appeal along with the Administrative Court were unable to reduce their backlogs. The Administrative Court, the Court of Appeal in Gostivar and most of the Public Prosecutor's Offices need further strengthening in order to build up their capacity. A number of courts continue to face budgetary restrictions. Implementation of the 2006 Law on Mediation has had a limited impact, with 77 measures taken so far. Full implementation of the 2007 Law on Public Prosecutor's Offices requires parallel changes to the Law on Criminal Procedure to allow prosecutors to coordinate fully the investigative phase.

Overall, some progress has been made on implementation of the 2004 strategy for judicial reform, a key priority of the Accession Partnership. Further progress was made towards establishing the independence of the judiciary, although continued efforts are needed. The

new posts and new IT equipment helped to make the judiciary somewhat more efficient. However, a number of courts continue to face budgetary restrictions. A track record on implementation of the legislation on the court system and procedures is gradually being established.

(See also 2.1. Democracy and the rule of law)

Good progress can be reported in the area of **anti-corruption policy**. The Electoral Code was amended to clarify the rules on financing election campaigns, the transparency of election funds, including for election advertising, and registration of donations. The Law on Managing Confiscated Property and Items Seized in Criminal and Misdemeanour Proceedings entered into force.

The amendments to the Law on Financing of Political Parties were adopted in July. They enhance the transparency of donations, strengthen the provisions against illegal donations, tighten reporting obligations of the political parties and introduce more dissuasive sanctions.

Amendments to the Criminal Code including new provisions on extended confiscation of proceeds of crime, illicit enrichment and criminal liability of legal persons for trading influence were enacted.

Amendments to the law on conflict of interest were enacted. The amendments introduce a new definition of the scope of the law, expressly including civil servants; strengthen the powers of the SCPC for control and prevention of conflict of interest; introduce the obligation of the officials to submit a conflict of interest declaration and provide for misdemeanour sanctions for non-observance of the law.

The supervisory authorities, the Public Revenue Office and the State Audit Office, have an important role to play in ensuring full implementation.

The unit specialising in cases of organised crime and corruption within the General Public Prosecutor's Office became a Basic Prosecutor's Office.

There were further indictments and convictions in high-profile cases. The reforms in the healthcare system started to produce results in addressing small-scale corruption and steps were taken to tackle larger-scale corruption in hospitals.

The databases of the State Commission for Prevention of Corruption (SCPC) and the Public Revenue Office (PRO) were interconnected. This allows more accurate records of asset declarations to be compiled. In 2008 the SCPC initiated 45 misdemeanour procedures for failure to submit asset declarations. In one of these cases a fine was imposed, in two others the charges were dismissed and the rest are pending. The PRO started 48 procedures in 2008 to check the origin of assets declared. In nine cases a decision was given. Four of these cases were concluded by taxing the unjustified income at 70% and in two cases criminal charges were brought. The customs administration took over responsibility for registering and keeping records of asset declarations by customs officers. Cases that raise reasonable doubts about the origin of the assets are referred to the PRO.

Interception of communications, an effective tool for detection and investigation of corruption cases, was introduced in 2009 and is starting to be used.

The SCPC began to implement the action plan on conflict of interest. Guidelines were developed to help officials and the general public identify potential conflicts of interest. Training was organised for judges and prosecutors on the content of the guidelines. Since 2008, 73 cases on conflict of interest were initiated and 43 were completed. In 11 of them a conflict of interest was found. Training also started on freezing and confiscation of proceeds of crime and on the criminal liability of legal persons.

The SCPC adopted a strategic plan on public relations which outlined action to be taken to improve communication with the public and the media, including appointment of a spokesperson. The SCPC took steps to enhance cooperation with other bodies.

Cooperation between law enforcement agencies was further strengthened. Three more institutions (the State Electoral Commission, the Council of Public Prosecutors and the State Appeals Commission for Public Procurement) signed the anti-corruption cooperation protocol, bringing the total number of signatories to 15. The signatories analysed the results of the first year of implementation of the protocol and decided on improvements. Further progress was made towards setting up a national intelligence database.

The police and customs hotlines are fully operational. Disciplinary measures continued to be applied to a steady number of customs and police officers for corrupt behaviour. The customs administration implemented measures to prevent and suppress corruption among customs officers. In 2008 the sector for internal control in the Ministry of the Interior brought 67 criminal charges against 75 police officers for a total of 70 criminal acts, of which 61 showed elements of corrupt behaviour. Training on the police code of ethics continued.

The State Appeals Commission for Public Procurement is operational (*See also Chapter 5*), thus providing a channel for addressing allegations of corruption in this field. The Agency for Managing Confiscation of Assets was set up. Public awareness of the right to access to public information has increased.

However, widespread corruption remains a cause for concern. Further efforts are needed to streamline the legal framework. The Law on Conflicts of Interest still has some loopholes, especially as regards its scope and the effectiveness of the control mechanism. The OECD Convention on Combating Bribery of Foreign Public Officials has not been signed. A regulatory framework laying down the status and ethical principles applicable to public officials other than civil servants is not in place. No reports on suspicions of corruption were filed by civil servants.

The legislation on financing of political parties and election campaigns remains to be effectively implemented. In particular, the reports and recommendations from the State Audit Office and the SCPC have not been followed up. So far, no sanctions have been reported for political parties which breached the rules on financing, notably as regards submission of financial reports, the threshold for election campaign expenditure and registration of donations. Since 2005 the SCPC has referred ten notifications to the public prosecutor concerning expenditure in electoral campaigns. To date there have been no prosecutions. The GRECO recommendations regarding guidelines for MPs when deciding on requests for lifting immunity have not yet been implemented.

