

LEADERSHIP MONITORING



Report from the performance evaluation of the
Government of the Republic of Macedonia for
the period December 2007-January 2008



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The Balkan Trust for
Democracy

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Project description

Same as in the previous four reports, this fifth Report of the OHRID Institute for Economic Strategies and International Affairs has a purpose to resume the implementation and reflect the two main activities of the project. *First*, it will inform the citizens in details about the political initiatives and activities of the Government of the Republic of Macedonia, in relation to the analysis that were published, thus making the Government much more accountable. *Secondly*, it will provide the Government with independent expert analysis of the activities of the Ministries. By doing so, the Government will be able to use these reports as a tool to analyze its work, supervision and appropriate improvement.

By monitoring the activities of the Government of the Republic of Macedonia in the period December 2007- January 2008, the Fifth Report of the OHRID Institute aims to provide broader picture to the wider public on the reforms planned and realized by the Government of the Republic of Macedonia, through constructive and comparative analysis of the Action Plan of the Government.

The Monitoring is consisted of comparison of the Government achievements against the pledges and promises included in the Program for Work of the Government 2006-2010 as well as in the election programs of the ruling parties.

The Leadership Monitoring Project has the purpose to provide the citizens of the Republic of Macedonia with objective and expert monitoring of the Government work.

On the basis of the benchmarking and cross-referencing, the OHRID Institute develops bimonthly reports regarding the program implementation progress. They include risk assessment from insufficient or non-quality implementation for each of the areas covered with the reports.

This manner of monitoring and control should aim to result in the following long-term effects:

- Increased and improved capacity for informed and active practicing of democratic rights by the citizens
- Increased Government transparency and accountability
- Introduction of a tool that will be used by the state institutions for continuous improvement of their right. Improved involvement of the citizens in the work of the public institutions
- Increased involvement of the citizens in the public political life, etc.

The expected results and benefits for the Macedonian society from the “Leadership Monitoring” project remain to be multiple. Above all, the expectations are that the Government will be more accountable towards the public, its measurement and evaluation as well as increased involvement of the citizens in the public advocating, making sure that the Government is using the reports as a tool for greater development and progress. Overall, the expectations are that the monitoring reports will assist the improvement of the democratic environment.

The basis to evaluate the performances of the Government is the Program for Work of the Government of the Republic of Macedonia, developed in September 2006. Most of the content of this Program is related to the steps necessary in the election program of VMRO DPMNE – “Rebirth in 100 Steps” but there are also inclusions from the election programs of other coalition partners. This Program is the main platform for action of the Government in its four-year mandate.

Before starting to measure the performances, the experts, assisted by the OHRID Institute team, developed Performance Based System Matrix. As a base for the Matrix, the experts used the Government Program but also the election programs of the political parties now members of the Government coalition. These matrixes are powerful instruments to evaluate the performances of public projects. They are being successfully used by many countries in the world.

Methodology

The methodology used in the development of the “Leadership Monitoring” reports includes the following elements and procedures:

1. Development of System Matrix for performance based monitoring, as shown on Picture 1.
2. Identification of initiatives planned which, according to the System matrix, should be in the process of implementation in the reporting period.
3. Development of Questionnaire for collection of information on the level of implementation of the initiatives planned, as shown on Picture 2.
4. Interviews with representatives from the public, private and NGO sector;
5. Analysis of information collected;
6. Development of Risk Assessment from insufficient or non-quality implementation, as shown on Picture 3
7. Development of Progress Report regarding the implementation of what was planned.

This report is structured so that it will focus its attention to the following directions, which are the main components in the reports by the experts (from structural aspect):

- Activities implemented during the reporting period;
- Providing answer to the question: what remains to be implemented i.e. what is not yet implemented or not yet finished;
- Evaluation of the risk from non-implementation of particular procedures is non-quality implementation; and
- General expert evaluation for the reporting period.

This Report is focused on the activities realized in the monitored and analyzed period as well as on the things that are supposed to be implemented. At the end each of the experts that developed the Report provided their opinion for the issues realized and what remains to be realized by providing specific recommendations for the area.

The ascertainment and evaluation are derived on the basis of information collected from the available printed materials and documents as well as from interviews with experts and the responsible persons in the relevant institutions.

Beside these structural components of the individual reports by the experts, the overall report of this project starts with summary and ends with general recommendations.

Picture 1: Format of the Performance Based System Matrix

Институт Стрипа					
Проект: Мониторинг на лидерството					
Система за мониторинг на реформите на Владата на РМ 2007					
Система за мониторинг на реформите на Владата на РМ					
Имена	Податоци/Тема	Активности (Изменувачи) на реформите	Цели	Резултати	Важности датум и институционална одговорност
1. Давочна Репорна	До 2006 година во РМ се применувале прогресивен систем на персонален данок на доход со три давочни стапки (15%, 18% и 23%). Данок на добивка по стапка од 15% (9% корпоративен данок на реновираниа добивка во вредност до 100 000 €), ДДВ со стапка од 18% за најголеми број репротериторијати.	Имплементација на стапките на ДДВ за имплементација репротериторијати и имплементација од 18% на 5%.	Земјоделците ќе платат помалку ДДВ за набавки на репротериторијати и имплементација имплементација.	Промена на Законот на ДДВ	ДА/НЕ 30.09.2006? Министерство за финансии
		Воведување нулта стапка за реновираниа добивка	Изготвување на инвестициите, погледата и побудувачката на стоки и услуги, на профитноста и на третиците во буџетот и користување на одливите од буџетот.	Промена на законите за персонален данок и данок на добивка	ДА/НЕ 01.01.2007? Министерство за финансии
		Воведување рамни данок по стапка од 12% во 2007 година, односно 10% во 2008 година;			
2. Уплата на данок припад	Недоволна стапка на исплата на "намушканите" даночни долж на големите даночни обвршници	Административно-техничко приклучување на УП	УП коефициент ќе ја зрши својата основна функција	Закон за користување и воспитување на Законот за УП	ДА/НЕ 30.06.2007 Министерство за финансии
		Воспитување и поттикнување со работа на Дирекција за голем даночни обвршници	Изготвување на исплатата на данок од големите даночни обвршници	Склучени договори со 118 голем даночни обвршници	ДА/НЕ 30.04.2007 УП
		Воспитување електронска адреса со Централниот регистар	Заклучување и воспитување на едноинтерактивни системи за регистрација на правни лица.	Дополување ДДВ и единствени даночен број зград идентификација на даночните обвршници	ДА/НЕ УП/Централен регистар
Заклучно испитување на даночните.	Стратегија за користување на припадност на даночните.	Изготвување на припадност на даночните и на извакото исплата.	Стратегија за користување на припадност на даночните.	ДА/НЕ УП 31.12.2006	

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 assess 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 *	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 секретеријат и Министерство за финансии	Ад хок менување на приоритети (пр: праксата на низок приоритет)

Summary

Numerous activities and measures were undertaken by the Government of the Republic of Macedonia for the period December 2007-January 2008 in all areas that were subject to monitoring. These activities were aimed to improve the overall political and economic environment and improve the development trend of the Macedonian economy and reforms in the political system. The macroeconomic stability in the country was maintained as well as security and political stability in the region, beside the critical period related to the resolution of the Kosovo status. The previously adopted measures for improvement of the environmental and political environment were supplement with additional ones that started at the beginning of 2008.

The activities related to the ongoing projects have resumed in all sectors and many other laws and bylaws suggested by NATO and EU as precondition for receiving the invitation to join NATO on the upcoming summit in Bucharest i.e. date for start of the EU accession negotiations, have started with implementation.

The nearing of the NATO summit in Bucharest in April 2008 and the aspirations of the Republic of Macedonia to receive the invitation on that summit were the additional impulse of the Government of the Republic of Macedonia and the relevant institutions to resume with intensive diplomatic offensive, in the same time undertaking a series of measures that resumed the previously initiated realization of specific reform activities.

However, beside the very positive evaluations by the high NATO representatives about the implementation done by the Government of the Republic of Macedonia and the pin-pointed reforms and compromises necessary to receive the NATO invitation in the period the barrier that could hurdle the road of the Republic of Macedonia towards the NATO membership has emerged again: the name dispute with Greece. In order to remove this obstacle the Macedonian diplomacy resumed with offensive and lobbying.

On other side, being the main patron of the regular meetings of the four leaders of the major political parties, the Government continues to manifest true leadership and readiness for dialogue, aiming towards achievement of

overall national consensus of the main political entities regarding the necessary reforms needed for NATO membership and opening of EU accession negotiations.

In the realization of its program activities, the Government will face numerous serious threats and risks in 2008. These are mainly related to the expected increase of the prices of individual agricultural and foodstuff and energy, the very serious recession that overtakes most part of the world economy and the uncertainty related to the final political status of Kosovo. These risks have serious threatening sizes that should be at least reduced (buffered) in the upcoming period as much as possible if it is not possible to remove them, so they do not transform into hurdle of the more intensive economic development of the country planned for 2008.

In the period the conditions for further relaxation (liberalization) of the **fiscal policy** were established and improved as well as for introduction of even stronger elements that designate it as development. This setup of the fiscal policy, supplemented by the numerous improvements of the investment climate in the country, conditions smooth implementation not only of the programmed but also undertaking of other activities by the Government of the Republic of Macedonia in various areas of the economic policy of the Republic of Macedonia. The final effect from such dynamic changes in the economic environment in 2007 is the record increase of the gross domestic product of the country by over 5% on annual level and establishment of basis for implementation of the programmed rate of its increase in 2008 (6-6,5%)%.

In the area of **trade, industrial and investment policy**, the Government is committed to greater investment cycle in the infrastructure, in the energy, telecommunications and road infrastructure. By definition, the capital projects of this nature and in these sectors require greater finances, better legal framework, development of bylaws, strong institutions and independent regulatory bodies on which the Government is working and they are foreseen in the program. However, we must point out that the people are those that implement policies and especially important are their skills, knowledge and professionalism. One of the indicators used to monitor the capacities of the administration is the realization of the capital expenditures per functions in the country. We must point out that the prolonging of the final deadlines for the regulatory guillotine, the insufficiently precise deadlines from the Goals and Activities Matrix for

monitoring of the realization of NPAA for 2008 as well as the late Strategy for Equal Regional Development. Another thing that is happening between the lines is the non-quality statistical information system which requires good amount of work to be improved.

The measures adopted are mainly based on the inputs and they are “controlled” without evaluation and assessment of the outcomes. It is recommended to do performance budgeting.

The period from 1st December 2007 till 1st of February 2008 the sector for **financial and pensions system** is characterized with minor reforms that were only continuation of those foreseen in the financial and pension system.

The reforms in this sector with development of efficient system of financial markets and establishment of adequate financial institutions were necessary for the economic development of Macedonia.

In the period 1 December 2007 – 31 January 2008 the Government of the Republic of Macedonia resumed its good work in the implementation of the “**Knowledge Economy**” area of projects. Several steps were undertaken in order to bring the IT technology closer to the citizens, the process of computerization of the schools has continued, the opening of the Macedonian University for IT Technology was announced and the work on the National Strategy for Industrial Policy has been reactivated. Very important in the adaptation of the Republic of Macedonia to the new knowledge based economy is the start of operation of the Johnson Controls factory in the free economic and industrial zone Bunarjik and the announcement for construction of mega-factory for automobile catalysis by Johnson Matthey.

In the area of **education** the activities of the educational institutions in the monitored period (December 2007- 2008) can be characterized as continuation and improvement of the activities initiated in the previous period. Very noticeable were the activities regarding the government initiative for the media campaign “Knowledge is Power, Knowledge is Strength”, the nine-year elementary education, the state matura, coping with the strikes in the municipalities that faced problems related to the decentralization process, activities regarding the Law on Higher Education and activities related to increased allocation of funds from the Budget of the

Republic of Macedonia in accordance with the “Rebirth in 100 Steps!” Program and the Program for Work of the Government of the Republic of Macedonia.

The reform undertakings in the area of **sports and physical culture** are evident and also initial results were received from the realization of some ongoing projects. There are several successful sporting events of the Macedonian national team on international competitions where one of the reasons is exactly the manifested support from the Government of the Republic of Macedonia and the Agency for Sports and Youth. In this time period of monitoring, the Government of the Republic of Macedonia and the Agency for Sports and Youth resumed the activities that were started in the area of sports and physical culture.

