

LEADERSHIP MONITORING



Report from the performance evaluation of the
Government of the Republic of Macedonia for the period
June – July 2007



SKOPJE, 2007

LEADERSHIP MONITORING

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DESCRIPTION OF THE REPORT PURPOSE AND THE METHODOLOGY

The second Report of the “Leadership Monitoring” Project, carried out by the OHRID Institute includes the period of June-July 2007.

Same as the first Report, this one also aims to provide the Macedonian citizens with objective and expert monitoring of the work of their Government through constructive and comparison analysis of the Action Plan of the Government. The only difference is that the time period of the monitoring in the second report is narrower than the period in the first Report. But this changes nothing in a sense of the main purpose of the Project. The citizens will still be informed about the political initiatives and activities of the Government, compared with the promises published. The main purpose is to stimulate the Government to retain its course and determination to be as accountable as possible. We sincerely hope that this two-month Report will provide the Government with independent expert analysis regarding the activities of the Ministries which, we hope, can be used as a tool for analysis of the work, monitoring and continuous improvement.

This two-month report continues to monitor the progress of implementation of the programs and reforms of the coalition Government of Macedonia, by providing estimates of the risk from insufficient or non-quality implementation of each of the areas included in the report.

In the Report, same as in the previous one, the basis for measurement and benchmarking of the Government performances is the Program for Work of the Government of the Republic in Macedonia¹, done in September 2006. Most of the content of this program is related to the activities foreseen in the pre-election program of the VMRO-DPMNE political party – “Rebirth in 100 Steps” but there are also additions from the pre-election programs from other coalition partners.

The monitoring is carried out by the following 10 independent experts that covered their respective areas of proven expertise:

¹ This Program is the basis for work of the Government in its four-years mandate

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- Tome Nenovski, PhD, fiscal and monetary policy
 - Marjan Nikolov, MA, trade and industrial policy
 - Snezhana Mojsoska, MA financial and pension system
 - Filip Blazheski, MA, knowledge economy
 - Ilo Trajkovski, PhD, education
 - Ljupcho Toshev, MA, agriculture
 - Vasko Naumovski, MA, foreign affairs
 - Dushko Stojanovski, PhD, internal affairs
 - Jaroslav Karandziski, MA, health
 - Goran Mijoski, MA, transport and communications + sports

The expected outcomes and benefits from for the Macedonian society from this report as well as from other reports from the “Leadership Monitoring” Project are multiple. The main expectation above all is that the Government accountability towards the public will be increased, its measurement and evaluation of presence of the citizens in the public speech; and also making sure that the Government uses the reports as a tool for greater development and progress. Overall, the monitoring reports are expected to contribute for better democratic climate and improvement in Macedonia.

Methodology

This Report is structured so that the main focused is put on the areas below, which are the main components of the Reports developed by the experts:

- Implementation of the activities in the reporting period
- Finding an answer to the question: what remains to be implemented i.e. what is not implemented or not yet finished?
 - Evaluation of the risk from non-implementation of particular procedures or insufficient quality implementation, and
 - Overall expert analysis of the reporting period.

Beside these structural components of the individual expert reports, the general report of this Project starts with a summary and ends with specific recommendations.

This Report is focused on the realized activities during the monitored and analyzed period, as well as on the things that are yet to be realized. At

the end, each of the experts that report about the monitoring provide their opinion about the work that has been done and what is left to be realized, by providing appropriate recommendations.

The methodology that was used for development of the second Report of the “Leadership Monitoring” Project is almost identical with the methodology used in the first report, since we are speaking about general and unified methodology used for all reports produced in the frames of the “Leadership Monitoring” Project. It includes the following elements, procedures and tools:

- Development of the “Performance Based System Matrix” for monitoring, as shown on picture 1;
- Identification of the initiatives planned which, according to the System Matrix, should be in the implementation phase in the reporting period;
- Development of questionnaires for collection of information regarding the level of implementation of the initiatives planned, as shown on picture 2;
 - Interviews with public, private and NGO sector stakeholders;
 - Analysis of the information collected;
 - Development of Report regarding the implementation progress of the planned;
- Development of Risk Evaluation from Insufficient or Non-quality implementation, as shown on picture 3.

Picture 1: Performance Based System Matrix for Monitoring

Институт Скопје Проект- Мониторинг на лидерството Систем за мониторинг на реформите на Владата на РМ 2007

Систем за мониторинг на перформансите на Владата на РМ					
Закон	Називна Точка	Активности (Имплементација на реформите)	Цели	Резултати	Времетраење рамка и изготвена извештајка
1. Давочки Реформа	До 2006 година во РМ се пријемувале прогресивен систем на персонален данок на доход со три давочни стапки (15%, 18% и 25%), данок на добивка по стапка од 15% (0% корпоративен данок на рениквистарна добивка во вредност до 100 000 €), ДДВ со стапка од 18% за изголем број репроматеријали.	Намалување на стапката на ДДВ за земјоделските репроматеријали и механизација од 18% на 5%.	Земјоделците ќе платат помалку ДДВ за набавки на репроматеријали и земјоделска механизација;	Промена на Законот на ДДВ	ДА/НЕ 30.09.2006/7 Министерство за финансии
		<p>Воведување нулта стапка за рениквистарна добивка</p> <p>Воведување рамек данок по стапка од 12% во 2007 година, односно 10% во 2008 година;</p> <p>Воведување рамек данок на добивка по стапка од 12% во 2007 година, односно 10% во 2008 година;</p>	<p>Зголемување на инвестициите, понудата и побарувачката на стоки и услуги, на работноста и на приливите во буџетот и намалување на одливите од буџетот;</p>	Промена на законите за персонален данок и данок на добивка	ДА/НЕ 01.01.2007 Министерство за финансии
2. Управа за јавни приходи	Недоволен степен на исплата на "давуодларивниот" давочек долг на големите давочни обвршници	Административно-техничко згражување на УП	УП професионално ќе ја врши својата основна функција	Закон за изменување и дополнување на Законот за УП;	ДА/НЕ 30.06.2007 Министерство за финансии
		<p>Воспоставување и почитување со работа на Дирекцијата за големи давочни обвршници</p> <p>Воспоставување електронска врска со Централниот регистар</p>	<p>Зголемување на исплатата на даноци од големите давочни обвршници</p> <p>Засилување и подновоставување на едноопштерскиот систем за регистрација на правни лица.</p>	Склучени договори со 118 големи давочни обвршници	ДА/НЕ 30.04.2007 УП
	Значајно непријавување на даноците.	Стратегија за зголемување на пријавувањето на даноците.	Зголемување на пријавувањето на даноците и на нивната исплата.	Долетување ЕМБ и единствен даночен број заради идентификација на давочните обвршници	ДА/НЕ УП 31.12.2006

Институт Скопје

Picture 2: The Questionnaire

П Р А Ш А Л Н И К

за остварените промени и за состојбите во фискалната политика на РМ во периодот септември 2006 - мај 2007 година

1. Кои закони беа донесени во периодот септември 2006 - мај 2007 година со кои се извршија измени во фискалната политика на РМ?

Picture 3: Form used to evaluate the risk from insufficient or non-quality implementation for one of the sectors

Ризик	Сериозност	Активност за избегнување	Надлежен орган	Други информации
Р ¹ : Ризик по транспарентност П: Неприфакане на реформите од сите заинтересирани	Голема ²	Воведување на формални процедури во донесување на стратешки документи во кои би биле вклучени и бизнис заедницата, тинк тенковите и граѓаните	Сите министерства	Немање на информации и податоци ја отежнуваат анализата и партнерството
Р: Ризик да Владата води бизнис, наместо донесување политики П: Истиснување на приватната иницијатива во пазарите	Голема	Секторски Кост Бенефит анализи за мерките кои Владата ги превзема, а кои имаат елементи на интервенционизам (Компјутер за секое дете, помош и отстапки на СДИ и слично)	Заменик премиерот за економски прашања Соодветните министерства	Недоверба на бизнис заедницата кон Владата
Р: Недостаток на координираност помеѓу министерствата	Средна	Зајакнување на мониторинг и евалуација на буџетско	Генерален секретаријат и Министерство за финансии	Ад хок менување на приоритети (пр: праксата на низок приоритет

The stated connotations and scores are performed on the basis on the information gathered from the examination of available written material and documents and from interviews with authorities in the appropriate institutions.

This Report is also based on the approach and analytical framework that were elaborated in the previous report for monitoring and realization of the Macedonian Government in the above-said areas. The export reports are developed on the basis of the general methodological framework established by the “Leadership Monitoring” Project, where the main purpose of the Project is monitoring of reforms of the Government of the Republic of Macedonia. Therefore, this Report is result from information gathered from monitoring of the activities that the Macedonian Government undertook (or still undertakes) in particular areas in the two-month period of June and July 2007.

In order to include the most important achievements of the Government in the above-said areas, subject to monitoring were the activities undertaken by several institutions: the Government of the Republic of Macedonia, the relevant Ministries, various Government services, bureaus, Government agencies, state enterprises. In the text below we provide and analyze the achievements in specific areas.

Since the trade, industrial and investment policy are not treated explicitly in the Government program, this area in this Report will show those measures and activities undertaken from the Program that have greater or smaller impact on the results of these policies, taking into account the Government commitment to enable business-friendly environment. The development of the part dealing with trade, industrial and investment policy took into account the information from the National Program for Adoption of the EU Acquis and the Ministry of Economy documents.

Before the start of performance measurement of the Government in the period June-July 2007, the experts used the Performance Based Monitoring Matrix which was also used for monitoring of the First Report, initially developed by the OHRID Institute team. As a basis for the Matrix, the experts used the Government Program but also the election program of the political parties that are now forming the Government. These matrixes are very powerful tools in evaluating the performance of the public projects. They are successfully used in many countries in the world. This tool for efficient monitoring is also used by several international consultancy companies.

The ascertainments and evaluations are developed on the basis of information gathered from overview of the available printed and electronic materials and documents. Other sources of information were the electronic and printed mass-media as well as their websites. This orientation of the Report – different from the first one where the main sources of information were interviews with the relevant persons - was due to the time period included in this report. The orientation towards this source of information was done also because of two other reasons. The first one was that, judging from the experience from the first report, the reliability of the information gathered from interviews can not be strongly verified – especially information related to current activities. Second one, it was done in the aim to evaluate the specific contribution of the Ministries towards the wider orientation of the Macedonian Government for greater transparency and openness.

SUMMARY

The Macedonian Government continued the reforms also in the months of June and July 2007, in the same time expressing its determination for their implementation. The Government and the relevant Ministries undertook series of measures that resumed the initially started realization of particular activities, but also other activities were implemented in accordance with the Program for Work of the Government of the Republic of Macedonia in its mandate period 2006-2010.

Some of the activities were taking place in a quite good manner in June and July 2007, in accordance with the agendas, some of them had their intensity reduced as well as gaps that could hurdle not only themselves but also other related areas. However, the general impression is that the Government is result – oriented and has the determination to finish the activities it undertook and bring them to the realization.

However, some of the activities planned in June-July were not realized in the foreseen deadline. These will be finished in the upcoming period. This concerns the changes and amendments of the laws on the Public Revenue Office, tax procedure, National Bank of the Republic of Macedonia, foreign currency work, Customs Code, the Law on Cheque (that will aim to reaffirm the importance of the cheques as an instrument of cash-free payment), etc. A new Law on Payment Operations has been developed. All these Laws are developed and are currently in the pipeline for adoption. However, the Parliament is working slowly during summer so their adoption will happen in the upcoming period.

The ambition, persistence and successful beginning are half of the success but for the other half more work is needed.

The main activities in the **fiscal policy** in this period were focused towards timely start of the second phase of the decentralization process and further administrative-technical strengthening of the Public Revenues Office which will increase its efficiency in realization of its tax competencies. There were several reasons why the Government changed (rebalanced) the National Budget for 2007 and the National Parliament adopted this rebalancing of the National Budget at the end of July 2007. It provided increased inflow from collected public duties and preparations for start of

the second phase of the fiscal decentralization. This created the appropriate financial conditions for smooth implementation of the fiscal decentralization and increase in the Budget funds dedicated for investments in the economy and social areas in the country.

The realization of the main goal of the **monetary policy** - maintenance of the price stability was continued and thus, an increased efficiency of the banking system by strengthening the supervision over the banks was evident.

Regarding **trade and industrial policy** in this period, the Government undertook a series of measures focused on development of strategic documents. Increased investments, reduced unemployment, increased competitiveness and employment, reduced regional disparities and reduction of poverty are the effects expected from implementation of these documents. These documents concern a wide range of social-economic phenomena and therefore it is necessary to build partnership with the Government in the business community and with the citizens as a precondition for their successful implementation.

The development of new Strategy for Export Promotion is expected, including the start of activities for acquiring of full membership in the European Committee for Standardization and Electro-technical Standards. The simplification of custom procedures will be also implemented.

Regarding sector documents, the leading industry is the steel industry regarding systematic approach towards its development. The Steel Bulleting has been made which identified the strategic obstacles for its further development. Special attention was paid on the transport component of this industry. Strategic documents are developed for protection of competitiveness and industrial property as well as documents in the area of tourism.

There are specific activities in the area of **financial and pension system** towards implementation of reforms to improve the economic situation in Macedonia. In the period 1st June-1st August the Sectors for Financial System and Pension System have developed several Laws some of which are already adopted by the Parliament and have entered into force and some are currently in the Government procedure and will be adopted very soon. Adopted are the Law on Changes and Amendments of the Law on Supervision over the Insurance, Law on Changes and Amendments of the Law on Pension and Disability insurance and currently in the Government procedure are the Law on Payment Operations, Law on National Bank and

many other laws for changes and amendments mainly related to harmonization of these Laws with the Law on Misdemeanors.

In the analyzed period significant steps were undertaken for implementation of the activities foreseen in the Macedonian Government Program 2006-2010 aimed towards increase of the competitiveness of Macedonian economy by supporting its adaptation to the new **knowledge-based economy**. The key activities in this regard are the hardware equipping of the schools, preparation of mass trainings in IT skills, interim use of the internet and promotion of cash-free payments, e-business and e-Government. It is important to say that in this period the state institutions were developing the strategic plans for the next three years which are the base for development of the state institution budgets for 2008. The Budget process by the end of 2007 will be the key process if the intention is to allocate more funds for science, development and research.

In the area of **education**, the Macedonian authorities continued the implementation of activities initiated in the past period and initiated new educational activities and issues stipulated in the Program “Rebirth in 100 Steps”. From the aspect of legal initiatives, the Government in this period finished and put into Parliament procedure three laws: Law on Changes and Amendments of the Law on Higher Education, Law on Changes and Amendments of the Law on Educational Inspectorate and Proposal for Adoption of Law on Adult Education.

In the area of investments and novelties in the education during the analyzed period the strategic initiatives mentioned in the previous Report resumed. In the public, most obvious are the activities related to the projects “Computer for Every Child in Elementary and Secondary Schools” and “Macedonia – land of IT literate people”.

Regarding the increase of educational competition, the establishment of the new University in Stip is a successful activity as well as various forms of support for the private universities.

In general, these and other activities tend to maintain the wide front of reform activities of the educational authorities and realization of the goals set in the programs. The general impression is that the main focus and area of the most significant achievements is the elementary and secondary education.

In the last two months (June and July) from monitoring of reforms of the Macedonian Government in the area of **sports** and physical culture, two projects have started with through the Agency for Youth and Sports (AMS), following extensive preparations. One of the key projects in this area had very successful start (not only for this year but also in the total four-year mandate of the Government). It is the “Construction of 35 sport halls” projects. The second project that has started in this period is “Selection of the National Sports Anthem”.

The projects that were initially started and realized, such as the opening of the press center and promotion of the website are functioning successfully. The draft Program for Development of Sports in the Republic of Macedonia for the period 2007-2012 is currently in development phase.

Macedonia finally carried out an **agricultural** census, first after 40 years, in the period 1st-15th July 2007. This is very important step to undertake any other measures for development of the agricultural production. In the last 40 years, the agricultural issue was partially included in the regular censuses but this was insufficient to resolve the need for overall, comprehensive and objective information about the agriculture in Macedonia.

Other activity important to mention in this period is the implementation of the Program for Rural Development for 2007. Some important irrigation and floods control project have also started. The big drought and hot weather in this period have again raised the issue of irrigation of agricultural land, and the greatest problem were the fires all over Macedonia which caused great damages to the forests.

In the area of **foreign affairs**, the Macedonian Government resumes in undertaking steps in order to achieve satisfactory results important for opening of the accession negotiations. Also, the Republic of Macedonia continuously meets the obligations set in the European Partnership and it continues its approximation to NATO. A Law on Cooperation with the Hague Tribunal has been adopted in June which confirms the Government commitment to fully cooperate with this institution.