A consistent track record on checking asset declarations has not yet been established. The anti-corruption structures, notably the Basic Prosecutor's Office for combating organised crime and corruption, the Higher Prosecutor's Offices and the anti-corruption unit within the

Ministry of the Interior, need to be reinforced. Joint training of prosecutors and judges, including judges of the Supreme Court, on investigative measures and administration of evidence for cases of corruption and organised crime needs to be intensified.

The SCPC needs to make further efforts to ensure its visibility and raise the level of public trust in its independence and impartiality. It still has fully to address its remaining backlog and to reduce the duration of internal procedures.

An exercise should be conducted to identify the extent and nature of corruption in the public sector to help define practical measures to combat corruption in specific sectors. Statistics relevant to anti-corruption policy need to be further developed.

Overall, good progress was made on implementing anti-corruption policy. The electoral code, the law on financing of political parties and the law on conflict of interest were amended to strengthen transparency and new provisions on illicit enrichment were introduced. There were further indictments and convictions in high level cases and cooperation between law enforcement agencies improved. Nevertheless, corruption remains prevalent and continues to be a serious problem in many areas. Continued efforts are needed, in particular as regards implementation of the legal framework.

(See also 2.1. Democracy and the rule of law)

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

In 2008 the Ombudsman's Office received 3,022 complaints, almost the same number as in 2007. Violations were found in less than a quarter. The largest number concerned property rights, which accounted for 24.9% of all violations, followed by 8.7% for the Ministry of the Interior, particularly in connection with obtaining citizenship, 8.2% for social rights and 2.5% for prisons. There were 21 complaints about violation of the right to equitable representation, compared with six in 2007. In response to the intervention of the Ombudsman, the administrative bodies took appropriate steps in 84.4% of the cases.

As regards the *prohibition of torture and inhuman or degrading treatment or punishment*, the Ombudsman's mail-box system installed in prisons proved effective. Some progress was made on long-term planning to improve prison facilities. Inhuman and degrading conditions in prisons have not been addressed. Allegations of ill-treatment are still not sufficiently investigated and prosecuted. The Council of Europe's Committee for the Prevention of Torture reiterated its deep concern about deleterious conditions and unsatisfactory healthcare in some prisons.

With regard to *respect for private and family life*, in particular the right to the protection of personal data, the directorate for personal data protection continued to perform satisfactorily but was still understaffed.

Little progress can be reported in the field of *freedom of thought, conscience and religion*. The 2008 Law on the Legal Status of Churches, Religious Communities and Religious Groups is being implemented slowly. Registration of the Bektashi religious group is still pending, as are applications from six other religious communities or groups.

With regard to *freedom of expression, including freedom and pluralism of the media*, the legal framework is satisfactory, but the parts relating to the financial autonomy of the public

broadcaster and the regulatory body are not being implemented. Ownership of the printed media is still highly concentrated. The broadcast media are still closely associated with political and business interests, which makes them subject to political influence (*See also Chapter 10*).

In the area of *freedom of assembly and association, including the right to form political parties and the right to establish trade unions*, two new trade unions were registered (the independent trade union of local self-government employees and the trade union of employees in the public administration and in the State bodies), thus raising the number of registered trade unions to 44.

While some progress was made on *treatment of socially vulnerable and disabled people*, little was made on the principle of *non-discrimination*. Implementation of the 2008-2018 strategy for de-institutionalisation began. However, the Framework Law on Anti-Discrimination was not enacted.

With respect to the *right to education*, the introduction of nine years of primary education and compulsory secondary education led to increased enrolment. The new centre for adult education was established. The education budget was increased, but remained insufficient.

The *right to property* is protected, but the process of restitution of property confiscated during the Yugoslav regime has been ongoing since 2000. Processing of 25,288 out of a total of 30,744 applications has been completed, of which 8,785 in 2008. No progress was made with returning properties to the Orthodox Church and the Muslim community. The government established a committee to coordinate the process of restitution, chaired by the Minister of Finance, but it has not contributed significantly to advancing the process. The Ombudsman's Office noted that the procedures for restitution of property had been delayed and that there were cases where the same people decided in both the first and the second instance commissions.

Very limited progress can be reported in the field of *gender equality and women's rights*. The national action plan for gender equality lacks coherence. Implementation of the national strategy against domestic violence (2008-2011) is hindered by lack of coordination between the relevant institutions.

Implementation of the national action plan for the protection of the *rights of the child* remains slow. Nothing has been done to improve access to education, healthcare and juvenile justice for children from deprived backgrounds.

As regards *liberty and security* and the *right to a fair trial*, the system for witness protection was brought up to international standards, though some shortcomings persist in logistics and funding. No progress was made in the area of legal aid in civil cases.

Some progress was made on *minority rights and cultural rights*. There has been progress towards implementing the Law on Use of Languages spoken by at least 20% of the citizens and the strategy for equitable representation in the public administration. However, the smaller communities remain at a disadvantage. Dialogue and confidence-building between communities at local level were further hindered by the introduction of ethnically divided shifts in schools. A broad consensus on the Law on the Use of Flags of the Communities has not emerged. Measures to improve the social inclusion of the Roma have yielded only limited results. The country is moderately advanced in the area of fundamental rights.

Conclusion

There has been good progress on combating corruption and some progress on the reform of the judiciary and on safeguarding fundamental rights. The newly established institutions and increased budgetary resources have improved the overall efficiency of the judiciary, but continued efforts are needed to secure independence. As regards anti-corruption, further progress can be reported on prosecuting high-level cases, on strengthening the institutional framework and on cooperation between law enforcement agencies. The electoral code, law on financing of political parties and the law on conflict of interest were amended to strengthen transparency and new provisions on illicit enrichment were introduced. Nonetheless, corruption remains prevalent and continues to be a serious problem in many areas. Most of the legislative and policy measures relating to fundamental rights are in place, but implementation is uneven and further efforts are required.