The reforms that were realized in this area are one of the most advanced. Some of highlights achieved in the last two months period are the following: the realization of the two major projects has resumed (“Construction of 35 sport halls” and “Construction of 50 auxiliary football fields) to the degree it was allowed by the weather conditions; support to the Macedonian national team for participation on international competitions as well as the awards used by the Government of the Republic of Macedonia and the Agency for Sports and Youth for stimulation of the sportsmen when participating on large international events – all these events a true moves. There was consistency in the attitude of the Government to take care about their representatives and raise the dignity of the sport ambassadors.

The new Law on **Agriculture** and Rural Development has entered into force on 1 January 2008. This Law arranges the planning of the agriculture and rural development, the goals and measures of agricultural policy and rural development policy, state aid, additional activities in the sawing agriculture, quality, the branding, the trade with primary and processed agricultural products, agricultural and forest mechanization and equipment, forms of organization in the agriculture, public services in the agriculture and the agricultural information system.

Typical for this period was the traditional movement on the milk market in Macedonia that until recently used to be controlled by a large company. However, the Government measures implemented in the last year established conditions for competitiveness this yielding better prices for the individual milk producers.

In the area of **Foreign Affairs** there was significant increase in the activities and capacities of the Macedonian diplomacy under coordination and high commitments of the Government in order to pave the way towards the Summit in Bucharest to get the invitation for NATO membership and later on start the EU accession negotiations.

The membership of the Republic of Macedonia in NATO is seriously under threat from the possibility of veto by the Republic of Greece on the very Summit or later in the process of ratification in the Greek Parliament. The date of start of the EU Accession negotiations will be most probably determined in the second half of 2008 but the EU integration is another process that could be hurdled due to the unresolved name dispute with Greece.

In the area of the Report regarding **Justice and Home Affairs**, subject to analysis were the European integration reform processes as well as the current activities of the Ministry of Justice and the Ministry of Internal Affairs in the frames of their everyday constitutional and legal activities. In these frames the following reforms were considered: the judiciary system, the state administration in the area of judiciary, activities in the newly established Academy for Training of Judges and Public Prosecutors, the police reforms that are in compliance with the new Law on Police, reforms related to the integrated border management, the visa regime, the rights of the foreigners, the will to cope and the measures undertaken by the two Ministries and their organizational units in the fight against organized forms of corruptive behavior and criminal activities that undermine the foundations of any social-economic system.

The European model for prevention has been introduced in the **Health** sector where every doctor should include minimum 15% of the population on annual level and he will also record and systemize the data. Audit was also performed of the “capita” model of the payment of doctors according to which the Health Insurance Fund will pay 60-70% per capita while the rest of 30-40% will be paid only after the realization of preventive activities. The Health Insurance Fund will refund the invested funds for procurement of ECG devices and the funds invested for colposcopy devices in the amount up to 1.000 euros. A national database of PAP tests will be established on the Clinics for Gynecology and Delivery.

The project for flat price of the drugs on national level started in January 2008. The pharmacies were given 30 days to spend the drug inventories they procured in accordance with the valid market prices and the full implementation is foreseen for February 2008.

A unified IT system has been established in the Health Insurance Fund between the HQ and the 30 regional offices. The system enables quality structure of information as well as high degree of protection of the beneficiaries' data. The system is the basis for electronic linking of all stakeholders in the health sector with an overall goal to introduce integrated health system in the Republic of Macedonia and the basis for introduction of electronic health card and system of payment per diagnostically related groups.

Starting from the 1 January 2008 the new manner of payment in the hospitals has entered into force and also the diagnostically related groups were introduced (DRGs).

In the area of **transport and communications**, in the last two months that were monitored there already started activities have resumed and for some of them the implementation is about to start. Also in this period the Government has maintained the attitude with regards to the implementation of the planned programs and undertaking of reform activities, but it is obvious that the speed of the undertaken reforms and activities in all institutions is not taking place with the same tempo.

The most important activities undertaken by the relevant Ministry in this period of two months are the following: The Project for reconstruction of the M-1 highway bridges; very important legal framework related to construction is currently in Parliament procedure; the agreement with the best bidder for construction of the Northern Stand of the City Stadium in Skopje has been signed; the activities for construction of the "Boris Trajkovski" sporting hall are almost finished and there is new regular airline Skopje-Sofia.

It is important to mention in this area that during this period the Annual Program for Construction, Reconstruction, Maintenance and Protection of the National and Regional Roads in the Republic of Macedonia was adopted, in the total value of 6,25 million denars. Most of these funds are dedicated to construction of capital projects.

1. FISCAL AND MONETARY POLICY

1.1. Activities realized during the reporting period

1.1.1. Fiscal policy

The main activities of the Government of the Republic of Macedonia in the period December 2007-January 2008 in the area of fiscal policy were mainly focused in the following directions:

1) Further relaxation (liberalization) of the fiscal policy with even further intensification of its development determination that includes the following components:

a) The program determination for introduction of low and flat tax rate on profit and personal income tax was finalized by the Government of the Republic of Macedonia with the reduction of the appropriate rates from 12% to 10%, which entered into force on 1 January 2008. The expectations are that this measure will be result in further expansion of the tax base, increased tax moral among the tax payers and to further increase of revenues in the National Budget. As a result, the planned Budget revenues for 2008 will not only met but it will also enable the Government of the Republic of Macedonia to maintain liberal fiscal policy that will be oriented towards the realization of the planned rate of economic growth (6-6,5%);

b) In accordance with the obligations undertaken with the Stabilization and Association Agreement with the European Union, the custom duties for good number of products has been reduced by 10% as of 1 January 2008 (pork meat, diary products, coffee, olives, oranges, mandarin oranges, aftershaves, hygiene means, paper, mirrors, refrigerators, boilers, furniture, etc.) and the custom duties for powder cocoa were also reduced by 5%. The expectations are that such reduction of the custom duties will result with reduced retail prices of these products that will have favorable impact on the maintenance of the inflation rate in 2008 and improvement of the living standard of the people, without disrupting the projected revenues in the National Budget of the country from custom duties;

c) The increased revenues into the Central Budget have enabled the realization of two important program measures of the Government of the Republic of Macedonia.

First, the Government of the Republic of Macedonia decided that from 1 January 2008 the pensions will be increased in a relatively ratio, as follows:

- By 20% for the pensions in the amount up to 6.000 denars;
- By 15% for the pensions in the amount up to 6.000 - 12.000 denars;
- By 12% for the pensions in the amount up to 12.000 - 15.000 denars;
- By 10% for the pensions in the amount over 15.000 denars.

This measure harmonized the pensions with the previously initiated increase of the salaries of the state administration and significant improvement of the living standard of this part of the population which, in return, will have positive impact on the increase of the local consumption, on the productivity and employment.

Secondly, the long-term absence of serious budget intervention in the agricultural sector has been resolved – the Government of the Republic of Macedonia made decision to allocate 45 million euros in 2008 for subsidizing of the production in this very important economic sector for the Republic of Macedonia. These subsidies will be approved to the farming producers no later than 30 days after the sowing and not like it used to be (after the sowing of the products). The effects from this measure will be significantly increased production and offer of agricultural products on the local and foreign markets, with important effects expected in the prevention of further increase of the prices (thus impacting the overall inflation rate) of the most important agricultural foodstuff in 2007 and improving the trade balance of the country;

d) In order to stimulate the agriculture and increase the employment in that area, the Government of the Republic of Macedonia has introduced a credit line that will be financed from the Central Budget (a unique renewable credit fund for agriculture has been established in the Ministry of Finance). For this purpose a total of 34 million denars were allocated from the National Budget of the Republic of Macedonia. Those that are interested will be able to get credit in the amount up to 3.000 euros and plus 3.000 more for each and every hired person (for maximum up to 4 hired persons). This would mean that the starting up of the so called family business in the area of agriculture that would employ, lets say, 5 persons, the Government of the Republic of Macedonia will allow credits up to 15.000 euros. The

credit beneficiary is obliged to co-finance up to 25% of the total credit approved for family agricultural business. The re-payment of the credit is up to 3 years and one year of grace period. The interest rate will be 1% per year.

2) The very strong activities of the Public Revenues Office related to collection of the public revenues have resumed during the analyzed period. These were the following:

a) The Large Taxpayers Office have improved its “taxpayers services” function through quick and efficient provision of answers to questions raised by the taxpayers; it improved and extended the electronic system for filing of tax returns (the participation of electronic filing compared to hard copy returns filed in 2007 was 65,13%) so the percentage of tax returns submitted in the time due was increased by 96% from the total returns; the LTO has maintained the average of over 90% of the VAT refund claims to be realized within the legal deadline of 30 days, etc;

b) In December 2007 a total of 690 audits for the use of cash registers were carried out. The PRO closed 36 premises because they were not issuing cash register receipts when selling the appropriate product or service, which is significantly less compared to the previous period in the year, which points out to increased financial discipline of the economic entities;

c) During the analyzed period there was intensive collection of the public duties from the legal entities and physical persons. The total public revenues collected in November 2007 were 5.1 billion denars and in December 2007 they were 4.4 billion denars. Because of this, the total collected public revenues in 2007 were up to 60,4 billion denars which is 3,3% more than what was planned for 2007;

d) For the purpose of further capacity building of the PRO and improvement of its efficiency in the realization of its task obligations, the following were adopted in the period December 2007 – January 2008: Law on Changes of the Law on Profit Tax; Law on Changes of the Law on Personal Income Tax; Law on Volunteer Capital Financed Pension insurance (which introduces the Articles 158 to 160 regarding taxes); Law on Changes and Amendments of the Law on Corruption Prevention which prescribes provisions (Articles 36, 36-a and 59) that relate to the PRO

activities; Law on Prevention of Money laundering and other revenues from criminal acts for financing of terrorism where Article 46 prescribes that the monitoring over the implementation of the measures and activities foreseen by the Law is done by the Public Revenues Office over the other financial institutions, companies that organize lotteries and games of chance and other legal and physical persons that performs such measures and activities; Regulation for changes of the Regulation for issuing of the following documents – cash register receipt for cancelled transaction and on the functional and technical features that the cash registers and the integrated automatic management system should have.

Already drafted and currently in Parliamentary procedure are the Law on Changes and Amendments of the Law on Tax Procedure; Law on Changes and Amendments of the Law on Public Revenues Office and the Law on Registration of Cash Payments.

3) In order to increase the financial discipline of the tax payers and reduce the shadow economy in the country some very important laws have entered into force in 2008:

- The Law on Payment Operations prevents the possibility that the participant in the payment operation (regardless whether it is company or physical person) that has blocked bank account to make payment of its liabilities towards other participants in the payment operations by using compensation agreements, cession, assignment, debt transfer, etc (which is also called „payment with calculation”). This solution eliminates the possibility of participants in the payment operation that have their bank account blocked to be able to circumvent their liabilities towards the State in relation to payment of contributions, etc. In the same it eliminates the possibility that these participants in the payment operations to use these and similar payment instruments in order to claim tax reductions. Exactly these events were one of the most important sources of the shadow economy.

Another very important novelty of this Law is the introduction of electronic money in the payment operations. This money replaces the cash that will also strongly have an impact on the reduction of the shadow economy in the country.

Finally, in accordance with this Law, in the future every person must have his own personal transaction account (also called payment I.D. number) through which all payments will be made. The important thing here is that, in a case that the person does not have sufficient funds on his bank account in order to execute court verdict for enforced collection of his dues, his bank must notify all other banks to stop the use of his funds until the court verdict for enforced collection has been realized in full. This novelty is one more contribution to the protection of the creditors from the lack of financial discipline of their debtors;

- The Law on Changes and Amendments of the Law on Enforcement, among other things, regulates in much more specific and decisive manner the enforcement of the enforced collection decisions and the orders submitted from the enforcement agents. This will avoid the practice that used to exist – when the debtors were protected on the account of the creditors;
- The Law on Prevention of Money Laundering and Other Revenues from Criminal Act and Financing of Terrorism has strengthened the system of measures for prevention of the money laundering and financing of terrorism, the organizational structure of the bodies that supervise the entities that are obliged to undertake measures against money laundering has been strengthened and also strengthened is the possibility for international cooperation in order to suppress this evil of the economy.

