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**Stabilisation and Association Report**

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# Former Yugoslav Republic of Macedonia

## Stabilisation and Association Report

### TABLE OF CONTENTS

<b>1. EXECUTIVE SUMMARY.....</b>	<b>3</b>
<b>2. POLITICAL SITUATION.....</b>	<b>4</b>
2.1. Democracy and the Rule of Law .....	4
2.2. Human Rights and the Protection of Minorities.....	9
2.3. Regional Co-operation.....	11
2.4. Priority Areas Needing Attention in the Next 12 Months .....	13
<b>3. ECONOMIC SITUATION.....</b>	<b>14</b>
3.1. Current Economic Situation .....	14
3.2. Existence of Free-Market Economy and Structural Reforms.....	16
3.3. Management of public finances.....	17
3.4. Priority Areas Needing Attention in the Next 12 Months .....	17
<b>4. IMPLEMENTATION OF THE STABILISATION AND ASSOCIATION PROCESS .....</b>	<b>18</b>
4.1. General Evaluation .....	18
4.2. Internal Market and Trade .....	19
4.3. Sectoral policies.....	25
4.4. Co-operation in Justice and Home Affairs .....	27
4.5. Priority Areas Needing Attention for the Next 12 Months.....	29
<b>5. FINANCIAL ASSISTANCE .....</b>	<b>29</b>
<b>6. PERCEPTION OF THE EU .....</b>	<b>31</b>

## 1. EXECUTIVE SUMMARY

In 2001 the former Yugoslav Republic of Macedonia faced the most serious **political and security crisis** in its history. This has had a major impact on the economy, democratic institutions and the administration's ability to take forward the process of reform. With a significant political and economic investment by the EU and the rest of the International Community, the country has shown determination in overcoming the crisis but needs to maintain its efforts to ensure stability. The crisis revealed severe weaknesses in the country's democratic institutions and underlined the need for a major effort to underpin the stability of its institutions, thus guaranteeing democracy, the rule of law, human rights and respect for and protection of minorities. The changes to the Constitution in November 2001 and the adoption of the Law on Local Self-Government in January 2002 were a very positive step in this direction. The full implementation of the Framework Agreement of August 2001 is essential to build the necessary country-wide political consensus and stability needed for the reform effort ahead.

The *economic situation* deteriorated during 2001, largely as a result of the security crisis. Macro-economic stability was not maintained and most indicators moved in the wrong direction. Implementation of its structural reform programme is a top priority and will require a significant political and administrative effort. Privatisation of the state-owned enterprises and sale or liquidation of large loss making enterprises were unfortunately delayed. Transparency of the privatisation process has not been ensured. Despite improvements in the regulatory framework of the bank supervision, the health of banking system remains fragile. The reforms are urgently needed if the country is to be able to cope with the competitive pressures and market forces which will flow from the full implementation of the Interim Agreement.

With regard to the structure and functioning of the *administration* the adoption of the legal framework for the decentralisation of public administration was an important step forward which should also contribute to the wider stability of the country. In general, however, the public administration has some way to go before it can adequately fulfil all the tasks required of it in a functioning democracy based on the rule of law. The weakness of the judiciary and the consequent difficulties for law enforcement remain. Corruption is a serious cause for concern and it is crucial that the government tackles this energetically through an action plan of specific measures.

The signature of the *Stabilisation and Association Agreement* (SAA) in April 2001 and the coming into force on 1 June 2002 of the Interim Agreement was an important step in the former Yugoslav Republic of Macedonia's efforts to move closer to the EU. But careful, thorough implementation of these obligations will be the only real indicator of progress. However, the political crisis has slowed down the process of institutional and legislative change which is necessary if the former Yugoslav Republic of Macedonia is to come close to European structures. It is important that every effort is made in 2002 to refocus attention on the implementation of the Interim Agreement.

## 2. POLITICAL SITUATION

### 2.1. Democracy and the Rule of Law

*The new Constitution introduced on 17 November 1991, amended in 2001, is based on the rule of law and provides for protection of human rights and basic freedoms, the creation of a free market and provision of social welfare as well as separation of powers and multi-party democracy. There have been elements of instability related to the setting up or the functioning of the country institutions.*

*The former Yugoslav Republic of Macedonia managed to escape ethnic conflict during the first years of its independence after the break-up of the former Yugoslavia and to lay the foundations of the transition to a market economy and state of law. But 2001 was marked by a very serious political crisis which brought the country close to civil war and caused many losses of lives. Only with a major political investment by the International Community (EU, US, NATO, OSCE, etc.), was the former Yugoslav Republic of Macedonia finally able to find a solution to the crisis through political dialogue.*

*The institutions of the country demonstrated important weaknesses in relations to the basic principles of democracy and the rule of law which must now be addressed. In particular International agreements, Laws and Regulations, once signed or adopted should be respected.*

*The Framework Agreement signed on 13 August 2001 provides a further basis for the democratic development of the country. Its implementation should be speeded up and legislative modifications foreseen in the agreement should be quickly adopted. In order to achieve the necessary political stability the former Yugoslav Republic of Macedonia needs to engage with renewed commitment in the transitional process..*

#### 2.1.1. Assessment of democratic institutions and of attitudes to the state.

The year 2001 was marked by political and security instability and the country was several times near to a civil war. Both, government forces and the NLA, committed serious violations of international humanitarian law in the course of the conflict.

The Framework Agreement signed on 13 August 2001 by the four political parties forming the emergency coalition government, provided the basis for a lasting political solution to the crisis. The Framework Agreement committed the signatories to introduce a number of constitutional amendments, legislative modifications and structural reforms designed to end inter-ethnic tensions and restore a stable political environment. Important steps to strengthen the civic character of the state and expand the rights of minorities have already been taken in compliance with the agreement. However the quick adoption of the remaining laws and legislative modifications foreseen in this agreement, is necessary to maintain peace and stability.

**Constitution.** Following very difficult discussions in the Government and Parliament the Constitution of 1991 was amended in November 2001, in accordance with the principles agreed in the Framework Agreement of 13 August 2001. A total of 15 Articles and the Preamble were amended, to improve minority rights.

The Albanian language became an official language in areas where it is spoken by more than 20% of the population. Equitable representation of ethnic communities in public bodies has been guaranteed. Freedom of religion, and improved minority rights in the fields of culture, language and education have been introduced. A double majority system has been introduced for approval of the Law on Local Self Government and laws that directly affect culture, use of language, education, personal documentation and use of symbols, and nomination of Judicial Council Members, the Security Council and judges of the Constitutional Court. An agreement on the basic principles of decentralisation has been reached and will be regulated by law. Despite delays in achieving agreement on constitutional reform this event was the most important step forward made by the country in 2001 in response to long standing grievances of the ethnic Albanian minority, which were at the root of political instability during the year. It is crucial that Government and Parliament now implement these constitutional reforms, and adopt and enforce the necessary implementing legislation.

**Parliament.** The Assembly is composed of 120 members elected in general and direct elections by secret ballot for a period of four years. The present Assembly was elected in elections held in October and November 1998.

The Assembly plays an important political role – it adopts legislation, approves the Government as a whole and every cabinet member individually. It also appoints a number of independent authorities (such as the Ombudsman) which report back to the Assembly. The MPs are generally committed to their role. However, a lack of experience and ill defined rules of procedure sometimes create confusion in legislative work. The rules of procedure of the Assembly should be reviewed and adapted to the demands of legislative reform, including those required by approximation of the country's legislation to EC legislation.

The Parliamentary committees should urgently improve their capacity to assess whether proposed legislation is compatible to international agreements and EC *acquis*.

Due attention should be given to communication between the Parliament and a number of independent bodies such as the Ombudsman, the Audit office, the agency for Civil Servants etc. The mechanisms for parliamentary oversight should also be upgraded.

**Elections.** Recent elections (parliamentary in 1998, presidential in 1999 and local government in 2000), have been generally free. However, a number of criticisms have been voiced by local and international observers. The OSCE/ODIHR reported weaknesses and shortcomings such as a number of violent incidents during the campaign, problems with voters' registers, cases of group and proxy voting, cases of intimidation inside polling stations, multiple voting, partisan manipulation by members of election commissions and delays in the announcement of results. No major problems have been reported concerning the implementation of electoral results.

An amendment of the Electoral Law is under preparation. It is expected to be adopted before the next Parliamentary elections to be held in 2002. Substantial international monitoring will be essential to ensure free and fair elections.

There are often shortcomings in the ways in which political parties operate. Internal democratic procedures are often missing, and party structures often have overwhelming influence over decisions taken at governmental level. The legal framework for the financing of political parties is unclear.

Voters generally understand the role of pluralistic democracy, however, in certain areas traditional family culture is in conflict with normal electoral rules when one family member tries to vote on behalf of the whole family.

**Executive.** The Government centre-of-right coalition which came to power in December 1998 was based on the sharing of power between the main ethnic Macedonian nationalist party and the ethnic Albanian nationalist party. The Government has always shown signs of instability. Since 1998 there have been seven cabinets (headed by the same Prime Minister). Opposition and coalition partners have often been undermining the Government's work and trying to form alternative coalitions to topple successive governments.

A government of "national unity" was formed in May 2001 which managed to avert the crisis with the substantial help of the International Community and a Framework agreement was signed in August 2001. However, in November 2001, the Socialist Party (SDSM) left the coalition as soon as the amended Constitution was adopted by the Parliament.

There is no clear division of competence between the Ministry of Interior, which controls the police forces, and the Ministry of Defence, which controls the Army. The uncoordinated manner in which the Police and Army reacted, or over-reacted, to the 2001 crisis contributed to turning a localised security problem into a more general crisis in the country. The Ministry of Defence's exceptional purchase of heavy military equipment in 2001 also contributed to the balance of payments deficit.