The relations with the USA have been strengthened; the Macedonian state officials have met with the top level state officials from more European and western countries, like the meeting with the President and the State

secretary of the USA, members of the Presidency of the EU and visit of Members of Macedonian Parliament to the European Parliament.

At the end of June NATO Security Forum took place in Ohrid and in July in Brussels the Fourth Meeting the Stabilization and Association Council. There was no significant progress registered in the relations with the neighboring countries and the care for Macedonians living in the neighboring countries was not on the needed level of realization.

The fight against corruption remains priority in the Government Program in the monitoring period. In order to achieve more efficient fight against corruption and organized crime, several laws were adopted in this period that enable more efficient first against corruption and organized crime. The prosecution authorities were vested with greater operational competencies and on the other side the public officials are obliged to provide greater transparency of their property. The notaries are also obliged to declare any doubts they might have about eventual money laundering and corruption when dealing with their clients.

Very important segment for implement of **judiciary** reforms is the work of the Academy for Training of Judges and Prosecutors. A new Rules and Procedures of the Courts has been adopted which sets the internal organization of the Courts as well as other activities.

The Ministry of Justice adopted good number of bylaws regarding harmonization of our legislation with the EU Acquis.

The fight against corruption remains top priority of the Government in the reporting period. In order to be more efficient against the corruption and organized crime several laws were adopted during the reporting period. With the proposed changes and amendments as well as the introduction of new laws, the fight against organized crime and corruption becomes more efficient. The prosecution authorities are vested with greater operational competencies and on the other side the public officials are obliged to provide greater transparency of their property. The notaries are also obliged to report any suspicion for eventual money laundering and corruption acts when working with their clients.

In the area of **health**, especially regarding protection of people from high temperatures, package-measures were adopted for protection from high temperatures. The “Health for All” campaign started on the 2nd of July in Skopje and will resume till October in all bigger populated areas in Macedonia – total of 19 locations where the people can get free health exams by doctors.

The program for Continuous professional development of the health sector managers will maintain in future too. Currently in progress are competitions for selection of managers of the public health institutions that will operate on the basis of bind signatures. Currently in testing phase is the Medical Map that should be used as a tool for planning and investments in the health sector. The Strategy for Integrated Health Information System has been adopted.

The health services package is still debated in the working groups of the Ministry of Health and foreign consultants that were engaged for this purpose. Draft Program for training of the Health Insurance Fund management has been developed; people were trained from the Health Insurance Fund, the Ministry of Health and Ministry of Finance, which establishes a fully operational group of trainers.

In the last two months (June and July 2007) from the monitoring of the Government Reforms in the area of **transport and communications** the activities of the started projects have resumed. Also new projects are being implemented. The most notable are the following activities: Sales of state-owned land in Skopje (where the Government demonstrated transparency in sales and decisiveness in the fight against corruption; the selection of WiMax providers that will enable development and expansion of the wireless internet, fixed telephony and television; reforms in the Cadastre resume with strong intensity (the result of which is significant progress in the daily work); Electronic allocation of apartments (this is implemented for the first time in Macedonia in order to eliminate the human factor i.e. nepotism and corruption); Transformation of the “Macedonian Railways” public enterprise (which confirms the reform spirit of the Macedonian Government in the area of transport and communications).

1. Fiscal and monetary policy

1.1. Activities implemented in the reporting period

1.1.2. Fiscal policy

The activities of Macedonian Government, in the period June-July 2007 in the area of fiscal policy, were mainly focused on the following four areas:

1) There were several reasons why the Government changed (rebalanced) the National Budget for 2007 (increased inflow from collected public duties and preparations for start of the second phase of the fiscal decentralization) by increasing it for 119 billion denars (1.9 billion euros). The National Parliament adopted this rebalancing of the National Budget at the end of July 2007. This created the appropriate financial conditions for smooth implementation of the fiscal decentralization and increase in the Budget funds dedicated for investments in the economy and social areas in the country.

2) During June-July 2007, the Macedonian Government accelerated the activities for start of the second phase of fiscal decentralization. The Government established a Committee that evaluates the performances of all 84 municipalities, including the City of Skopje, regarding realization of the first decentralization phase and meeting of legal criteria for entering in the second decentralization phase. The Committee ascertained that 42 municipalities meet the criteria therefore the Macedonian Government approved those municipalities to enter in the second phase of this process. It is expected that the effective start of this decentralization phase will start on 1st October 2007 when the Municipalities will be fully in charge for organization and financing of the Budget beneficiaries (schools, cultural institutions, public kindergartens, etc.) that are active on their territory.

3) During the monitored period the Government of Macedonia prepared for adoption (or already adopted) specific regulations with a purpose to prepare the implementation of the following fiscal policy actions.

Currently in procedure is the Law on Changes and Amendments of the Law on Cash Payments that arrange the introduction of cash register machines on the green markets by the organizers of these markets.

The Strategic Coherent Framework 2007-2013 has been set. This document is a basis for development of operational programs that will be financed from the EU preaccession funds for realization of the Third (regional development) and Fourth (human resources development) component of this financial instrument which is used by the EU to prepare the economies of the candidate countries for EU membership.

Currently in Parliamentary procedure is the Law on Changes and Amendments of the Law on Public Procurements that set the value thresholds for regular public procurement procedures, define deadlines for submission of bids following public calls and introduce electronic auctions as a special way of implementation of the public procurement procedure which is expected to produce savings and increase the cost-efficiency and effectiveness of the public procurement procedures.

In the same time, the draft-law on Public Procurements has been developed. It is already in Parliamentary procedure and it harmonized with the EU directives. It is expected that this Law will start to be implemented from 1st January 2008.

In order to prevent fiscal evasion and in order to avoid double taxation on profit tax, the Government of Macedonia signed and the Parliament adopted in the reporting period special Laws for ratification of several Double Taxation Treaties with these countries.

4) During the analyzed period, the authorities undertook measures for further administrative-technical strengthening of the Public Revenues Office (PRO):

a) Draft-Law on Tax Procedure has been developed. It is expected that the adoption of his Law will enable administrative strengthening of the PRO as a tax authority and increase its efficiency in realization of the tax activities.

b) In June 2007 137 tax auditors were trained on the Police Academy for easier and more efficient realization of their main function (tax audits).

c) The increased competences of the Large Taxpayers Office yielded further positive results. The tax payers establish direct contacts with the PRO (1.185 contacts in the first semester of 2007) where in 91% of the cases the PRO replied within 7 days. The improved direct contacts yielded high percentage (minimum 92% and maximum 99,32%) of the VAT refund claims to be realized within the foreseen legal deadline of 30 days. In these

frames, minimum 38,72% and maximum 54,72% of the VAT refund claims were realized within 15 days from the day when the request was filed.

d) In order to provide operational implementation of the Strategy for Increased Compliance and Improved Collection of taxes, as well as in order to provide assistance and support to the taxpayers for volunteer compliance of their tax liability, the PRO staff are instructed how to act regarding enforcement of legal provisions related to assessment and collection of taxes, cash registers, lump-sum tax payment for micro companies, the issuing of various certificates, etc.

With all these activities, the PRO improved the present procedures for registration, calculation and payment of taxes. Their practical implementation caused improved collection of taxes by the physical and legal persons. For example, the total public revenues collected in January-July 2007 were 33,9 billion denars which is by 3,6 billion denars (11,64%) more than the public revenues amount planned in the monitoring period as well as 20% more in relation to their collection in the same period of 2006.

e) The PRO campaign for installation of cash register machines (fiscalization) resumed in the period June-July 2007. For easier understanding and implementation, the PRO developed a Fiscalization Manual in July 2007. In June 2007 the PRO started to implement the Law on Fiscalization of Green market in accordance with the changes in the Law on Trade. Also changed in this regard was the above mentioned Law on Changes and Amendments of the Law on Cash Payments.

The PRO manifested its determination for consistent implementation of the legal provisions and aim to streamline the shadow economy into the regular system of work by increased audits for enforcement of the Law on Cash payments. In May-June 2007 the PRO carried out a total of 963 audits on the basis of which it adopted 170 decision for closure of objects because they were not issuing cash register receipts when selling the good or service.

f) In order to reduce (if it unable to prevent it) the non-compliance to the laws, in the first half of 2007 the PRO carried out numerous audits, as follows: 3.964 VAT audits; 1.312 audits for personal income tax audits, 667 audits for profit tax; 39 excise audits and 4.002 audits for other duties (including here the cash register audits). In the same period, due to non-compliance to the law, the PRO initiated 1.392 misdemeanor procedures and 98 criminal procedures against appropriate persons.

g) Being aware about the great importance that the refunded VAT has on the liquidity and development of the companies, the PRO continues to retain the high rate (87% in June-July 2007) of refund of surplus VAT paid within 30 days from its assessment. Due to this approach the VAT refund in the first half of 2007 is greater by 35% in relation to the same period of previous year.

1.1.3. Monetary policy

The realization of the main goals of the monetary policy was improved in the monitored period:

- a) Maintenance of the price stability, and
- b) Increased efficiency of the banking system by strengthening the supervision over the banks.

The main features of the monetary policy in the period June-July 2007 were the following:

a) The stability of prices in the country was maintained. As a result of the strategy of denar being bind to foreign currency (euros), and thanks to other macro-economic factors, the inflation rate in the period January-July 2007 was 0,9%. In July 2007 the retail prices were significantly reduced so in this period we have deflation of 0,3%. This means that the price stability in the country was maintained in the reporting period. Furthermore, in this period there was significant reduction of realizations in relation to inflation rate planned for 2007. As a result, the planned annual inflation rate in the country was corrected (2,5% initially and now 1,5%).

b) The reform changes of the business environment in the country conditions further (modest) reduction of the bank interest rates. The interest rates in the banks (for loans) feature modest but permanent reduction. In June they were 10,2% per year (10,58% in the first five months of 2007). The average interest margin of the banks has reduced from 6,63% to 5,40%.

c) In the first half of 2007 there is increase of the bank loans used from the people for dwelling needs which is one of the program intentions of the Macedonian Government. This is result of the reduced interest rates by which the dwelling loans are approved (5,5% per year). According to the surveys done by the National Bank of the Republic of Macedonia, the

reduction of interest rates of dwelling loans is mainly due to increased competition among the banks and reduction of the costs for the banks when collecting funds for investments.

d) In order to increase the efficiency of the banking system, the National Bank of the Republic of Macedonia undertook several measures that aim to increase the supervision over the banks. Very strong impact here has the adoption of the Law on Banks (9th June 2007). According to this Law, the National Bank adopted several operational and related bylaws and decisions which mean increase of its supervisory role related to protect the safety and stability of the banking system in the country. Most notable among these decisions are the Decision for issuing of licenses for establishment of banks and Decision for Issuing of various endorsements for the banks. These two decisions compose the regulatory framework in the area of licensing of the banks and saving houses which is a core element of the supervisory function of the National Bank.

1. 2. What remains to be implemented (not yet implemented or not yet finished)

According to information from relevant institutions, the program activities of the Macedonian Government related to fiscal and monetary policy are realized with the planned dynamics (in some areas even faster). Because of this in some areas we have realization of all activities set in the Program for Work of the Macedonian Government in its four-year mandate.

However, some of the planned activities were not realized in the foreseen timeframe so their realization is yet to follow in the upcoming period. This is about adoption of several regulations that will increase the administrative-technical capacity of particular institutions and it will increase the efficiency in their work.

Here we mainly refer to the adoption of laws for changes and amendments of the laws regarding PRO operations, tax procedures, National Bank of Macedonia, foreign currency work, Customs Code, the Law on Cheques (that will aim to reaffirm the importance of the cheques as a cash-free payment instrument), etc. A new Law on Payment Operations has been developed. All these Laws are developed and are currently in the pipeline for adoption. However, the Parliament is working slowly during summer so their adoption will happen in the upcoming period.

Amongst all planned but not realized activities in the deadlines set, the most important is the activity related to harmonization of the bases for payment of the social insurance contributions and personal income tax. According to Government information, this activity will be implemented in the upcoming period in two phases.

1.3. Evaluation of potential risks from (non)implementation or from non-quality implementation

a) The speed of the second phase of the fiscal decentralization is faster than needed, which could cause serious risks.

For example, the municipalities were unprepared when they entered the first decentralization phase. Most of them inherited large amount of due receivables, made from previous managements. Therefore at the start of decentralization the municipalities faced lack of funds to finance the regular and newly transferred activities and competencies. This problem is still current for some of the municipalities making difficult the transition into the second phase of decentralization.

At the beginning (and afterwards, during implementation), the further progress of decentralization was marked by the gaps of the legal framework regulating the fiscal decentralization. Maybe the greatest gap and weakness is the chaotic situation and non-efficiency of the Cadastre before and during the fiscal decentralization. The municipalities have entered this process without having clear ownership title of the property they have. It was emphasized at the beginning as one of the greatest difficulties for the municipalities to manage their property and realize very important fiscal revenues on that basis.

Most of the Mayors think that the entering in the second phase of decentralization will not yield some important financial benefits for the municipalities. Therefore, in their opinion, this process is just a mediation between the central Budget and the Budget beneficiaries that are active in their areas (schools, kindergartens, cultural institutions, sport clubs...) during transfer of funds for salaries and other remunerations for the people working in these institutions. We can suppose that some municipalities will face serious problems in realization of this transfer role because of the insufficient human resources and also because of the need for the municipality in particular periods to compensate the costs, or some of the

costs for salaries and other remunerations of the staff in these institutions from their Budget.

b) There are different tendencies in the area of inflation. The inflation rate is under full control and is even significantly below than the forecasts for 2007. Therefore, the main monetary goal – maintenance of the price stability – takes place without any problems. However, such low inflation rate means that the offer of cash in the economy is very low which, most probably, has negative impact on the increase of production and on the offer of goods and services. These factors, together with the modest increase of foreign direct investments, especially the *green field* investments, can significantly threaten the final goal of the economic policy of the country in 2007 – increase of the GDP with a rate greater than 5%. The negative performances of the industrial production June together with the high level of trade deficit of the country at the end of June 2007 (646 million dollars) justify this concern.

1.4. Overall evaluation by the expert for the reporting period

Most of the activities planned in the area of fiscal and monetary policy in the period September 2006-July 2007 have been realized. Furthermore, the comparative analysis of the activities programmed by the Macedonian Government for its four-year mandate in realization of these two fields of the macroeconomic policy of Macedonia, points out that, in just one year of work, the Macedonian Government has realized most of the activities planned for particular areas in these two fields of macro economy. This means that the Macedonian Government should continuously revise the situations in the fiscal and monetary policy in the upcoming period and program additional activities aimed towards improvement of the macroeconomic climate in the country and realization of the final goal – permanent economic growth with annual growth rate of over 5%

However, it is obvious that in realization of some of the goals and tasks set, specific risks are neglected. If these are not reduced or removed, they could turn into counterproductive effect of the programmed social-economic targets of the Macedonian Governments. During the report period, these risks are mainly manifested in the area of low (no-development) inflation and implementation of the second phase of the fiscal decentralization.

2. Trade and Industrial policy

2.1. Activities implemented in the reporting period

Regarding industrial policy in this period, the Government undertook a series of measures focused on development of strategic documents. Increased investments, reduced unemployment, increased competitiveness and employment, reduced regional disparities and reduction of poverty are the effects expected from implementation of these documents. These documents concern a wide range of social-economic phenomena and therefore it is necessary to build partnership with the Government in the business community and with the citizens as a precondition for their successful implementation.

Important strategic documents are those related to protection of the competition and industrial property. For this, the Law on Changes and Amendments of the Law on Protection of Competition was adopted as well as Ordinance for Establishment of Conditions for Awarding of State Aid in Particular Areas (horizontal aid). This will increase the competitiveness of the Macedonian economy.

Regarding sectoral documents, the leading industry is the steel industry regarding systematic approach towards its development. The Steel Bulleting has been made which identified the strategic obstacles for its further development. Special attention was paid on the transport component of this industry.

The cluster, as a competition instruments of the sectors was proven to be successful for individual sectors where own initiatives are already being undertaken without the need of assistance by the Ministry of Economy. Also announced is the establishment of clusters in other sectors.

The Government adopted a Decision for the “Macedonian Village” project in the area of tourism. Promotion tourism materials on Macedonia were also developed. Fight against corruption is also important and specific measures were undertaken in this respect.

In order to strengthen the MSP and investments in Macedonia a Program for Stimulation of Investments in the period 2007-2010 was adopted. The weakness is that it is inefficient to adopt program for the

current year that will finish soon so the planning in this area should be strengthened in the future.

In the area of non-tariff barriers for strengthening of competitiveness of the Macedonian products efforts are on the way to become full member of the European Committee for Standardization and Electro-technical Standards. In synergy with regulatory guillotine the administrative barriers will be removed and the custom procedures will be simplified.

2.2. What remains to be implemented (not yet implemented or not yet finished)

The Export Promotion Strategy development will start soon and the activities for full membership in the European Committee for Standardization and Electro-technical Standards. It is expected that the custom procedures will be simplified soon.