1.1.2. Monetary policy

The realization of the main goals of the monetary policy has resumed in the monitored period:

- a) Maintenance of the price stability;
- b) Increased efficiency of the banking system through improved banking supervision.

The main features of the monetary policy in the period December 2007 – January 2008 were the following:

a) The stability of the prices in the country was maintained. The use of the permanent strategy of exchange rate of the denar bind to the euro as well as other macroeconomic factors contributed that the inflation rate in the period January-December 2007 was 2,3% which is insignificant (by 0,3 points) over the annual inflation rate planned for that year. The strongest impact on the increase of the inflation had the increase of the foodstuff prices (their participation is 1,4 percentage points) and the price of electricity (participation with 0,4 percentage points in the annual inflation rate). In this regard we have noticeable increase of the inflation rate by 4,9% in the period October-December 2007, mainly as a result of the high increase of the prices of the most important foodstuff in that period by an average of 10,4% on annual level.

b) The modest reduction of the active interest rates of the banks (that is, the interest rates of the loans) has resumed. In December 2007 their pondered amount was 9,9% per year. The average interest margin in the banks in December 2007 was reduced to 4,6 percentage points;

c) In this period the increase of the bank loans approved to the private sector has increased. On annual level this increase was 39,1% which, among other things, resulted in positive changes in the total growth of the economy in 2007 by over 5%. In these frames the increase of the approved loans to the people for housing needs have increased which was a feature of 2007. The strongest reason for that are the attractive interest rates on which the mortgage loans are approved (5,5% per year) by specific banks in the country, caused by the increased competition between the banks and reduced costs for collection of finances needed to approve these loans;

d) In order to prevent the occurrence of intensive credit multiplication that could disrupt the basis of the macroeconomic stability in the country, in December 2007 the National Bank of the Republic of Macedonia has adopted decision to expand the base (that is, the inclusion of the denars and foreign currency deposits) in the calculation of the compulsory reserve that is allocated by the banks for the National Bank of the Republic of Macedonia which, starting from February 2008, will have significant impact on the reduction of the credit capacity of the banks;

e) In order to increase the efficiency of the banking system and in accordance with the latest Law on Banks, the National Bank of the Republic of Macedonia adopted several operational decisions that mean

harmonization of its supervisory mandate with the provisions from the new Law on Banks and with the supervisory standards BASLE II which mean increased security and stability of the banking system in the country. Most notable are the Decision for Management with the Credit Risk of the Banks, Decision for Management with the Foreign Currency Risk of the Banks; Decision for Consolidated Supervision of the Banks.

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

The program activities of the Government of the Republic of Macedonia in the area of fiscal and monetary policy are realized with the dynamics planned. The analysis confirmed that these are realized with faster dynamics than planned which, as we said above, caused that the Government of the Republic of Macedonia identifies and undertakes other measures and activities that will have additional reform impact in the area of macroeconomic policy of the country.

On the other side, the large backlog of Laws and other bylaws that need to be adopted by the Parliament of the Republic of Macedonia and giving priority to other activities caused that some of the activities planned were not realized in the foreseen deadlines. This is mainly about the adoption of the following Laws: for National Bank of the Republic of Macedonia for Foreign Trade and for the PRO; furthermore the Law on the PRO, Customs Code, Law on Changes and Amendments of the Law on Tax Procedure and the Law on Registration of Cash Payments. These and other laws that regulate issues related to finances are drafted and currently in Parliament procedure. Their enactment is expected to happen soon.

One of the most important but activity that was not realized in the foreseen deadline is the postponing of the harmonization of the base for payment of social insurance contribution and the personal income tax. This process has been postponed for 2008 and will be realized in three phases, starting from 1 April 2008.

In the upcoming period (that is, by the end of February 2008) what remains to be done is to draft and adopt (by the Council of the National Bank of the Republic of Macedonia) the remaining decisions that will entirely replace the decisions that used to be implemented so far and that regulate the supervisory work of the National Bank of the Republic of Macedonia with

new ones that will be harmonized with the requirements of the new Law on Banks and especially with the requirements of the BASLE II supervisory standards.

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

Because of its open character, the Macedonian economy in 2008 will be subject to numerous external influences that will occasionally have shocking impact on it. Here we mainly refer to the expected increase of the prices of some important agricultural foodstuff (wheat, corn, flour, cooking oil, milk and dairy products, personal hygiene means, etc.) and of the oil and oil derivatives. This will definitely happen as a result of deficit of these products because of the climate changes (drought), use of some agricultural products for production of bio-fuel but mainly because of the sudden increase in demand and consumption of these products in China and India that manifest high rates of increase of their economies, in the same time increase of the living standard of their people. In such circumstances, the Macedonian economy will face the problem of lower inflation rate than the rate planned and increased scope of foreign trade deficit.

Another serious risk will be present phase of recession of the world economy with threatening potential to transform into the largest world economic recession in the last 60 years. The crisis with the mortgage loans in the United States will, through a domino effect, infect the world (including European) economic trends. Considering how much Macedonia is dependent from abroad, it is realistic to expect that some part of this crisis will be also felt in the Macedonian economy.

Finally, specific risk (in specific scenario it can be even a positive one) for the Macedonian economy is the manner in which the political status of Kosovo will be resolved.

Because of these risks, it is necessary that the relevant authorities of the Republic of Macedonia should develop alternative scenarios for actions in this specific situation on world and on local scale. By doing so, the eventual shocks on the economy will not be possible to be avoided but most certainly it will be possible to be reduced.

1.4. Overall expert evaluation for the reporting period

The measures and activities planned in the area of monetary and fiscal policy were realized in full during the reporting period. In this period, same as in the previous reporting period, the Government of the Republic of Macedonia adopted measures that were not planned but were conditions from the current economic situations and tendencies in the country, especially regarding the fiscal policy that will lead towards further improvement of the activity of the economic entities.

These measures and activities have significantly changed the economic environment in the country. As a consequence, 2007 can be qualified as one of the most successive years in the very long transitional period of the Republic of Macedonia. The synthetic effect from the overall changes in the macroeconomic policy of the country in 2007 is reflected in the highest so far increase of the gross domestic product of the country with over 5% in relation to 2006.

It is understandable that these measures and results should be one-time only but there should be stimulation for further relaxation and stimulation of the business climate in the country. The strong momentum must be maintained with the other reforms in the economy and in the areas that are close to it. Some of them, as mentioned in this report, are already in implementation. With their realization it is realistic to expect that there will be increase of the planned growth of the GDP of the Republic of Macedonia by 6-6,5% in 2008%.

The Government of the Republic of Macedonia will face numerous risks on this path that, by undertaking additional activities, it should remove or reduce. In this sense, the greatest danger can be the increase of the prices of particular agricultural and foodstuff as well as of the oil and oil derivates, including the very strong recession that is taking most of the world.

2. TRADE, INDUSTRIAL AND INVESTMENT POLICY

2.1. Activities implemented in the area of trade and industrial policy during the reporting period

In the period 15-16 January 2008 Assessment Mission of the European Delegation visited Skopje in order to ascertain the readiness of the Republic of Macedonia for start of the official negotiations for inclusion into PECA (European Protocol for Conformity Assessment of the industrial products). The relevant institutions where the European Commission experts evaluated the capacities for inclusion into the Protocol were the Ministry of Economy, the Institute for Standardization, Institute for Accreditation, the Bureau for Metrology and the State Market Inspectorate.

The Protocol for conformity evaluation and recognition of the industrial products is bilateral agreement between the European Union and its member states, from one side, and the candidate country from the other side. According to the conditions stipulated in this agreement, the business community is provided with equal treatment and free access to the EU internal market for the products for which it is signed for, without being subject to additional requirements for conformity assessment.

Because of the integration of the Macedonian with the EU economy, the industry sector should manifest readiness for competition in the expanded EU internal market, facing equal conditions for competition on the market, abolishment of the dominant positions in the domestic work, abolishment of the mechanisms for control of the industry sector, state monopoly and state aid. The overall assessment from the European Commission delegation mission, on the basis of the presentation of the status of the relevant institutions about the factual situation, after the end of the two-days mission, was that the Republic of Macedonia is ready for the second phase of preparation of the negotiations for signing of PECA that is expected to happen in May-June 2008. Until that period, the European Commission delegate will start drafting of the Report with positive evaluation from the mission and the expressed readiness by the Republic of Macedonia for accession into the second phase. This Report will be submitted to the EU member states for approval.

The regulatory guillotine project is seriously late. The final deadlines are prolonged for 2008. It is interesting that the Internet site of this project still lists the obsolete deadlines that further diminish this very important reform.

Important to mention is that the matrix of goals and activities for monitoring of the NPAA (National Programme for the Adoption of the Acquis) implementation for 2008 is not sufficiently precise about the deadlines i.e. most of the activities are said to be by the end of 2008 and start on January 2008.

Inter-institutional body for rural development has been established and also reporting is being prepared for the Government of the Republic of Macedonia that will list rural development projects in order to unify them and monitor from a single place.

Regarding the strategic documents, the annual programs are being adopted such as those for development of the entrepreneurship, competitiveness and innovation of the small and medium sized companies, for improvement of the competitiveness of the Macedonian products and services as well as implementation of the action plans.

The adoption of the Strategy for Equal Regional Development is late. The Regional Development Council was established. Here we must emphasize the need for quality and timely statistical information that Macedonia does not have at the moment on the necessary level.

In the area of industrial policy and the study for measurement of the competitiveness indicators of the Macedonian industry/ economy, consultant has been selected by the World Bank that will develop the indicators that will serve as a base for development of the strategy.

In the sectoral strategic documents regarding steel industry, the measure for double check has been abolished because of the confidence of the EU in Macedonia and for 2008 it is planned to implement Annual Action Plan for work in the frames of the National Restructuring Program.

The cluster, as an instrument, is still very successful. The IT cluster is very active on regional level and generates large revenues per regional projects. It is also sustainable. Large activities are expected in the wood and textile cluster.

Regarding tourism, the drafting of legislation for the National Tourist Organization in 2008 is planned.

In order to improve the investment climate, training of selected economic promoters is being realized for foreign investments that will be sent to the Embassies of the Republic of Macedonia. The promoter in Italy has already started its activities. A Forum of Investors from Diaspora took place. There were meetings of the Coordinative Body for Social Responsibility of the Companies.

The Government prepared information with draft measures for improvement of the business climate in the Republic of Macedonia, in accordance with the recommendations of the World Bank Doing Business.

In the area of deregulation, the Regulatory Guillotine project is late. It is prolonged for June 2008. Although the expectations were that at the end of 2007 assessment will be made on the RIA regulation impact this was not done so it is prolonged for 2008.

In the area of capacity building of the (Small and middle enterprises) SMEs, competition will be announced for opening of 8 new business centers in the local self-government units where such do not exist (mainly in the rural areas) in accordance with the conclusion of the Government of the Republic of Macedonia. There was also conference on CIP (Competitiveness and Innovation Framework Programme) and additional one will take place for IPA (Instrument for pre-accession assistance).

In the area of market entry an Internet Portal is in development for realization of the Law on Bankruptcy. Trainings in accordance with the action plan are being delivered, database of bankruptcy procedures is being created and there are also trainings for judges and prosecutors. Committee for Practical Implementation of the Law on Bankruptcy was also established. Work is being done to establish one-stop-shop system for volunteer liquidation of companies and finalization of the liquidation procedure in the Law on Companies.

In the area of stimulation of innovations currently in development is the Program for Stimulation and Assistance of the Technological Development, focused towards innovations and development.

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

About the documents adopted by the Ministry, it is very important that these documents are made available to everyone interested on the internet, even as drafts. It should not be any difficulty to have the latest version of the document at the end of the day on the website.

We are waiting for the *ex post* evaluation of the implementation of the actions plans from the programs.

The expectations are that the businessmen will undertake the initiative and create the rules of functioning of the markets, within the overall framework established by the Government.