The Government is in the process of re-establishing its control over areas affected by the conflict, in full co-operation with the international monitors deployed by the OSCE, the EU and NATO. The Re-entry Plan for police should be completed during the spring of 2002. This should be facilitated by the adoption on 7 March of the Law on Amnesty as required by the Framework Agreement. A crisis management centre in the Government oversees this process. Unfortunately, the turnover of chairmen of this body (three Deputy PMs have been changed since the date of its establishment) does not make for efficient co-ordination.

In 1996 a Law expanded the number of municipalities from 34 to 124 but did not give these new bodies power to raise revenue or otherwise be self-supporting. In 1998 the Ministry of Local Self-Government was established. The development of *local self-government* has been on the government's agenda since 1998 when a reform strategy and action programme was adopted.

A start had been made on local government reforms but progress had been very slow thereby contributing to the crisis. The signature in August of the Framework Agreement was vital to the reform process in this area and in January 2002 the Parliament adopted a new Law on Local Self Government to transfer powers to the municipalities in the areas of public services, culture, education, social welfare, health care, environment, urban and rural planning, economic development and local finance. There are currently three other pieces of legislation under preparation which are related to the decentralisation process: (i) Law on Local Government Finance; (ii) Amendments of the Law on Territorial Division and the Law on the City of Skopje; and (iii) Law on Local Elections.

An updated Action Plan to guide reform over the next five years has been adopted by the Government and should now be implemented. An Inter-ministerial Co-ordination Body, to design and follow the reform of Local Self-Government, has been established. In view of the urgency of Local Government Reform as part of the political settlement, it is

crucial that the Ministry of Local Self-Government is immediately reinforced together with all related co-ordination and decision making mechanisms.

The **public administration** should be reformed and strengthened to cope with obligations deriving from the implementation of the Framework Agreement and the SAA. As part of the ongoing reform of the administration currently estimated to number 85,000/90,000 civil servants it is planned to make 3,500 personnel redundant. Some measures have been taken in 2001 to reach this target, through the adoption of a Pre-Retirement Law.

The legal and normative framework on the status, qualifications and career development of civil servants (Law on Civil Servants of July 2000 which needs to be amended in accordance with the Framework Agreement) is relatively well developed. An *independent Agency on Civil Servants* reporting to the Assembly is charged with the implementation of the law and the preparation of the necessary secondary legislation. The Agency has been set up and is in the process of developing its full capacity. However, it lacks sufficient means to enforce the legislation, and cases where various state bodies do not apply the new legal framework are quite frequent. The new financial framework for the civil servants, which should correspond to the new career structure, has not been enforced yet, and the Government seems to lack vision as regards strategic co-ordination between policy making and implementation. The Agency (in spite of the lack of appropriate means and low budget) has managed to develop secondary legislation on career development, and a Code of ethics for civil servants (the first of its kind in the country) was enacted in late November 2001.

**President.** The President of the Republic, elected by direct universal suffrage for a renewable five-year term, represents the Republic. He is the Commander-in-Chief of the Armed Forces and the President of the National Security Council. The current President, Boris Trajkovski, was elected in November 1999. He has played a significant role in facilitating efforts to overcome the political/security crisis in 2001.

### 2.1.2. *Assessment of judiciary, law enforcement and respect for the rule of law*

**Judicial system.** The functioning of the judiciary and of law enforcement is beset by a number of serious weaknesses.

According to the Constitution, the Courts are autonomous and independent. Judges are elected/discharged by the Parliament upon proposal of the Republic Court Council. At the moment judges do not represent the ethnic composition of the population, but the new Constitution has addressed the problem for future nominations. A judge is elected without any restriction on his/her term of office. The Law on Courts of January 1996 governs the types of courts. There are 27 Courts of First Instance, three Courts of Appeal and the Supreme Court. There are no specialised courts. There are approximately 660 serving judges and 229 expert associates support their work.

There are some problems of backlog, especially at the level of the Court of First Instance. During 2000 courts were to solve a total of 1,054,391 cases including 464,000 unsolved cases from 1999. Courts of Appeal solved 95% of submitted cases, while the Courts of First Instance solved 50% of the submitted cases. Most of the unsolved cases deal with misdemeanours and enforcement cases. The Laws on misdemeanours, Criminal Procedure, Courts and the Criminal Code should be changed, in order to speed up procedures. The Law on Independent Court Budget should also be adopted without delay.

The Constitutional Court is composed of nine judges, elected by the Parliament. The new Constitution has introduced a double majority system for the election of judges to better respect minority rights. The Court's sentences are correctly enforced.

The *Public Prosecution* is formally independent of the legislature and the executive. The Public Prosecutor of the Republic is appointed by the Parliament for a term of six years.

The *Republican Judicial Council* is the body responsible for administering the judiciary. It has seven members elected by the Assembly: it nominates prospective judges for subsequent approval by the Assembly. The law provides for the appointments to be made on the basis of professional criteria (unspecified). The appointment of judges by the Assembly does not always guarantee their professional and political independence, and practice is not in conformity with European standards. The Republican Judicial Council also takes care of disciplinary procedures. However, the procedures (the final decision has to be taken by the Assembly) are long and seem to lack objectivity and transparency.

Training of judges and other magistrates is the responsibility of a Training Centre (established in 1999) which operates as an independent foundation under the auspices of the Macedonian Judges' Association. In spite of the successes of this Centre so far, it is important that its future financial viability be assured.

**Police.** The police force is being restructured, in order to better represent citizens belonging to all communities. A *Police Training* programme is underway. The first class of police officers recruited from the minorities graduated on 19 December 2001 from the Police Training School in Idrizovo, near Skopje. The class comprised 106 ethnic Albanians and ethnic Bosnians, among whom are 17 female graduates. Additional 101 cadets from all over the country began classes on 11 February 2002 at the Centre for Education of Personnel in the Field of Security (Police Academy) outside Skopje. The Government's goal is to recruit 500 new police officers from non-majority communities by July 2002. In total, OSCE will train this year 500 new cadets from communities not in the majority, in accordance with the Framework Agreement, of which 80% will be ethnic Albanian. To ensure a completely multi-ethnic training, an additional 100 cadets from the majority population will be trained in a fully integrated programme.

Within the police system, and under the direct authority of the Minister of Interior, there are forces which have been legalised but exhibit the behaviour of paramilitary forces (in particular the "*Lions*") which are accused by Humanitarian Organisations of serious human rights violations. These groups should be immediately dismantled and only official mixed-ethnic police forces, properly trained, should act within the framework of legislation.

Much remains to be done in terms of co-ordination, creation of policy frameworks, legislation, training and implementation in the field of Police. A clear division of responsibilities between Police and Army (i.e. Ministry of Interior and Ministry of Defence) should be decided urgently.

The Macedonian police co-operate with police forces from other countries in the framework of Interpol.

**Respect for the Rules of Law.** Corruption in the public service is a widespread problem and undermines the credibility of the political and administrative institutions. The politicisation of the administration, through appointment based on party affiliation, continues to pose a major constraint on the development of a modern professional civil service. No action is taken to investigate and combat corruption and professional misconduct. An efficient anti-corruption strategy should be developed.

Transparency and objectivity in the various procedures in which bodies belonging to the executive are involved (especially in the management of economic assets, e.g. privatisations, concessions, but also in all services to citizens) should be strengthened.

## 2.2. Human Rights and the Protection of Minorities

*The Constitution generally guarantees basic equal rights for all ethnic and other minorities, including civil, social, economic and political rights.*

*However, progress is needed to introduce higher standards in the protection of human rights for minorities as well as cultural and other social rights. It is absolutely necessary that the authorities pursue a comprehensive and efficient policy in this area and show zero-tolerance for any human rights abuse.*

### 2.2.1. Civil, political, economic and social rights

The Constitution guarantees civil and political rights but the implementation of these principles is not fully effective.

Human rights groups and other international observers expressed concern as regards human rights violations by law enforcement forces (especially cases of extrajudicial killings, torture and ill-treatment of prisoners, arbitrary arrests and detention, harassment of minorities, use of excessive force, looting and burning of houses, wiretapping, etc.). The authorities have been reluctant to investigate and pursue human rights violation cases. During the recent crisis several severe human rights violations have reportedly been perpetrated by both the NLA and the security forces.

*Freedom of expression* is only formally guaranteed in the Constitution. The media are structurally weak, perform poorly and are not independent. Radio, television and printed media remain under Government political and financial control. Top posts are filled by political appointments. Cases of intimidation of journalists and obstruction of their work have been reported. The government-owned and the private media need to learn how to become more responsible. Media coverage during the 2001 crisis significantly contributed to worsening the political situation. The media sector (radio, TV and print media, including Albanian language and multiethnic media) should therefore undertake radical reform. Professional media training programmes for members of communities not in the majority should also be undertaken. Cases of intimidation of the press have been reported. The authorities have started a campaign against the Helsinki Committee because of certain criticisms expressed by this organisation as to the conduct of the special forces of the Ministry of Interior during the conflict as regards the respect of human rights.

The *right of assembly and association* is generally respected. During the 2001 crisis several rallies in front of the Parliament and Government buildings took place without major incidents.

The role of *Civil Society* in building democracy, promoting pluralism, improving justice, fighting poverty, correcting and complementing the state, has still to be developed. There is a lack of a clear understanding of the function and potential of a developed civil society. But there is some progress. Following the enactment of the new Law on Citizen Associations and Foundations by the Parliament in 1998, approximately 4700 NGOs have been registered. Whilst this law is not perfect, it does provide the basis for the development of civil society. However, it makes no provision for special tax treatment or other incentives to encourage non-profit organisations. And much remains to be done in this area.