4.24. Chapter 24: Justice, Freedom and Security

Significant progress was made on **visa policy**. In the framework of the visa liberalisation dialogue opened between the EU and the Republic of Macedonia in February 2008, the country has made important progress in the JLS areas and fulfilled the roadmap benchmarks, allowing the Commission to include the Republic of Macedonia in its proposal of July 2009 for visa free travel. Concerning document security, the issuance of new biometric passports in line with community and international security standards continued on schedule, as did the issuance of the new identity cards and residence permits. As of September 2009, more than 531.000 biometric travel documents had been issued.

The visa facilitation and readmission agreements between the Republic of Macedonia and the European Community continued to be implemented. The country has not yet fully aligned its legislation with the EU negative list in the interest of a regional approach, it maintains a visa-free regime for citizens of some countries of the region.

The administrative capacity of the department for consular affairs has been further strengthened. Shortcomings still remain in the field of human and budgetary resources. The national visa system became fully operational. Rules on unilateral recognition of Schengen visas and residence permits were introduced, in order to facilitate the movement of third countries nationals and to stop the issuance of visas at the borders. In this area, the country is well advanced.

Some progress was made in the area of **migration**. Parliament adopted a resolution on migration policy, which set out the principles for an active return policy. Implementation of the migration policy, including an active return policy, has been ensured. The Law on Aliens was amended to remove the requirement for EU citizens to possess travel insurance when entering the country. At the end of 2008 Albania, Bosnia and Herzegovina, Croatia, Montenegro, the Republic of Macedonia and Serbia signed a memorandum of understanding on setting up a system for sharing statistical data on illegal migration and participating in the regional system of advance notification.

The Law on Employment of Foreigners was implemented. All the implementing legislation on migration was adopted. In all, the country has ratified six readmission agreements with non-EU-Member States: Albania, Bosnia-Herzegovina, Croatia, Moldova, Norway and Switzerland. The readmission agreement with the Community worked well. In the first six

months of 2008, 269 people were received in accordance with the readmission agreement and bilateral agreements. The admission procedure, chiefly for short stays, is satisfactory. A central database of foreigners residing temporarily in the country is being prepared. Further efforts are needed to improve the data collection system. The policy for reintegration of returnees is not being fully implemented. Resources to recruit new staff, notably in the Ministry of Labour and Social Policy, and to procure proper equipment are still lacking. In this area, the country is well advanced.

There has been good progress in the area of **asylum**. Amendments to the Law on Asylum and Temporary Protection were adopted, but the law is still not fully aligned with the *acquis*. The provisions concerning subsidiary protection were applied. The administrative court, which has jurisdiction over refugee cases previously handled by the Supreme Court, is operational, but there are some shortcomings in its decision-making, notably in appeal cases (*See also Political criteria - Judiciary and Chapter 23*). The administrative court needs to be given powers by law to conduct independent judicial review of the substance of asylum decisions. Further efforts are required by the authorities to take on full responsibility for providing financial and material assistance for refugees and asylum-seekers. The administrative capacity has improved. Identity documents have started to be issued, though at a slow pace. However, asylum procedures are still not fully in line with European standards. A central database for aliens, covering asylum, migration and visas, will have to be developed. In this area the country is advanced.

Good progress can be reported in the field of **external borders and Schengen**. A working arrangement with FRONTEX was signed. Implementation of the integrated border management strategy and action plan has been completed, except for the construction and reconstruction of police stations and the extension of the TETRA radio communication system. However, an overall system for strategic and operational risk analysis is still lacking, and thus preventing effective fight against illegal migration. The border demarcation process with Kosovo has not yet been fully completed. In order to find a solution for the border villages on the last stretch to be demarcated, the government decided in August 2009 to increase the flexibility margin in a new bilateral border agreement with Kosovo. A new action plan on the Schengen *acquis* for the period 2009-2011 was adopted in September 2009. 19 border crossing points were connected to the data communication network of the Ministry of the Interior and now have access to the database. Yet police stations responsible for border surveillance still have no access to the database. The National Coordination Centre for Border Management is fully operational. The division of tasks between the coordination centre and the field offices was fine-tuned, notably with the aid of training and adoption of an operational manual and works well in practice. A human resources management strategy was adopted which encompasses all the organisational units of the police, but without dealing specifically with the needs of border police. The capacity of the training centre has been enhanced and the basic training curricula are satisfactory, but curricula also need to be developed for middle- and higher-level border police officers. A central database of false and genuine documents is not available, nor is a central database of specimen documents. First steps were taken to rehabilitate premises and offices at border crossing points. However, the situation is not yet fully satisfactory. A budget was allocated to upgrade the equipment of the border police, but it is still not sufficient, notably for border surveillance at night hours at the green border. Technical equipment for document analysis, training on how to use it and budgetary support are still not adequate. 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 cooperation agreement with Eurojust was signed in November 2008. The Law on Ratification of the Agreement was enacted in April 2009. The second Additional Protocol to the European Convention on Mutual Assistance in Criminal Matters was ratified. The Convention of 29 May 1993 on Protection of Children and Cooperation in respect of Intercountry Adoption was ratified. The Convention of 18 May 1970 on the Taking of Evidence Abroad in Civil or Commercial Matters was ratified. The Additional Protocol to the Convention for the protection of individuals with regard to automatic processing of personal data regarding supervisory authorities and transborder data flow was ratified. In this area, the preparations are starting.

Progress has been good in the area of **police cooperation and the fight against organised crime**. The police was further decentralised (*see also the section on the Political Criteria*). Training and equipment needs were met, mainly by local authorities. Cooperation with EUROPOL further improved and preparations are being made to sign an operational agreement. The sector for special investigative techniques of the department for organised crime in the Ministry of the Interior was staffed and equipped.