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

Very important for the success of the Government Program is the capacity of the administration to implement the activities planned and to implement the reforms. This mainly requires political will and involvement of the wider political front i.e. engagement both by the position and opposition. For this purpose it is necessary that the Deputy Prime Minister for economic issues and the Agency for Civil Servants establish working group that will include experts from the opposition for implementation of the administration reforms. These administration reforms should be owned and managed by the Government and not by donor projects. The purpose of this reform is not to reduce the number of staff and/or the participation of the salaries and contributions in the Central Budget of the minority group but the results from the work of the administration, the satisfaction of the citizens, the transaction costs of the businesses and the functioning of the merit system. It is necessary to monitor to impact that the increase of administration salaries will have and see what this measure has achieved, especially in the area of more efficient work.

2.4. Overall expert evaluation for the reporting period

In this period of monitoring the executed and received ascertainment is that the Government moves from the preparatory part of development of strategies and documents towards operational implementation through developed action plans that specifically determine the responsibility and the timeframe.

3. FINANCIAL AND PENSION SYSTEM

3.1. Activities implemented during the reporting period

3.1.1. Financial system

A series of activities was implemented in this monitoring period.

The Law on Changes and Amendments of the Law on Securities was adopted.¹ This Law provides the banks and the brokerages with additional activity for their clients – management with securities that includes opening and management of securities accounts for the client in a depository and other services related to securities upon order by the client.² The Law also introduced some changes related to the Commission for Securities in order to strengthen its position as supervisory body on the capital market. Full professionalism of the commissioners was done and criteria were introduced for determination of the fees that will be collected by the Commission for Securities.

The Law on Investment Funds was adopted by the Government and was submitted for an opinion to the European Commission. The new Law on Investment Funds was prepared in order to implement the European Union Directives.

On 29 January 2008 the Seventh Meeting of the Market Committee for Development of the State Securities Market (DHV) took place in the Ministry of Finance. It included representatives from the Ministry of Finance, National Bank of the Republic of Macedonia as well as representatives from the stakeholders on the capital market i.e. commercial banks, pension funds, investment funds, Macedonian Stock Exchange – Skopje, other interested as well.

¹ Official Gazette of the Republic of Macedonia No.7, dated 15.01.2008

² Payment of dividend and/or interest, notification for the shareholders assembly, etc.

3.1.2. Pension system

In the recent period the Parliament of the Republic of Macedonia adopted two laws:

- On 12 December 2007 the changes and amendments to the Law on Pension and Disability Insurance were adopted (Official Gazette of the Republic of Macedonia No. 153/07)
- On 4 January 2008 the Law on Volunteer Capital Financed Pension Insurance was adopted (Official Gazette of the Republic of Macedonia No. 7/08).

On 13 December there was presentation of the volunteer capital financed pension insurance in the Republic of Slovenia before Slovenian banks, insurance companies and financial institutions. On 26 December the Minister of Labor and Social Policy had press conference where he presented the future activities regarding the volunteer capital financed pension insurance. On 30 January 2008 the Ministry of Labor and Social Policy, the Agency for Supervision of the Capital Financed Pension Insurance (MAPAS) and the program for support of the institutions in the area of social security organized Regional Conference on the following topic: “The Role of the regulatory bodies in the capital financed pension insurance from the aspect of the EU Directives”.

In December 2007, the Ministry and MAPAS organized round table i.e. meeting with the business banks in the Republic of Macedonia regarding “The Role of the Custodian Bank in the capital financed pension insurance in the Republic of Macedonia”. Regarding this, in January there was a visit of experts from the Croatian Regulatory Commission and they had individual meetings with the business banks in the Republic of Macedonia that would have an interest to obtain license for custodian of assets and funds in the capital financed pension insurance.

In December 2007 MAPAS reduced the fee it collects from the Companies that manage the pension funds from 1,5% to 1% (Decision for Issuing Consent to the Decision on the Amount of Monthly fee from contributions collected from the companies for management with pensions funds by the Agency for Supervision for Capital Financed Pension Insurance in 2008 (Official Gazette of the Republic of Macedonia No. 158/07).

In January 2008 the two pension funds have reduced the fee they collected from the contributions paid by the members of the second pillar so that the fee from 1 January 2008 will be 6,9 for one pension fund and 6,8% for the second pension fund.

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

The following remains to be implemented in the upcoming period:

- The Law on Changes of the Law on Issuing of Bonds of the Republic of Macedonia for denationalization has been submitted to the Parliament of the Republic of Macedonia. The purpose for adoption of this Law is to extend the deadline for issuing of denationalization bonds from 6 to 8 years in order to finalize the denationalization process. In other words, these changes will make possible two additional emissions of denationalization bonds.
- The Law on Audit has been drafted and is in Parliamentary procedure. This will harmonize it with the Law on Misdemeanors.
- The new Law on National Bank of the Republic of Macedonia has been drafted and submitted to the Legislation Secretariat for harmonization. The changes introduced with this Law are towards harmonization of the Law with the ESCB Statute and the Protocol for ESCB³ and ECB⁴ in order to define the functions, competencies and independence of the National Bank of the Republic of Macedonia.
- New Law on Changes and Amendments of the Law on Supervision of Insurance has been drafted and submitted to the Government of the Republic of Macedonia. The adoption of this Law is necessary in order to harmonize the Law on Supervision of Insurance with the third set of proposals for regulatory guillotine.
- What remains to be implemented is the New Law on Investment Funds that is supposed to facilitate the establishment of investment funds in the Republic of Macedonia that will assist the economic growth of the Republic of Macedonia by investing the funds collected in securities.

³ ESCB-European system of banks

⁴ ECB- European Central Bank

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

There is certain optimism for the problems in the Macedonian economy that leaves impression that stands in place in accordance with the performance. The following years will be the mirror of the actions implemented so far in the two sectors. However, the main engines of the economy must be the employment (thus finding solution for the unemployment) and the increase of revenues. There is way too large accent put on the entry into NATO and EU so Macedonia must provide stable and secure market.

3.4. Overall evaluation of the expert for the reporting period

The Government did not find a way to resolve the case with redundancy workers in Macedonia and resolve the high unemployment problem. Beside the changes, the Law on Labor Relations says that there is no employment on contract per services rendered basis and that there is only employment on definite and indefinite time, still there is certain percentage of employments in the state institutions with the invalid contract per services rendered which is giving bad example to the private sector.

Beside the fact that in this year we have Budget phenomenon, none of the above said comments was not placed for resolution in the foreseen 2 billion and 93 million euros. The entry of the two companies with three investment funds most definitely speaks about positive assessment in the implementation of the financial system. The implementation of the new Law on Investment Funds gives hope that the capital market will become more vivid and will provide opportunities for entry of foreign companies that manage investment funds that were already licensed by any EU or OECD member state, to perform the same services in the Republic of Macedonia. However, it is still early to discuss about situation where the investment funds will be true competitors of the banks in Macedonia.

We can evaluate as positive the MAPAS Conference where best practices were shared about the most important issues that require attention in the implementation of the field and volunteer supervision in the frames of the capital financed pension insurance and harmonization with the supervision principles from the EU directives and with the foreign countries that participated on this event. Best practices were shared by the international experts in the area of pension insurance and supervision of the insurance

from Holland, Bulgaria, Slovenia and Macedonia and there were representatives from the SISP Project (Social Institution Support Program): Croatia, Serbia, Albania, Bosnia and Herzegovina, observers from Kosovo and Montenegro. Another positive evaluation is the reduction of the fee collected from the contributions paid by the members in the second pillar – from 1 January 2008 this contribution will be 6,9% at one of the pension fund and 6,8% of the other pension fund.

4. KNOWLEDGE BASED ECONOMY

4.1. Activities implemented in the reporting period

In the Program for Work of the Government of the Republic of Macedonia 2006-2010 we can identify multiple activities that aim to support the adaptation of the Republic of Macedonia to the new knowledge based economy. This is of crucial importance for achieving of sustainable economic development based on the production of goods and services with higher added value.

The following activities are either in the process of implementation or were already implemented, taken from the Program for Work of the Government of the Republic of Macedonia:

- a) Establishment of Ministry for IT Society
- b) Use of internet in specific period of time
- c) Mass trainings in computer skills
- d) Full computerization of the schools
- e) Promotion of the cashless payments, e-business and e-Government
- f) Wireless internet installations all over the country

In December 2007 and January 2008 a lot of things have happened that go in favor of the implementation of the above said policies and measures. The progress in this area can be identified as good.

We can say that the goal “Establishment of Ministry for IT Society” has been met since there is Minister in the Government who is solely dedicated on this issue and is successfully working in his cabinet. The Government also announced the establishment of the Secretariat for IT Technology.

Regarding the computerization of the schools, the process is currently in the pipeline. In January 2008 the Government started the “Computer for Every Child” pilot project. This Project is about equipping of the elementary school students with laptops that will replace some of the textbooks. This pilot project has started with implementation in three elementary schools in Skopje, Tetovo and Bitola.

In order to realize the goal (which is to increase the use of computers and make them more popular) we can say that the first positive results can be felt already. However, the increased competition on the internet service market and the more quality access will be felt with the start of the WiMax providers. The NexCom Provider said in the beginning of January that is intensively working on installation on its own network that will provide services to the people related to fixed telephone and internet. It is expected that the start of these services (in the beginning, in Skopje only) will start in the matter of days.

The problem with the lack of staff and experts for IT industry, which is already felt and it is a problem for development of this sector with high added value, the Government announced that it will resolve this issue by opening new State University that will produce high level staff in the area of IT. The Macedonian University for IT Technologies (which will be the name of this new higher education institution) is expected to start its work not before 2009 or 2010. Its location is still undetermined. The teaching will be in English language and half of the professors will be from the most prominent universities in Europe and USA. The other half will be from Macedonia.

Another positive event in the December-January period is the reactivation of the work on the drafting of Industrial Policy of the Republic of Macedonia by the Ministry of Economy. In the period the inter-Ministerial working group was established and also several trainings and consultancy missions were scheduled for this purpose.

Regarding the promotion of cashless payment, e-business and e-Government, the Government, in the period October-November 2007 undertook numerous activities:

- a) Acceleration of the activities related to development of national registry of regulations, licenses, permits and approvals. This Registry is being developed in cooperation between the Sector for Economic Policy and Regulatory Reform at the General Secretariat of the Government of the Republic of Macedonia and USAID. The plan is to make this Registry up and running no later than the middle of 2008.
- b) The adoption of the Draft Law on Cadastre that is supposed to guarantee the right on title (ownership) with greater efficiency because of the introduction of specific software that will enable each and every citizen

to have insight in his respective assets. The new Law will also avoid the possibilities for misuse of property i.e. selling the same property to several people.

- c) Solid progress in the implementation of the strategy for IT technology in judiciary 2007-2010.
- d) Integration of the Health Fund IT system which makes possible the connection of all 30 regional offices of the Fund and provides more quality services to the users. One of the main advantages of this integration is the shortening of the time necessary to pay for the sick leaves (not longer than 15 days from the day when the documentation was received). This Project is financed with a World Bank loan for fully integrated IT system in the health sector by 2010.

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

These are the activities that should be implemented in the following period by the Government:

- a) Better knowledge flow between the universities and the private sector
- b) Establishment of Centre for Management Education
- c) Introduction of the Lifelong Learning

The lack of activities in these areas is because the implementation of these areas is long-term activity. More attention is necessary on this issue in the future.

At the end of the year we will see the specific outcomes of the program for introduction of the Lifelong Learning as well as for massive training of the people in IT skills.

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

The main recommendation to the Government in the area of adaptation of the Republic of Macedonia to the knowledge based economy is that the increase of the budget funds for science, development and research should be accompanied by capacity building in the administration of the funds in the Government, especially in the Ministry of Education and Science.

In this regard, what remains to be implemented is campaign focused towards the companies, scientific-educational institutions, NGOs and citizens that will be informed about the opportunities offered by the Seventh Framework Program of the EU for Research as well as about the procedures to apply for finances in the frames of this program. Considering the fact that for successful use of funds from this Program it will be necessary that cooperation between institutions, companies and associations from the EU member states and candidate countries exists, support is necessary for realization of this cooperation by the state institutions.