The right to ownership is recognised by the Constitution. The Law on Denationalisation was enacted in April 1998 and although eight months were foreseen for the enactment of secondary legislation, no by-laws were ever passed. Further to the decision of the Constitutional Court, in April 2000 a revised Law was adopted which included new

provisions for denationalisation of state owned land and urban land, properties of the religious communities, etc. No reports are available on the extent to which denationalisation and restitution have been achieved.

A restrictive *Citizenship* Law adopted in 1992 required 15 years continuous residence as a condition for citizenship. In 1999 a draft Amendment to the Citizenship Law was prepared in accordance with the “European citizenship Convention” and the requirement was lowered from 15 to 10 years. However, the adoption of this Law was delayed. The consequence of current legislation is that still some ethnic groups which worked in different parts of the former Yugoslavia lack proper documentation and cannot benefit from social support, since the welfare legislation requires applicants to have Macedonian citizenship. The Law on Ratification of the European Convention on Citizenship has been adopted on 23 January 2002..

The existence of an *Ombudsman* since 1998 is a sign that the country wants to apply high standards in this field. However, since its establishment the Ombudsman’s Office has not been able to give a positive opinion as regards the enforcement of the citizens' rights by government and other state organs: it reports on lack of reform in the Public Administration, incoherent legislation, slow administrative procedures and a lack of transparency as well as certain objective conditions. Since its existence the Ombudsman’s recommendations have been only partly followed..

In 1997 the former Yugoslav Republic of Macedonia ratified the European Convention for the Protection of Human Rights and Fundamental Freedoms (ECHR).

*Equality between men and women* is guaranteed by the Constitution. The former Yugoslav Republic of Macedonia is party to the international “Convention on the Elimination of all forms of discrimination against Women”. However, under-representation of women exists among top civil servants and in decision-making bodies generally.

According to the Constitution, citizens have the right to establish *trade unions*. Trade Unions can constitute confederations and become members of international trade union organisations: they exist but are not very active. There are 24 different unions, and two Associations : (i) Macedonian Union of Trade Unions (old style trade unionists); and (ii) Union of Independent Trade Unions. There are more than 30 collective agreements, two general and the rest governing specific branches. However, there is a lack of public awareness of the Trade Unions role in society.

Whereas *freedom of religion* is generally guaranteed, problems have emerged concerning the ability of communities which do not belong to the majority of the country’s population to practice their religion. Relations between the two major religious communities (Christian Orthodox and Islamic) have deteriorated as a result of the 2001 conflict, and other religious communities also face occasional difficulties. In particular, local authorities and local public opinion in certain places create obstacles. (Recently the construction of a Catholic Church has been obstructed in the Southern village of Sekirnik, east of Strumica.)

The former Yugoslav Republic of Macedonia has signed (1998) but not yet ratified the European Social Charter.

### **2.2.2. *Minority rights and refugees***

Despite formal protection of minority rights under the 1991 Constitution and the former Yugoslav Republic of Macedonia’s ratification of the “Framework Convention for the

Protection of National Minorities” in 1997, the enforcement of minority rights is a major problem in the country, greatly contributing to the current inter-ethnic crisis.

Inter-ethnic relations were a long standing issue and the ethnic composition is still a topic of intense controversy. According to the 1994 Census minorities account for 34% of the population: Albanians 23% of the population, while other minorities such as Turks, Roma, Vlachs and Serbs together account for 11%. The next Census should not be delayed any more and the date should be urgently fixed. It will be held with the assistance of the International Community (EC, Council of Europe, OSCE, etc.), and should be carried out so that the ethnic composition of the population can be finally clarified and internationally recognised.

In July 2000, the Assembly adopted the Law on Higher Education which allowed private higher education in Albanian language. The International Community, under OSCE's co-ordination, financially assisted with the implementation of this Law supporting the creation of the South-East Europe University (SEEU) in Tetovo (for diplomas in Law, Public Administration, Business Administration, Communication Sciences and Technologies (CST), Teacher Training), which opened in November 2001. The diploma issued by the existing University in Tetovo in Albanian language (which was set up after the war in Kosovo), had never been recognised by the Government due to the fact that curricula were not up to national standards.

It is expected that the implementation of the Framework Agreement of August 2001 will provide a higher degree of protection for persons belonging to minority communities. In November 2001 the Constitution was amended to increase the protection of minority rights.

A Roma community (2.3% of the population) is settled in several villages and, contrary to other parts of the Region, this community is not of nomadic nature. Despite the Government not having a specific strategy for Roma integration, the ethnic community is represented in the Parliament and local municipalities. Roma are disadvantaged from a socio-economic point of view and their specific problems should be addressed by the Government.

The former Yugoslav Republic of Macedonia had always demonstrated a very positive attitude towards *refugees*, in co-operation with the International Community. Refugees from Kosovo have found shelter in the country during and after the 1999 conflict and, according to UNHCR, 4,570 refugees are still in the country.

More than 80% of the 170,000 people who were *displaced* last year have now returned to their homes. It is estimated that there are currently about 17,000 IDPs within the country.. Additional 9,650 refugees are still in Kosovo and Southern Serbia. But unless progress is made in implementing the Framework Agreement of 13 August 2001, there is a serious risk of further unrest and population displacement. Measures to build confidence and promote dialogue between ethnic communities are vital to reinforce the progress made to date.

### 2.3. Regional Co-operation

*The former Yugoslav Republic of Macedonia has always been an active participant in regional co-operation initiatives and has good relations with neighbouring countries.*

### 2.3.1. *Multilateral Relations*

The former Yugoslav Republic of Macedonia has always been an active participant in regional co-operation initiatives (at the level of the Western Balkans or South-East Europe). It participates in the Stability Pact, and the SEECP. It is an active member of the Central European Initiative (CEI) and it took over its presidency on 1 January 2002. Its accession to the WTO (negotiations are expected to be finalised in 2002) will further boost this process. A final agreement was reached in June 2001 on SFRY succession.

The country has fully co-operated with the international community during conflicts in the region and also in its recent internal crisis. The involvement of the various monitoring missions, especially those of the EU and the OSCE, as well as of NATO and the special representatives of the EU and the US, have played a stabilising role in the containment and the termination of the conflict as well as in strengthening confidence building among the various ethnic groups and implementing the peace agreement.

The former Yugoslav Republic of Macedonia's obligations in the framework of the OSCE mainly concern democratisation, human rights and security-related issues. It should follow OSCE recommendations in these sectors.

The former Yugoslav Republic of Macedonia is a member of the Council of Europe since November 1995.

The country is co-operating with the International tribunal for war crimes in former Yugoslavia in a satisfactory way.

### 2.3.2. *Bilateral relations*

Political and commercial bilateral relations with neighbouring countries are generally good. The former Yugoslav Republic of Macedonia has currently Free Trade Agreements with Slovenia (July 1996), FRY (October 1996), Croatia (May 1997), Turkey (September 1999), Bulgaria (October 1999), Ukraine (2000) and Albania (initialled on 11 January 2002). Discussion are ongoing with Bosnia and Herzegovina.. On 27 June 2001 under the auspices of the Stability Pact, the former Yugoslav Republic of Macedonia signed a Memorandum of Understanding with Albania, Bosnia and Herzegovina, Bulgaria, Croatia, Romania and FRY aimed at liberalising trade and lowering tariff barriers. The MoU provides for the establishment of a network of Free Trade Agreements for Southeast Europe by the end of 2002.

However, stronger ties to **Bulgaria** and **Greece**, instead of being seen as efforts to improve regional co-operation, are still viewed by part of public opinion with distrust.

**Greece** and the former Yugoslav Republic of Macedonia have very good commercial relations and have resolved many of their disputes, but the name issue remains unsolved. While the country uses its Constitutional name of "Republic of Macedonia" the UN and EU have never recognised this name. In 1991 the UN recognised the new State under the provisional name of "Former Yugoslav Republic of Macedonia" Negotiations are ongoing under UN supervision to find a compromise between the countries. In the current delicate political context, it is urgent for both sides to finally resolve this outstanding issue.

Relations with **Croatia**, the only other country to have signed a SAA with the EU, continue to be good. Negotiations for a bilateral convention on regional co-operation under Art. 12 of the SAA are well advanced.

Relations with **Albania** have been particularly complex. The grievances voiced by the Albanian community in the former Yugoslav Republic of Macedonia have constituted an

element of tension between the two countries. However the ties between the two countries improved considerably in the past three years following the election of a government not inclined to meddle in the former Yugoslav Republic of Macedonia's internal affairs. This was particularly true during the recent political and security crisis in the former Yugoslav Republic of Macedonia. Albania's moderate and constructive policy and its firm condemnation of any violent actions on the territory of the former Yugoslav Republic of Macedonia have undoubtedly contributed to improve the political dialogue. Dialogue between Skopje and Tirana has never been broken, and relations have continued to develop as demonstrated by the initialling of a Free Trade Agreement in January 2002. Further efforts should be made by the two countries to improve police control of their borders and jointly fight against illegal trafficking of arms, drugs and human beings.

The former Yugoslav Republic of Macedonia has close cultural, political and economic links with **Serbia**. Relations improved after October 2001, with a high-level visit and no outstanding issues. The countries signed an agreement in February 2001, ratified by both Parliaments, that resolved the contentious border demarcation issue. The former Yugoslav Republic of Macedonia recognises the UNSCR 1244 on Kosovo. However, the ethnic Slav-Macedonian parties consider the situation in Kosovo as the origin of the recent crisis in the Northern part of the country. Despite regular closure by the former Yugoslav Republic of Macedonia of the border with Kosovo in 2001, the reconstruction of the Blace Border crossing finally started in early 2002. This will facilitate international reconstruction efforts and economic development in Kosovo.

Relations with **Bosnia and Herzegovina** are good but should be further developed. Negotiations for a Free Trade Agreement between the two countries started in May 2001 and are ongoing.