The human resources management system improved. A merit-based career and appraisal system and provisions aimed at depoliticisation of Ministry of the Interior officials, including senior police officers, was introduced by the new Law on Internal Affairs enacted in July. The training system improved, notably for basic and specialised training. Shortcomings remain in the in-service training and in development of curricula for mid-level officers. The Training Centre, the successor of the Police Academy, organised regional training and training for a new generation of police cadets. Its mission was revised by an amendment to the Law on Internal Affairs and is now confined to basic and continuous training.

The Interpol office became operational 24 hours a day, seven days a week. All border crossing points and the four regional headquarters of the border police were connected to the Interpol databases. The number of international arrest warrants issued and executed increased.

Witness protection capacity improved. In 2008, the witness protection programme was activated in one case. Some shortcomings in logistics and funding remain. Improvements were made to protection of victims. International agreements to relocate witness as well as victims outside of the country are in place. In this area, preparations are advanced.

The country meets EU and international standards in the area of explosives. As regards small arms and light weapons, 166 perpetrators were reported, a small decrease compared to the 243 perpetrators during the previous reporting period. Improvements were made to enforcement of the regulations on private possession of arms. The number of illegal weapons seized and destroyed remained stable. The level of illicit arms possession is still alarmingly high. Significant further efforts are needed in this area.

The Council of Europe Convention against Trafficking in Human Beings was ratified in April 2009. Further legislative measures will be required to ensure effective implementation. The strategy and action plan to combat human trafficking were largely implemented. A new action plan, covering the period 2009-2013, remains to be adopted. Compulsory confiscation of assets belonging to perpetrators of criminal acts related to human trafficking was introduced into the Criminal Code. The law on social protection which provides institutional protection for the victims of human trafficking was enacted. Cooperation between the police, the public prosecutors and the courts further improved. In 2008, 25 people were prosecuted, of whom

nine for trafficking in minors. Of the 25 people prosecuted, 16 were sentenced to between three and eight years in prison. In 2008, 160 people were prosecuted for smuggling illegal migrants, up from 91 in 2007. Improvements were made to the budget planning.

Improvements were made in the fight against computer crime. The Council of Europe Convention on Cybercrime is being implemented. The relevant unit of the Organised Crime Department has seven officers out of the twelve authorised. Improvements were made to the investigative capacity to fight credit card abuse. Capacity to combat child pornography and hacking is still low, especially on the ground. Shortcomings remain in equipment, notably in the field. The number of investigations carried out improved, as did their quality.

The weaknesses in parliamentary control over the security and counter-intelligence administration have been addressed. Deficiencies in judicial control over the security and counter-intelligence administration with regard to executing the orders of the public prosecutor to monitor communications, notably concerning the location of the relevant equipment, have been addressed. The Law on Monitoring of Communications is being implemented smoothly, although the relevant parliamentary committee has not been very active. Work on establishing an integrated intelligence system for inter-agency use is in progress. This should remedy the existing shortcomings in sharing intelligence and in mutual access to databases at interagency level. The sixth action-oriented measure for the fight against organised crime has not been implemented yet. The sector for criminal analysis in the Organised Crime Department does not yet act as the national cooperation centre, because no common database has been established. Despite considerable challenges in the area of police cooperation and the fight against organised crime, the country is advanced and is a front-runner in the region.

Good progress can be reported in the **fight against terrorism**. A strategy for prevention of money-laundering and financing of terrorism was adopted. Implementing legislation and administrative instructions were adopted. The 2005 Council of Europe Convention on Laundering, Search, Seizure and Confiscation of the Proceeds from Crime and the Financing of Terrorism was ratified. In 2008, 134 suspicious transactions were referred to the Anti-Money Laundering Office. The number is still low. Gaps in the criminalisation of terrorism offences, especially in the field of financing, have been addressed. Preparations in this area are well advanced.

Good progress can be reported in the **fight against drugs**. The Law on Chemicals was enacted and the Law on Precursors was amended with the aim of aligning with the *acquis*. The Law on Narcotics was enacted and its implementing legislation adopted. A new action plan, covering the period 2008-2012, was adopted. It is in line with the EU drugs strategy for 2005-2012. Data on drug seizures in 2008 showed a stable trend in terms of quantity. Overall, the amount of drugs seized remained rather low. National, regional and international cooperation has reached international standards. The country already largely meets the *acquis* requirements.

Good progress has been made in the area of **customs cooperation**. A law was enacted which ratified the amendments to the Convention establishing a Customs Cooperation Council of the European Union, enabling the European Community to become a full member of the World Customs Organisation (WCO). Cooperation with the SECI was enhanced. The customs administration participated in five major international operations coordinated by the SECI and the WCO and exchanged information on seizures and intelligence information via the SECFs Regional Centre for Combating Transborder Crime. Customs officers participated in a

number of working meetings and trainings. Efforts were stepped up to cooperate effectively with the Regional Intelligence Liaison Offices within the World Customs Organisation, to which 195 cases of seizure of counterfeit goods, foreign currency, illegal drugs and cigarettes were reported. Cooperation with the Balkan Info system of the German Customs Criminal Office was intensified. As a result, the customs administration received and checked 128 reports on possible drug trafficking. Preparations in this area are on track.

(For counterfeiting of the euro see chapter 32.)