As it was mentioned in the future it will be necessary to work more intensively on the improvement of the knowledge flow between the universities and the private sector and on the establishment of the management education Center.

4.4. Overall evaluation of the expert for the reporting period

The Government resumes its intensive work of implementation of particular sections of Program for Work of the Government 2006-2010 that are related to the “knowledge based economy”. We can say that the activities that were planned and were possible to be implemented within one year to year and a half a currently in the pipeline. . Very important in the adaptation of the Republic of Macedonia to the new knowledge based economy is the start of operation of the Johnson Controls factory in the free economic and industrial zone Bunarjik and the announcement for construction of mega-factory for automobile catalysis by Johnson Matthey. These projects will assist in the change of the structure of production in the Republic of Macedonia by introducing numerous products of high added value. Furthermore, they will serve as best case practices for successful Greenfield investments in the country

What will follow in the future is the implementation of the projects that will also require administrative reform and serious input by the state administration. In order to successfully implement these projects, the Government would have to continue its work on capacity building of the administration and its motivation for involvement in the efforts for adaptation of the Macedonian economy to the modern knowledge based economy.

5. EDUCATION

5.1. Activities implemented in the reporting period

The activities in the elementary education have resumed with regards to the latest teaching plan (curriculum) for the nine-year education and the issues related to the new teaching programs and teaching materials (textbooks) and teachers, in accordance with the new development cycles in the nine-year education. Important to emphasize is the publishing of the Guideline for extra-curriculum activities for the elementary school children from the Diaspora titled “My Fatherland”.

In the secondary education the attention was focused on the matura. On the basis of the initial knowledge from analyzing the experiences and results from the implemented trial state matura we can conclude that the system is properly set and that by further improvement of the same system, on the basis of the acquired knowledge and lessons learned it can function as a mechanism for external evaluation and improvement of the quality of education.

In the higher education, the activities are conditioned by the existing legal framework and Government priorities. The main attention was focused on the procedure for adoption of the Law on Higher Education. Some of the Solutions offered were interpreted as risky for the autonomy of the University. Several projects were developed in the expectation of its adoption that are supposed to introduce new mechanism in the higher education. In accordance with the program commitments for raising of the quality of education the initiative for establishment of Evaluation Agency was established that will perform the evaluation and verification of the accreditations of the higher education institutions. In this period the tendency of the Government has resumed towards promotion of the private higher educational institutions and the newly opened State University in Shtip.

This is the fifth and the last report developed on the basis of comparison of the achievements of the Government in the area of education with the promises included in the pre-election Program of VMRO-DPMNE as political party that has the main responsibility for the policy of the

Government of the Republic of Macedonia. Subject to monitoring were the activities in realization of the main educational goals of the pre-election program “Rebirth in 100 Steps!” and the Program for Work of the Government of the Republic of Macedonia for the period 2006-2010.

In order to include the most important achievements of the Government and other educational institutions in the area of education, subject to monitoring were the activities undertaken by the Government of the Republic of Macedonia, the Ministry of Education, the Bureau for Development of Education and the Parliament of the Republic of Macedonia.

The monitoring of the achievements was done on the basis of the accepted analytical matrix. The basis for this Matrix is the Chapter No.8 from the “Rebirth in 100 Steps!” Program. This matrix was used a basis to identify in this (and in previous reports) the achievements of the Government regarding four educational areas that include numerous issues: the investments and novelties in the education (ten questions), improvement of the quality of education (five questions), increased competition in the educational sector (six questions), investments in the sports and physical culture. Beside these activities the achievements in these areas in relation to the following three specific projects were also subject to monitoring: academy for managers, virtual library, school bus and series of other activities and achievements which, although not explicitly mentioned in the “Rebirth in 100 Steps!” program have become part of the work of the Government for 2006 and 2007 – either because of their program compatibility or because of their continuous importance for the state.

With regards to the legal initiatives in this period we note two important achievements. The Parliament of the Republic of Macedonia has adopted the Law on Adult Education. It is significant achievement because this law regulates the manner of acquisition of the formal education on all three levels (elementary, secondary and higher) and the manner of acquisition of the qualifications and skills regardless of the age (in the age between 15 to 64). The legal solutions should contribute towards the reduction of the very high percentage of persons with low labor skills (over 50% of these people have not finished either elementary or secondary education). The Law provides an opportunity that the formal education for adults can be provided to all elementary and secondary schools and higher educational institutions. The importance and effectiveness of this Law should be seen also in relation

to the initiative of the Government for adoption of the Law on Lifelong Learning which was raised in one of the previous reports.

The second legal initiative that attracted the attention of the public is the Law on Higher Education. After long and extensive work on the draft, at the beginning of the January it was put on the Parliamentary session and the discussion about the Law was postponed for the end of February (which is period beyond the period included by this Report). Some the proposed (and today already adopted legal solutions) cause opposed interpretations in the academic public. Some of the critics point out on the danger from political party influences in the higher educational institutions. This risk should not be underestimated since it will endanger the basic Constitutional principle of the organization of the higher education in the Republic of Macedonia – the autonomy of the university. On the other side, the University is public institution and, as such, it plays public mission and public responsibilities. From that aspect, the issue for implementation of the Law will be establishment of balance between these two principles of organization of the modern university.

a) In the area of investments and novelties in the education, the most important is the fact that the Budget of the Republic of Macedonia for 2008 *has been adopted*. It foresees significant amount of funds for procurement of new desks in the schools and reconstruction of the school buildings. The Budget for 2008 also made the first progress towards the realization of the program goal (from the “Rebirth in 100 Steps!” Program) for increase of the Budget funds for education up to the level of 5% of the GDP, which would mean that the Republic of Macedonia is getting closer to the average of the advanced countries of the Western Europe.

Important to mention in this regard is the Government campaign under the motto “Knowledge is Power, Knowledge is Strength”) which, through TV sports, newspaper advertisements, public forums and similar activities affirms the educational values both on personal and social development levels.

b) The improvement of quality of education: In this reporting period the main attention regarding the improvement of the quality of education was focused on the issues related to the implementation of the state matura. In order to establish balance between, on one side, academically and politically sound and accepted intention and legal solution for introduction of the state

matura and, on the other side, the negative reactions of larger part of the secondary school students and their parents, the educational authorities implemented trial matura. This was the ice breaker and contributed for demystification of the issue. The initial analysis shows that the responsible institutions have the capacity and responsibility to implement this complex but, for the European integration of the Macedonian educational system important mechanism for verification and improvement of the quality of education. Indicator for success of this project is the massive response by the secondary school students to the call from the educational authorities to apply for passing of the trial matura.

In order to verify and improve the quality of education, announced and initiated in this period were activities for verification of the accreditations of the higher educational institutions. This initiative was also put into legal framework with the adoption (in February) of the Law on Higher Education which foresees that this activity can be performed by body that will be independent from the Accreditation Board. We can expect that the implementation of this measure will remove or reduce some of the gaps that occurred in the initial phase of liberalization (privatization) of development of the higher educational sector in the country.

c) Increase of the competition in education: the establishment of the new public University in the City of Shtip have resumed. Also, the Government resumed its intention for public and other support to the private higher educational institutions. These moves change the competitive status of the existing and established state universities in favor of the private or newly established universities. This is a conflicting process which the Government manages on satisfactory level so far, although we must not neglect the hidden dangers from undermining the position, the role, resources of the largest state university which, according to the local and international evaluations, remains to be one of the most important factors in the higher education in Macedonia.

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

In the past as well as in the previous four reporting period there were significant achievements of the plan regarding the education. Some of the, were implemented in the deadlines established with the “Rebirth in 100 Steps!” Program and another part are either in the pipeline or their

realization depends on the efficiency and rhythm of work of other state institutions (for example, the introduction of religious education).

Considering the fact that in this and in the previous reports we emphasize the achievements of the educational authorities, we will emphasize the activities that were planned but the implementation of which requires mobilization of multiple resources and more time. Such activities are the increase of allocation of the Budget funds for education until the planned level, reconstruction and refurbishment of the student dormitories and construction of new student dormitory in Skopje, finalization of the project for fill computerization of the schools, introduction of second foreign language in the fourth grade of elementary education, establishment of legal and other conditions for opening of private secondary schools. What remains to be realized in the higher education are the ideas for its project financing for establishment of link with the higher education and international research institutions. Special attention should be paid to the situation with the scientific-research projects.

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

In the upcoming period we expect that several general risk factors could influence the realization of the goals and activities already started or yet to start in the area of education. The risks are, in essence, extra-educational.

Second strong factor is the reduction of the capacity to act by the educational institutions because of the human resources situation in the Ministry of Education and Science, mainly because of some resignations that were announced.

The third defocusing factor will be problems on the relation between the central and local Government. In this reporting period there were strikes in several schools in municipalities that faced some problems with the decentralization.

Important risk factor the effects of which can be already felt in this period (and we assume that this risk factor will continue to be present in the future) is the defocusing of the public interest from the educational issues and its focusing towards the security situation that is related to the events in the region (the eventual independence of Kosovo and the related conflicts as well as veto threats by Greece on the Macedonia's NATO membership).

5.4. Overall evaluation of the expert for the reporting period

The overall evaluation for this two-month period is that the reform activities started in the previous periods resumed and that these were upgraded or implemented with several innovations. From the aspect of the main goal of this Report (up to which extent the accountable leadership concept is being implemented) i.e. leadership that will realize its pre-election program promises – we can conclude that the overall evaluation is quite positive. In the foreseen period most of the program goals planned was realized in full. The rest were started in time and they are about to be finished (or currently in the pipeline) with dynamics that is conditions from the influence of other sectors and from the overall situation in the country.

6. SPORTS

6.1. Activities implemented during the reporting period

The main project of the Government of the Republic of Macedonia and the Agency for Sports and Youth (AMS) in the area of sports – “Construction of 35 sporting halls” is implemented in accordance with the plan, considering the end of the construction season.

In the last two-month period of monitoring one more sporting hall was commissioned (in Obleshevo) which adds to the previous two already commissioned.

Construction has started on 15 additional sporting halls. Two of them are about to be commissioned.

Regarding the second largest project of Government of the Republic of Macedonia and the Agency for Sports and Youth – “Construction of 50 auxiliary football fields” it is important to emphasize that one more additional football field will be built (in Radovish) beside the nine fields that are already under construction.

Since the start of the winter and the end of the construction season, the construction activities about this project were terminated. The expectations are that the realization will continue when the construction season resumes.

The works for construction of the “Boris Trajkovski” sporting hall that will be the most representative sporting facility of closed type in the Republic of Macedonia are implemented with full speed. They will finish by the beginning of April.

The Agency for Sports and Youth provided support in a form of sporting equipment and finances to the Women Handball National Team of Macedonia for participation on the World Cup.

The Women Handball National team was awarded with 10.000 euros from the Government of the Republic of Macedonia and the Agency for Sports

and Youth because of the achieved result – progress in the second round of the World Cup.

The funds provided by the Government of the Republic of Macedonia and the Agency for Sports and Youth were used to purchase new modern sport ground to be installed in the closed hall. It will be used to play the competitions from the Davis Cup between the Tennis Teams of Macedonia and Latvia (08-10 February 2008).

Award in the amount of 10.000 euros was awarded to the Water Polo National Team of Macedonia for their qualification on the European Championship (EC) that will take place in Malaga (Spain).

Agreements were signed for scholarships, in accordance with the legally determined conditions with the sportsmen and sport professionals that have achieved notable results in the last three months of 2007.

The “Selection of Sportsmen of the Year 2007 of the Republic of Macedonia” event was organized in cooperation between the Agency for Sports and Youth and Association of Sporting Federations. This is traditional event for selection of the best sportsperson in the Republic of Macedonia in the last year.

In 2007 the most successfully sportsperson in the Republic of Macedonia was the karate player Ivo Cvetkovski (member of the Karate Club “Metalurg” from Skopje). Although he is at the moment active only in the junior competition, he became a vice-champion on the European Championship of seniors. He is one of the most perspective Macedonian sportsmen and has bright sporting future ahead.

The National Anti Doping Commission has intensified its activities in the fight against doping in the sports, in the last two-month period. We can see that this tendency is present more and more in the world of sports in all countries.