#### 2.4. Priority Areas Needing Attention in the Next 12 Months

- Implement the Framework Agreement of 13 August 2001, respecting its timetable for adoption of legislation, carry out the Census of population and ensure smooth implementation of the decentralisation process through offering the appropriate means to the central state bodies to manage the process, and developing the capacity of local self-government bodies to undertake the transferred responsibilities.
- Adapt electoral legislation in line with OSCE/ODHIR recommendations before the next Parliamentary elections in 2002, and enforce implementation.
- Strengthen legal and constitutional guarantees on freedom of expression in line with the European Convention on Human Rights.
- Dismantle of those legalised police forces which still display the behaviour of paramilitary forces;
- Encourage development of civil society, and encourage the role of local NGOs.
- Strengthen the fight against all violations of human rights and intensify training on human rights issues for law enforcement officials in co-operation with international organisations.
- Improve the functioning and efficiency of the judiciary, in line with international standards. Strengthen training of judges and prosecutors on EU legislation.

- Limit politicisation of the judicial system as a part of a strategy of development and reform and introduce objective professional standards for appointment and career development.
- Provide the Civil Servants Agency with the means to implement civil service reform in a perspective of integration into the EU structures and promote transparency in the public administration and in all state bodies.
- Continue the efforts to enhance regional co-operation.

### 3. ECONOMIC SITUATION

#### 3.1. Current Economic Situation

*Macro-economic trends.* The political crisis during 2001 dramatically affected the population and the economy. GDP, which had previously been expected to grow at a rate of about 6%, decreased instead by about 4.6% over the year, causing a negative swing of about 10 percentage points in GDP. In addition, the cost of repairs, according to a recent study<sup>1</sup>, is estimated at around 1.8% of GDP. The contraction of output affected most sectors of the economy.

The level of *unemployment* (32% of the labour force at the beginning of 2001) was already very high and reflects the low level of production and the need for improvements of productivity in the coming years. Its importance should, however, be assessed against a high reported level of activity in the informal sector. An apparent reduction of unemployment in 2001, down to 30.5% of the labour force in spite of the sharp decline of GDP, may be explained<sup>2</sup> by the increased level of public spending over the year, notably the recruitment of a large number of reservists in the police and the army.

In spite of the crisis, conservative *monetary policies* based on the external exchange anchor have prevented the country from falling into the spiral of high inflation. To stem losses of reserves in the context of the security crisis, the Central Bank in May-June increased reserve requirements and more than doubled its short term interest rates. Consumer prices overall increased by 5.3% in 2001, against 5.8% in the year 2000.

*Fiscal situation in 2001.* In Spring increased military expenditure in the context of internal fighting put a particular strain on the Government's budget. Additional spending on military equipment, the hiring of new military and police personnel and increases of salaries for special units in the police and the army reached 6.8% of GDP. General government expenditures amounted to 40.4% of GDP, i.e. 6.2 percentage points of GDP higher than in 2000.

Against this increase in *expenditure*, *revenue* decreased markedly. For the period January-August 2001, VAT collection only reached 57.1% of the expected amount, and decreased by 6.1% in comparison with the same period in the previous year. Retail and wholesale sales during the second quarter were reported down 40%, compared to the first quarter. In order to increase fiscal revenue the authorities introduced an exceptional tax on financial transactions on 1 July, initially for a period of six months. In 2001 fiscal

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<sup>1</sup> IMG report on damage assessment in the Former Yugoslav Republic of Macedonia, November 2001.

<sup>2</sup> And calls for caution given the poor reliability of statistical data.

revenue decreased by 7% in nominal terms and the overall fiscal deficit reached 6% over the year as a whole, against a surplus of 2.5% of GDP in the previous year.

On the *external side*, a sharp drop in imports, down to about € 1,7 billion from a level of € 2,1 billion in 2000, allowed for a reduction of the trade deficit to € 410 million. The current account deficit increased sharply to a level of 10.2 % of GDP. This high deficit was, however, to some extent compensated by long term capital inflows from privatisation proceeds in the amount of € 344 million (about 9.5 % of GDP), following the sale of the national telecom operator in January 2001. This, combined with the tight monetary measures taken in spring, dampened the effects of the security crisis which did not dramatically jeopardise foreign exchange reserves. Hard currency reserves, in spite of significant losses over the year, owing to the privatisation hard currency receipts, remained significant, in the amount of about € 779 million by the end of the year, or 6 months of imports in 2001. By the end of 2001 the former Yugoslav Republic of Macedonia was on track with its debt servicing obligations.

Full current account *convertibility* was already introduced in 1998. The denar, which was previously pegged to the DM, is now anchored to the euro at a rate of 60.9 DA substantial part of savings denominated in DM and other Euro-zone currencies was re-injected into the banking system in the end of 2001 (about € 380 million) and the first weeks of 2002, thereby substantially increasing nominal foreign exchange deposits.

The Poverty Reduction and Growth Facility (PRGF) and Extended Fund Facility (EFF) programme agreed with the IMF in late 2000 went off track in spring 2001 and was discontinued. In late 2001 the authorities reached an agreement with the IMF on a six-month Staff Monitored Programme, based on tighter fiscal discipline, with reduced government expenditure of 36.8% of GDP in 2002 (41% of GDP in 2001). The programme started on 1 January 2002 and the authorities indicated that they aimed to conclude a new upper credit tranche arrangement later in the course of 2002.

Overall, the situation remains fragile and a further consolidation of the peace process is essential in order to re-establish the ground for sustained stabilisation and reform policies as well as economic growth.

<b>Table: Main Economic Trends</b>		1997	1998	1999	2000	2001
Real GDP Growth	Percent	1.4	2.9	4.3	4.6	-4.6
Inflation	Average	2.6	-0.1	-0.7	5.8	5.3
Unemployment rate	Percentage of labour force	36.0	34.5	32.4	32.2	30.5
General government budget balance	% of GDP	-0.4	-1.7	0.0	2.5	6.0
Current account balance	Percent of GDP	-7.4	-8.8	-3.3	-3.4	-10.6
Foreign debt	Percent of GDP	30.4	37.9	40.5	41.5	40.7
Debt-export ratio	Percent	95	111	125	109	117
Gross foreign debt	Billion €	1.04	1.30	1.71	1.71	1.58
Foreign direct investment	Percent of GDP	0.4	4.8	0.7	4.9	13.2
	Million €	13	151	29	202	511
<i>Sources:</i> National sources, OECD external debt statistics, IMF, Government Finance Statistics						

### 3.2. Existence of Free-Market Economy and Structural Reforms

Following the liberalisation of bread and flour prices in October 2000, price liberalisation is largely completed, except for utilities, public transport, oil and postal services.

*Privatisation and restructuring.* The privatisation programme began in 1993. By the end of June 2001 some 1,646 enterprises had already been privatised, accounting for about 2/3 of the total number of employed persons in the economy. Privatisation in the agricultural sector is nearly complete. In spite of the successful sale in January 2001 of 51% of the national telecom company to Matav, the Hungarian operator, privatisation slowed down over the year 2001. In the second semester three large industrial enterprises were privatised: Sletovo Battery, Gazella (shoe manufacturer) and Godel (leather work). The privatisation of the state electricity company, ESM, is being prepared with the aim of selling the company by the end of 2002.

Some 40 large loss making enterprises were expected to be either sold or liquidated in 2001: while the crisis delayed the process in the first semester, the authorities have taken action in the last quarter by liquidating one company and commissioning expertise from international consultants on 17 enterprises, the bulk of which are expected to be closed by the end of December 2002. A decision on whether to open liquidation procedures on Jugohrom, one of the largest industrial companies with 1,900 employees, was expected by early 2002 and contingent upon final negotiations with a potential French investor.

*Financial sector reform.* The legal framework for modernising and strengthening the banking sector was already laid down in 2000 through a new banking law which was prepared mainly along EC banking directives and the "Basle Principles of Banking Supervision". As of July 2001 the payments functions from the old Payments Office (ZPP) inherited from the socialist era were progressively phased out and transferred to the banking system.

The banking sector is already predominantly privately owned. The main bank, Stopanska Banka, was sold in April 2000 to a Greek bank and the share of privately owned bank capital had already increased to 83.5% by early 2001. The sector is highly concentrated: the two largest banks, Stopanska Banka and Komercijalna Banka, hold about 2/3 of total deposits in the banking system. In 2001, the authorities reinforced the surveillance of the financial sector, in particular of eight problem banks. The rating of three of these banks was upgraded to the necessary minimum. Actions on the five remaining banks, the rating of which remained below the acceptable level, were initiated (the appointment of an administrator, the merging of two of them with other banks to improve their financial strength). However, the sector continues to suffer from a high level of non performing loans (about 35% were classified doubtful or non performing) and low efficiency, and its development is impeded by the low degree of financial intermediation.

Preparations for the introduction of a National Payment Card progressed in 2001 and was nearing completion. The aim is to introduce non-cash payments on a larger scale and reduce the amount of money in circulation outside of financial institutions. Commercial banks are also introducing a large number of cash machines (ATMs). The system is planned to become operational early in 2002.

The *Macedonian Stock Exchange* (MSE) was created in 1996 but at the end of June 2001 only one bank and one government bond were listed on the official market. The MSE, with market capitalisation of about 1% of GDP, plays a marginal role in the financing of the economy. Banks and broker houses have established in 2001 a Central Depository for Securities with a deadline of 26 November 2001 to transfer their data on the structure of their capital (Shareholder Registers).

*Economic aspects of the legal system.* Bankruptcy, collateral and executive procedures laws were strengthened by the end of 2000. Payments discipline, however, remains very weak and considerable payments arrears were still reported in 2001.