Conclusion

In all policy fields in the area of justice, freedom and security, important reforms have been undertaken toward meeting the benchmarks set in the framework of the visa liberalisation dialogue, which has been completed in May 2009. Significant progress was made on visa policy. Good progress can be reported on asylum, the fight against organised crime and drugs, as well as on external borders and Schengen. Administrative capacity to implement the police reform has improved, but is still constrained by the not fully developed human resources management. The country has achieved a greater degree of alignment with the *acquis* for both its legislative and administrative capacity. Efforts are being made to improve further international police cooperation at both regional and European Union levels, chiefly with Europol and Frontex. Overall, preparations in this area are on track.

4.25. Chapter 25: Science and Research

Little progress can be reported in the area of **research policy**, in particular as regards the strategy to increase the national research capacity. The budget for the 2009 research and technological development programme, originally €2.45 million, was reduced to about €1.8 million when the budget was revised in April 2009. The public and private funding for science and research remained below 0.5% of GDP and private-sector participation in particular is very low. Some reform of the research institutes took place by integrating them into the universities. New equipment procured in September 2009 will strengthen the capacity of universities and research institutes. However, the small budget, weak administrative capacity and lack of funding for the research facilities hinder significantly the development or research capacity in the country. Preparations in this area are moderately advanced.

Good progress was achieved in the area of **Framework Programmes**. The number of projects selected and funded under the Seventh EC research framework programme (FP7) increased compared to last year. However, the capacity of the unit responsible for promotion and national coordination of FP7 within the Ministry of Education and Science is weak and prevents to engage in more promotion activities on FP7. In this area, preparations are advanced.

Given the lack of a national research strategy and weak administrative capacity, little progress can be reported on the integration into the **European Research Area**. The Agency for European Educational Programmes and Mobility, designated as the main body responsible for establishing the national EURAXESS Jobs Portal, as well as the EURAXESS Services Network, have not be realised within the contractual time frame. Preparations in this area are moderately advanced.

Conclusion

Some progress has been made in the area of science and research. Administrative capacity to support participation in the Framework Programmes is not sufficiently developed. Greater participation in the Framework Programmes is also hampered by the weak capacity of the research institutes and their poor links with industry. Overall, preparations in the area of science and research are on track.

4.26. Chapter 26: Education and Culture

Some progress can be reported in the field of **education, training and youth**. The new Law on Higher Education entered into force. The new school system introduced nine years of primary education and compulsory secondary education, which resulted in an increase in the number of pupils enrolled in secondary schools. An action plan has been adopted for implementing the National Strategy for Youth. The centre for adult education was established. However, it is not yet operating adequately, and implementation of the Law on Adult Education has been delayed. The programme on compulsory vocational education has not yet been implemented. The 2009 budget for education is insufficient to implement the national strategy for reform in education for 2006-2015. Efforts need to continue to improve the country's performance in relation to the EU common education benchmarks of the Education and Training 2020 strategic framework, in particular to increase participation in pre-primary, reduce the high drop-out rate, ensure equitable access to higher education, increase the number of graduates and improve the quality of teaching. Future challenges include strengthening life-long learning and improving recognition of prior learning.

Progress has been made by the National Agency for the European Educational Programmes to build its capacity as the implementing body for the Lifelong Learning and Youth in Action Programmes. Preparatory measures, including training of the staff and the launch of pilot projects, have started. The National Agency needs to continue its efforts to strengthen the competencies of its staff in all aspects of programme management, and the Ministry of Education and Science needs to set up an efficient control system providing adequate assurance on the functioning of the National Agency Preparations in the area of education, training and youth are moderately advanced.

Some progress can be reported also in the field of **culture**. The country continued to participate in the Culture programme, and started to participate in the Europe for Citizens programme, on the basis of a Memorandum of Understanding signed in March 2009. Preparations in the area of culture meet the EU requirements.

Conclusion

Some progress has been made in the areas of education, training, youth and culture, in particular as regards participation in Community programmes. However, the budget for education remains insufficient to implement the national reform strategy and further efforts are needed to improve the country's performance in relation to the Education and Training 2020 common benchmarks, to prepare for the management of the Lifelong Learning and Youth in Action programmes and to set up an efficient control system. Overall, preparations in the area of education and culture are advanced.

4.27. Chapter 27: Environment

Good progress was made in the area of **horizontal legislation**. Implementing legislation on environmental assessment and public participation was adopted. The national strategy and plan on protection and rescue were adopted. The administrative capacity for implementing the

Environmental Impact Assessment (EIA) and Strategic Environmental Assessment (SEA) Directives has improved, but is still not sufficient, particularly at local level. The EIA requirements for public consultation are still not adequately applied. The requirements relating to informing and consulting the public need to be improved. Progress was made in the area of climate change, in particular on implementation of the clean development mechanism under the Kyoto Protocol. The Protection and Rescue Directorate was strengthened in terms of both staff and training. Preparations in this area are advanced.

Some progress was made in the area of **air quality**. Transposition in this area is moderately advanced. The list of ambient air quality zones and agglomerations was adopted. The inventory of air pollutant emissions is being compiled, in accordance with the CORINAIR methodology. The administrative capacity is still weak, particularly at local level. Further equipment is also needed. Cooperation between the ministries and institutions involved in air quality is still not sufficient, in particular on collection and analysis of data. The air quality monitoring system is still not fully effective. Preparations in the area of air quality are moderately advanced.

Some progress was made in the area of **waste management**. Amendments to the Waste Management Law were enacted, including provisions on sanctions and the level of fines for misdemeanours. The national waste management plan was adopted. Administrative capacity at central and local levels is still largely insufficient. Municipal waste management systems have not been set up yet. Investment in this area needs to be increased. The waste management coordination committee has not been effective. A system to deal with data collection, registration and reporting is still not in place. Preparations in this area are moderately advanced.