Regarding all these documents, it is a must that they are accessible to everyone interested (internet), even in draft versions. It should be a problem to put the latest version at the end of the day on the internet. In this respect, we must praise and commend the move by the Official Gazette that made it possible to download their products free of charge from their website.

It remains to see the adoption of actions plans for strategic documents and programs and their *ex post* evaluation.

The goals set in the program are still on paper and the implementation of the results is expected. It must not be forgotten that the Government sets the framework for functional market economy but it does not manage the economy, neither provides regulation and public interest. In this regard, the businesses are expected to take the role of initiators and creators of the rules on the markets, in the frames of the rules of the game set by the Government. Greater initiative is also expected by the local self-government and greater coordination between the central and the local Government.

Especially important for efficient market economy is the reduction of corruption and bureaucracy. For this purpose adopted were new Law on Public Procurement, National Program for Fight Against Corruption, the autonomous rights of the Ministers were reduced and a special consultant from abroad has been assigned as an advisor to the Prime Minister in the fight against corruption.

The Government Decision for each and every Ministry that finances specific activity with capital grants to the local self-government to start development of appropriate acts in identification of criteria for allocation capital grants and submit these to the Government of Macedonia by the 30th April 2007 for adoption, is not yet met.

2.3. Evaluation of potential risks from (non)implementation or from non-quality implementation

The same risks from the previous reporting period remain. The risks register is being amended with additional ones with potential of not to be met (or in the best option, if the activities are late) from the Program for Stimulation of Investments.

The adoption of programs is not a task for itself only. It should be understood as a guide for future activities so that the deadlines from the appropriate Action Plan can be met. This has additional merit since the institutional framework for investments also includes the local self-government units that have their own implementation program for decentralization and the Law on Equal Regional Development and the appropriate development strategy will require better coordination and more efficient planning and adherence to the deadlines.

2.4. Overall evaluation by the expert for the reporting period

General evaluation for this period is that the Government has introduced wide front of activities, both horizontally and vertically. By saying “horizontally” we refer to adoption of the strategies and programs in various areas that require administrative and technical capacity in all Ministries and relevant institutions. By saying “vertically” we refer to the fact that proper hierarchy of the state administration staff is established regarding planning and implementation of new activities – there is no more “putting out the fire” principle but now there is regular monitoring and reporting. The successful management of this front of activities will greatly impact the successful implementation of the goals set in the strategic documents and programs.

In general, the Government has started to create an ambient for regulation of the markets in Macedonia, which is especially important for removal of any type of discretion and obstacles in the market work. Here it is especially important to mention the reduction of the transaction costs for entry and exit from and on the market (registration and bankruptcy

procedure) and regulatory guillotine. However, here we are still speaking about ideas or only partially implemented activities or about activities that we are yet to see how they will be realized in practice. Therefore, this monitoring is a tool of great importance in order to defend the public interest for correct and timely information for everyone.

3. Financial and pension system

3.1. Activities implemented during the reporting period

3.1.1. Financial system

In this period one of the most important steps was the Law on Changes and Amendments of the Law on Supervision over the Insurance. This Law was enacted on 12th June 2007 and published in the Official Gazette No. 79/2007 on the 25th June 2007. The main priority of this Law is to provide legal basis for introduction of independent supervisory body in the area of insurance – Insurance Supervision Agency. This Law also strengthens the prudent standards and the standards for supervision in the insurance sector. It also harmonizes the capital requirements for establishment and operation of insurance company with the EU Directive from 2002. It regulates the representatives and mediators in the insurance, strengthens the ‘fit and proper’ requirements for the shareholders and members of the management bodies in order to provide better safety for the insurers and improvement of the insurance market in the Republic of Macedonia. In accordance with the Law, currently in development are preparations for establishment of new supervisory body – Insurance Supervision Agency. The work of organization of the Agency is progressing as planned and the Agency will start its work on the 1st of September 2007.

The Law on Payment Operations which was one of the priorities for this period has been developed and is currently in Government procedure. The Law proposal will arrange the payment operations in the country, the relations between the carriers of the payment operations and participants in the payment operations, the relations between the carriers of the payment operations and National Bank of the Republic of Macedonia in the area of payment operations, including payment systems, reconciliation of payments, issuing of electronic money and supervision of the payment operations. The Law is harmonized with the EU Directives that regulate this area. We expect that the Law will clear the Government procedure by the end of July 2007.

Currently in development is the Law on National Bank of the Republic of Macedonia which is expected to be enacted in September 2007. The changes made in the Law are focused towards its harmonization with the ESCB Statute and the ESCB and ECB Protocol regarding definition of

functions, competencies and independence of the National Bank of the Republic Macedonia.

3.1. 2. Pension system

The Law on Changes and Amendments of the Law on Pension and Disability Insurance has been adopted, following previous presentations and consultations with the Government regarding extension of the deadline for retirement on the basis of years in service. The purpose of this Law is to redefine the definition of invalidity and, in accordance with the EU framework, simplification of the procedure and making more strict the control and mechanisms for realization of the right on disability pension. The Law was adopted on 25th July 2007.

We still await the Law on Changes and Amendments of the Law on Compulsory Capital Financing with changes to reduce the commission rates and undertaking of all competencies by MAPAS. The purpose of adoption of this Law is to redefine disability in accordance with the EU framework, simplification of the procedure and making more strict the control and mechanisms for realization of the right on disability pension. The target date set by the Ministry of Labor and Social Policy is January 2008.

3.2. What remains to be implemented (not yet implemented or not yet finished)

Many of the laws are already developed and await the Government procedure – the Law on Payment Operations, the Law on National Bank and many other laws for changes and amendments mainly related to harmonization of these Laws with the Law on Misdemeanors. These are:

- Law on Changes and Amendments of the Law on Leasing,
- Law on Changes and Amendments of the Law on Bills of Exchange,
- Law on Changes and Amendments of the Law on Compulsory Insurance in the Road Transport,
- Law on Changes and Amendments of the Law on Foreign Currency Operations
- Law on Changes and Amendments of the Law on Auditing,
- Law on Capital Financing on Volunteer Basis, and
- Law on Changes and Amendments of the Law on Compulsory Capital Financing.

3.3. Evaluation of potential risks from (non)implementation or from non-quality implementation

The adoption on one laws or changes and amendments of the laws stimulated to adopt changes and amendments (or entirely change) other laws. Maybe it is too ambitious to adopt that large number of reforms, but their implementation was necessary. The slow or quick implementation is a two-edged sword because the consequences can be felt after certain time period. It is still early to discuss about any consequences because all these reforms are adopted almost several days ago or weeks. Because of the insufficient institutional capacity there could be problems in implementation of the reforms on the operational level.

3.3. Overall evaluation by the expert for the reporting period

The above-said Laws are only some of the laws that were developed by the Sector for Financial System and the Sector for Pension System.

The financial sector is in close correlation with the real sector which leads to conclusion that, if the financial sector is developed, the success will be visible in the real sector as well. On the basis of the work done so far we can ascertain that the financial sector is making progress. This attitude is based on the fact that the changes of some laws and adoption of changes and amendments of some laws are stimulating this development.

Still existing problem is the strengthening of the public sector institutional capacity. For more effective realization of the tasks it is necessary to provide better motivation for the civil servants and alleviate the burden on the staff (new hiring and allocation of responsibilities).

All these Laws were a must. The long awaited changes and amendments to the Law on Leasing are here. Their role on our market is still marginal. The low level of information about leasing and high rates make leasing still unknown form of financing for the Macedonians. There are also problems in this Law – the harmonization of the accounting records, calculation of the tax on revenue with immovable assets, VAT on interest, which makes this financial service non-attractive for the clients.

On the other side, the Law on Work with Foreign Currency will strengthen the supervision over the stakeholders in the foreign currency operations and strengthen the sanctions.

Beside the target date for adoption of the Law on Pension and Disability Insurance for January 2008, it was enacted in July 2007. The purpose of this Law is to redefine the disability definition and harmonize it with the EU legislation, simplified procedure and more strict control and mechanisms for realization of the disability pension right. The law also extends the deadline for retirement on the basis of years on service. The number of unemployed people with high education registered in the Employment Agency speaks for itself. I deem that the Government and the whole country need young and ambitious staff with IT skills knowledge, wish for career progress and wish to learn new knowledge and skills.

The current reforms implemented by the Government should be focused towards better legal protection, improvement of the accounting standards making Macedonia attractive destination for the foreign investors i.e. attraction of foreign direct investments.

4. Knowledge based economy

4.1. Activities implemented in the reporting period

The Program for Work of the Government 2006-2010 reads the following issues regarding support in adaptation of Macedonia to the new knowledge economy:

- a) Increased amount of budget funds for science, research and development
- b) Improved flow of knowledge between universities and the private sector
- c) Establishment of Center for Education of Managers
- d) Establishment of the Lifelong Learning concept
- e) Establishment of Ministry for IT Society
- f) Wireless installations for internet on the entire territory
- g) Interim use of internet
- h) Massive basic IT courses
- i) Full computerization of the schools
- j) Promotion of the cashless payments, payment, e-business and e-Government

4.1. Implementation

During June and July 2007 many things have happened that go in favor of implementation of the above-said policies and measures. So far, the progress in this area can be evaluated as good.

In June Memorandum was signed between Macedonia and EU for use of the Seventh Framework Program for Research of the European Union. This Seventh Framework Program is the main European financial instrument that stimulates the research and technological development. The overall goals of the program are grouped in four categories: Cooperation, Ideas, People and Capacities. Specific program exists for each of these categories that correspond to the key areas in the research policy of the EU. The Seventh Framework Program has total Budget of 50 billion euros and its duration is 2007-2013. In order for the Macedonian companies, scientific institutions, associations, etc. to be able to successfully utilize the funds from this Program it will be necessary to apply first in cooperation with the more experienced institutions and companies from the EU that have experience from pervious framework programs. The Ministry of Education and Science should help in this regard.

At the end of June a decision was adopted for tender for procurement of almost 100.000 computers that are necessary to fully equip the elementary and secondary schools in the Republic of Macedonia with hardware thus implementing the goal of the Government Program “Full Computerization of the Schools”. The “Hayer” company from China was selected as the best bidder. Their offer was 24 million euros which is 8 million euros than the Budget funds planned for this purpose (the Budget was adopted by the end of June) and computerization of the schools in phases, starting with secondary and continuing with elementary schools. The Macedonian companies selling hardware, software and services for maintenance and support were unsatisfied by the tender procedure which, in their opinion, prevented them de facto from bidding on the tender.

The activities in June and July were intensified regarding promotion of the cashless payments, e-business and e-Government. The guarantee cheques were abolished. Almost finished is the development of the Strategy for Information-Communication Technology in the Judiciary System of the Republic of Macedonia and almost finished also is the on-line applying for beds in the student dormitories with automatic scores. What is missing is promotion of e-business but this is an area where specific results will be achieved on a longer term and where probably more efforts will be put in the future.

Several internet cafes were opened in June and July by the Government of the Republic of Macedonia. This is in compliance with the “Interim Use of Internet” goal of the Government. The target group of this activity is the population younger than 26 and older than 62 years. The internet use will be free of charge for young people and pensioners. The Internet use will be limited to 60 minutes session in business days and 45 minutes during weekends.

Very important was the announcement for facilitation of the EU visa procedure for students, businessmen, journalists, pensioners, scientists and artists, which happened in June. The visa facilitation document will most probably enter into force at the end of this year. This is the first step towards the final goal – abolishment of the visa regime for Macedonia but also for other Balkan countries towards EU. However, the final goal of full abolishment of visas is not yet met and more activities are needed in this area.

4.2. What remains to be implemented (not yet implemented or not yet finished)

In less than one year the state institutions undertook a lot of measures to implement the plan from the Government Program 2006-2010. There are

very few activities that are not implemented or late with implementation. Since we are speaking about one year only, we can not yet say that there are things that are not finished. Implementation steps were implemented in all foreseen areas.

Least work was done in the following areas: “Increase of the Budget Funds for development, science and development”, “Improvement of the knowledge flow between the universities and the private sector” and “Establishment of Management Education Center”. This is understandable since the implementation of activities in these areas is a long-term activity. More attention should be paid to these areas in the future.

The concrete outcomes of the programs – introduction of “Lifelong Learning” and mass training of the people in IT skills – should be visible by the end of the year.

4.3. Evaluation of potential risks from (non)implementation or from non-quality implementation

The key recommendation here is that more attention should be put on the first component: “Increase of the Budget Funds for development, science and development”. The second half of 2007 is especially important since currently in progress is the Budget process for 2008. If we want to have increase in the Budget for these activities, the Ministry of Education and Science and the Ministry of Economy should develop particular programs and the Ministry of Finance should approve funds. In this regard, in order to use to the maximum the funds available in the Second Framework Program for Research in the EU it is necessary to implement campaigns focused on the citizens, scientific-educational institutions, NGOs and the citizens that will be informed about the possibilities that are offered by the program and on the procedures for use of funds and apply to this Program. Since it is very important for successful use of these funds to cooperate with the institutions, companies and associations from the EU and other candidate countries, support for realization of this cooperation by the Ministry of Education and Science is needed.

The activities for development of Strategy for Industrial Policy of the Republic of Macedonia in June-July 2007 were slow. This Strategy is especially important for stimulation of the knowledge economy development. In order to develop successful industrial policy, the Ministry of Economy, Sector for Economic policy and regulatory reform where the General Secretariat and the Government should focus more their attention

on this issue, obtain appropriate consultancy assistance and assist with more intensive involvement and dedication. More intensive and more constructive dialogue between the State and the private sector will be required since this is something that is missing.

For more intensive adaptation of Macedonia's economy to the new knowledge based economy greater promotion of the e-business will be needed. This component is the least developed one within "Promotion of Cashless Payment, e-business and e-Government".

As it was already mentioned in the future more work will be needed to improve the knowledge flow between the Universities and the private sector as well as to establish the Management Education Center.

Since the concessionaire for WiMax wireless internet was selected on a tender, it will be necessary to perform continuous monitoring of realization of the obligations undertaken by the concessionaire in order to achieve the results planned in the Program of the Government 2006-2010.

4.4. Overall evaluation by the expert for the reporting period

The Government resumes its intensive work for implementation of the Government Program 2006-2010 in the "knowledge based economy" chapter. We can ascertain that the activities foreseen for implementation within year to year and a half are currently being implemented in a full speed.

The Government is in the process of preparation of activities from the long-term and more complex areas. In this phase we can point out that the Government was quite successful in implementation of the general activities oriented towards increase of competencies of the overall population and there were activities in improvement of infrastructure for adaptation of the Macedonian economy to the knowledge-based economy with the new tender to broadband wireless internet (WiMAX).

However, we are still missing more focused activities such as, for example, those from the area of "improvement of the knowledge flow between the universities and the private sector". For this purpose it will be necessary to develop a comprehensive program that will take into account the opportunities offered by the EU to Macedonia as a candidate country.

A good platform for this can be the new Strategy for Industrial Policy, developed by the Ministry of Economy. If we are moving in that direction than it will be impossible to enable greater involvement by the Ministry of Education and Science and higher Government instances in the industry policy development process.

5. Education

5.1. Activities implemented in the reporting period

The authorities in the area of Education have resumed the implementation of activities started in the previous period and initiated new educational activities and issues included in the “Rebirth in 100 Steps” Program, which is implanted in the “Work Program of the Government for the period 2006-2010”.

From the aspect of legal initiatives, the Government in this period finished and put into Parliament procedure three laws: Law on Changes and Amendments of the Law on Higher Education, Law on Changes and Amendments of the Law on Educational Inspectorate and Proposal for Adoption of Law on Adult Education. All these Laws are with regards to realization of the Program for Work of the Macedonian Government for the period 2006-2010.

The adoption of the new Law on Higher Education and especially the implementation of finances for implementation of the Law (for hiring of 986 people, for payment of increased material and running costs, for refurbishment and adaptation of the faculties and procurement of equipment) we can expect the first positive steps in the area of university (higher) education in the country – after two decades of backwards development in this area.

The adoption of the Law on Changes and Amendments of the Law on Educational Inspectorate, beside the directly educational results, is a contribution towards realization of one of the key priorities included in the European Partnership – timely and full implementation of the Strategy and Action Plan for reform of the judiciary system and reduction of the outstanding cases (backlog of cases) in the courts.

Speaking about educational activities of the Government worth mentioning of the engagement of the Parliament in the adaptation of the vocational education and training to the labor market needs. For this purpose the Parliament organized workshop with strong international presence and in cooperation with the Stability Pact for South-Eastern Europe.

In the area of investments and novelties in the education during the analyzed period the strategic initiatives mentioned in the previous Report

resumed. In accordance with the information available, the preparations for start of the nine-years compulsory elementary education are in the final phase. The greatest problem – school premises and accommodation space has been resolved. These estimates of the educational authorities are based on the examination of conditions for work done in several locations in the countries. In accordance with information available satisfactory were realized the teaching programs and competition for textbooks was announced. It is also planned to realize the teachers training in working with new programs and textbooks. However, it seems that some problems are possible due to the short time frame.