One of the key issues remains combating corruption and reintroducing the underground sector into the official economic circuits. To this effect, a Law on Money Laundering was enacted in August 2001 and entered into force on 1st March 2002.

### **3.3. Management of public finances.**

*Revenue.* The Government has lowered taxation on labour from January 2001 onwards. VAT was introduced in April 2000, and contributed to the improved revenue performance and the budget surplus in 2000. In 2001, the Public Revenue Office began to take over the role of (tax) inspection, and conducted increased controls in the second half of the year. The Parliament adopted a new Law on Tax collection in March 2001 and a Law on Registration of Cash Payments in April 2001. The basis of a modern and efficient mechanism of financing public deficits and investments was laid down in 2000 with the creation and issuance of negotiable government bonds in exchange for frozen currency deposits. A debt monitoring unit was established in the Ministry of Finance.

For the fiscal year 2002, the excise on newly imported vehicles was reduced to 7.5%, and a reduction in the customs tariff to a linear 10% was announced for the beginning of 2002. This is perceived as a compensation to bring the price of new vehicles to the levels prevailing before April 2000, when VAT of 19% was introduced on top of excise and customs duties (around 41%) in place at the time. The exceptional fiscal tax on financial transactions introduced in July 2001, initially for a period of six months, has been maintained for the 2002 fiscal year. This tax eventually has effects of a turnover tax on the top of the existing VAT tax and will need to be reconsidered in order not to jeopardise growth.

*Expenditure.* Notwithstanding the political crisis of last year and significant expenditure overruns, reforms in the government sector have continued to make some progress. Following the introduction within the Ministry of Finance of a Treasury system in 2000, allowing better control over expenditures and revenues, the Ministry of Finance is preparing modifications and amendments to the Public Procurements Law, to be enacted in 2002.

In 2001 the Government launched a € 140 million public investment programme financed by part of the proceeds of the telecom operator's privatisation. The project focuses on public infrastructure (water supply, road maintenance), and the rehabilitation of schools and health centres.

### **3.4. Priority Areas Needing Attention in the Next 12 Months**

- Downsizing of the Public Administration as agreed with the IMF.
- Modernisation of the Public Administration with a view to upgrading expertise and efficiency, notably in the context of the implementation of the SAA with the EU.
- Continue progress on privatisation, and ensure that it is carried out in a way which ensures full transparency and accountability.
- Restructuring or liquidation of loss making public enterprises: in particular liquidation of Jugohrom.

- Creation of a favourable legal and economic environment for entrepreneurship, SME development and the (re)integration of the informal sector.

## **4. IMPLEMENTATION OF THE STABILISATION AND ASSOCIATION PROCESS**

### **4.1. General Evaluation**

#### **4.1.1. Status**

Deepening its relations with the EU remains one of the key objectives of the former Yugoslav Republic of Macedonia's Government with a view to gradual integration into European structures. A major event in this sense was the signature of the SAA on 9 April 2001, the first such agreement concluded in the framework of the Stabilisation and Association Process (SAP). The Parliament of the former Yugoslav Republic of Macedonia ratified the Agreement on 12 April 2001 and the European Parliament gave its assent on 2 May 2001. Ratification by the national Parliaments of the EU is now underway. Pending the entry into force of the SAA an Interim Agreement on trade and trade related issues was negotiated and entered into force on 1 June 2001. In order to complete the contractual trade regime an additional protocol with a wine agreement was concluded in December 2001. The Agreement establishes reciprocal concessions for exports of wine and defines the rules for the protection of denominations of wines and spirits.

The SAA is not the first comprehensive contractual relationship between the former Yugoslav Republic of Macedonia and the EC. A Co-operation Agreement was signed between the two parties on 27 April 1997 and entered into force on 1 January 1998 along with an agreement in the field of transport.

In July 2001 the 4<sup>th</sup> Co-operation Council was held under the Co-operation Agreement whilst a number of Working Parties were held during the year under the Co-operation Agreement, the Transport Agreement and the Interim Agreement. However, due to the political and security crisis of 2001 co-operation activities slowed down. They have been resumed at the beginning of 2002.

Unreserved support has been expressed across the political spectrum in the country for the SAA, as a prerequisite to any further enhancement of bilateral relations with the EU and as a technical instrument to help the former Yugoslav Republic of Macedonia to make progress in the long process of harmonisation with the EU standards, rules and practices.

The SAA provides major opportunities but also poses significant challenges to the country by setting a wide and complex agenda. With the SAA the former Yugoslav Republic of Macedonia has in fact accepted wide-ranging obligations, the implementation of which will require substantial efforts, notably in terms of structural reforms which will be needed to reach the necessary level of technical preparation. A highly centralised and politicised public administration coupled with the lack of a modern administrative culture, constitute major challenges as well as potential obstacles to a smooth implementation of the SAA and should be addressed in the short to medium term.

In order to meet the demanding requirements of the SAA the Government has developed, under the co-ordination of the SEI, a National Action Plan which should set the strategic priorities guiding medium to long-term actions, and has prepared a National Law Approximation Programme which will steer the process of approximation of the

country's legislation with that of the EU. For each ministry the Plan defines the measures to be taken and sets a precise time frame. The Plan will be further developed in co-ordination with the European Commission in order to ensure that it is an effective instrument for implementation of the SAA.

Although the Interim Agreement only entered into force on 1 June 2001 it is already possible to make a first limited assessment of its implementation. Some teething problems have been registered. Lack of compliance with some provisions, notably with respect to the imports of oil and oil derivatives, has required action by the Commission. The Commission will clearly monitor the implementation of corrective measures.

It is imperative that the country shows its commitment to implement its agreements with the EU by respecting the relevant deadlines. Successful implementation of the SAA, notably regarding regional co-operation, will be one of the main conditions for the full integration of the former Yugoslav Republic of Macedonia into the political and economic mainstream of Europe.

#### **4.1.2. General assessment of administrative capacity**

The Sector for European Integration (SEI), which is the main body within the Government's administrative structure charged with the implementation of the SAA as well as the co-ordination with the line ministries, has adopted an efficient, professional and open approach. It is making genuine efforts within the administration to raise awareness of the impact of the SAA and of the extent of the required reform process.

The reaction of the different ministries and state offices and agencies remains uneven due to lack of capacity both in terms of staff and expertise.

#### **4.1.3. Impact of the SAA/Interim Agreement on reform**

At this stage it is too early to make an assessment of the economic impact of the Interim Agreement, following its entry into force on 1 June 2001. Trade between the EU and the former Yugoslav Republic of Macedonia decreased due to the political crisis and the legislative process has been delayed because priority was given in Parliament to adoption of laws agreed in the Framework Agreement. It is expected that the SAA will give impetus to the process of reforms already underway. A full implementation of the obligations of the Agreement will require in particular major efforts in the fields of Internal Market, Competition and State Aids, Justice and Home Affairs and an acceleration of the process of structural economic reforms. Particular emphasis will have to be placed on the development of the appropriate administrative capacity.

## **4.2. Internal Market and Trade**

*The former Yugoslav Republic of Macedonia needs to strengthen significantly its capacity to implement the obligations of the SAA/Interim Agreement. Since its independence in 1991, successive Governments have undertaken extensive efforts to reform the country's legislative framework and gradually replace the former Federal Yugoslav legislation. However, the current legal framework is largely incomplete and several laws need to be improved and co-ordinated with both Constitution, existing laws and Community legislation. The Government is actively working on the elaboration of comprehensive strategies and has taken the first steps towards a gradual process of harmonisation of legislation starting with the trade-related areas. A serious and long-term commitment to this demanding process is needed.*

*As regards the free movement of goods, services and capital, the former Yugoslav Republic of Macedonia is a rather open country and it is progressively scrapping barriers impeding free movement. Nevertheless the lack of sufficient administrative capacity and in some cases the absence of the necessary legal certainty have an adverse effect on the implementation of these freedoms.*

#### **4.2.1. Movement of goods and services**

The former Yugoslav Republic of Macedonia has made considerable progress in recent years in gradually liberalising its trade system and has undertaken to make further efforts by signing the SAA/Interim Agreement and by applying for membership of the WTO, in which it currently enjoys the status of observer (its entry into the organisation is expected for the end of 2002).

In 1996 the country undertook steps to decrease the average customs rate, eliminating all quantitative restrictions on imports and exports and decreasing the number of customs rates. The national tariffs are defined in a Customs Tariff Act of 1996 and from 1 January 2002 the nomenclature is fully compatible with the Harmonised System Convention of the World Customs Organisation. Progress has been made in achieving compatibility with the EU Combined nomenclature.

The system of multiple import charges was abandoned and all customs charges are unified in a single customs tariff paid on importation of goods.

The Customs Tariff Act has significantly liberalised foreign trade operations, reducing the weighted average customs tariff of 26% to 16%. Generally customs tariffs vary from zero to 35% but for certain agricultural products and foodstuffs, the customs tariff goes up to 60%. Furthermore, for agricultural products, the Customs Tariff Act foresees, in addition to ad valorem tariffs, some specific tariffs. On 1 January 2002 the Government has eliminated the 1% Customs Clearance Fees for products imported from EU in accordance with the Joint Declaration attached to the Interim Agreement and has introduced instead a fixed amount of 19 €.

On the exportation of goods no customs duties or exporting fees are charged. Under the Law on Foreign Trade Operations, certain goods may be imported or exported on the basis of a licence system, in accordance with international agreements. This is the case with regard to the regulation of imports of arms and military equipment, imports and exports of industrial and artistic works and of certain precious metals. On 1 June 2001 the Interim Agreement covering all trade-related matters contained in the SAA entered into force. The Agreement establishes a system of asymmetric preferences meaning that all exports of the former Yugoslav Republic of Macedonia to the EU will be free from any customs taxes and quantitative restrictions with the exception of wine (which forms the subject of a separate Protocol concluded on 19 December 2001), baby beef and some fishery products. On its side the former Yugoslav Republic of Macedonia has agreed to gradually dismantle its trade barriers on imports from EU Member States and to create a free-trade area over a ten-year transitional period.