Little progress can be reported in the case of **water quality**. The transposition process needs to be stepped up. The administrative capacity to deal with integrated water management is very weak in terms of organisational structure and number of qualified staff. The current institutional set-up, involving many institutions, makes implementation of the new Water Law very difficult to coordinate. The water monitoring system is still not fully effective. No progress was made towards applying the polluter-pays principle. This creates problems for the sustainability of projects in this sector. Significant efforts are still needed in this area.

Little progress was made on **nature protection**. Amendments to the Hunting Law were adopted. Efforts need to be continued in order to align further with the EU *acquis*. Some progress can be reported on implementing the management plans for protected areas. A national strategy and action plan for nature protection has still not been completed. The administrative capacity is insufficient and adequate equipment is lacking. Overall, the coordination between the various institutions responsible for nature protection is not sufficient. However, some efforts have been made to develop coordination between the Ministry of the Environment and the customs administration on implementation of the CITES Convention. Preparations in this area are moderately advanced.

Little progress was made on **industrial pollution control and risk management**. Transposition of the Seveso II Directive on control of major accident hazards involving dangerous substances has progressed. The lack of administrative capacity in this area is a major issue, especially at local level. It results in substantial delays in issuing IPPC (integrated pollution prevention and control) permits. Training for IPPC inspectors is still not provided. The stakeholders are not sufficiently involved in this process. The operators of industrial sites have not yet prepared contingency plans. Significant efforts need to be made in this area.

Little progress was made in the area of **chemicals**. The EU *acquis* in this sector has still not been transposed. The staff of the national information centre was increased. Some training and awareness-raising activities for the institutions and companies concerned have started. Preparations in this area are at an early stage.

Little progress was made in the area of **GMOs**. Transposition of the EU *acquis* in this field has not yet been completed. The National Commission for GMO Management and the Scientific Committee for GMOs were established. However, the administrative capacity needs to be further strengthened. The department responsible for risk assessment of GMOs and for placing GMO products on the market have still not been established, nor have the necessary laboratories been installed. Preparations are moderately advanced in this area.

Some progress was made in the area of **noise**. Implementing legislation was adopted. Preparation of strategic maps and action plans on noise began with development of a plan for noise measurement in Skopje. The administrative capacity is still not sufficient. The units responsible for dealing with noise issues at central and local levels have not been established yet. Preparations in this area are at an early stage.

Some progress was made in the area of **forestry**. The priority measures in the programme for expanded reproduction of forests have started to be implemented.

As regards **administrative capacity**, the government adopted a plan to strengthen the environmental management capacity at central and local levels for the period 2009-2014. However, the lack of a financial assessment and of a mechanism for monitoring and evaluating the plan could hamper its implementation and sustainability. The administrative capacity for implementing and enforcing environmental legislation is still far from sufficient at both central and local levels. This is particularly true of the inspectorates. The coordination between administrative bodies responsible for environment-related issues is not yet effective. Enforcement of legislation has improved in terms of fines and sanctions, but the system is not yet efficient and no credible record has been established. The environmental monitoring and information system is still not adequate. No funds are foreseen in the 2009 budget for new environmental projects., The amount provided is still far from sufficient to meet the needs. The national environmental investment strategy was adopted. Environmental protection requirements are still not well integrated into policy making and implementation in other areas. The precautionary principle, the principle of preventive action and the polluter-pays principle are only partially applied.

Conclusion

Progress has been made towards further transposing the EU *acquis* in the field of the environment, in particular for horizontal legislation and waste management. Some sectors, like water quality or IPPC, are still lagging behind. Implementation of the legislation remains a considerable challenge. Administrative capacity is weak at both national and local levels. Significant further efforts are still needed to further align with the EU *acquis* in this sector and, moreover, to ensure the required investments. Overall, preparations in the field of environment are moderately advanced.

4.28. Chapter 28: Consumer and Health Protection

Some progress has been made on **consumer protection**. As regards the *horizontal aspects*, the consumer protection programme for 2009-2010 was adopted. Instead of the Ministry of Economy, the State institutions involved are now required to finance from their own resources

the activities planned in the area of consumer protection. Four new regional consumer protection organisations were established, working under the umbrella organisation based in Skopje. Budgetary support for the consumer protection NGOs was increased, but is quite modest in comparison with the complex tasks that consumer protection entails. The umbrella consumer protection NGO focused mainly on publicity campaigns, and less on taking up consumers' claims. Preparations in this area are ongoing.

Some progress has been made as regards *product-safety related issues*. Legislation implementing the Law on Product Safety was adopted. Alignment with the *acquis* remains to be confirmed. Market surveillance remains weak and does not ensure effective and transparent consumer protection. The administrative capacity of the coordinating body for market surveillance is poor. The powers of the various inspectorates have still not been clarified. The poor funding, understaffing and inadequate powers of the inspectors seriously limit the ability of the inspectorates to conduct checks on products. Preparations in this area are on track.

Some progress has been made with regard to *non-safety-related issues*, where implementation and enforcement of the consumer credit legislation have been ensured. The *acquis* on distance marketing of consumer financial services, on injunctions and on unfair commercial practices has not yet been transposed. Mediation is still used only to a limited extent. Preparations in this area are on track.

There has been some progress in the area of **public health**. Regarding the *horizontal aspects*, a new Law on Health Data defined the general principles for collecting and processing comprehensive healthcare data. A new public health programme for rare diseases was introduced. Still, the funding for the public health programmes remained the same as in 2008, except for the compulsory immunisation programme, which was increased fourfold. Implementation of public health programmes continues to be hampered by the lack of a proper operational structure and adequate finance, which results in some programmes being curtailed or suspended. The hospital sector still receives higher budgetary allocations than the public health and primary healthcare sectors. Preparations in this area are on track.