In this batch of activities special finances were allocated for realization of the process started for computerization of elementary and secondary schools. The activities in this area are realized by the Ministry of Education and Science in accordance with the policy for decentralization and does appropriate cooperation with the local governments. The activities for the Project “Computer for every child in the elementary and secondary schools” are ongoing – the tender for procurement of 100.000 computers has been correctly realized and finished.

Other Government activities related to IT technology are the free IT skill courses aimed for all interested citizens in the frames of the Project “Macedonia – country of computer literate people”. In this same direction was the Government campaign for free internet access for the citizens during July.

5.1.1. Improvement of educational quality

Activities related to four target issues were not publicly exposed in this area: control of educational quality, development of dual educational system, development of simulative and respected educational environment, modernization of the teaching plans and programs on all levels.

The attention in this respect was attracted by the published international call for submission of bids for provision of services – development and implementation of campaign for promotion of the educational importance and effects focused on the parents, teaching staff, students and public. It is an activity which shows that the educational authorities have management approach to the education.

5.1.2. Increase of competitiveness in education

The registered activities in this area serve the program goals: support for opening of private secondary schools and universities, attraction of well-known foreign universities, opening of state university in the Eastern part of Macedonia. Contrary to the period analyzed in the previous report, the following activities are visible in this reporting period:

There is visible success and implementation of the activities for establishment of new University in Shtip.

Besides, special attention was attracted by the activities for promotion of the public-private partnership which allows private investments in construction of school buildings that would be bought by the State on leasing basis during 20 years period. This is innovation that could contribute towards attraction of private capital towards improvement of significantly bad material conditions present at the moment for realization of the elementary and secondary education in the country.

The activities related to support for the Government for stimulation of competition in the higher education have continued. This is implemented through various forms of support to private universities, not by providing conditions for competition for everyone.

5.2. What remains to be implemented (not yet implemented or not yet finished)

- What remains is the adoption and implementation of the Law on Changes and Amendments of the Law on Higher education as well enforcement of the Law on Educational Inspectorate and adoption of the Law on Education of Adults;

- The challenge remains to improve the material conditions of the system. The adoption of the Law on High Education and especially the realization of the allocated funds for implementation of the Law for hiring of 986 people, for payment of increased material and running costs, for refurbishment and adaptation of the faculties and procurement of equipment) we can expect the first positive steps in the area of university (higher) education in the country – after two decades of backwards development in this area;

- Initiation of nine-years compulsory elementary education and publishing all necessary printed materials;

- Realization of the plans for teacher training in accordance with the new teaching programs and textbooks;

- Continuation of activities for realization of computerization of elementary and secondary schools;
- In the area of improvement of quality for education it is necessary to intensify the activities related to external evaluation and introduction of state matura. It will be necessary to implement campaign for promotion of the importance and effects from the education, focused towards parents, teachers, students and public;

5.2.1. Increased competitiveness in the education

Activities remain to be finished in this area for stimulation of the private initiative in elementary, secondary and university education. The stimulation of initiatives for opening of private secondary schools, Universities and especially the opening of new public educational institutions still requires dedicated engagement from educational authorities.

It is important to realize it as part of the efforts to increase the quality of education. So far the increase of competitiveness is set as a goal for itself. As a consequence we have increase in competitiveness and reduction of the educational standards. The challenge remains for introduction of European standards between the educational competitors.

One of the challenges in this regard can be the stimulation of the competitiveness between the public educational institutions. At the present such competition does not exist on any educational level. The opening of new public educational institutions (such as, for example, the new University in Shtip) is just one step forward. Other measures are also necessary, especially the creation of opportunities for mobility of the students from one into other educational institution and other measures.

5.3. Evaluation of potential risks from (non)implementation of particular procedures or from non-quality implementation

Key risk factors for implementation of the initiated and activities planned in the area of education are the following:

- the short timeframe, for implementation of activities related to the nine-years elementary education, printing of the textbooks, etc
- intensifying of the problems between the central and local governments, in the context of the overall decentralization process
- the general defocusing of attention from educational to security issues because of the events in the region

- social and trade union movements, as a consequence of wave of increased prices and in the context of the overall unfavorable living standard of the people working in educational sector.

- mass replacements of the staff, due to eventual change of the Government

5.4. Overall evaluation by the expert for the reporting period

The above said and other activities show the trend of maintenance of the wider front of reform activities of the educational authorities and realization of the program goals. Significant progress has been made in the area of legislation reforms; the strong tempo of educational novelties is maintained; the steps aimed to improve the quality of education are maintained as well as support for the private initiatives.

It seems that the main focus and the areas of greatest achievements are the elementary and secondary education. Regarding university (higher) education – with exception of progress in establishment of new public University in Shtip – several measures have caused negative reactions in the public educational institutions and have put them in unfavorable position in relation to the private. This year, same as before, the competition for enrolment of students on public universities was late. The competition provoked controversial reactions regarding decision to abolish the quotas for enrolment of students from minorities on the state universities for the studies that exist on the State University of Tetovo. This policy contributed to strengthen the segregation consequences of the present educational system of the current educational policies.

Another area with no visible activities is the goal to finance the high education with projects. In relation to this are the situations in the area of scientific-research work and scientific-research projects. There is no progress from this area compared to inherited negative situation.

In order to change the situation the following is necessary – first, increase the funds allocated to scientific-research projects and secondly, transparency in allocation of the available finances. As an illustration we will mention that the last information on the website of the Ministry of Finance for supported scientific-research projects dates back from 2004.

These and other steps are necessary for quicker moving forward and integration of the Macedonian university education in the European high education and research area – European Credit Transfer System and Europe Based on Knowledge.

6. Sports

6.1. Activities implemented in the reporting period

6.1.1. "Construction of 35 sport halls"

In accordance with the pledges and dynamics planned, after the public procurement procedure ended in June, the construction activities for building of 35 (thirty five) sport halls have started in July located all over Macedonia.

The full construction of sport halls on the international tender was won by the "Karposh" factory in Skopje, with construction deadline of 6 (six) months from the start (setting of the foundations) i.e. the deadline to finish the project is end of 2009. The total price for realization of this project is 8,4 million euros.

Foundations were laid for the sport halls in the municipalities of Sveti Nikole, Gazi Baba and Gjorche Petrov (Novo Selo village). The sporting halls in Gazi Baba and Gjorche Petrov (Novo Selo village) are located in the elementary schools that never had sporting/ gym halls before.

Following decision by the Government of the Republic of Macedonia, all sporting halls will be handed in permanent ownership of the Municipality where they are built. Those located in the elementary schools special agreement will be signed with the Municipality and given to be used.

In the recent period, the Macedonian Government, through the Agency for Youth and Sports (AMS) resumed the construction of eight sporting halls built up to the phase of carabine (the construction of the halls started during the previous VMRO-DPMNE mandate and coalition partners and were stopped during the four years mandate of the SDSM Government thus exposed to continuous degradation.

These eight halls are located in the following municipalities: Bitola, Makedonski Brod, Berovo, Pehchevo, Valandovo, Cheshinovo – Obleshevo, Demir Hisar and Probishtip-Zletovo and, in accordance with the plan, should be finished by the end of 2007.

Agreements were signed for construction of four sporting halls and hand over in their ownership, between the Agency for Youth and Sports (AMS) and the four State Universities.

As supreme educational institution in Macedonia in the area of sports and physical culture and education where our sportsmen are educated, and in order to modernize them and raise the conditions and standards for work, agreement has been signed for investment in construction of sports hall between the Agency for Youth and Sports (AMS) and Faculty for Physical Culture (FFK) in the University “Sv.Kiril i Metodij” for handing over.

Construction of “Boris Trajkovski” sporting hall

After the significant reduction of activities related to construction of the large sporting hall “Boris Trajkovski” the Government of the Republic of Macedonia in the recent period, considering the large importance and need for this sporting hall in Macedonia, decided to financially help its realization. This should be most representative sporting object of closed type in Macedonia. Beside for sporting events it will be also used for concerts since its capacity for spectators will be able to correspond to the needs. In honor of the late President Boris Trajkovski, who had great passion for sports, the hall will be named in his honor.

Selection of sports anthem

At the end of July, the Agency for Sports and Youth (AMS), in cooperation with the Sporting Federations Union, started the realization of the “Selection of National Sports Anthem Project”.

The idea is for the fans from all over the country to select the national sports anthem that will be identifiable everywhere (at home and abroad) that will support our national teams in all sports.

6.2. What remains to be implemented (not yet implemented or not yet finished)

- Adoption of changes and amendments of the Law on Sports (adoption and implementation of this law will contribute towards more specific legislation and improvement of performances of the present Law on Sports which is supposed to contribute towards better development of sports in Macedonia);

- Development of Draft program for Development of Sports in Macedonia for the period 2007-2012 (the adoption of the Program Proposal

should define the directions for development of the sports in the upcoming five-year period and also to target the goals that need to be achieved).

6.3. Evaluation of potential risks from (non)implementation or from non-quality implementation

Key risk factors for implementation of the initiated and activities planned in the area of education are the following:

- Short timeframe for realization of the activities planned;
- The weather conditions which would mean prolongation of the realization deadlines;
- Prolonged implementation of some activities planned;
- Lack of quick initial positive results that would stimulate the further activities;
- Conflict between the central and local government especially in the position-opposition relations.

6.4. Overall evaluation by the expert for the reporting period

In the last two-months monitoring, in accordance with the dynamics planned and activities agenda of the Government of the Republic of Macedonia and the Agency for Youth and Spots, we can point out that all current activities have been realized.

On the biggest and most important projects in this area (“Construction of 35 sporting halls”) has started. The foundations are laid for 3 new sporting halls and the Macedonian Government adopted a decision that it will transfer all 35 sporting halls in the ownership of municipalities where they have been built.

This Decision by the Macedonian Government is one step forward in the decentralization process.

Especially important to emphasize is the fact that the sporting halls are also built on the four state universities, especially on the Faculty of Physical Culture in the “Sv.Kiril i Metodij” University which will contribute to develop the students’ sports and recreation and for some Macedonian student representation this contributed to win medals (for example, the Karate Federation of Macedonia has already won several medals). The non-implementation of this project can be obstacle for development of the

student sports and development of student sporting leagues, similar to the university sporting leagues in the United States.

The non-implementation or partial implementation of this Project, in accordance with the Agenda for this year (to build 8 sporting halls by the end of 2007) will most probably breach the foreseen deadlines in the following years and maybe also the final deadline for construction of 35 sporting halls.

All these things can be the reason for criticism by the public and reduction of importance of the project itself thus threatening its realization.

The idea for the project “Selection of the National Sports Anthem” is to be commended. This anthem will unite the fans of the our teams, regardless of the fact that we have fans from rival sporting clubs and support our teams at home and abroad.

One more advantage of this selection is that it indirectly inspires to fans to support in correct manner, without humiliation or insults of the rival (which would be later the reason for penalties towards our sport federations) but the fan support will be oriented towards support and glorification of their team.

- The issue that is raised here is why no other mass media are included in this campaign. For example, not a single sports newspaper is involved in this activity. The selective mass media approach and its representation in the public pose a risk to be the reason for partial success of this project among some of the fans.

7. Agriculture

7.1. Activities implemented in the reporting period

7.1.1. Development of production and stimulation of exports

In this area, in the period analyzed (June-July 2007) several key activities were implemented.

First we need to point out the realization of agricultural census during 1-15 June 2007. This census is the fundamental basis to undertake any other measures for development of the agricultural production. In the last 40 years, the agricultural issue was partially included in the regular censuses but this was insufficient to resolve the need for overall, comprehensive and objective information about the agriculture. The census was organized and developed by the State Statistical office in cooperation with other expert bodies and other participants identified in the Law on Agricultural Census 2007. The census units were the following:

- Individual farmers;
- Households that own woods;
- Households that own fishery;
- Business units and entities in the frames of business entities that, in accordance with the National Classification of Activities (their main activity) belong to the sector of Agriculture, hunting and forestry, and
 - Business units and entities in the frames of business entities that, in accordance with the National Classification of Activities (their main activity) do not belong to the sector of Agriculture, hunting and forestry but implement activities in this Sector (such as: agricultural schools, penitentiary institutions, agricultural scientific institutes, religious communities, etc.)

The initial results show the following:

- The total number of individual farmers is 192.367;
- The total number of households that own woods is 55.164;
- The total number of households with fisheries is 194;
- The total number of business entities that implement activities in the area of agriculture is 289 with total usable arable land of 68.949,4 hectares.

Other activity worth to mention in this period is the implementation of the Rural development program for 2007 i.e. filing of applications from all interested entities for use of funds from this Program. The purpose of this Program is to initiate the establishment of system for support of the rural development in the Republic of Macedonia. The measures selected in the Program comply with the measures and administrative systems of the European Union. The Ministry of Agriculture, Forestry and Water Economy, in the frames of this Program, set the following measures as priorities:

1. Investments in equipment and mechanization of the individual farmers
 - a) Plants production
 - b) Cattle breeding

2. Investments for processing of agricultural products
 - a) Investments in processing of fruits and vegetables
 - b) Investments in processing of grapes
 - c) Investments in processing of agronomy crops for production of cattle food
 - d) Investments in processing of meat
 - e) Investments in processing of milk

Third issue in this area is the important announcement by the Croatian Company Agrokor for investments in the agricultural sector of 200 million euros in several segments. This includes investment in purchase points with refrigerators (in Strumica and Rosoman), investment in processing capacities and in chins of markets where the Macedonian production will be sold. During the period company representatives met with the Government, farmers and some insignificant quantities for purchase were agreed.

An Israeli company “Soli” also visited Macedonia for cooperation with the Ministry of Agriculture but so far not specific announcements were made for participation on the Macedonian market.

It is important to mention that the campaign and measures related to “Invest in Macedonia” campaign (reduction of the personal income tax and profit tax) these investments, or announcements, are more present in the agricultural sector.

7.1.2. Regulation of the ownership title over the land

During the reporting period several activities of the “Cadastré of Immovable Assets and Registration” Project were implemented. This project is implemented by the State Authority for Geodetic Works – Skopje (DZGR). On 21st June 2007 the Official Gazette of the Republic of Macedonia No.78/2007 published the Cadastré of Immovable Assets in 55 cadastré municipalities, with conversion: Cadastré municipalities: Beranci, Brusnik, Nizhepole, Rashtani – the Department for Implementation of Survey and Cadastré in Bitola is in charge for their sustaining. Cadastré municipalities: Vrbjani, Godivje, Laktinje, Slatino, Kuratica, Velmej, Lezhani, Belchishta, Zlesti, Botun – the Department for Implementation of Survey and Cadastré in Ohrid is in charge for their sustaining. Cadastré municipalities:Krusheani, Selce, Vitolishte – the Department for Implementation of Survey and Cadastré in Prilep is in charge for their sustaining. Cadastré municipalities: Brajchino, Grnchari, Dolno Dupeni, Drmeni, Krani, Ljubojno, Shtrebovo – the Department for Implementation of Survey and Cadastré in Resen is in charge for their sustaining. Cadastré municipalities: Bunarjik, Creshevo, Dobri Dol, Dolno Vodno, Badar, Chiflik, Deljadrovci, Dolno Konjari, Gluvo-Brazda, Gorno Konjari, Gorno Vodno, Gradmanci, Grushino, Jabolci, Markova Sushica, Nikishtane, Nova Breznica, Ognjanci, Orlanci, Rashtak, Sredno Konjari, Sveta Petka, Usje – the Department for Implementation of Survey and Cadastré in Skopje is in charge for their sustaining. Cadastré municipalities: Blace, Belovishte, Otunje, Varvara, Merovo – the Department for Implementation of Survey and Cadastré in Tetovo is in charge for their sustaining. Cadastré municipalities: Velebrdo, Galichnik, Leunovo – the Department for Implementation of Survey and Cadastré in Gostivar is in charge for their sustainability.

Cadastrés of Immovable assets were established for the KM Krivolak, Negotino Municipality; KM Klechevce – Kumanovo Municipality, KM Saraj – Bosilovo Municipality, KM Mamudovci – Kichevo Municipality, KM Novak – Centar Zhupa Municipality and KM Alashevce – Lipkovo Municipality.

7.1.3. Budget support

Law on Agency for Financial Support in Agriculture and Rural Development has been enacted. The Law is enacted by the Parliament of Macedonia on 1st June 2007.

The introduction of the Pre-accession assistance instrument of the EU for the Republic of Macedonia, as an EU candidate country, will be able to

use the IPARD funds. Precondition for utilization of funds is establishment of special institution which, after authorized by the European Commission, should be in charge for realization of projects and programs with funds from the national Budget and with funds for agriculture and rural development. The purpose of this Law is to enable implementation of the measures from the national agricultural policy and support to rural development of Macedonia as well as utilization of funds the preaccession EU funds. After joining the EU this Agency will be implementing the measures of the EU Common Agricultural Policy.