The following activities were undertaken:

- Eight new doping controls were made on the qualification matches in water polo in Skopje. The results are pending;

- The National Anti Doping Commission of the Republic of Macedonia become member of RADO (Regional Anti Doping Organization of South Eastern Europe) who is member of WADA (World Anti Doping Agency);
- The Regulation on Anti Doping is currently in drafting phase;
- Larger educational seminar will be organized with participation of all sporting federations of the Republic of Macedonia;
- Announcement for new anti doping tests in the finale of the national cups and competitions in several sports.

On the occasion of the New Year and Christmas Holidays, the Agency for Sports and Youth visited several homes and institutions for orphan children and children with special needs and awarded sporting blouses. This campaign included over 400 children.

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

In accordance with the current Law on Sports, there can be only one sporting federation for every sport. The problem of having two federations for one sport, which is contrary to the Law on Sports, is not yet resolved.

Although they are already in the Parliament Procedure (on the agenda of the 69th Session of the National Parliament) the adoption of the changes and amendments to the Law on Sports is still pending.

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

The following are the key risk factors related to the implementation of the current and projected activities in the area of sports:

- The main reason for prolonging of the deadlines for realization of the projects that started at the moment are the whether and the end of the construction season;
- The foreseen timeframe for realization of the activities planned which, because of the ambitious and short timeframes as well as because of the end of the construction season, is a real danger for prolonging of the deadlines;

- The status quo situation in one of the most successful sports in the Republic of Macedonia could be destimulative to the sportsmen and sport professionals especially because of the fact that this dispute is already happening for longer period of time. In the time when the best results are achieved exactly in the karate this can be a sign of lack of capacity and courage by the responsible people for decisive enforcement of the Law on Sports. In fact, we are taking about large discrepancy between the declared commitments and the things that are realized, in relation to the rule of law in the area of sports.
- The non-adoption of the changes and amendments of the Law on Sports can be large obstacle for further development of the sports, beside the huge efforts invested by the Government and the Agency for Sports and Youth.

6.4. Evaluation of the expert for the reporting period

From monitoring of the activities in area of sports implemented by the Government of the Republic of Macedonia and the Agency for Sports and Youth in the reporting period (December 2007 – January 2008) we can see the intention for introduction of changes and higher standards in this area.

Equal attention is paid both to the professional and recreational sports. The proof for that are the projects already started. One of the novelties in the understanding of the sports (representational) is the involvement of “foreigners” in the Macedonian national team. Although, according to some opinions, this has positive (greater success, better competitiveness, instant ready-made product in the sports) and negative sides (eventual neglectance of the Macedonian talents), still, when measured all in all, what remains is the success of the Macedonian team and sports, the Macedonian flag raised on the winning must and the playing of the national anthem of Macedonia. In fact, this practice is used by many larger sporting nations. The mistakes from the past should be our lesson learned – when a Macedonian sportsman became European and world multichampion for another country. How big is the loss can be pointed out with the fact that Macedonia, since its independence does not have a single European or world champion in any sports.

The project for “Construction of 35 sporting halls”, being one of the most important and major projects in the area of sports, is taking place as

planned. So far three sporting halls were commissioned, two are about to be commissioned and the construction of 13 additional has started. The initial results are obvious and promising that the project will be successfully managed and closed. Acceleration of activities is expected with the opening of the construction season.

The second largest project of the Government of the Republic of Macedonia and the Agency for Youth and Sports in the area of sports – “Construction of 50 auxiliary football fields” is currently on hold because of the bad weather. So far construction of 10 auxiliary football fields have started and they are located all over Macedonia. The first ones are to be finished by the end of 2008. The continuation of this project is expected with the arrival of spring and improvement of the weather conditions.

The construction of the large sporting hall “Boris Trajkovski” is expected to finish in April. The activities are moving according to the plan. The importance of this sporting hall for the Macedonian sports is large, especially considering the sports that take place indoors. This hall will have multifunctional use so in the future it will be possible to organize sporting events and trainings, concerts and other cultural events.

The support for the Macedonian National teams for participation on international competitions as well as the awarding system that will be used by the Government of the Republic of Macedonia and the Agency for Youth and Sports in order to stimulate the sportsmen to participate on large international competitions is the true move that has never been implemented before. The Government has demonstrated consistency in caring for those that represent the country and rising of dignity of its sport ambassadors.

Very important to emphasize is the fact that, the signing of the latest scholarship agreements, the number of sportsmen or sport professionals towards which the state owes, is now zero. This again reaffirms the Government determination to take care for those that achieve great success for the Republic of Macedonia.

Very important to emphasize is the commitment of the Agency for Youth and Sports in the fight against the greatest evil of the sports – the doping. We can see that even the top sportsmen are not immune to this evil so all measures undertaken and activities planned in this regard are to be commended. Therefore, we must be persistent on this path and act educationally and preventively.

7. AGRICULTURE

7.1. Activities implemented during the reporting period

7.1.1. Production development and stimulation of the export

During the monitoring period (December 2007 – January 2008) there were no significant shifts in this area.

The movement on the milk market following the entry of several companies such as Swedmilk, Danube Foods, Dukat, etc. was mainly felt in this reporting period. The farmers have felt the advantage of development of the competition on the domestic milk market. In other words, the purchase price of the milk at the moment is between 22 - 30 denars per liter. Now there will be even lack of milk instead of the former surpluses of milk because the farmers are stimulated for production with the support of 2 denars per liter but also because of the demand by the companies.

In December, the Government adopted decision for protection of some products. The plan is that the Macedonian Ajvar, as a product, is branded in the country and abroad that will become typical product that will associate the consumers with Macedonia. This is an ongoing project developed by the Ministry of Agriculture with the State Institute for Industrial Property that, together with the Faculty of Agriculture and Technological Faculty, work on the development of elaborate that is supposed to be finished by the middle of March. This will officially start the process of branding of the traditional Macedonian products such as the Yellow Cheese from Galichnik and the White Cheese from Berovo.

Regarding the announced company for stimulation of the exports there are no significant steps during the reporting period.

In the area of non-traditional products in this reporting period, the Macedonian market will have for the first time ostrich meat grown in the country. Efforts are made to establish slaughter house with exporting number that will assist the ostrich farmers to distribute their production abroad.

There are no joint ventures between local and foreign companies in this period.

7.1. 2. Regulation of the land ownership title

The adoption of the Law on Agricultural land has established the legal framework for regulation of the use, management, protection and readaptation of the farming land in the Republic of Macedonia. One of the weaknesses noted in the European Commission Progress Report for 2007 is the slow registration of the agricultural land. This Law provides the basis for solution of this problem.

The Government of the Republic of Macedonia, on its session held on 2 January 2008, adopted the Proposal for adoption of a Law on Cadastre of Real Estate, with Law Proposal.

The State Authority for Geodetic Works (DZGR) introduced new electronic system that will improve the security and speed of the transactions with real estate of the citizens and companies.

The new service will provide the users with quick and simple electronic access to the DZGR database. Beside the information on the ownership, cadastre parcels, buildings and special parts of the buildings from now on all interested will be able to see the eventual collaterals on the particular building or real estate, notes and limitations for that real estate. At the moment this information is available only for the territory of Skopje but from the next year the expectations are that this service will be made available for entire territory of Macedonia and will include all the respective information.

The activities of the Project “Cadastre of Real Estate and Registration” have resumed. This project is implemented by the State Authority for Geodetic Works (DZGR). These activities, more or less, are implemented with the foreseen dynamics.

7. 1. 3. Budget support

January is the month of announcement for the upcoming Budget subsidies for Agriculture. Compared to 2007 when 27 million euros for agriculture

were allocated, this year the farmers will have subsidies in the amount of 45 million euros which is the maximum amount allocated so far for this category of producers. The next year the subsidies will be 70 million euros and in 2010 it was announced that the subsidies level will be 100 million euros.

For the first time this year the Government will allocate 2.000 denars for every registered farmer, it will stimulate the rice with 100 euros per hectare, the milk will be stimulated with 2 denars per liter and junior farmers will also be stimulated with double reduction of the criteria for allocation of funds.

In 2008 a total of 180 million denars are allocated for rural development, contrary to the last year when the support was 45 million denars. As for the farmers in the remote areas there are special facilitated criteria and 10 to 20% higher subsidies in order to stimulate the people not to leave the villages.

The support for tobacco this year will be 30 denars per sold kilogram, the wheat, corn, barley, rice, sunflower, oil turnip and soybean will be all subsidized at the amount of 100 euros per hectare. The stimulations for the milk will be 2 denars per sold kilogram. The funds will be allocated to all producers of wheat cultures that have minimum half hectare of land. The support for the viticulture has also been increased. Two denars will be paid per kilogram of grapes sold to the wine cellars and 12.000 denars for very new plantations instead of 80.00 as it used to be. For new fruit plantations 75.000 denars will be awarded per hectare.

According to the Ministry of Agriculture, the points of the Agricultural Stock Exchange for purchase in Rosoman and in Strumica will be opened in spring time when the new production season of early gardening cultures will start. A partner to the Agricultural Stock Exchange in this investment is the Croatian company "Agrokor". Land has been secured, money as well, the refrigerators are imported and currently there are activities for construction of the auxiliary premises. By the beginning of May 2008 two purchase points will become operational and for the remaining three purchase points that are planned there is interest from Greek and Israeli companies.

Another type of support announced for this year by the Government is the reallocation of funds dedicated for protection of the agricultural sowings from hail. The funds for this purpose will be used by the Government to assist the farmers in insurance of their plantations. For this project, the Government allocated additional 70 million denars and funds will be sought from other sources as well. The Government has decided to reimburse 50% of the insurance policy costs.

7. 1. 4. Favorable conditions for credits

So far only one bank has officially confirmed that it will use funds to support the individual farmers and the farming companies with an interest rate from 4 to 5%. These funds are secured by the Government and the total fund is 8,2 million euros. So far, it was Invest Bank who financed the farmers from its own funds and from the IFAD 1 and IFAD 2 credit lines.

The funds will be awarded to farmers as well as to legal entities that deal with processing of farming products and do trade with such products. The duration of these credits is seven years, including the grace period. The amounts of individual loans are between 500 to 50.000 euros for primary production i.e. up to 150.000 euros for processing and trade with agricultural products. Depending on the amount these will be guaranteed with collateral in a form of real estate or movable assets.

7.1.5. Organic food

The future of the agricultural production is in the organic products that reach much greater prices on the foreign markets so the Government plans in 2008 to double the subsidies for this type of production for which a total of 11 million denars were allocated this year. Beside the increase of the subsidies the intentions for the next year is to reach 100% more export of organic food compared to this year, which was around 200 tons, as it is announced by the Ministry of Agriculture.

In the last 10 years the Macedonian organic production makes significant progress mainly because of the quality but the production is still not satisfactory because the country does not have sufficient quantities for continuous supply of the large markets. In order to enable smooth export of the organic products, Macedonia must harmonize its legislation with the European legislation and with the legal systems of the regional countries.

The Minister of Agriculture announced that, due to the large potential for organic production, the expectations for 2008 are that the number of existing 170 certificates for organic food will be at least doubled. The Macedonian producers of organic food that have certificate will be officially registered at the beginning of 2008. The early garden products, fruit, the curative and aromatic herbs are potentially the most productive aspect of the organic production.

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

There are several things that were promised but not implemented (or were implemented only partially):

- Establishment of a company for promotion of the exports of agricultural products and purchase.
- The issues related to regulation of the agricultural land and its allocation.
- Improved conditions for crediting in the area of real estate for collateral in the villages, long-term loans for purchase of land.
- Implementation of the IPARD program.
- Implementation of the reforms for use and management with the irrigation systems

Beside the things that were promised, the expectations both of the farmers and the European Union are in this direction. The European Union published assessment of the status regarding the agricultural sector in Macedonia, in the same time with other reports for all member countries and candidate countries. According to Brussels, Macedonia does not have progress in this area because it has low productivity and what is being produced is not in accordance with the EU standards. The reasons for this situation are the obsolete agricultural machines, limited capacity to invest in this sector, bad age and education structure of the people working with farming, the slow growth in the villages and similar. Things that encourage the EU are the good preservation of the plants and animals but there are comments that there are individual issues related to the purity of the water and air. About the villages it is mentioned that they have highly underdeveloped infrastructure (both water supply and road infrastructure) and that many families generate their income only from this sector.