The implementation of the Interim Agreement should have a significant impact on the former Yugoslav Republic of Macedonia's economy since the EU represents the country's main trading partner with a trade flow accounting for some 43% of the country's exports and 38% of imports in 2000. The former Yugoslav Republic of Macedonia's main trading partners are the Federal Republic of Yugoslavia (FRY), Germany and Greece. The trade balance remains highly negative due to the limited international competitiveness of local production.

Industrial products constitute the bulk of the country's trade. The main exports are textiles and clothing, iron and steel and agricultural products. The main imports include energy products followed by textiles and clothing and transport material.

Substantial progress is required in the former Yugoslav Republic of Macedonia in **standards and certification** in order for the country to approach the EC's quality levels. In March 2001 the Government adopted a strategy document setting out a "National Quality Programme" aiming at providing systematic support for the improvement of the quality of national products, services and processes in order to achieve recognised European and international levels of quality.

Laws on Standardisation and on Metrology govern bodies performing conformity assessment. A significant legislative gap characterises the sector and a number of laws are currently under preparation: Law on Standardisation, Law on Metrology, on Accreditation and on Technical Requirements for products and conformity evaluation. The Bureau of Standardisation and Metrology (with a staff of 26 people) is attached to the Ministry of Economy. In order to comply with the *acquis*, three new independent bodies are to be created: an Institution for Accreditation, an Institution for Standardisation and an Institution for Metrology. There is a lack of appropriate buildings, trained personnel and equipment and continued institution building should be a priority for the enforcement of the legislation.

In the field of **standards** the former Yugoslav Republic of Macedonia has just started implementing European standards (there are 20-30 national standards, all transposed ISO-EN standards) and is currently far from meeting the requirements for affiliate membership in CEN and CENELEC, but is a member of ISO. There are 12,000 former Yugoslav standards in use: 80% of these are mandatory, but only on paper. In practice standards are applying on a voluntary basis as there is no infrastructure to supervise their correct implementation. The concept of the European system for accreditation, standardisation and metrology is being introduced along with the concept of New Approach in the field of certification. In the book on customs tariffs there are 400 lines where certification is mandatory. The certification is done on paper and based on certifications obtained elsewhere e.g. in the EU. The main products with mandatory certification are cars, LVD products and products covered by legal metrology. However, in the absence of a functioning market surveillance system and adequate product liability legislation, the New Approach directives can not be effectively implemented.

The SAA contains clear obligations covering the **supply of services**. It envisages the progressive liberalisation of trade in services by both parties.

These obligations will only enter into force as from the second stage of the transition period (six years after the entry into force of the SAA) since they are not integrated into the Interim Agreement.

The **banking sector** is mostly private (80%) and the privatisation of the largest commercial bank, Stopanska Banka, was completed in April 2000. This sale, as well as that of Kreditna Banka, the closure of Almako Banka and the announcement of the sale of the third largest bank are major steps in restructuring the sector. Those steps have been reinforced by a new Banking Law in June 2000, which is in line with EU legislation and BIS principles. The legislation strengthened the legal framework of bank supervision and enhanced the monitoring ability of the Central Bank. The sector, however, continues to suffer from some structural problems, such as a large number of banks, many non-performing loans, and lack of competitiveness and efficiency in the banking sector, which the authorities aim at addressing in the medium term.

The *insurance* market in the former Yugoslav Republic of Macedonia consists of five insurance companies: two of them are licensed for non-life insurance, life insurance and reinsurance; one is licensed for life insurance; one for life and non-life insurance, and one for non-life insurance.

There are two other companies registered for other kinds of insurance. The insurance market is characterised by a high concentration in the hands of one insurance company, which possesses 89% of the total guarantee capital of all insurance companies, 89% of the total assets of the insurance sector, and 88% of the realised net profit. The other four insurance companies, with approximately 10% of the market, are characterised by a relatively lower number of employees, lower operational costs, higher profit rates and lower premiums. The total premium generated per employee in some of these companies exceeds that of the biggest insurance company, indicating a higher level of productivity.

The sector remains still largely unregulated, in particular as far as supervision activities are concerned. Major efforts are required to develop the necessary administrative capacity as well as an appropriate legislative framework in line with the EC's.

With regard to **Personal data protection**, the draft law of August 2000 was not yet adopted due to the absence of financial support and to the difficulties with the creation of an independent supervisory authority. At present, there is no legal framework in this field. It is therefore important that the current draft law, which does not achieve full harmonisation with the EC acquis but it provides for a good basis, is adopted as soon as possible.

#### **4.2.2. *Movement of capital***

The SAA establishes the principle of free movement of capital between the former Yugoslav Republic of Macedonia and the EU following the entry into force of the Agreement. By the end of the first stage the Parties to the Agreement shall examine ways of enabling Community rules on the movement of capital to be applied in full.

#### **4.2.3. *Movement of persons and rights of establishment***

The former Yugoslav Republic of Macedonia will have to adopt the necessary legislation to implement the provisions related to the movement of workers and rights of establishment contained in the SAA.

The former Yugoslav Republic of Macedonia is relatively open to foreign companies seeking to establish subsidiaries on its territory. Foreign companies are not discriminated against, but face the same obstacles to doing business as their local counterparts. Numerous foreign companies have set up operations in the country.

The new Law on Ownership (2001), recognising property rights to immovable property owned by foreign physical and legal entities, is based on reciprocity.

According to the government the Trading Companies Law has already been amended in order to comply with the provisions of Art. 48 of the SAA (Right of Establishment) and to transpose the 1<sup>st</sup> and 2<sup>nd</sup> directives regarding company law. The company register is being improved with a view to simplify the procedure for the creation and registration of trade companies in order to attract foreign investment.

With regard to accountancy, the government is still drafting the laws which are supposed to transpose the two main directives in this field (4<sup>th</sup> and 8<sup>th</sup> directives). Significant efforts seem to be necessary to align the legislative framework on accounting and auditing with that of the EU.

#### 4.2.4. *Customs*

The sector is regulated by a Law adopted in April 1998 and successively amended. The Customs Administration is established within the Ministry of Finance and is charged with the collection of customs revenue and its deposit in the state budget.

The Customs administration should work to bring the system into line with that of the Community. In particular, the former Yugoslav Republic of Macedonia would need to develop an efficient customs management system, establish adequate cross-border infrastructure, ensure proper revenue collection and introduce modern customs information systems.

Corruption is rife in the customs service; adequate training and pay, as well as the strengthening of investigation methods, would help reduce and circumscribe the problem.

It is important to streamline procedures and gradually establish EC compatible IT systems.

#### 4.2.5. *Competition and state aids*

By signing the SAA the former Yugoslav Republic of Macedonia pledged to bring its legislation in the fields of competition and state aids gradually in line with those of the EC. Specific deadlines are set in three and four years respectively following the entry into force of the Agreement.

In respect of *anti-trust*, a new legal framework for the regulation of monopolies and competition policy was created by the adoption of two laws in 1999. A monopoly Authority charged with the implementation of competition policy was created and has been operative since April 2000. The Authority has been created as a body within the Ministry of Economy and is endowed with a staff of eight: a Director appointed by the Government, three members of the Decision Board also appointed by the Government, two economists and two lawyers.. During its first year of activity it has dealt with six cases, five of which have already been decided, whilst the remaining one is currently in the appeal phases. The Authority's mandate includes vetting mergers and acquisitions, sanctioning possible abuses of dominant position by undertakings, evaluating practices and agreements which may cause restriction of competition.

In the field of *State aids* a legislative framework and administrative structure has to be developed. No inventory of state aid exists at present. State aid will be regulated by the adoption of a separate Law and an Authority responsible for the monitoring of state aids will have to be appointed. Limited internal capacity and the lack of adequately trained and experienced staff will pose a major problem for the establishment of the legislative framework and its future implementation.

#### 4.2.6. *Public procurement*

The SAA commits the former Yugoslav Republic of Macedonia to granting Community companies access to public contracts on the basis of equal treatment with local companies from the entry into force of the Agreement. For Community companies not established in the country a transitional period of five years following the entry into force of the agreement is provided.

In the former Yugoslav Republic of Macedonia the legal framework covering the sector was created by the enactment of a Public Procurement Law which came into force in June 1998. The law, which underwent some minor amendments in June 2001, is modelled along the lines of the relevant EC Directives and the UNCITRAL Model Law. The scope

of the law covers the state budget beneficiaries, municipalities and local government non-budget funds, state-funded institutions and public enterprises. The Law on public procurement was amended in January 2002, to introduce new provisions to increase the transparency of the procurement process and to strengthen the appeal procedures.

The public procurement sector is administered in a decentralised manner and the Ministry of Finance is charged with the supervision of the implementation of the law and of its observance. There is no separate Public Procurement Office for the purpose of the implementation of the law but a department of the Ministry of Finance was entrusted with the responsibility for drafting public procurement legislation, initiating policy changes, advising the contracting sides, interpreting the law, co-ordinating and conducting training activities, monitoring procurement activities and collecting statistics.

Plans to create a Public Procurement Body/Agency within the Ministry of Finance exist but the current situation is still one of institutional vacuum which represents a serious constraint on effective implementation of the law. The independence and objectivity of the decision-making of the second instance appellate body – the Appellate Committee – should be strengthened.