The Law is harmonized with the National Program for adoption of the EU Acquis. The Agency is established as an independent body of the state administration with capacity of legal entity.

We already mentioned the Program for Rural Development which stimulates the small businesses in agriculture in accordance with the principles valid in the EU – 50% of the invested funds are refunded by the State after the realization of the project. Several activities were implemented during the reporting period. The first one was training of advisors from the Agency for Stimulation and Development of Agriculture on assistance for the beneficiaries in filling in the requests. The second activity was the receiving of applications for this Program.

The rebalancing of the Budget in the second half of 2007 for agriculture by the explication of the Minister of Finance, will: Increase the subsidies for producers of corn by 50% (by 55 million denars) due to unfavorable climate conditions that impact the crops yield. For AgroBerza Project (agricultural exchange market) procurement of refrigerators for the agricultural products and a total of 133 million denars are allocated for his purpose. 33 million denars are dedicated to establishment of the IPARD payment agency. The investments in the hydro systems are increased by around 120 million denars and funds are secured for resolution of the issues with the water economy enterprises in the amount of 93 million denars.

The financial assistance is in the frames of the Program for Stimulation of Agriculture, as well as in the program for rural development as a principle (model) that will be used and through the IPARD program. The most important activity in this reporting period is the adoption of the IPARD Plan.

7.1. 4. Favorable conditions for crediting

Agricultural Crediting Discount Fund (ZKDF)

On 6th June 2007 the Government adopted a decision to establish a discount crediting Fund for development of agriculture in the total amount of 13, 3 million euros. The funds from this Fund will start to be used in around 30 days and the banks will take care for their distribution. The money in the Fund are secured from revolving credit lines of IFAD 1 and IFAD 2 in the total amount of 7, 1 million euros as well as from the PSLD credits 1 and 2 that were used to support the private sector, deposited in the National Bank of the Republic of Macedonia. The interest rate of the loans will be 6% for the primary production and 7% for processing and trade with agricultural products. The Fund money will be mainly dedicated for insufficiently developed sector in order to rise to proper competitive level and the crediting will be done in accordance with the Strategy for Development. A network of field advisors was established that will facilitate the allocation of the money from the Fund. These advisors will help the farmers develop their business idea and apply for loans.

The EU preaccession instrument for assistance to the rural development (IIPARD) is available to Macedonia as an EU candidate country. The IPARD Program will be formally submitted to the Committee for its adoption till the end of July 2007 (In accordance with APEP, the IPARD Plan was supposed to be adopted by the end of 2006), initial promotion of the IPARD instrument (5 regional meetings with the federation of farmers and 1 meeting with the Chamber of Commerce of Macedonia), etc.

7.1.5. Irrigation and control of floods

Use of the capital investments:

Zletovica. The Zletovica Project is very important one with a total value of around 115.000.000\$. Unfortunately, the activities in the past were implemented very slowly due to unknown reasons. Only 14 km. of roads were built by September 2006 (the road to the damn). Several technical activities regarding packages 2 and 3 of the tender were carried out.

Lisiche. This project took a very lone time. Its construction started in the 90s. It is expected that in June the damn will finally start to fill in and

the people in the city of Veles will be able to start using the drinking water shortly.

South Vardar Valley. This project is financed by the KfW Bank as well as from the National Budget in the total amount of 10 million euros. For this project in the last period (until September 2006) main feature were the disagreements between the contractor-supervisory body and the contractor-subcontractors. Changes were made to the project so the construction is in the final phase. What remains to be done are the pumping stations and system will start to operate by the end of June. As a result of that, and after the supervision by the KfW Bank, this Bank approved funds in the amount of 6 million euros for the second phase of this project – “drop by drop”.

The large drought in this period and very hot weather have raised again the issue of irrigation of the agricultural surfaces, although no special activities of the Government were visible.

The greatest problem were the fires all over Macedonia which caused great damages to the forests.

7.1.6. Organic Food

During the reporting period trainings were organized for collectors of wild plants and crops on the basis of organic food. This was organized by the MZSV and the “Agrocentar for Education (ACE)” Foundation. This included two regions – Kochani and Strumica. The course participants received a Certificate for the course.

7.2. What remains to be implemented (not yet implemented or not yet finished)

For the period September-October several issues are to be realized related to implementation of the Government Program in the area of agriculture.

It is expected that the census results will be used that will provide indicators for development of the sector and creation of further policies in this area. The Law on Agriculture and Rural Development will be adopted by the Parliament, as well as other laws in this area. Very important also are the bylaws that will establish the rules for efficient implementation of the legal norms. The Law on Agriculture and Rural Development is a framework law which organizes this Sector for agricultural and rural

development, establishes new provisions that will be used as a legal basis for adoption of the provisions related to the Common EU Agricultural Policy with regards to geographic origin and similar, the Agricultural Information System, quality of agricultural products, quality of agricultural products, direct support in the agriculture, ZOP, market interventions, associations of farmers/ producers, rural development measures, advisory service, research and science. Beside the Law, it is expected that around 150 bylaws on the basis of the Law on Agriculture and Rural Development will be adopted.

It remains to be seen how many potential beneficiaries applied to use the funds from the agricultural programs and how the procedure for awarding of the program funds is implemented.

The sector investments, at least those that are announced, to be implemented (for example, Agrokor and the opening of purchase points). It is expected that the realization of the IPARD plan will start.

Regarding Cadastre there will be adherence to the program for registration of immovable assets. It remains to be seen how the systems for irrigation and flood protection work in the period of greater rainfalls (autumn).

The first beneficiaries of the Agricultural Credit Fund are also expected.

7.3. Evaluation of potential risks from (non)implementation or from non-quality implementation

The implementation of the tasks from the “100 Steps” Program in the area of agriculture, has two dimensions. The first one is political – the non-implementation of the promised activities will have an impact on the rating and capacities of those that adopt it and implement it. The other one is economic – it is important for all citizens in the country. Since the population that deals directly with agriculture (or is indirectly concerned by it) is around 190.000 families, in accordance with the latest census, the non-implementation of policies in this sector is great social and economic risk.

During the reporting period, the activities implemented by the Government provided hope that the policy set is being implemented.

One of the key risks that can now be seen is the non-timely harmonization with the Common EU Agricultural Policy. As a candidate

country, Macedonia has a lot of work to be done in harmonization of its agricultural policy with the EU. For example, the largest chapter in the questionnaire, which is in the same time the most sensitive area in the EU accession negotiations, is concerning agriculture. This is complicated issue, with many regulations and recommendations, subsidy measures, limitations of the free market, etc.

7.4. Overall evaluation by the expert for the reporting period

The work in the area of agriculture in the reporting period is progressing continuously. The measures undertaken in this period comply with the tendency of progress.

The most important measures in this period are the Agricultural Census and the rebalancing of the Budget. However, as it was mentioned in the previous report, the measures, no matter how successful they are, will not yield results if their results are not implemented. In other words, the key point here is to use the data from the census. If they are not used for, let's say, the Agricultural Information System, the numbers will only remain on paper and will not provided the development requested.

The same goes for the Budget increases. If they are not backed up by strategic documents and finalized legal and legislative framework, as well as their harmonization with the European agricultural framework and accompanied by transparent spending and investments in development, the results will not be as requested.

During the reporting period very little was done in the areas of institutional and human resources development: starting from the civil servants through agricultural advisors, companies in the sector and ending with the farmers. The Government should pay greater attention to this issue and utilize the preaccession funds that we have available in order to strengthen the institutions and the human resources area.

The issue of distribution and organized access to markets for our agricultural products remains. The establishment of companies owned by the state for distribution of products could be eventual interim solution because the state is bad entrepreneur and support should be provided to the companies that deal with sales, processing and distribution of agricultural products. In this context we should mention that the information for the market is the most important for resolution of this problem. The Government should stimulate the support their collection and processing.

8. Foreign affairs

8.1. Activities implemented in the reporting period

Following the successful agreement achieved on the EU summit in Brussels in June, which harmonized the standpoints regarding the new reform agreement of the EU, the EU expansion perspectives are more clear. The Macedonian Government resumes in undertaking steps in order to achieve satisfactory results important for opening of the accession negotiations.

The realization of the National Program for Adoption of the EU Acquis has resumed and good number of laws and bylaws were adopted in this regard. Activities are also undertaken towards realization of the priorities set in the European Partnership, the decentralization process has resumed and there is continuous progress in the equitable representation of the minorities in the public administration.

A Law on Cooperation with the Hague Tribunal has been adopted in June which confirms the Government commitment to fully cooperate with this institution. Regarding economic criteria, the realization of the “regulatory guillotine” project has started, among other activities, in order to cut the bureaucratic procedures, fees and deadlines, necessary to improve the business environment.

The process of implementation of the integrated border management is in the final phase. The former Minister of Justice of Romania has been engaged as an advisor to the Macedonian Government in the fight against corruption. The participation of ARM in the EU military mission in Bosnia and Hercegovina resumes and new contingent has been sent in July. The Law on Religious Communities as one of the priorities for integration in the EU and NATO has entered the Parliamentary Procedure in July.

The Fourth Meeting of the Stabilization and Association Council between the EU and Macedonia took place on July. The Council commended the progress of Macedonia and recommendations were made for further reforms required for the integration process. The Macedonian Parliament delegation visited Strasbourg during the European Parliament session and met members of this Parliament and the EU Commissioner for Enlargement, Oli Ren.

In June, the European Parliament adopted the Report on the progress of Macedonia saying for the first time that the name issue is not, and can not be, an obstacle for start of the accession negotiations. Also recognized was the fact that many countries in the world (including the USA, China and Russia) have recognized Macedonia simply as Macedonia and the in Europe there are many countries whose names have the same names with the territories in the neighboring countries. Regarding this issue, the Government in Athens rejected the proposal by the deputy Secretary of State of US, Nicolas Barns, for direct bilateral discussions on the name issue between Macedonia and Greece. The Greek ambassador to Macedonia was withdrawn from her diplomatic position because of her statement in “Financial Times” that Greece should embrace the new reality in the name issue that good number of countries in the world has recognized the country as Macedonia. This statement was published in the frames of the articles which promoted Macedonia and opportunities to invest.

The most important event in the June-July 2007 period with regards to NATO Integration is the Security Forum of NATO which took place in Ohrid. This event additionally presented the readiness of Macedonia for membership in the NATO alliance and was also used to improve the bilateral relations in defense with numerous member-states of NATO. The support for membership in the NATO Alliance for Macedonia is increasing and most of the countries clearly stipulate the probability that Macedonia will receive an invitation to join NATO on the summit in Bucharest in 2008.

Since June, the Macedonian Army took the logistical support for KFOR on Kosovo from NATO. This support is located in the vicinity of the Skopje Airport. The international missions of ARM in Iraq and Afghanistan continue – new contingent was sent in Iraq which will not have only combat mission but will be also involved in training of the Iraqi army. The military range “Krivolak” was the place of joint military exercise between the Macedonian and British armies. Memorandum of Cooperation was signed between the Ministries of Defense of Slovenia and Macedonia. In the frames of improvement of bilateral relations, the State Secretary in the Ministry of Defense visited China.

Among events of high importance for the Macedonian foreign policy is the meeting between the Prime Minister Nikola Gruevski and the American President George W. Bush in the frames of his visit to Tirana which confirmed the US support for the NATO membership of Macedonia.

In July the Macedonian Minister of Foreign Affairs visited the US and met the American Secretary of State and during his visit a Friendship Group was promoted in the American Congress.

The bilateral relations with the neighboring countries did not have the required dynamics. The President of the Serbian Parliament and the vice-president of the Serbian Government had separate visits in Skopje and expressed their hope that they will gain Macedonia's support for Kosovo. Macedonia withdrew the request for approval to celebrate the National "Ilinden" Day in the "Sveti Otec Prohor Pčinjski" Monastery after the Serbian Government and the Serbian Church did not respond to it. The Minister of Foreign Affairs visited Zagreb where the joint commitments of Macedonia and Croatia for EU and NATO membership were confirmed. The Minister of Foreign Affairs also visited Brussels, Ljubljana and Skopje was visited by the secretary for relations between Vatican and the countries, the Minister of Foreign Affairs of Montenegro and the Minister of Foreign Affairs of Portugal.

The strengthening of activities related to links with the emigration raising of their national, cultural and spiritual identity are taking place continuously in the frames of the capacity of the Agency for Emigration which is still facing insufficient cooperation with other institutions relevant in this area.

8.2. What remains to be implemented (not yet implemented or not yet finished)

Contrary to the consent between the Government and the President regarding the army facilities, there is disagreement between these two institutions on the appointment of the new ambassadors. This has very negative impact on the overall foreign policy and especially on the commitment for establishment of professional diplomacy.

There are still remarks about the insufficient level of equipping and modernization of the Macedonian Army which could have an impact on the Macedonian readiness to participate in foreign missions. Same as in the previous period, no steps were undertaken towards protection of the rights of Macedonians living in the neighboring countries.

One of the key steps necessary for integration in the EU and NATO is the finalization of the judiciary reforms. What remains to be done is to elect

the remaining members of the Judicial Council, full operationalization of the Academy for Training of judges and prosecutors as well as strengthening of the independence of judiciary and prosecution. Yielding of visible results in the fight against corruption is also one of the most important priorities in this area.

8.3. Evaluation of potential risks from (non)implementation or from non-quality implementation

There is a risk of continuous obstacles in the judiciary reforms due to reduced probability for achieving compromise between the political parties, the Government and the President of the State on the Judicial Council members. Additional efforts are required for harmonization of the standpoints of all entities involved as well as the political will from all parties concerned that could have a negative impact on the position of Macedonia between the international factor, especially on the road towards NATO and EU integration.

The improved cohabitation between the Government and the President is the key point in order to strengthen and professionalize the diplomacy. Closer institutional cooperation is needed as well as better mutual trust and joint efforts in order to realize the interests of the State.

The relations with Greece most probably will not be improved until parliamentary elections take place in that country. After the elections it is expected that the tension regarding the only outstanding issue – the name differences – will be reduced. The strengthening of cooperation in the area of economy, culture, education, tourism, etc. would contribute towards improvement of the relations between the two countries.

The resolution of Kosovo status and the relations between Macedonian and Serbian Orthodox Churches are the two issues that burden the relations with neighboring Serbia. The improvement of cooperation in other areas would be useful in order to maintain the good relations between the countries.

The Macedonians living in the neighboring countries most probably will not receive the expected support by the Republic of Macedonia so there is potential for making their position worse. Indirect support from Macedonia is recommended, in a form of cultural, educational and economic projects.

8.4. Overall evaluation by the expert for the reporting period

There is an impression that the foreign policy of Macedonia is too burdened with internal-political process. In order to give quality boost to it, it is necessary to establish all internal preconditions: functional cohabitation; realization of the priorities necessary for the EU and NATO integration; depolitization of the administration and reduction of the influence of the present and past Government structures; increase of the public diplomacy budget as well as additional staffing of the Ministry of Foreign Affairs.

The conditionality policy that is used for any new EU and NATO member countries – the two most important priorities of the Macedonian foreign policy – does leave great choice to the Government in realization of the reforms. It is important to meet all priorities set on short and middle term, without unnecessary delays or partial realization. For all tasks consensus is needed between the political parties, articulated in the Parliament but also in other state institution. There is a need to strengthen the management capacities with the internal institutional crisis situations and the need to open wider debate about that issue outside of the political parties.

Expecting to receive the new and, most probably, the last proposal of the mediator in the name issue negotiations taking place in the UN, Mathew Nimitz, it is necessary to improve the bilateral relations with the remaining to UN Security Council members that still do not recognize Macedonia as Macedonia – UK and France. It is necessary to appoint ambassador in London. It is also very important to maintain the good relations with the US, Russia and China and special care will be emphasized in the Macedonia's standpoint regarding the final status of Kosovo.

The development of good neighbor relations still has relatively limited progress, especially with Greece and Serbia. It is recommended to improve the cooperation with these two countries in the areas that not burdened with open issues.

Macedonia is faced with two key events in the foreign policy: invitation for NATO membership and start of negotiations with the EU membership. Caution, moderate approach and consistency are needed in the upcoming period as well as wider internal-political consensus in order to achieve success in realization of these two priorities.

9. Justice and internal affairs

9.1. Activities implemented in the reporting period

9.1.1. Justice – Public administration reform – improvement of the administrative procedure

In order to simplify the procedure and facilitate the access for the people to the state administration acts and decisions, and in order to provide translation of the forms in all minority languages, a working group was established to develop the Law on Acting Upon Petitions and Proposals as well as changes and amendments to the Law on Organization and Work of the State Administration, both of which are currently in Parliamentary procedure. A new Law on Changes and Amendments of the Law on Administrative Inspection² which enables strengthening of the capacities of the State Administrative Inspectorate (15 newly hired staff).