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

Since the number of people that deals with agriculture (or has some relations with it) is not very small (according to the latest Census it is about 190.000 households), the non-implementation of the policies in this Sector is of high social and economic risk.

During the reporting period, the activities implemented by the Government provide hope that the policy that is planned is being implemented.

One of the key risks that are now visible is the non-timely harmonization with the Common Agricultural Policy of the EU. As a candidate country, Macedonia must do a lot in the area of harmonization of the agriculture with the EU agricultural policy. For example, the largest chapter of the questionnaire was the agriculture. This agricultural sector will be the most sensitive chapter in the EU accession process. It is complicated matter with many regulations and recommendations, subsidy measures, limitations of the free market, etc.

7.4. Overall evaluation of the expert for the reporting period

The measures undertaken in this period follow the tendency of progress. Important to emphasize is the increased momentum of investments in the milk industry, both by local and foreign companies.

In the area of legislation adoption, the most important is the adoption and entry into force of the Law on Agriculture and Rural Development and the Law on Agricultural Land.

The impression in the area of subsidizing of farming production, the impression is that this Government has special sense and shows interest to increase the subsidies in the agriculture. The problem that could eventually occur is the implementation of the subsidies, their transparency and use of the criteria. It is necessary to avoid the trap in which these subsidies could fall – they should not transform into social and neglect the development category.

In the upcoming period it is necessary to harmonize the systems for food control in order facilitate the monitoring by the EU. Starting from the next

year, every catering, craftsmen and food processing premises must implement the HASSAP system which guarantees the safety of the food. In practical sense that would mean that every production capacity for food, every restaurant, cafe, even kiosque will be closed from 1 January 2009 unless they have not implemented or they are about to implement this system. This is about compulsory implementation of the system and not individual wish for its practical implementation.

In this area it is important to note the implementation of the standards for fresh agricultural products and the good agricultural practice that are not binding by the law but are significantly important in the export of these products on the European Union markets and beyond. For this first time this year the country introduced assistance for certification of the quality and safety of food which covers 50% of the costs. A total of 9,2 million denars are allocated for this purpose. Another novelty is support to the farmers age up to 45 that will benefit from one-time assistance in starting with a family business.

In this reporting period we need emphasize that the evaluation for insufficient engagement in the agricultural education and implementation of programs for training and support. Also, very little was done in the area of development of advisory services and scientific-research activity. The financial relieves, the budgetary support, foreign investments and other measures that are implemented will not yield the required impact on the development if greater attention is not paid to the development of the human resources and research.

The European Union, through the IPARD program, announced assistance for modernization of the production in this area but in the same time the pressure to comply to the EU standards regarding the healthy food and its compliance with the veterinary, phyto-sanitary and environmental requirements from Brussels. In order to realize this, EU has already allocated 25 million euros in assistance that will be spent in 2008 and 2009. Macedonia needs to be ready and know how to obtain and how to spend these funds. In this respect, the human resources are of crucial importance.

8. FOREIGN AFFAIRS

8.1. Activities implemented during the reporting period in the area of foreign affairs

The criteria set to be met in order to receive invitation for membership at the NATO summit in Bucharest are met. The Parliament has adopted the necessary legal acts at the beginning of December following the harmonized standpoints by all political entities but the aspirations of the Republic of Macedonia for NATO and European Union membership are under threat for veto from Greece considering the open bilateral issue about the name differences.

The National Council for European Integrations has started its work. It demonstrated the unity of all political parties regarding strategic issues on the road towards the European Union membership.

Support for realization of this goal was received from good number of countries, including the country that currently presides with the European Union – Slovenia. In the progress report of Macedonia, developed by Mr. Erik Mejer, member of the European Parliament, it is recommended that Macedonia starts the accession negotiations in December 2008.

The Primer Minister of Republic of Macedonia Mr. Gruevski attended the EU-Africa summit in Lisbon where he met with the German Chancellor Angela Merkel, the Italian Prime Minister Romano Prodi, the Chief EU Commissioner for Security and Foreign Policy, Xavier Solana, President of Finland Tarja Halonen, Dutch Prime Minister Jan Peter Balkenende and the foreign Minister of Holland, Maxim Verhagen. Mr. Gruevski also met with the prime ministers of Turkey, Estonia and Slovenia – Rejep Taip Erdogan, Andrus Ansip and Janez Jansha as well as with the Austrian Chancellor Alfred Gusenbauer.

The American Ambassador in Macedonia awarded medals to 36 soldiers of the Army of the Republic of Macedonia that participated in the “Freedom for Iraq” and regarding the relations with the United States, the President of the Foreign Affairs Committee of the US Congress, Mr. Tom Lantos, sent letter to the Minister of Foreign Affairs of the Republic of Macedonia

expressing his gratitude for the efforts Macedonia does in order to cooperate and meet the requirements of the Jewish community in Macedonia.

As parts of the efforts to meet the conditions for EU membership, the Republic of Macedonia, being a candidate country for EU membership introduced visas for over 140 countries in the world. In order to foster the links with the neighboring countries, the regular airline Skopje-Sofia was introduced.

The central issues of the Macedonian foreign policy remain the differences regarding the name that the country has with the Republic of Greece. Support for the Republic of Macedonia, was expressed by Eric Meijer who drafted the resolution for the Republic of Macedonia in the European Parliament and the obtaining of NATO support for membership invitation, regardless of the outcome of the discussions, was expressed by the US Ambassador in Greece, Daniel Speckhard and the Foreign Minister of Slovenia, Dmitrij Rupel. Regarding the domestic public there was strong support by the Macedonian Orthodox Church who emphasized that it will oppose any efforts of the Central Government for change of the name. The Macedonian Orthodox Church representatives were not allowed to attend the funeral of the Greek Patriarch Christodoulou in Athens.

A meeting was held in January in Ohrid between the mediator in the negotiations, Mr. Mathew Nimitz, with the representatives of the two countries where for the first time host of such event was a Minister of Foreign Affairs. On this meeting, Macedonia proposed signing of joint declaration for friendship and cooperation with Greece but this proposal was not accepted by the other party. Furthermore, the Minister for foreign affairs, Mr. Miloshoski repeated the invitation to his Greek colleague Dora Bakoyani for direct negotiations on the open issues. Miloshoski compared the right to veto with the nuclear weapons and expressed the hope that Greece is serious country that will think twice whether it will use such opportunity.

In December, the Republic of Macedonia increased the number of participants in the “Freedom for Iraq” mission – 36 new soldiers of the Macedonian Army were sent to the operation. In addition, the Parliament of the Republic of Macedonia adopted decision on sending Macedonian Army units in the EU peace operation in the Bosnia and Hercegovina – Altea.

The Minister of Defense, Mr.Lazar Elenovski visited the Macedonian peace keepers in Iraq and Afghanistan and also had meetings with the commander of the multinational forces in Iraq, Mr.David Petreus. Mr.Elenovski also met his British colleague Des Brown.

In the frames of the cooperation with NATO, delegation of the Republic of Macedonia, leaded by the Prime Minister Gruevski participated on the regular session of Macedonia with the North Atlantic Treaty Organization in Brussels.

In the period December 2007 – January 2008 there were good number of meetings of the Minister of Foreign Affairs, including the President of the European Parliament, the European Commission representatives, the deputy Secretary General Of UN, permanent representatives of the UN Security Council member states, members of the US Congress and Senate, etc. The Minister for foreign affairs Mr. Miloshoski also attended the important Forum of Civilizations Alliance that took place in Madrid in January 2008.

In accordance with the decision by the Government, the Ministry of Foreign Affairs bought three buildings where the diplomatic consular missions in Ljubljana, Budapest and Istanbul will be situated.

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

Regardless of the open threats for veto by Greece, Macedonia has no other choice but to continue the efforts for finalization of all reform processes that will contribute towards political stabilization and economic progress.

An area which requires additional actions by the state is the support to the Macedonians that live in the neighboring countries, in accordance with the good neighboring relations and international-legal documents.

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

The attitude of the Republic of Greece and the possibility for use of veto is high risk factor for the chances of Macedonia to receive invitation for membership on the NATO summit in Bucharest. In this regard, Macedonia should be prepared to adapt its foreign policy in accordance with the

eventual new situation where, beside the fact that the criteria were met, the state will not be integrated into the NATO alliance. If one of the sides explicitly does not comply to the Interim Agreement from 1995, situation will be created where the other party will also not be obliged to comply.

There are certain security risks after the declaration of independence by the Kosovo authorities so increased control of the state border is necessary, including close cooperation and coordination with the NATO forces.

8.4. Overall evaluation of the expert for the reporting period

There is some pressure on the Macedonia Government for further concessions regarding the name issues – it become central issue for the European and Atlantic integration of Macedonia although it is not part of the criteria for EU and NATO membership. The recommendation is to continue the affirmation of the contribution Macedonia makes to the regional stability, constructiveness regarding the resolution of the Kosovo status, participation in the peace keeping missions and greatest attention should be paid to the concessions already made. The attitude of the Republic of Greece that its position is to accept the term “Macedonia” in the so called “complex name” is unacceptable because this term is part of the interim reference that is used for Macedonia in the UN and other international organizations for 15 years already. Furthermore, the Republic of Macedonia has clearly demonstrated its friendship and acceptance of the principle of integrity of the borders in its National Constitution.

9. JUSTICE AND HOME AFFAIRS

9.1. Activities implemented during the reporting period

9.1.1. Judiciary Reforms

The Judiciary Reforms are in direct correlation with the completion of the Judicial Council of the Republic of Macedonia (hereinafter: the Council) which is the basis for reforms in the judiciary bodies and basis for improvement of the judiciary independence as one of the key reforms of the Republic of Macedonia on its path towards the Euro-Atlantic integrations. The foreseen deadline for completion of the Council was the end of September and this deadline was not met because of the different standpoints of the remaining four candidates for Council members between the position and opposition (the Government of the Republic of Macedonia and the President Branko Crvenkovski).

During the reporting period (meaning two months after the deadline) the final member of the Council was elected, following proposal by the President Crvenkovski. It was the judge from the Basic Court Skopje – Naser Haji Ahmetovic who was elected for Council member by the Parliament of the Republic of Macedonia on 25 December 2007 this completing the Council and it started its work.

During the reporting period, the Council had four meetings where the Presidents of the Appeal Courts in Skopje and Gostivar were elected. Also elected was the President of the newly established Administrative Court with headquarters in Skopje and the presidents of the Basic Courts in Ohrid, Struga, Krushevo and Kratovo were elected (including the acting president of the Basic Court in Debar). Procedures were initiated for dismissal of five judges because of bad performance of their function, decisions were also adopted for termination of the function of one judge from the Basic Court in Skopje and decision for termination of the function of two female judges from the Appeal Court in Skopje, upon their request. Another decision adopted was for interim dismissal of one judge in the Basic Court in Prilep and the decision to announce competition for election of presidents of the Basic Courts in Bitola and Debar.

The newly established Administrative Court started its work on 10 December 2007 after the judges that were selected⁵ underwent intensive training (60 hours) in the area of administrative law organized by the Academy for Training of Public Prosecutors and Judges. The judge Rosalia Kochovska was appointed as President of the Court.

The administrative cases and disputes⁶ are competency of the Administrative Courts. They will provide judicial protection of the rights and legal interests of the physical and legal entities and ensure legality of the acts adopted by the state administration, Government, municipalities and the City of Skopje. Through the court procedures, in front of the six future councils, the citizens will be able to protect their personal freedoms and rights from the area of health, pension and disability insurance, taxes, customs, enforcement of concession agreements and public procurements for appointments and dismissal of officials, including the conflict of competencies between the central and the local governments.

On 17 December 2007 in Gostivar the newly established Appeal Court started its work in Gostivar. It will decide in second instance upon appeals against the decisions of the Basi Courts in Tetovo, Gostivar, Kichevo and Debar. The judge Eshtref Bufi was appointed as president of the court. The judges⁷ of the court will be allocated in four judicial councils and will decide upon appeals against the courts.