#### **4.2.7. Intellectual, Industrial and Commercial Property Rights**

The relevance of this sector is recognised in the SAA, according to which the former Yugoslav Republic of Macedonia shall take the necessary measures in order to guarantee, no later than five years after the entry into force of the Agreement, a level of protection of intellectual, industrial and commercial property rights similar to that existing within the Community, including effective means for the enforcement of such rights. The country will also have to prepare its accession to the WTO and to be able to implement the TRIPS provisions. For these purposes it is foreseen that the country will accede, within the same time-period, to the relevant multilateral conventions regulating the sector. Since the provisions on IPR are part of the Interim Agreement, in force since 1 June 2001, the country will have to ensure compliance with the agreement by 1 June 2006.

Currently the sector is only partially regulated through three different laws: an Act on Industrial Property enacted in 1993, a Law on Protection of Layout Design on Integrated Circuits enacted in 1998 and a Law on Copyright and Related Rights from 1998. Whilst the Law on Copyright is largely in line with the relevant EC legislation the existing legal framework with regard to industrial property is still incomplete.

Significant efforts are needed in order to achieve the necessary level of harmonisation of the country's legislative framework with that of the EC, in particular in the field of industrial property. The draft law to revise its legislation on *industrial property*, which will include provisions on patents (to introduce supplementary protection certificate for medical products and products for plant protection), trademarks, geographical indications, industrial designs and judicial and border measures, should be adopted. The Law on *Copyright* should be amended in order to fully transpose the Term and Database Directives and to introduce the new EC provisions regarding the information society (Directive 2001/29/EC).

At an administrative level the necessary institutions are currently in place: the Industrial Property Protection Office, an agency within the Ministry of Economy composed of two units dealing with trademarks and patents respectively, and the Inspection Service for the Protection of Copyrights belonging to the Ministry of Culture. However, the administration presents serious limitations to the effective exercise and protection of copyrights and related rights, due to understaffed and poorly equipped (notably regarding information technology equipment) enforcement authorities and to the lack of collecting

societies to manage the author's rights (there is only one association for non-performing musical works).

In order to achieve full and satisfactory implementation of the obligations of the Agreement it remains essential that the country develops the appropriate administrative and judicial capacity in the field. All enforcement authorities, notably police, customs, prosecutors and courts, should be strengthened, and effective action against piracy and counterfeiting must also be developed.

### 4.3. Sectoral policies

#### 4.3.1. *Industry and SMEs*

The share of *industry* in GDP amounted to 33.1% in 2000. In the period between January and July 2001 industrial output fell by 9.3 % compared to the same period in 2000. The decrease was particularly marked in the branches that have a more significant share in the total production (electricity, ferrous and non-ferrous metallurgy, base chemistry, textile and leather industry) as well as in the export-oriented branches. The structure of industrial production is dominated by large imports of raw materials. The consequences of the economic transition and industrial restructuring have been particularly severe and characterised by a drastic reduction on output and employment rates in the industrial sector.

The *steel sector* represents 4.3% of the total industrial production and 9.8% of the country's export. The steel enterprises went through a long and slow transformation from social to private. According to Protocol 2 on steel products to the Interim Agreement the former Yugoslav Republic of Macedonia shall establish within two years from the entry into force of the agreement (i.e. by 1 June 2003) a restructuring and conversion programme for its steel industry (to achieve viability of this sector under normal market conditions). The Government should start immediately the preparation of this programme in order to meet this deadline.

The development of *small and medium sized enterprises* (SMEs) is of crucial importance to fostering economic growth, promoting economic restructuring and boosting employment rates in the former Yugoslav Republic of Macedonia. In spite of the rapid surge in the number of SMEs in the country over the last ten years, the sector is still largely underdeveloped and the Government has not adopted a medium to long-term programme for SME development. Appropriate policies and programmes to stimulate the sector are therefore urgently required. The process of development of the sector has been entirely donor driven so far. This has led to the production of a number of studies which should be assessed and integrated into an action plan for the medium to long-term development of the sector.

There are still a number of major obstacles which constitute a burden on the operation and development of enterprises. Significant problems exist with regard to the weakness of the country's institutional capacity, the lack of a complete and streamlined regulatory framework and severe difficulties of access to finance.

#### 4.3.2. *Agriculture*

Agriculture still holds an important place in the former Yugoslav Republic of Macedonia's economy and society. 87% of the country is rural and 15% of its population is employed in the agricultural sector. Almost 2/3 of the country's countryside is experiencing depopulation. The Government's efforts go in the direction of trying to stem

this trend towards depopulation of rural areas and of promoting the increase in competitiveness of the agricultural industry through the modernisation of infrastructure and the improvement of the quality of production. However, the sector is still largely dominated by small farms and a high level of fragmentation of the land. The sector is still in need of substantial structural reforms in order to cope with competitive pressures from abroad, specifically to meet the challenges posed by the market opening agreed in the SAA.

#### 4.3.3. *Environment*

Following the first National Environmental Action Plan (NEAP), covering the period 1996-2000, a second Plan is now being developed. This takes into account the country's efforts to come closer to EU policies, covering the period of implementation of the SAA. However, a comprehensive medium to long-term strategy is still missing.

Major efforts will be needed to progressively approximate the country's legislative system with the Community environmental acquis. The task is hindered by lack of resources in the environmental authorities. Administrative capacity in the sector is extremely weak and the relevant institutions should be strengthened or created anew in order to guarantee compliance with existing legislation as well as to better identify and allocate the responsibilities among all stakeholders involved in the area. The planned creation of an environmental agency and inspectorate remains blocked.

The former Yugoslav Republic of Macedonia is co-operating with its neighbours on environmental issues through the Regional Environmental Reconstruction Programme (REReP). In November 2001 a ministerial declaration on increased co-operation on water protection in the Danube/Black Sea Region was signed.

#### 4.3.4. *Infrastructure*

On **transport**, the former Yugoslav Republic of Macedonia is an important transit country for inland traffic being situated along Pan-European Corridors X and VIII of the Trans-European Networks linking, respectively, Greece with Germany and Bulgaria with Albania. Land transport is regulated by the Transport agreement with the EC concluded on 28 November 1997. Under the Agreement the former Yugoslav Republic of Macedonia is committed to complete liberalisation of the Community transit traffic across the region and the Community as a whole. The former Yugoslav Republic of Macedonia also agreed to fully implement from 1<sup>st</sup> January 2002 an ecopoints system comparable to that applied to Community tracks transiting Austria. Transport is perceived as one of the main instruments to facilitate trade and development. Significant investments will be needed in the modernisation and further development of all types of transport and communications, in particular, projects associated with transit traffic, which are of common interest. The improvement of connections with neighbouring Albania and Bulgaria as well as the modernisation of the main North-South communication routes are clear priorities.

The part of the acquis relating to road transport charges and technical and social legislation should be a priority in the process of legal harmonisation. As regards inland navigation and air transport, appropriate conditions for establishment and services should be guaranteed.

The country's **energy** policy will remain conditioned by its dependency on imports of oil and gas. The intensification of other sources of energy as well as the restructuring and construction of energy infrastructure are on the government agenda.

Efforts are required to restructure the energy sector in order to prepare for the country's integration into common European practices and moves towards a progressively liberalised sector.

In the **telecommunications** sector, the fixed line network is almost fully digitalised but there is a need for investments to increase the telepenetration from the current value of about 25.5 lines per 100 inhabitants. Maktel was partially privatised in 2000. Mobile penetration more than doubled during the year 2000 but there is considerable room for expansion from the currently low level of penetration of about 6 per 100 inhabitants. According to Art 95 of the SAA the sector is to be aligned with the *acquis* at the latest one year after the entry into force of the Agreement. Preparations should now be made to develop a fair regulatory framework which is enforced and transparently applied by an independent national regulatory authority in time for full liberalisation.

#### 4.4. Co-operation in Justice and Home Affairs

*A strategy of gradual integration into European structures can only be successfully achieved in a secure environment where the rule of law is effectively applied. As in other areas, the former Yugoslav Republic of Macedonia has also made progress in the Justice and Home Affairs sector but significant reforms of an institutional and legislative nature are still needed. Of particular relevance is the strengthening of border security, the development of an effective strategy for fighting against organised crime, and strengthening of the judiciary.*

##### 4.4.1. Visa, border control, asylum and migration

The former Yugoslav Republic of Macedonia's negative list (on countries whose nationals should obtain a visa prior to their entry into the country's territory) has not been harmonised with EU legislation. For instance the former Yugoslav Republic of Macedonia has a visa-free regime with all former Soviet Republics, FRY and Turkey. Visas are issued by Consulates abroad (there is a network of about 30 consulates) after consultation with the Foreigners Department of the Ministry of Interior. Nationals of countries not needing a visa to enter the national territory are reportedly required to produce an invitation at entry check-points.

Border control is one of the major problems of the country. There are several borders, namely with Kosovo and Albania, but also with other neighbouring countries, where controls do not exist, outside the official Border Check Points. The Ministry of Interior (regular police) is responsible for the border check-points whereas the green border is controlled by Ministry of Defence staff.

A new Law on Asylum is under preparation, and should be adopted in 2002.

Once the SAA enters into force the former Yugoslav Republic of Macedonia will be obliged to readmit any of its nationals illegally present in the territory of any EU Member State.

##### 4.4.2. Money Laundering

A Law against Money Laundering entered into force on 1 March 2002. Secondary legislation necessary to ensure full implementation of framework legislation is now under preparation.

A Directorate for Prevention of Money Laundering shall be established within the Ministry of Finance, which will establish adequate co-operation with the Ministry of Interior, the Office of the Public Prosecutor, the Customs Administration and the National Bank. Links and co-operation mechanisms with other state bodies and international institutions will also be established.

The SAA establishes co-operation between the parties in order to prevent the use of their financial systems for the laundering of proceeds from criminal activities in general and drug offences in particular. The legal and institutional tools needed to combat money laundering activities efficiently are not in place yet in the former Yugoslav Republic of Macedonia. Appropriate structures will need to be consolidated and co-ordination between the various law enforcement bodies, the financial sector and the judiciary adequately enhanced.