9. 1. 2. Judiciary

The basis for reforms of the judicial bodies and one of the main reforms of the Republic of Macedonia on its path towards the European-Atlantic integration is the enforcement of the Law on Judicial Council³ which is force since 1st September 2006. The political independence of the Judicial Council of the Republic of Macedonia (hereinafter: the Council), whose main function is election of judges, monitoring of their work and their dismissal, is guaranteed with the fact that, in accordance with the new Law, the majority of Council members (8 out of 15) are elected through direct elections by the judges in Macedonia. Member of the Council on *ex officio* basis are the Minister of Justice and the President of the Supreme Court, plus give members elected by the Parliament of Macedonia – two of these are proposed by the President of the State and three are proposed by the Parliament Committee. The Council was established on the initial meeting which took place on 19th December 2006 and resumed on 30th January 2007 in incomplete composition of nine members i.e. eight elected on direct elections that took place on the 15th November 2006 and the two members of *ex officio* basis. The Ministry of Justice expects that the remaining five members of the Council will be elected by the end of September 2007.

² Official Gazette of the Republic of Macedonia No. 22/07

³ Official Gazette of the Republic of Macedonia No. 60/06

After it was established the Court initiated 8 procedures against 10 judges due to incompetent and improper work (6 judges from basic courts, one president of basic court and three judges from appeal courts). So far one of these procedures has been finished with verdict for dismissal.

In the period of 30 days following the establishment of the Council, the Minister of Justice adopted the basic bylaws that regulate the work of the Council⁴. During the reporting period, the Parliament tried to elect the remaining five members of the Councils but was unsuccessful because of lack of support for the candidates proposed from the position and opposition (candidates proposed by the President of the State). Being aware about the importance to have complete Council for realization of the overall judiciary reforms during the reporting period meetings were held between the leaders of the Parliamentary parties in order to achieve political consent for the remaining five members of the Council. The statements given by the leaders following the meetings said that still no consent has been achieved. However, there is still very little time before the target date forecasted by the Government for completion of the Council by the end of September 2007.

Pursuant to the Law on Courts⁵ the reform of the Macedonian judiciary system continues. Two new courts were established – Appeal Court in Gostivar and Administrative Court which are about to be arranged and properly equipped. Their work should start by the middle of this year but since the Judicial Council is not yet complete (potential disagreements are possible regarding election of judges elected with ten votes from the Council – meaning that all ten members elected so far should vote the same), the start of their activity has been postponed for the end of November this year. The basic Courts in Skopje were reorganized – The Basic Court Skopje I is in charge for the criminal procedure and the Basic Court Skopje II is in charge for the Civil procedures. Staff allocation has been done and the cases were allocated in accordance with the competencies of the courts.

The new Rules and Procedures for the Courts⁶ were adopted. This document arranges the internal organization of the courts, maintenance of

⁴ Regulation on the Form and Content of the Certificate for Member of the Council elected from the Judges; Rules and Procedures for Work of the Judicial Council; Regulation for Disciplinary Accountability of the Judges; Regulation on the Means and Procedures for Ascertainment of Incompetent and Incorrect Realization of the Judicial Function; Regulation for Initiation and Ascertainment of Permanent Loss of Ability for Perform the Judicial Function, etc.

⁵ Official Gazette of the Republic of Macedonia No. 58/06

⁶ Official Gazette of the Republic of Macedonia No. 71/07

the registers, other books, acting regarding documents, maintenance of register of penalties, register of misdemeanor sanctions, register of information collected from communications surveillance.

Very important segment in implementation of the judiciary reforms is the functioning of the Academy for Training of Judges and Prosecutors. This established educational system for present and future judges and public prosecutors in accordance with the European standards as a basis for professional, expert and independent realization of these functions. Established were the Steering Committee, Administrative Council and Program Council of the Academy. The Steering Committee appointed the Academy's Director and Executive Director. The basic bylaws were adopted in the first half of 2007⁷. They arrange the work of the Academy, the permanent and interim educators were appointed from the current and retired judges and prosecutors as well as from the educational institutions in Macedonia.

In June 2007 the Program Council of the Academy considered the proposal-Program for permanent expert training of the judges and public prosecutors; draft program for permanent expert training of the expert staff; draft Program for permanent expert training of the administrative clerks. The initial training in the Academy for 25 candidates – 15 judges and 10 public prosecutors will begin on 15th September 2007 and will last for 5 months. The public advertisement for candidates to apply for the Initial Training Program of the academy for 2007/2008 has been published on the 7th of June 2007 in several daily newspapers and the Official Gazette of the Republic of Macedonia No. 71/2007. The qualification tests will be implemented minimum 30 days after the advertisement was published in the Official Gazette of the Republic of Macedonia.

In cooperation with CARDS 2004, preparatory teaching for 100 candidates was organized in the Academy during 4-7 June. This also included the candidates for equitable and proportionate representation from the minorities.

Beside training for new judges and public prosecutors, the Academy delivers seminars and workshops for the active judges and public

⁷ Regulation on the Internal Organization and Systematization of Jobs in the Academy for Training of Judges and Public Prosecutors; Regulation for Educators and Mentors on the Academy...; Regulation on the Means and procedures for Passing and Assessment of the Enrollment Exam in the Academy...; and other regulations and bylaws

prosecutors in the terms of updating their knowledge in novelties in the following areas: material and case legislation and practice in the basic areas of the Law; training in the EU Acquis, especially the case practice of the European Court of Human Rights and International Humanitarian Aid. During this short period of functioning of the Academy a total of 18 seminars were delivered with 477 participants, most of them judges and prosecutors.

The fight against corruption remains top priority of the Government in the reporting period. In order to be more efficient against this modern evil that ruins the foundations of all modern social and political systems (our country is also not an exception), with high rate of corruptive behavior, several laws were adopted during the reporting period. The most important ones are: Law on Prevention of Conflict of Interest⁸; Law on Notaries⁹; Law on Changes and Amendments of the Law on Corruption¹⁰ and the Law on Surveillance of¹¹. The proposed changes and amendments as well as the introduction of new laws, the fight against organized crime and corruption becomes more efficient. The prosecution authorities are vested with greater operational competencies and on the other side the public officials are obliged to provide greater transparency of their property. The notaries are also obliged to report any suspicion for eventual money laundering and corruption acts when working with their clients.

In the area of harmonization of the Macedonian legislation with the EU Acquis, as main precondition for our aspirations for EU membership, new provisions were codified as well as changes and amendments were made to the existing legislation. The following laws were enacted in the reporting period: Law on Cooperation with the International Criminal Court for Prosecution of Persons Responsible for Serious Breaches of the international Humanitarian Aid Perpetrated on the Territory of Former Yugoslavia¹²; Law on Minors' Justice¹³; Law on International Private Law¹⁴; Law on Securing of Claims¹⁵; Law on State Attorney¹⁶; Law on

⁸ Official Gazette of the Republic of Macedonia No. 70/07

⁹ Official Gazette of the Republic of Macedonia No. 55/07

¹⁰ Official Gazette of the Republic of Macedonia No. 126/06

¹¹ Official Gazette of the Republic of Macedonia No. 121/06

¹² Official Gazette of the Republic of Macedonia No. 73/07

¹³ Official Gazette of the Republic of Macedonia No. 87/07

¹⁴ Official Gazette of the Republic of Macedonia No. 87/07

¹⁵ Official Gazette of the Republic of Macedonia No. 87/07

¹⁶ Official Gazette of the Republic of Macedonia No. 87/07

Changes and Amendments of the Law on Agreed Collateral¹⁷; Law on Changes and Amendments of the Law on Advocacy¹⁸; Law on Changes and Amendments of the Law on Mediation¹⁹; Law on Changes and Amendments of the Law on Civil Servants²⁰ and some other Laws. By the end of the reporting period the Ministry of Justice adopted good number of bylaws related to harmonization of Macedonian with the EU Acquis. Some of these bylaws, such as those related to the Academy for Training of Judges and Public Prosecutors are already mentioned above.

The new Law on Minors' Justice²¹ implements the standards set in the ratified international treaties²² and they arrange the means of dealing with children facing risks and acting in cases of minors that perpetrate criminal acts and misdemeanors codified in the Macedonian criminal legislation. The newly established legal framework for consistent and codified system of minors' justice separates the procedure against minor perpetrators from the procedure against adult perpetrators of criminal acts and misdemeanors on the basis of protection of minors and their rights, socialization and assistance in dealing with the minor, as well as prevention of delinquent behavior among the minors.

The Law on Cooperation with the International Criminal Court for Prosecution of Persons Responsible for Serious Breaches of the international Humanitarian Aid Perpetrated on the Territory of Former Yugoslavia reaffirmed the already existing cooperation with the Tribunal. The Law improves the confidence in the Macedonian Judiciary and precisely identifies the competencies of the bodies when acting upon these crimes, creating material conditions to undertake the cases presently handed over to the Tribunal. As a guarantee of objective Macedonian judiciary system, the Law includes the right on monitoring by the OSCE and EU of the eventual cases that could be handed back. Another argument in favor of this are the trainings for judges and public prosecutors already delivered in

¹⁷ Official Gazette of the Republic of Macedonia No. 87/07

¹⁸ Official Gazette of the Republic of Macedonia No. 29/07

¹⁹ Official Gazette of the Republic of Macedonia No. 22/07

²⁰ Official Gazette of the Republic of Macedonia No. 36/07

²¹ Official Gazette of the Republic of Macedonia No. 87/07

²² UN Convention on the Right of Children with protocol for Involvement of Children in International Conflicts and Protocol for Children Trafficking, Child Pornography and Child Prostitution; Convention for Fight Against Transnational Crime with Protocol Against Human Trafficking, especially Women and Children; UN Riyadh Rules in Prevention of Minors' Delinquency 1990 and Recommendation of the Council of Europe No. P(87) for social reaction of the minors' delinquency.

Sarajevo, visit to the Tribunal in Hague and the delivered training of court administration, jury and experts in June 2007. In the Basic Court Skopje I one court room has been equipped and adapted in accordance with all the standards of the Tribunal.

The inter-institutional body for protection of human rights had a meeting where it was discussed about the coordination issues with the institutions in charge for implementation of recommendations included in the Reports received from the United Nations and Council of Europe Committees regarding: a) Convention on Elimination of All Types of Discrimination Against Women; b) Convention on Elimination of All Types of Racial Discrimination and c) The International Pact for Economic, Social and Cultural Rights.

In order to harmonize the provisions from the EU legal acts and precedent right and jurisprudence of the European Court for Human Rights, currently in Parliament procedure are changes to the Criminal Code and the Law on Criminal Procedure. The purpose of changes in the Criminal Code is its harmonization with the EU standards in the following standards: human trafficking (especially trafficking with minors and kids), terrorism, royalties and computer crimes as well as making stricter the penalty policy mainly with regards to sexual acts against children. Beside the strict penalty policy new criminal act will be also subject to prosecution: "Production and Distribution of Child Pornography through Computer Systems". Regarding human trafficking, especially with minors, beside the strict penalty also introduced are novelties related to seizure of movable and immovable assets used to perform the act.

Acting upon the Report by the European Committee for Prevention of Torture and Inhumane Treatment and Punishment of the Council of Europe, the Ministry of Justice – Directorate for realization of Sanctions undertakes efforts to resolve the identified gaps and weaknesses. There was a series of meetings with the directors of the penitentiary institutions (KPU) and developed was an Analysis of the status in the Directorate for Realization of the Sanctions and in the penitentiary intuitions (KPU and VPU) in the Republic of Macedonia. Phased implementation of priorities related to meeting the minimum standards for the convicts and staff in these institutions was proposed (the staffing is still insufficient). The following is foreseen to be implemented: increase of capacities and improvement of living conditions of the convicts, minors and imprisoned people in these

institutions, opening of semi-open sections in Kumanovo, Ohrid, Prilep and Strumica, re-adaptation of the Shtip Prison into penitentiary institution of closed type (which will alleviate the burden of KPD Idrizovo, construction of hospital-dormitory, hiring of staff in these institutions, etc. In order to resolve this situation, the Macedonian Government, on its session held on 11th April 2007 adopted a Program for Financing of Construction, Refurbishment, Reconstruction and Expansion of the KPU and VPU – Tetovo and 11 million euros were allocated for realization of this program from the Budget rebalancing for 2007 and from foreign indebteding.

9.2. What remains to be implemented (not yet implemented or not yet finished)

Beside the above mentioned changes and amendments of the criminal legislation (KZM and ZKP laws), the following Laws are also in Parliamentary procedure:

- Law on Public Prosecutors Council;
- Law on Public prosecution;
- Law on Church, Religious Communities and Religious Groups;
- Law on extra-litigation Procedure;
- Law on Changes and Amendments of the Law on Prevention of Corruption; Law on Changes and Amendments of the Law on Obligations;
- Law on Sports, Law on Changes and Amendments of the Law on Organization and Work of the State Administration Bodies;
- Law on Salaries of the Judges;
- Law on Changes and Amendments of the Law on Enforcement;
- Law on acting upon petitions and proposals as well as large number of bylaws related to initially adopted laws and those mentioned above in the Parliament procedure.

An interesting discussion developed in the public regarding the proposed law on Public Prosecution with the new provisions for appointment of Prosecutor in the fight against organized crime and corruption. Position and opposition has opposite standpoints regarding this issue – the current Minister of Justice and the current Public Prosecutor of Macedonia.

The harmonization of the Criminal Code of Macedonia by the end of December will enable ratification of the following international treaties

related to the fight against corruption: UN Convention for Fight Against Corruption and the OECD Convention for Prevention of Bribery of Foreign Public Servants in International Trade Transactions.

9.2.1. Police reforms

The base for police reforms is the Law on Police²³ that will start with implementation in October this year. Its implementation requires full redefining of the existing and development of new bylaws that originate from its provisions. In order to provide its timely implementation, the Sector for Legal and Staff Matters (SPKR) in the Ministry of Interior (MVR) developed an Action Plan for Realization of the activities related to development of the legal framework for the period 2006 and 2007. The Action Plan (AP) sets the activities for harmonization of the legal framework related to the work of the Ministry of Interior in the following three segments: a) Development of bylaws in accordance with the Law on Police; b) Development of bylaws in relation to harmonization of legislation to the EU standards and regulations and c) Development of bylaws in order to finalize the process of reforms in the police.

Regarding the first segment it is necessary to adopt a total of 64 bylaws in accordance with the Law on Police. From the period of adoption of the Law till the adoption period a total of 47²⁴ of these bylaws were adopted and 17 remain to be adopted by the end of September 2007. It is important to mention that all 47 bylaws and acts were adopted in the period planned for their adoption. Regarding second segment, a total of 55 laws and bylaws were supposed to be harmonized with the EU legislation and 39 so far were adopted. The remaining 16 are in development phase. This group of legal framework includes the legislation that was directly related to adaptation of several laws important for issuing of biometric passports and other personal documents. The SPKR was least active in the adoption of activities and bylaws from the third segment of the planned activities – finalization of the police reforms. Total of 70 bylaws were planned and only 9 are adopted so far. It is worth to mention that most of them are planned for the second half of 2008 and during 2008. The SPKR was active in the reporting period by adopting 12 other laws and bylaws that are not foreseen with the above Action Plan.

Pursuant to the Law on Police and transformation of organizational units foreseen with the new legal provisions during June and the procedure

²³ Official Gazette of the Republic of Macedonia No. 114/07

²⁴ Due to the lack of space we will not mention the large number of adopted laws and bylaws.

for appointment of the management in the newly foreseen Sectors for Internal Affairs that will be established in accordance with the Law on Police.

The fight against organized crime and corruption remains to be priority of the Ministry of Interior. The Sector for Organized Crime in March 2007 adopted a Strategy for Development of the Sector for Organized Crime for 2007/2008. Memorandums for Cooperation in the fight against organized crime with other Ministries and institutions in charge for fight against this modern evil: The Ministry of Finance, the Customs Authority, the Public Revenues office, the Directorate for Prevention of Money Laundering and the Financial Police. The Ministry of Interior resumed its activities by initiating criminal procedures for economic crimes, bribery against several persons and during the reference period June-July 2007.

The Sector for International Police Cooperation resumes its work on the activities for development of Operational Agreement for cooperation with EuroPol that will establish the legal framework for exchange of liaison officers. The Sector has already appointed a liaison officer from EuroPol.

Regarding asylum and migration we should mention that because of non-functioning of the Visa Center, the enforcement of the Law on Aliens has been postponed from 31st of March to 1st August 2008. In the Department for Asylum, beside the activities related to development of software solution for “Database for Asylum seekers and recognized refugees” and currently in construction phase is the Acceptance Center for Refugees. “Contingency Plan for Eventual Mass Inflow of Refugees” has been adopted. The adopted Law on Changes and Amendments of the Law on Asylum and Interim Protection will implement the Council Directive 2004/83/EC from 29.04.2004 that is related to minimum standards for qualification and status of citizens of third countries or apatrides as refugees, or persons that require different form of international protection.