Some progress has been made in the area of *tobacco* control, notably as regards tobacco advertising. Progress in the area of tobacco products has been less significant. The country signed a licensing agreement on use of EU pictorial warnings on tobacco products, which were introduced in September. Preparations in this area are on track.

Some progress can be reported in the field of *communicable diseases*. The outbreak of mumps at the beginning of 2009 revealed deficiencies in the immunisation programme against communicable diseases in the mid-1990s. Consequently, emergency immunisation against mumps of the population aged between 14 and 21 was carried out. The European Centre for Disease Prevention and Control (ECDC) and the WHO provided support to contain the outbreak of mumps. Measures have been taken to strengthen the IT system across the entire health sector, including the national early warning system (EWARN). There is still no comprehensive healthcare database. Preparations in this area are on track.

Some progress can be reported in the area of *blood*. Implementing legislation on blood safety was adopted. Alignment with the *acquis* remains to be confirmed. Proper implementation of the blood safety strategy is lagging behind. There were no developments to report in the area of human *tissues and cells*. Preparations in this area are at an early stage.

Little progress was made with regard to *mental health*. Mental health institutions continue to lack staff and financial resources. Institutional care for socially vulnerable and disabled people improved slightly. However, more efforts and resources are required to improve community mental healthcare as an alternative to institutional care. A special focus on children and young people with mental health problems, who require healthcare tailored to their needs, is also required. Preparations in this area are at an early stage.

The national public health programmes continued to address the *socio-economic determinants of health* and *health inequalities* by providing funds for prevention of health problems caused by unhealthy lifestyle and free treatment for uninsured patients. A strategy on promotion of adolescent health was adopted. Implementation of the national strategy to reduce harm caused by *alcohol* has been continuing, with an action plan focusing on young people. Financial resources for combating *cancer* are insufficient. There have been no developments in the area of *health and the environment*. Preparations in these areas are ongoing.

Conclusion

Some progress has been made in the area of consumer and health protection. As regards consumer policy, there is still no effective and transparent market surveillance system. In the field of public health, the human and financial resources available are not yet sufficient to ensure proper implementation of legislation, strategies and action plans.

4.29. Chapter 29: Customs Union

Some progress has been made on **customs legislation**. The 2009 customs tariff takes into account the obligations arising from the Stabilisation and Association Agreement and the changes in the EU Combined Nomenclature. The protocol amending the Kyoto International Convention on the Simplification and Harmonisation of Customs Procedures was ratified. Legislation implementing the Customs Code, regulating authorised economic operators, was adopted. A number of customs-related fees, including the fees for customs escort of goods and for temporary customs warehousing, were abolished. However, some fees that are not in line with the *acquis* remain in force. Some of the provisions of the Law on Technological-Industrial Development Zones are still not fully aligned with the *acquis*. Preparations in this area are advanced.

Significant progress has been made on **administrative and operational capacity**. The strategy for training and professional advancement has been implemented. Employees benefited from a large number of training activities, including training on ethics. Operational capacity was further enhanced, in particular for investigation and intelligence. Risk analysis and risk-based control systems and procedures were introduced. The 'one-stop shop' system linking 16 State agencies came into operation. It allows companies to submit electronically a single request in order to obtain all the documents required for import, export and transit. The customs administration still has to develop a comprehensive IT strategy to ensure future interconnectivity/interoperability with the Community IT customs systems.

Efforts to combat corruption and cross-border crime and trade in counterfeit goods led to an increased number of misdemeanour and criminal cases. The number of disciplinary proceedings and criminal charges initiated against customs officers also increased, although the sanctions, in particular dismissals, were generally not upheld at the appeal stage. The customs administration signed new memoranda of cooperation with trade and transport

associations and with State agencies involved in the fight against crime and corruption. Preparations in this area are well on track.

Conclusion

Progress in this chapter has been substantial, in particular as regards administrative and operational capacity. The customs legislation is sufficiently aligned with the *acquis*, except in the case of transit. The administrative capacity of the customs administration to implement legislation and to tackle cross-border crime is continuing to improve. Preparations in this area are 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 and with the Stabilisation and Association Agreement (SAA) with the EU. Customs duties were reduced for 498 products and entirely abolished for 286 more. The average customs duty on industrial products remained 7% and the duty on agricultural and fisheries products was reduced to 15.98%.

The country continued to coordinate closely with the Commission and to align with EU policies and positions in international trade negotiations. The protocol on rules of origin to the bilateral free-trade agreement with Turkey was ratified. It is in line with the corresponding protocol to the SAA. The country has stepped up preparations for negotiations with the countries participating in the Pan-Euro-Mediterranean system of cumulation of origin.

There were no particular developments regarding export credits.

The government adopted a decree establishing the new list of *dual-use goods* and technologies, which entirely transposes the list of dual-use goods and technologies in the relevant Council Regulation. The system for control of dual-use goods is not fully functional.

In the area of **bilateral agreements with third countries**, the country ratified the investment agreement with India and the protocol amending the investment agreement with Romania. The number of bilateral investment agreements ratified rose to 31, of which 28 are in force and 15 are with EU Member States.

No progress can be reported in the areas of **development policy** and **humanitarian aid**. Preparations in both these areas are not very advanced.

Conclusion

There has been some progress in the alignment with the EU's external relations policy. The institutional capacity and coordination between the relevant institutions is not yet sufficient to enable the country to participate fully in the EU development and humanitarian aid policies. Overall, preparations in this area are on track.

4.31. Chapter 31: Foreign, Security and Defence Policy

The regular **political dialogue** between the EU and the country continued to cover foreign policy issues. (*Concerning neighbourly relations with other enlargement countries and Member States, see the section on Political criteria.*)

As regards the **common foreign and security policy** (CFSP), the country continued to align itself with EU common positions and statements on third countries and regions. In the reporting period, the country aligned itself with all the relevant EU declarations and common positions, except in four cases related to Ethiopia, the USA, Israel and Nigeria. In particular, the country aligned itself with the EU declaration on deployment of the European Union rule of law mission (EULEX) in Kosovo. The CFSP coordination unit was strengthened with one new recruit, bringing the total staff up to five.