#### **4.4.3. *Drugs***

The former Yugoslav Republic of Macedonia is primarily a transit country for the smuggling of illicit drugs and because of its geographical location, is one of the main routes for the smuggling of drugs into the EU. Drugs seizures are often given wide publicity by police and customs officials. Drugs consumption levels are still relatively low and public awareness of the problem is still very limited. The Government's action is based on the National Programme for the fight against drugs, drugs abuse and illicit drugs trafficking enacted in 1996. An Inter-Ministerial Commission for the fight against drugs chaired by the Prime Minister is in place.

More needs to be done in order to fight drug trafficking. The SAA establishes that the parties shall co-operate to ensure a balanced and integrated approach towards drugs and align their policies with the EU Drug Strategy. In order to establish effective co-operation with the EU the government should strengthen and develop its legal framework, strengthen its border management capacity, increase co-ordination between law enforcement bodies and enhance international co-operation in the sector.

#### **4.4.4. *Fighting organised crime and terrorism***

The former Yugoslav Republic of Macedonia is the crucible of a number of illegal activities ranging from the smuggling of goods, arms and tobacco to trafficking in human beings, and women in particular, to economic crimes of different kinds. Although the Government of the former Yugoslav Republic of Macedonia has shown commitment and determination in the fight against crime there is no clear strategy and progress in combating illegal activities has been slow. Co-operation has been established with Croatia (1997) in the fight against international illicit trade with drugs and psychotropic substances, international terrorism and organised crime and recently the UN General Assembly has adopted a Resolution on co-operation in the fight against organised crime upon a proposal of the former Yugoslav Republic of Macedonia. The SAA establishes co-operation on fighting and preventing criminal and illegal activities, organised and otherwise, such as: trafficking in human beings, illegal economic activities, illicit trafficking in drugs and psychotropic substances, smuggling, illicit arms trafficking, terrorism.

The former Yugoslav Republic of Macedonia is fully committed to the fight against terrorism and has supported US and EU positions in this respect. However, limited intelligence capability and severe constraints in terms of human and technical resources strongly reduce its possible contribution to international actions in the field.

#### 4.5. Priority Areas Needing Attention for the Next 12 Months

- Increase staffing of the Units of Ministries dealing with European integration issues, in particular in those Ministries with immediate responsibility for the implementation of the SAA.
- Further develop administrative co-ordinating structures for all European integration issues including approximation of legislation (especially link the approximation of legislation process with legal reform and codification and policy making and economic reform), and develop appropriate management tools to support the overall process, such as glossaries, training programmes etc.
- Strengthen implementation of the obligation of checking of compatibility of all new legislation with the 'Acquis communautaire' and establish appropriate mechanism for this (including in co-operation with the Parliament).
- Organise training courses for officials (in Government, Assembly and local government) in European integration matters.
- Start preparations for introduction of key EU legislation in the field of competition, intellectual property, standard and certification, public procurement, data protection (listed as "priority" in Art. 68.3 of the SAA) and enforce it through the setting up of appropriate executive bodies charged to implement or monitor its implementation.
- Remove quantitative restrictions (or measures with equivalent effects) on oil and oil derivatives in accordance with the Interim Agreement.
- Develop and implement a national strategy for integrated border management (border checks and border surveillance), based on institution building and provision of technical equipment, aiming in particular at reducing illegal migration flows and the various forms of trafficking and to facilitate trade.
- Adopt new asylum law including adoption of the secondary legislation, and improve capacity to process asylum applications.
- Strengthen the fight against organised crime; including by strengthening co-operation between different law enforcement bodies.
- Introduce legislation on the protection of personal data and set up the independent Agency charged with its enforcement.

#### 5. FINANCIAL ASSISTANCE

The CARDS Assistance Programme offers a long term assistance approach that addresses through a single programme the needs of the country and reflects the ambitious objectives of the SAP. It focuses on support for the reforms and institution building necessary to implement the obligations in the SAA.

Overall, between 1992 and 2001 (included), the former Yugoslav Republic of Macedonia has benefited from a total Community assistance of some € 570 million. During the year 2001, some € 56.2 million of EC funds, under the CARDS programme, were allocated for implementation in the former Yugoslav Republic of Macedonia. This includes:

- **The CARDS Programme 2001**(€ 42.5) has been based on the principles and priorities of the SAP, and the SAA in particular, with the aim of helping the country prepare for the implementation of the SAA. The main focus of the 2001 programme was: justice and home affairs (reform of the judiciary and Integrated Border

Management), European integration (environment, agriculture, economic reforms), infrastructure development and education.

- **Exceptional Community financial assistance** (€ 13.7) was provided to support the country in its efforts to overcome the political and security crisis of last year and favour a full implementation of the Framework Agreement. Its focus was: development of local infrastructure, reconstruction and rehabilitation of housing in conflict areas and assistance to families hosting internally displaced people.

EC assistance under the **Rapid Reaction Mechanism** budget line for a total of € 12.8 million was also provided to the country in the year 2001 in order to facilitate a solution of the crisis. Its focus was: housing reconstruction, reconstruction and rehabilitation of local infrastructure and utilities and confidence building measures.

EC **humanitarian assistance** (ECHO) in the former Yugoslav Republic of Macedonia during 2001 amounted to € 5.4 million. ECHO's interventions were focused on the alleviation of the consequences of the security crisis and in particular on the basic humanitarian needs of the internally displaced persons and vulnerable local population. Further € 3 million have been allocated to country for the year 2002.

Democratisation assistance was provided under the **European Initiative for Democracy and Human Rights (EIDHR)**, with micro-projects worth € 530.000 and €1 million to support the monitoring of the Census to be held in 2002.

In December 2001, the Council decided to provide up to € 18 million in grants for **Macro-financial assistance** in addition to the package of up to € 80 million (of which up to € 30 million in grants and up to € 50 million in loans) decided in 1999. After the release of a first tranche of € 30 million (€ 20 million of grants and € 10 million in loans) a second tranche of € 22 million (including € 10 million grants) was disbursed in January 2002 on the basis of a Staff Monitored Programme for a period of six months (as of January 2002) and the broad progress recorded in 2001 in a number of areas of structural reform. The remaining funds will be implemented in the framework of an IMF upper credit tranche arrangement and will be subject to specific economic policy conditions.

On 12 March 2002, The EC and the World Bank jointly organised a Donors' meeting for the former Yugoslav Republic of Macedonia to help the country to cover the financial needs generated by the crisis of 2001. Donor funding of about €307 million was pledged at the meeting for macro-financial assistance, for support of reconstruction, and implementation of the Framework Agreement, exceeding the base financing requirement of €256 million for 2002, estimated prior to the meeting. In addition, donors indicated another €271 million of donor assistance for general economic development purposes in 2002, and noted the substantial support provided for humanitarian purposes.

**Implementation** of assistance had encountered difficulties due to a limited absorption capacity of the partner country and a slow delivery by the EC. Decisive action has been taken to improve the implementation capacity and ensure an effective and prompt delivery of programmed assistance. This is seen by the extension of the mandate of the European Agency for Reconstruction to the former Yugoslav Republic of Macedonia with effect from 1 January 2002 for the management of the emergency assistance provided to the country in 2001 and from 1 March 2002 for the implementation of past and future programmes/projects.

In accordance with the CARDS Regulation, a Country Strategy Paper for the former Yugoslav Republic of Macedonia defining the main areas for co-operation for the period

2002-2006, and a Multi-annual Indicative Programme (MIP) defining in more detail priorities for the period 2002-2004, were adopted by the European Commission on 21 December 2001. An indicative amount of € 130.5 million has been earmarked for the period 2002-2004. These papers take into account the priorities of the SAP and focus on four main priority sectors: (i) Democracy and the rule of law; (ii) Economic and social development; (iii) Justice and Home Affairs; (iv) Environment and natural resources. In line with the SAP objectives the focus of the assistance is laid on institutional reform and development in order to favour the gradual integration of the country into European structures while also taking into account the needs arising from the 2001 crisis.

## 6. PERCEPTION OF THE EU

There is a clear official policy in favour of EU integration. Since the negotiation of the SAA, the Government has consistently expressed a desire to deepen the relationship with the EU.

However, there is an incomplete understanding of the European integration process in the Government, media and population. Despite a general lack of awareness of the EU, the SAP and the reforms required, **public attitudes** towards the EU remain quite positive.

During the **recent crisis** the EU image suffered a certain setback among parts of the population (apart from the Albanian minority), because the EU was perceived by the Slav-Macedonian majority as forcing them into unpopular concessions to the Albanian minority. However, the so far successful participation and involvement of the EU in solving the crisis as well as the financial assistance provided by the EU may succeed in turning this image around over time. There is a need for further efforts to familiarise the population (especially businessmen, politicians, academics, civil servants and young people) with the European integration process so that the country can draw full benefit from the implementation of the SAA in all fields.

The **media coverage of EU-related issues** and events is not always favourable, even before the crisis. There have been many cases of misrepresentation of EU messages and attacks on EU representatives. However, visits by European politicians have attracted extensive and positive media coverage. There is understandably, however, a need for training of journalists in EU integration and reform issues.

### **Priorities for action:**

- Continued efforts are necessary to provide clear information to the population on the EU, its values and principles, functioning and objectives, assistance, and the implications of the implementation of the SAA and Interim Agreement.
- Training for government officials and journalists should be organised to explain the EU, the SAA and its implications in terms of reforms and co-operation.
- Greater efforts need to be made to explain that EU integration is based on democratic principles, including respect for minority rights, hence the involvement of the EU in trying to resolve the current inter-ethnic crisis in the country.