The Sector for Border issues has finalized the legal framework for implementation of the Integrated Border Management. Many bylaws were adopted and currently in adoption phase are the Standard Operational Procedures that are mainly harmonized with the Schengen Treaty standards. The start of their implementation is differed together with the Law on Aliens i.e. they will start with implementation from 2008.

Since the new system for issuing biometric passports has started on the 2nd April 2007 a total of 65.604 requests for issuing biometric passports were filed by July 2007 and a total of 61.156 passports were issued. The issuing of first biometric IDs and driving licenses will start at the end of October.

9.3. Evaluation of potential risks from (non)implementation or from non-quality implementation

The late completion of the Judicial Council, although the target date planned by the Government is end of September, has its impact on the overall reforms of the state on its path towards the Euro-Atlantic integrations. The late judicial reforms that are direct product of non-cooperation between the position and opposition political parties in the Parliament regarding the composition of the Council was, and still is, one of the key remark by the European Commission for the lack of dialogue between the Government and opposition.

The initiative by the Government and institutions for prosecution of the most difficult forms of criminal acts, mainly the organized forms of corruptive and economic criminal acts must be commended. However, in this period the practice of breaching of the presumptions of innocence still happens. We also witness early announcements through the mass media that some suspect will be arrested soon, either a former official or directors of enterprises where the State owns part of the ownership.

There is a need to continue with results against the organized form of crimes on all levels, regardless of their personal political orientation. Much attention is needed in order not to come to situation in which actions are undertaken mainly towards those that belong to opposite political option i.e. against former officials of the current opposition and not to create an opinion in the public of lack of will to prosecute those that think on the same line with the Government.

The practice so far in the area of staff policy in the Ministry of Interior, which happens after the change in government between the current position and opposition and sometimes even after the Minister changes from the same political parties, shows that there are illogical allocation of officials and staff in accordance with political, personal and other criteria and not in accordance with their abilities and qualifications. We can say that the present leadership of the Ministry is also not immune to this practice.

9.4. Overall evaluation by the expert for the reporting period

The activities of the Government i.e. its relevant Ministries and institutions obliged to implement activities in the area of justice and security i.e. internal affairs, during the reporting period, can be overall evaluated as positive. These institutions are highly motivated and ready to undertake the reforms process in their respective competencies on the road to the Euro-Atlantic integrations. Most of the activities set were implemented in the foreseen deadlines. We remain to see the efficient implementation in their daily activities.

It is important to emphasize the will of the Government to resume the realization of particular reform projects adopted by the previous Government such as the Law on Courts and judiciary reform, the project for new IDs and reforms in the police, the strategy of which was adopted by the previous Government. The Law on Police was adopted by the current Government and it is preparing its implementation in accordance with the legal framework (beginning of October this year)

10. Health

10.1. Activities implemented in the reporting period

10.1.1. Quality of Services

For the first time after the introduction of parliamentary democracy system and in order to protect the people from the unfavorable weather conditions, the Government adopted package-measures for protection from high temperatures: reduced business hours by 6 hours for workers working in closed areas and business hours from 07:00 till 11:00 for workers on open areas; and 18:00-20:00 for workers active on open space and directly exposed to sun; recommended temperature below 26⁰C in the health institutions that take care from vulnerable groups and relief from work for pregnant women during the crisis temperatures. Announcement and instructions were provided to all health institutions in order to be ready in the terms of staff, equipment and medical materials for eventual increased calls for urgent medical assistance and the need for increased number of people that will be taken care of.

The action for free health exams “Health for All” started on the 2nd of July in Skopje and will resume till October in all larger populated areas in Macedonia. A total of 19 such activities are planned where people will be able to the examined free of charge by doctor; their blood pressure, cholesterol and measure the height and weight. On the basis of these results, the people will get advises for further exams, changes in the therapy regime and changes in the life habits.

The program task for improvement of the quality of services includes improvement of the rights of patients, special care for the health of particular groups of people, standardization of the treatment of the diseases, initiation of the process of publishing of medical mistakes and reasons for their occurrence, improvement of the conditions in the waiting rooms and hospital rooms.

10.1.2. Modernization, management and prevention

The third module of the Program for Continuous Professional Development of the Managers in the Health Sector in Macedonia took place during 40-6 June 2007 in Ohrid. The program is implemented in cooperation with Project Hope financed by “Johnson & Johnson” and the Project for management with the health sector, financed by a World Bank Loan.

The goal of the program is to acquire knowledge and skills in key theories and concepts for management in the public health institutions in Macedonia. The first module is about strategic management (26-29 March 2007) and the second module is about human resources management (2-4 May 2007). Lecturers are professors from the social medicine department at the Medical Faculty in Skopje and experts from Sheffield University from the UK. A total 60 participants were trained so far, organized in 20 teams (heads of sectors, chief nurses, financial managers). The teams are working on projects that reflect the specific needs of their health institutions and their directors are obliged to provide conditions for their consecutive implementation.

Currently in progress are competitions for selection of management bodies of the public health institutions where a total of 284 candidates have the right to apply – 199 lawyers/ economists and 165 doctors/ pharmacists that have undergone training in health management and have successfully passed the final exam in the Agency for Civil Servants. It is expected that the selected management teams, with bind signatories, will contribute towards more efficient management with the health institutions and provide solid base for their further financing.

The medical map that developed with a grant donated by the Dutch Embassy in Macedonia, based on GIS technology, is currently in testing phase by the domestic experts. The comments on eventual gaps and upgrades will be sent to the Globesalud experts for further finalization of the map and its availability on the Ministry of health website. The National Institution for Health Protection, as a referral center for collection of information about the health status of the population, will be the main institution in supplying information for the map in a single framework that enables linking of the needs for health protection and capacity to provide them as well as promotion of evidence based decision making.

National Institution for Health Protection updates the information on its website, serving as a center for information and health prevention that is available 24 hours to Macedonian citizens.

The Ministry of Health adopted and approved Budgets for 13 preventive programs that will be implemented by the carriers of the activities, depending on the specific of the problem being worked on. The total amount for 2007 is around 10 million euros.

Strategy for Development of Integrated Health Information System was developed. This Strategy provides wide definition on what is considered as health information in order to meet the needs of all those that require this information. The vision of the strategy is to provide information that will be important for everyone and used by the people, patients, health professionals, managers, decision makers, the Government, researchers and media. The Strategy is consisted of 5 parts: the first part includes high level and extensive vision for an optimal health-information system that will include the standpoints of the beneficiaries in the context of the teal situation and development on national and international level. The second and third part of the Strategy describes the necessary resources for its implementation while the fourth one is about the initiatives, central problems and activities required for progressive realization of the vision defined in the document. The fifth and final part defines the roles of the various stakeholders, implementation implications as well as the timeframe for implementation.

10.1.3. Health Insurance

The package of health services is still subject to debate by the working groups in the Ministry of Health and foreign consultants that were engaged for this purpose. Consensus was achieved for the key reform issues (unique package for all beneficiaries, centralized collection of all contributions by the Public Revenues Office and recombining of the financing and supervision over the 13 national programs. Also subject to debate is the negative list of medical services that will be excluded from the package, exclusion of the financial contributions, participation system and establishment of independence of the hospitals.

In cooperation with the consultants the draft program for training of the Health Insurance Fund management board was developed. The main purpose of this training is that the members will acquire technical skills required to identify the anticipated changes in the health sector, by learning the unique “technical language” that will assist in undertaking of various proposals and their potential impact.

In the frames of the Project for management with the health sector financed with a loan from the World Bank, in cooperation with Slovenian consultant, a total 20 people were trained by the Health Insurance Fund, Ministry of Health and Ministry of Finance and group of trainers was

established that is fully operational. The members of the group are specialized in different areas – formulation, development, management, accounting standards, reporting, internal and external audit of Budgets and will be responsible for training of the health institutions staff. We need to point out that the establishment of this working group is just a starting point for the health sector reforms in the area of budget planning. In order for the group to be able to work in full capacity, additional support and directions are needed, harmonized with the overall change of the health policy and improved management of the Health Insurance Fund. In the context of the current processes in the Republic of Macedonia, the health budget should include overall formulation related to improvement of the process for signing of agreements with providers that is closely related to the improved procurement of health services.

The following document was developed Instruction for Calculation of the Compulsory Health Insurance Contributions in accordance with the changes and amendments of the Law on health Insurance; With all these changes, in the period 01.07.2007 till 30.06.2008 the minimum base of 50% will be calculated from the average monthly net salary per worker in Macedonia, published for the current month.

10.1.5. Primary health care

In the context of starting of the complete privatization PZZ from the 1st January 2007, and in order to resolve the problems that the new concessionaires face on daily basis, the Ministry of Health implemented a series of field surveys and established direct contacts with the doctors-concessionaires in order to identify the current problems and provide directions for their resolution. The FAQs regarding privatization are published on the website of the Ministry of Health.

10.1.6. Stomatology

The activities set in the pre-election program regarding stomatology are not defined as specific actions in the Government program and for them there is no information about any activities planned. The initial reactions by the dentists-concessionaires that the capitation of 45 denars per patient is insufficient to cover all the costs required for the normal functioning of the practitioner offices and that the lack of funds for work, including here the low purchase power of the people will have serious negative effect on the

oral health of the people, especially in the context of the preventive dental protection.

10.1.7. New generation of hospitals

Currently in progress are the competitions for selection of management bodies of the general hospitals in Macedonia; the management bodies will be selected from the participants on the manager courses that took place in 2006 and have successfully passed the final exam in the Agency for Civil Servants. The Management function will be undertaken by one doctor and economist/lawyer that will adopt decisions on the basis of bind signatures (“four-eyes” principle).

At the present, the Ministry of Health plans to transform the hospitals into public companies with independent management but will remain under the umbrella of the Ministry of Health and will inform about their performance the appropriate bodies in the Ministry of Health. Another part of the expert debate is the method of payment for the hospitals with introduction of diagnostic related groups (DRGs). This decentralization means extensive administrative decentralization in this segment of the health sector and this process requires increased level of regulatory activities by the Ministry of Health.

10.1.8. Private Health

The Law on Changes and Amendments of the Law on Health Protection, adopted in September 2005 (Official Gazette No.84/05) provided the opportunity to transform by renting the entire remaining part of stomatology in the public health and the overall primary health care, excluding the activities mentioned in the Law (preventive health protection of the children, urgent medical assistance and patronage); the privatization was implemented in its entirety for all doctors from the PZZ since 1st January 2007. The practitioner offices are given under concession to providers of PZZ services that sign agreements with the Health Insurance Fund

10.2. What remains to be implemented (not yet implemented or not yet finished)

The following things remain to be implemented in the upcoming period: the reminder of the free medical exams, selection of managers for the hospital that will function on the basis of bind signatures, finalization of

the debate regarding adoption of the basic package of health services, decentralization of the Clinical Center and establishment of new system of payment in the hospitals. However, most of these activities are key reform undertakings which must not be rushed because the results will be visible on a longer term.

It remains to start the implementation of reform activities foreseen in the area of stomatology. As it was already mentioned in the report no activity has been implemented in this area so far. Therefore it is impossible to assess the risk from implementation/ non-implementation of these activities.

10.3. Evaluation of potential risks from (non)implementation or from non-quality implementation

Although the Government allocated and approved financing of then preventive programs in the amount of 10 million euros, there are obstacles in their implementation (except in the procurement of drugs regarding particular contagious diseases) which are derived from the existing Law on Public Procurements. In other words, the provision of the above said law impose limitations in signing of direct agreements with the procedures that offer the top quality and control of the drugs at lowest price, regardless of the quantities that are ordered. On the other side, the low quantities required on national level to treat particular conditions that re highly risky for the population since they are used to treat contagious diseases are not attractive for the large pharmaceutical companies and they increase the tender prices enormously. It is necessary to immediately resolve this situation in order to enable smooth supply of the required drugs and eliminate epidemics of larger scope.

The transformation of hospitals in public companies that will have independent management, remaining under the umbrella of the Ministry of Health, and will inform the appropriate bodies in this Ministry about its composition requires extensive administrative decentralization in this segment of the health sector. This process requires increased level pf regulatory activities by the Ministry of Health. The payment of the hospitals by introducing diagnostically related groups (DRGs) must be also implemented carefully in order to avoid increase of the already enormously big arrears of the hospitals.

10.4. Overall evaluation by the expert for the reporting period

By making detailed analysis of the Government Program and the activities realized in the reporting period (June-July 2007) we can conclude that the Ministry of Health, as the main carrier of reform processes in this segment of social-economic situation in Macedonia has taken huge steps and boldly goes forward towards realization of the goals set. However, the time period subject to analysis is still very short in order to come up with any conclusions and recommendations for further actions because, in order to measure the results from activities undertaken it is necessary to have longer period of analysis and benchmarking. The loyalty and commitment of all entities involved in the realization of all activities so far has to be commended, beside their daily obligations and critiques from particular structures.

However, there is still a lot of work to be done, to start and/ or finish the activities set in the program in the health segment and health policy in order to achieve the ultimate goal – provision of health system that will meet the needs of Macedonian citizens.

11. Transport and communications

11.1. Activities implemented in the reporting period

11.1.1. Construction

Roads

After the feasibility study has been developed for changes of the present direction (initially projected) of a section from Corridor 10 “Demir Karpija – Smokvica” of the M-1 highway (this is our marking – the international marking is E-75), the selection of the best option for the direction of the highway has been selected – it will be located on the right side of Vardar river. The newly set direction of the highway (from the right side) is shorter by 5,7 kilometers, it is cheaper by around 50 million euros and less funds will be required for expropriation. The timeframe required for construction is significantly shorter. The exiting road Demir Kapija – Udovo – Smokvica will function as an alternative road of the new constructed highway. The price of this highway section will be around 155 million euros and the construction will start in the middle of 2008. The financial construction is the following: grant by the Greek Government (funds from the HYPERB Fund – Greek Fund for Reconstruction of the Balkans), grant from the European IPA funds, own budget funds and credit sources.

The realization of the first phase of the Project “Reconstruction of the Budes on the M-1 (E-75) highway, section Katlanovo-Veles (south section of the road) has resumed. In accordance with the dynamics planned and obtained license for re-directing of the traffic along the northern direction of the highway, the works should finish by the 31.10.2007. The construction works are carried out by the Turkish Company “Jesash” and some reputed Macedonian companies are subcontractors.

The Ministry of Transport and Communication currently develops the new Law on Public Roads which is being developed in cooperation with the European Agency for Reconstruction. The new Law on Public Roads should correspond to the modern needs and high European standards in this area.

The construction of the ring road around Skopje continues. This project has started in August 2002 but was delayed due to changes of certain

sections of the roads and the main problem was the expropriation. In the last several months there is significant progress in the construction. The project is implemented in two sections: 1. Hipodrom-Orizari (around 80% of the works have been finished and over 90% of expropriation work has been realized) and 2. Saraj-Orizari (around 50% of the works have been finished and around 97% of expropriation work has been realized).

Asphalting of the existing road on Vodno hill has been done. This is the road from the children resort to the Millennium Cross. During the Millennium Cross construction in 2002 the surface of the road has been stabilized in order to make it possible for the passenger vehicles to use that road. The Construction obtained from sponsorships from the "Mileiumski Krst" Foundation and donation of 50% of the total value of the works by the contractor "Pelagonija" construction company from Skopje.

Following previous preparations, tender is being prepared for the road R-106 for the Drenovo-Prilep section. A third traffic lane will be built through the mountain pass Pletvar. At the summer the expropriation work will start and the start of construction works will begin during 2008.

Also developed is a project for full construction of the new main road from Radovish to Strumica, on the level of Main Design. Currently in process is the expropriation phase and that will be followed by obtaining of construction license. The design has been developed for construction of the road from Smrdлива Voda to Kozhuf ski-center which is pending revision.

Railroads

The transformation of the public enterprise "Macedonian Railways" is in final phase using the World Bank funds. Operational team has been established composed of experts from the Ministries of Transport and Communication, Finances, and Economy, as well as from the public enterprise "Macedonian Railways" that have developed a agenda of activities for the Project "reforms in the Railways" as well as Steering Committee of the project consisted of the management officials of the above said state institutions. In accordance with the project, the public enterprise "Macedonian Railways" is divided into two separate legal entities: public enterprise "Infrastruktura" (which will own the complete infrastructure of the railways) and public enterprise "Transport" (that will own everything on wheels). The assets were divided and the staff was allocated between the

two companies. What is even more important, in this phase there are no redundant workers. Currently ongoing is the internal systematization of the two new entities. It is envisaged that the public enterprise “Transport” will be transformed into joint stock company owned by the state and then privatized.