Implementation of *restrictive measures* is continuing. A working group on CFSP issues led by the Ministry of Foreign Affairs is continuing to review the implementation process. So far, implementation of the international restrictive measures has shown the need for further coordination between the competent authorities.

With regard to *non-proliferation*, in December 2008 the Republic of Macedonia signed the Convention on Cluster Munitions. The country issued its third national report on implementation of the EU Code of Conduct on Arms Export and also the report on implementation of the UN Action Plan for the Prevention, Fight and Eradication of Illicit Trafficking of Light and Small Weapons. The National Commission for Small Firearms and Light Weapons is continuing its work.

A special sector was established in the Ministry of the Interior to deal with illegal trade in weapons, ammunition and explosive materials. As a result of its work, 300 persons were charged with related offences in 2008. The administrative capacity of the unit for arms control in the Ministry of Foreign Affairs was strengthened with the recruitment of additional staff.

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

As regards *security measures (classified information)*, the Certified Computer Unit for access to the EU network for electronic exchange of classified CFSP information (ACN) was installed. Staff and budgetary support were allocated for satisfactory operation and maintenance of the electronic system.

In the framework of the **European Security and Defence Policy** (ESDP), the country showed continued commitment to participation in civil and military crisis management operations. The country withdrew its military forces from the EU-led EUFOR/Althéa military mission, but continued to participate with a medical team, along with a preventive medicine non-commissioned officer and a legal adviser at EUFOR headquarters in Bosnia and Herzegovina. The country continued to participate in the NATO mission in Afghanistan and in the UN-led peacekeeping mission in Lebanon (UNIFIL). The country indicated its readiness to take part in EU battle group (EUBG) 11/2012 made up of military forces from Germany (lead nation), Austria, the Czech Republic, Ireland and Croatia.

Conclusion

There has been some progress in the area of foreign, security and defence policy, in particular in terms of strengthening the administrative capacity. The country aligned with most EU declarations and common positions and has shown continued commitment to participation in ESDP operations. Continued efforts are needed to ensure progress in implementing restrictive measures and in ensuring non-proliferation.

4.32. Chapter 32: Financial Control

Some progress can be reported in the area of **public internal financial control (PIFC)**. A revised Law on PIFC was adopted in July. Establishment of internal audit units in line ministries has been stepped up. However, 10 units at the local level have not yet been staffed. Adequate training schemes on internal audit are missing. The institutional capacity of the central harmonisation units (CHUs) in the Ministry of Finance has been improved, but is not yet sufficient. The PIFC policy paper needs to be amended to include a medium- to long-term plan for development of PIFC and an action plan to ensure its full implementation.

As regards **external audit**, the State Audit Office (SAO) updated its development strategy (2008-2012) and other key methodological guidelines on audit quality and reporting. The operational capacity of the SAO has been improved, with the recruitment of 14 new auditors, but the coverage of public expenditure audited decreased in 2008 and remains insufficient. The SAO's functional and financial independence remains to be safeguarded, either constitutionally or by equivalent means. Cooperation with parliament is still not fully satisfactory and adequate procedures for dealing with the SAO's reports and audit recommendations are still lacking. Preparations in the area of public internal financial control and external audit are on track.

Some progress can be reported on **protection of the EU's financial interests**. A memorandum of understanding on preventing, investigating and reporting on irregularities in implementation of IPA funds was signed between the national authorising officer and the Anti-Fraud Coordination Service (AFCOS) within the financial police. Preparations in this area are on track.

No progress can be reported in the fight against **counterfeiting of the euro**. Limited improvements were made in the national cooperation mechanism for reporting suspicious banknotes, as the National Bank issued instructions to all banks. In 2008, 380 banknotes were seized, up from 321 in 2007. Investigative capacity is weak. Significant shortcomings remain in equipment, staffing and training, notably for the National Bank.

Conclusion

Some progress has been made towards aligning and implementing the legislation. The administrative capacity of the institutions responsible for financial control has been further strengthened. The SAO is not yet functionally and financially independent. Preparations in the area of protection of the EU's financial interests are continuing.

4.33. Chapter 33: Financial and Budgetary Provisions

In the field of **traditional own resources**, revenue collection from customs and agricultural duties levied on imports has improved. The institutional capacity of the customs administration has been strengthened and anti-corruption measures have been stepped up.

As regards **VAT resources**, the administrative capacity of the Public Revenue Office (PRO) has improved. Efforts were made to combat customs duty and VAT fraud and thereby contribute to more efficient revenue collection. Internal audit and financial management control capacity has been strengthened, but is still insufficient.

In the case of **GNI resources**, some progress was made towards producing more exhaustive national accounts and applying the rules and definitions in EU accounting standards. Little progress was made towards improving the estimates on the informal economy.

Although the *acquis* in this area does not require transposition, establishment of appropriate **administrative infrastructure** is important, in due course, to ensure correct calculation, collection, payment and control of own resources and reporting to the EU for implementation of the rules on own resources. The number of Internal Audit Units in budget users has increased. However, the capacity within the relevant authorities to apply the rules is not yet sufficient.

Conclusion

Some progress has been made towards aligning with the *acquis* in the areas of customs, statistics and financial control. Improvements were made to the operational capacity of the customs authority and the PRO, particularly on combating customs and VAT fraud. Appropriate coordination structures and administrative strengthening will be needed for implementation of the rules on own resources in due course.