The entire reform will be accompanied by four studies, as follows: 1) Study for privatization (which is currently in progress); 2. Study for public services (finished); 3. Study for access to the railroad infrastructure (finished); 4. Study for cost-efficient work and number of staff (finished). Currently in procedure is the international public procurement “Selection of consultant for development of privatization study” and total of 21 offers were received. For the remaining three studies the international consultants were selected and agreements were signed with the best bidders.

The internal committee of public enterprise “Macedonian Railways” in the past period developed the National Strategy for Development of the Railways for the period 2008-2012. The National Strategy developed has been distributed for final comments to the Ministry of Transport and Communication, Ministry of Finance and Ministry of Economy.

Spatial and Urban Planning

Public bidding procedure has been finished in the Ministry of Transport and Communication for sales of construction land owned by the Republic of Macedonia, dedicated for construction of elite hotel in the Municipality of Centar in Skopje. The agreement for sales will be signed additionally, after the payment of 41.905.000 denars is received for 4.930 m² of total space. The construction deadline is 24 month counting from the day of obtaining of construction license, which should be obtained within 6 months after the agreement for sale of the land is signed.

The Ministry of Transport and Communications, in cooperation with USAID, realized the first public electronic allocation (part of the “e-Government” project) of 41 apartments in Shtip and then 40 apartments in Gevgelija that are awarded to people having low incomes (young married couples and social cases). In the frames of the project for construction of social apartments, which is part of the Government development program for construction 810 apartments in the country, these social apartments will be built in Skopje, Bitola, Strumica, Gevgelija, Shtip, Veles, Gostivar,

Prilep, Delchevo, Kichevo, Kochani, Kriva Palanka, Kratovo, Debar and Resen. The financial construction of the Project has been closed with joint participation of 15 million euros each – from the donor, Council of Europe (Bank for Social Development) and the Macedonian Government.

In the frames of the State Authority for Geodetic Works – the Cadastre, currently ongoing are all multiple-year projects that are already started as well as the activities described in the previous reporting period.

At the end of 2006 the total number of unresolved cases in the cadastres in Macedonia was 21.990 and at the end of the second quarter of 2007 (as on 30th June 2007) there was a total of 15.405 unresolved cases. However, we need to say that in this year a total of 195.972 new cases were received and 198.602 cases were resolved.

The free hotline for the Cadastre clients to report their complaints, appeals and anything related to the work of the officers in the Cadastre, or cases of corruption is already functioning for a whole year. A total of 660 calls were received in the second quarter of 2007.

Foundations were laid and construction has started of the “Sonchev Grad” valley project. This project foresees construction of individual and collective residential buildings i.e. construction of new residential district on the south side of Vodno mountain, in the Municipality of Sopsishte.

The inspection services of Ministry of Transport and Communications controlled the concessionaires of the beaches on Ohrid lake. Specific irregularities were identified and the beaches were closed until they are removed.

11.1.2. Transport

In the area of air transport there were two main tasks implemented in this period: summarizing of the six-month business results and running activities related to the summer tourist charter-flights. The information from the traffic realized are the following.

The “Alexander the Great” Airport in Skopje transported a total of 270.000 passengers which is increase of around 15% in relation to the same period last year when the National Airport Transport Mart participated with 32% of the total passengers. There is also an increase in operations with

airplanes by 0,6%. There is also minimum increase of 0,9% in the cargo transport and accepted and shipped were around 1.100 tons of cargo shipments.

The “St.Paul the Apostole” Airport in Ohrid transported a total of over 18.000 passengers (reduction by 3,4%) while the operations with airplanes are increased by 21%. A total of 6,62 tons of cargo shipments were accepted and shipped, which is increase of 88%.

Two new destinations were opened: Paris (of the local air carrier MAT) and Sarajevo (BH Airlines). Presnetly, one local company operates with regular transport on the “Alexander the Great” airport as well as 12 foreign and 2 cargo companies on a total of 20 destinations, with a total of 105 weekly frequencies of regular flights.

The draft-statute of the Joint Stock Company “Makedonski Aerodromi” has been developed. It will be owned by the state and submitted to the Ministry of Transport and Communications as well as to the Secretariat for Legislation in the Government of Macedonia.

The Civil Aviation Agency, in cooperation with the Ministry of Transport and Communications has announced that they will publish competition for hiring of flight controllers, some of which have been working on the contract-per-services-rendered basis for eight years.

11.1.3. Telecommunications

Open call was published for use of the frequency for wireless fixed access “WiMax” (telephony, internet and TV). The Greek “Kosmotelko” (registered in Macedonia under the name “Amerikom”) and the local “Nekskom Makedonija” were selected. The licenses to work on national level, for a period of 10 years, were awarded by the Agency for Electronic Communications to these companies after they paid the funds required. They should start their work within six months and cover minimum 20% of the population in the first year.

11.2. What remains to be implemented (not yet implemented or not yet finished)

The following activities are unfinished or not fully implemented in the last months:

- Adoption and implementation of the Law on Public Roads (that will correspond to the modern tendencies in this area and will follow the European standards). It regulates all gaps and omissions of the old law;
- Adoption of the National Strategy for Road Transport (that will identify the present situation of the roads in Macedonia and then determine the directions and priorities for development of the road infrastructure in the country);
- Development of Study for Restructuring of the road sector in Macedonia and transformation of the system for management with the roads;
- Initiation of the project for modernization and improvement of the collection of pay tolls and the collection services (following the weaknesses identified in the present system for collection of the pay toll fee, a project was announced in cooperation with the World Bank for modernization and improvement of the system);
- Resolution of the monopoly in the fixed telephony and introduction of competition (beside the evident monopoly in the fixed telephony there is still a lack of competition and the citizens expect the competition to happen thus benefiting from the favorable conditions and lower prices);
- Fourth mobile operator (although immediately after the contract with the third mobile operator was signed it was announced that public call will follow for selection of the fourth mobile operator, so far this idea is not realized);
- Transformation of the air transport (special attention is needed for the reforms in this area in order to reorganize the functioning and modernization of the airports);
- Following the initial serious efforts to put into order the urban chaos, it seems that the fight against urban mafia in the recent period has lost its intensity.

11.3. Evaluation of potential risks from (non)implementation or from non-quality implementation

We emphasize the following influential or key risk factors in implementation of the already started and planned government activities in the area of transport and communications, as on the sectors which requires reforms:

- The short timeframes for realization of the activities planned;
- Prolonged implementation of some of the activities planned;

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- Lack of initial positive results in the shorter term that would stimulate the further activities;
 - Inadequate people in the positions;
 - Resistance towards the reforms due to uncertain future and fear from being sacked from work;
 - Conflicts in the relations between the central and local government, especially in the relations between position and opposition;
 - Insufficient lobbying for realization of some of the projects that require external support.

11.4. Overall evaluation by the expert for the reporting period

The selection of the new option (right side of the Vardar River), the Government and the Ministry of Transport and Communications are intensively working on completion of Corridor 10 since it is very important that this Pan-European Corridor be ready before the competitive corridors in the neighboring countries. Macedonia must not allow unserious approach towards this issue because in that case we are risking to loose the transit traffic in the North-South direction and there is a danger of becoming appendix on the Balkans instead of crossroad. If we take into account the political importance of this Corridor for us than its importance is even greater. The M-1 highway (internationally known as E-75) is our key road artery.

The successful realization of this project is of key importance – starting with the first phase and then the remaining two phases. Maximum commitment of all relevant factors on Macedonia side is required for further-realization of the project from several reasons: reconstruction of the bridges and increased safety in the traffic (Macedonia has annual Budget for maintenance of the bridges of 30 million denars and many years will be required in order to reconstruct these bridges), the political moment should be used before the following NATO Summit where Macedonian strives to become member, etc.

Confirmation of the comment that the amount in the Annual Program for Maintenance of the Main and Regional Roads is small is confirmed with the fact that for several months already there are problems with the lights in our biggest tunnel (900 meters in length) on the M-1 highway (Corridor 10, E-75) which receives around 15.000 vehicles per day, according to the Annual Average Daily Traffic). Additional setback is that the traffic in this

tunnel us a two way traffic (same as for the entire road). During summer, the traffic frequency is intensified. Therefore it is necessary to find means and funds for permanent solution of the lights in accordance with the European standards and not just ad-hoc solutions (simple replacement of the bulbs, etc.).

During the period in June and July we had over 40°C of air temperature. In order to protect the road infrastructure on all main and regional roads, the Ministry of Transport and Communications and the Ministry of Interior should have adopted a decision for changed traffic regime with interim limitation of traffic for vehicles that are very heavy (prohibition for them in particular hours of the day). The high temperatures of the air, in conjunction with the large and heavy vehicles are the main causes for damages of the roads and manifestation of “waves” on the road. These “waves” collect the water and threaten the safety in the traffic (because the road is not even). This measure was already used in Macedonia in June 2000 when the heavy cargo vehicles were prohibited from driving in the period from 11:00-17:00. The only exceptions are the vehicles transporting passengers, goods that can be spoiled and drugs. If we know that the asphalt lining is the most expensive part of the road construction than all measures for its protection must be undertaken, especially taking into account the small Budget available for their maintenance. Constructive suggestion in this area would be to pay greater attention to this problem and propose its solution which will be integral part of the legislation regulating the road safety (either a Regulation of the new Law on Public Roads – chapter for safety and maintenance of the roads). The Regulation will define the minimum temperature above which this prohibition will enter into force.

In this phase of transformation of the public enterprise “Macedonian Railways” (division into two companies – “Infrastructure” and “Transport”, as well as allocation of staff) it is not envisaged to have saving of staff as this measure is highly unpopular. However, we had a situation that in only two days two completely opposite statements were made (according to the first one, this year there will be redundancies and the day after we had the second statement that there will be no redundancies in this public enterprise) from two key officials in this area which confused the public and the staff. The risk from non-implementation of the reforms could prevent the recuperation and strengthening of the public enterprise “Macedonian Railways” i.e. its companies-successors.

Another novelty is the introduction of electronic allocation of social apartments as part of the efforts of the Government and the Ministry of Transport and Communications to eliminate the human factor in the decision making and fight the corruption. After the computer selection, the Committee for Awarding of Apartments verified the authenticity of the documents among all applicants. During this verification it was ascertained that some of them have submitted documents that do not correspond to the factual situation and criminal procedure will be initiated against these people. Beside the computer allocation (the data are simultaneously entered into two computers and the winners list is known in the moment of activation of the application) there were still reactions from the people that were not on the lists and accused the process of being partial and similar. The conclusion from this is that the system should be improved in the future or the persons that receive the applications should send back those applicants so there is no doubt among everyone involved.

GENERAL RECOMMENDATIONS

The overall estimation is that the Government of the Republic of Macedonia started with creation of an ambient of many reforms in different areas of the public life, which is of a great importance for maintaining the free-market economy, improvement of the living standard of the citizens and the international position of Macedonia. Still, there are areas in which there exist only ideas or partly realized activities, or activities for which the quality of realization is still a subject for observation, and thus, this monitoring is a tool of a great importance for defending the public interest with timely and accurate information for the citizens of the Republic of Macedonia.

Most of the activities planned in the area of **fiscal and monetary policy** in the period September 2006-July 2007 have been realized. Furthermore, the comparative analysis of the activities programmed by the Macedonian Government for its four-year mandate in realization of these two fields of the macroeconomic policy of Macedonia, points out that, in one year of work, the Macedonian Government has realized most of the activities planned for particular areas in these two fields of macro economy. This means that the Macedonian Government should continuously revise the situations in the fiscal and monetary policy in the upcoming period and program additional activities aimed towards improvement of the macroeconomic climate in the country and realization of the final goal – permanent economic growth with annual growth rate of over 5%.

However, it can be said that in realization of some of the goals and tasks set, specific risks are neglected. If these are not reduced or removed, they could turn into counterproductive effect of the programmed social-economic targets of the Macedonian Governments. During the report period, these risks are mainly manifested in the area of low inflation and implementation of the second phase of the fiscal decentralization. In the further implementation of the decentralization process the Macedonian Government should take into consideration other constraining factors mentioned above and the risks that could only threaten but also completely disrupt the realization of this process. This means that, in order to implement this process it is necessary to introduce the required level of rationality and efficiency.

Regarding the strategic documents adopted on the area of **industrial policy** for protection of the competition and industrial property, as well as

the documents in the area of tourism, the authorities should develop action plans and programs as soon as possible.

In the area of innovations and the aim to bring the Macedonian economy to the level where it will be guided by innovations it is necessary to increase the funds allocated for co-financing of innovation projects but also to strengthen the monitoring and evaluation of the effects from spending these funds.

The adoption on one laws or changes and amendments of the laws stimulated to adopt changes and amendments (or entirely change) other laws. Maybe it is too ambitious to adopt that large number of reforms, but their implementation was necessary. Due to the lack of staff (institutional capacity) there can be problems in implementation of the reforms on operational level in the area of **financial and pension system**. In the period that follows it would be desirable to start thinking seriously in Macedonia to open an association for leasing following the example from other EU member states. It will improve the competitiveness of the leasing business, it will provide greater flow of information between the leasing companies and it will disseminate leasing market information to the wider public and make the leasing form of financing more popular.

In the **knowledge based economy** area it will be necessary to make and analysis of the present legal solution for the “electronic signature” and make eventual changes in order to make it more applicable. Greater support is needed for the Macedonian companies in the establishment of the IT technology in their everyday work but it is also necessary to raise their awareness about the necessity of this technology and its quality function of the modern knowledge based economy. It is also necessary to pay much greater attention to increase the budget funds allocated for science, research and development.

In order the change the situation in the **high education** it is necessary to implement measures for quicker movement and integration of the Macedonian high education in the European high education and research area – European credit transfer system and Europe of Knowledge. In this regard, the quicker adoption of the changes in the Law on High Education and later their full implementation is the key criteria for evaluation of the achievements of the educational authorities of Macedonia in the reforms of the overall educational system.

One educational sub-area where no activities so far were visible and which deserves attention in the upcoming period is the arrangement and especially the financing of the scientific-research activities. If the Government still aims with its program towards project financing of the science and research it should achieve some visible achievements in this area as soon as possible.

The consistency and specific manifestation of the projects started in the area of **sports** must be continued. Thus, it will help not only the sports development and improvement of the conditions for top sportsmen but it will also provide contribution to the development of physical culture and education, because this contributes towards creation of a healthy nation.

As an EU candidate country, Macedonia should do a lot of work in the area of **agriculture** regarding harmonization of its agricultural policy with the EU policy. For example, the largest chapter of the questionnaire, which is the most sensitive regarding EU accession negotiations, will be EU Agriculture chapter. One of the key risks in the area of agriculture is exactly the non-timely harmonization with the Common EU Agricultural Policy. The Government must pay attention to the institutional development and the strengthening of the human resources: starting from the civil servants, the advisors/ consultants in the agricultural sector and finishing with the farmers. In the meantime, it must use the pre-accession assistance instrument of the EU for the Republic of Macedonia.

I In order to quality strengthen the **foreign affairs** sector it is necessary to finally establish all internal preconditions: functional cohabitation; realization of priorities necessary for integration in the EU and NATO, depolitization of the administration and reduction of influences of the present and previous ruling structures, increased budget for the public diplomacy as well as additional staffing of the Ministry of Foreign Affairs.

Macedonia is faced with two key events in the foreign policy: invitation for NATO membership and start of negotiations with the EU membership. Caution, moderate approach and consistency are needed in the upcoming period as well as wider internal-political consensus in order to achieve success in realization of these two priorities.

In the area of **justice** no further delay must be allowed in the finalization of the Judicial Council although the planned target date of the

Government is by the end of September this year because this process has significant impact on the overall reforms in the country on its way towards the Euro-Atlantic integrations.

The Government must immediately adopt the basic package of **health** services and in the context of recommendations and reports provided from the foreign consultants. The postponing of the public health institutions for 2008 is evaluated as risk as well as the inability to achieve agreement regarding the negative list of services, underestimation of the true costs for the PZU services, inability to link the allocation of the resources with the existing PZU resources, inability to meet the deadline for adoption of the legal framework and the inability to find solution for the existing debts. The reforms in the sector of stomatology remain to be implemented.

The Government and the Ministry of **Transport and Communication** should provide greater support during realization of infrastructural objects. Also, it need to undertake greater steps towards realization of more complex infrastructural projects with its own financial instruments, and not to be satisfied with logistical support only when realizing already started infrastructural projects.

The success of the foreseen reforms depends, among other things, on how appropriate they are in ideological sense. This refers to: the market freedom and entrepreneurship, protection of ownership rights, good business environment, low taxes, low regulatory burden, efficient and expert bureaucracy, public administration managed on the basis of performances, wide range of public services, transparency, fight against corruption, security, stability and good international position.

In order to be persistent in implementation of the policies it promised, the Government would have to maintain these bases established in the first months of its work and use them as guidelines during the entire mandate.

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