In accordance with the new Rules and Procedures of the court (that entered into force on 1 January 2008), the obligation for compulsory electronic registration of the cases was introduced in the courts, including their electronic allocation by random choice of the judges. The Program for training of the court administration has been delivered – a total of 250 officers were trained in the maintenance of the registrations in electronic format.

⁵ On 29 and 30 October 2007, the extended composition of the Judicial Council elected 18 judges for the Administrative Court.

⁶ A total of 6.664 cases were transferred from the Supreme Court of the Republic of Macedonia to the newly established Administrative Court.

⁷ On 29 and 30 October 2007, the extended composition of the Judicial Council elected 11 judges for the Appeal Court in Gostivar.

During the reporting period, the Academy for Training of Judges and Public Prosecutors (AOSJO) resumed its initial training⁸ of 27 candidates. In order to provide successful realization of the initial and remaining trainings of the AOSJO, the Steering Committee of the Academy adopted a Decision for supplemental of the Decision for Identification of Permanent and Occasional Educators in the Academy for Training of Judges and Public Prosecutors – No. 02-551/3 from 28.12.2007. In order to implement the program for initial intensive training of the judges selected in the Administrative Court for 2007, the Steering Committee also adopted a Decision for Identification of List of Educators for implementation of the program for initial intensive training of the judges selected in the Administrative Court for 2007 – No. 02 – 449/3 dated 21.12.2007 and Decision for Supplemental of the Decision for Identification of list of educators for implementation of the program for initial intensive training of the judges selected in the Administrative Court for 2007 – No. 02-551/2 dated 28.12.2007.

In accordance with the above decisions, the educational process in the Academy is directly delivered by a total of 108 educators which include 58 permanent educators (43 judges and 15 public prosecutors) and 50 interim educators (5 retired judges, 25 university professors, 4 lawyers and 16 other experts). In accordance with the Regulation a total 7 ad-hoc experts were engaged (both local and international) for specific topics and areas. The initial training planned for this reporting period was delivered in full.

After the end of the theoretical part of the training, the candidates will be subject to practical training on the basis of mentoring. For this purpose, the Academy, on the Steering Committee session held on 27 December 2007 agreed to consider the list of mentors established by the Judicial Council of the Republic of Macedonia and the Public Prosecutors Council of the Republic of Macedonia and a total of 70 mentors and 19 deputies were identified. The theoretical teaching for the initial training of the first generation of candidates for judges and public prosecutors will end on 15 February 2008 thus starting the practical part of the initial training.

In order to realize the Program for permanent vocational training for 2008, the Academy developed and the Steering Committee, on its session held on 27 December 2007 adopted:

⁸ The training started on 17 September 2007

- Calendar of trainings planned for permanent vocational training for 2008;
- Detailed calendar for planned compulsory training for permanent vocational training of judges, public prosecutors and expert collaborators for January-February 2008;
- Framework calendar for trainings planned for Presidents of Courts and heads of Public prosecution Offices for 2008;
- Framework calendar for trainings planned for permanent vocational training of expert collaborators for 2008;
- Framework calendar for trainings planned for permanent vocational training of management officers and clerks in the courts and public prosecution offices for 2008, and
- Framework calendar for trainings planned for permanent vocational training of clerks in the administrative courts and prosecution offices for 2008.

The calendars were submitted to every court, public prosecution office and Ministry of Justice. These calendars include topics in accordance with the Program for Permanent Vocational Training, adopted to the current needs for training of the judges and prosecutors such as: fight against corruption, the new role of the public prosecutors, juvenile justice, industrial property⁹.

On the session of the parliament of the Republic of Macedonia held on 03.12.2007 the Law on Council of Public Prosecutors of the Republic of Macedonia¹⁰ and the Law on Public Prosecution¹¹ were adopted. These were supposed to be adopted during the previous reporting period (October – November 2008). They have significant importance in the establishment of independent judiciary and criminal prosecution bodies and they are also of significant importance on the road towards the Euro-Atlantic integrations.

⁹ The Academy is included in the Programs in the area of training of several Ministries, including the Ministry of Justice, Ministry of Finance, Ministry of Economy, State Commission for Corruption Prevention, State Authority for Industrial Property and some others. In this manner, the Academy was involved in the project of the Ministry of Finance REPAIS and also project proposal was submitted to UNICEF. The cooperation with OPDAT and the OSCE Spillover Mission in Skopje will resume.

¹⁰ “Official Gazette of the Republic of Macedonia” No. 150 dated 12.12.2007.

¹¹ Ibid.

Law on Council of Public Prosecutors of the Republic of Macedonia harmonizes the legislation in this area with the amendments of the National Constitution of the Republic of Macedonia from 2005 done for the purpose of harmonization of the Macedonian legislation with the European legislation, in accordance with the Recommendation (2000) 19 of the Council of Europe Ministerial Committee. This provides preconditions for expert, appropriate and independent realization of the public prosecution function and its freedom from political influence on the process of appointment and dismissal of the public prosecutors.

The Council of Public Prosecutors of the Republic of Macedonia (hereinafter: the Council) is independent body that is supposed to provide and guarantee independence of the public prosecutors in the realization of their function from any influence that is contrary to the Law.

This Council will be consisted of 11 members. Their mandate is four years. Two of them come by default (the Public Prosecutor of the Republic of Macedonia and the Minister of Justice), six members¹² will be elected with secret vote done by all public prosecutors in the Republic of Macedonia and three members of the Council will be selected by the Parliament of the Republic of Macedonia, two of which must come from the minorities.

A Committee was established in the Ministry of Justice for election of Council members. In February 2008 this Committee is supposed to implement the election procedure of the six members elected via secret vote. The council should be established on inaugurate meeting that is taking place within 30 days after the majority members of the Council were elected, including default members and is chaired by the oldest member of the Council. Within the same time frame, the Parliament of the Republic of Macedonia, on urgent session, must select the remaining three members from the university professors in law, lawyers and eminent lawyers.

The Law on Public Prosecution Office also harmonizes the Macedonian with the European legislation, in accordance with the amendments of the National Constitution and the Recommendation (2000) 19 of the Council of

¹² One member is elected by the Public Prosecution Office of the Republic of Macedonia and the four higher prosecution offices in Bitola, Gostivar, Skopje and Shtip. One member is elected from the minorities and voted by all public prosecutors in the Republic of Macedonia.

Europe that is about: functions of the public prosecution; relations between the public prosecution, executive and legal powers; relations between the public prosecution and courts; relations between the public prosecution and police; the obligations and responsibilities of the public prosecutors regarding the parties in the procedure; organizational aspects and international cooperation.

According to the new Law, the Public Prosecutor of the Republic of Macedonia will continue to be elected by the Parliament of the Republic of Macedonia, following proposal by the Government and previous endorsement from the Council about all potential candidates that applied on the competition and they must meet the legal requirements to be candidates.

According to the new Law, the public prosecutors are elected by the Council, without any discrimination whatsoever with regards to gender, race, skin color, ethnic and social background, political and religious belief, social and economic status, without limitations on the duration of the mandate. The Council is also in charge for dismissal of the public prosecutors in a case of severe breach in the realization of their function.

From the aspect of organizational structure of the Public Prosecution, beside the former 22 Basic Public Prosecution Offices and the three higher prosecution offices, novelties in the organizational structure are: the new Higher Public Prosecution Office for the area of the newly established Appeal Court in Gostivar and the newly established Basic Public Prosecution Office for prosecution of the organized crime and corruption that is competent for the entire territory of the Republic of Macedonia, with headquarters in Skopje.

The Law has resolved the previous misunderstandings between the Minister of Justice and the Public Prosecutor of the Republic of Macedonia because the newly established Public Prosecution Office for prosecution of the organized crime and corruption does not disrupts the unity of the functioning of the Public Prosecution, as a body, because the newly established Basic Prosecution, according to the principles of hierarchy and subordination is accountable to the Public Prosecution Office of the Republic of Macedonia as well as to the Council. The Public Prosecutor of the Republic of Macedonia as well as all other prosecutors can give compulsory instructions in writing to the prosecution office for organized

crime and corruption. The Law precisely determines the competency of the Basic Public Prosecution for organized crime and corruption.

Novelty in the Law is the ability according to which the higher instance public prosecution can take over the criminal prosecution from the subordinated public prosecution if the subordinated prosecutors were unprofessional, neglecting and incompetent in dealing with the criminal prosecution.

Very important novelty in the law is the obligation of the Ministry of Interior (MVR) and other state authorities to disclose and make available to the Public Prosecution Office, for certain time period, one or more officers in the pre-criminal and criminal procedure that is raised upon his request.

According to the Law, the Public prosecutor manages and coordinates the work of the authorized officers in the Ministry of Interior and other relevant authorities.

Novelty in the Law is the manner of election of the future prosecutors. They will be elected by the Council after its establishment (in February-March 2008).

The Law strengthens the position of the Public Prosecutor office in the management of the investigation. The Law provides only the basis for such strengthening of the position of the Public Prosecutor in the investigation. This issue will be regulated in full with the Law on Criminal Procedure that, together with the Criminal Code, is subject to intensive reform by the experts of the Ministry of Justice. The adoption of all these changes to these laws is determined to be in the first quarter of 2008.

In accordance with the Law on Enforcement¹³ a total of five tests for enforcement agents were implemented and during the reporting period the enforcement function was performed by 49 enforcement agents that cover 16 areas. The Chamber of Enforcement Agents became member of the International Association of Enforcement Agent Chambers during the reporting period.

¹³ “Official Gazette of the Republic of Macedonia” No. 35/05; 50/06 and 129/06.

9.1.1.1. Activities of the Ministry of Justice in the fight against corruption

The Government policy (including the Ministry of Justice) for zero tolerance to corruption continues to be implemented with the same intensity. During the reporting period the “Corruption Free Macedonia” campaign continued with realization.

During the reporting period, the State Commission for Corruption Prevention implemented the media campaign – International Anti-Corruption Days.

The Government Action Plan for fight against corruption 2007-2011 identified the specific problems and the relevant measures and activities that need to be undertaken by the Ministries, Administrative bodies and other state authorities in order to provide entire approach in the fight against corruption.

The 14 bylaws that are planned for implementation of the Law on Public Procurements that entered into force on 1 January 2008 are currently in implementation phase. The new Law is expected to provide greater transparency in the public procurements that will indirectly impact the reduction of the corruptive activities in the public procurements.

Currently in Parliamentary procedure are the Law on Prevention of Money Laundering and Other Revenues from Criminal Act and Financing of Terrorism and the Law on Lobbying that will be adopted in the first quarter of 2008, while the Law on Management with Confiscated Assets, Material Gain and Seized Objects in Criminal and Misdemeanor Procedure and the new Law on State Audit are planned to be adopted by 30 June 2008.

Towards the fight against corruption in the reporting period, in cooperation with the Ministry of Interior and the Public Prosecutor Office in November 2007 the “Snake Eye” police campaign was launched. No court procedure was initiated against the suspect comprehended by this campaign because of the extensive investigation procedure i.e. large number of people that are suspects. Because of this situation, the relatives of the detained persons in this campaign announced protests and blockades on the roads in order to put pressure to initiation of the criminal procedure.

9.1.2. Police reforms

The basis for police reforms is the Law on Police¹⁴ that started with implementation on 11 November 2007. For the purpose its implementation, full redrafting of the existing and drafting of new bylaws that are derived from its provisions was made. For its timely implementation, the Sector for Legal issues and Human Resources (SPKR) in the Ministry of Interior (MVR) developed an Action Plan for implementation of the activities related to the development of legislation for the period 2006 and 2007. The Action Plans foresees activities for harmonization of the legislation of the Ministry of Interior legislation in the following three segments:

- a) drafting of the bylaws in accordance with the Law on Police;
- b) drafting of the bylaws that are derived from the process of harmonization of the Macedonian legislation with the EU standards and regulations and
- c) drafting of bylaws that are derived from the finalization of the police reforms process.

Regarding the first item (a) for full implementation of the Law on Police and its provisions there is a need to adopt 64 bylaws. From the time the Law was adopted until 28 January 2008 a total of 59¹⁵ were adopted and the remaining 5 bylaws will not be possible to be adopted because the basis for their adoption (The Law on Roads Safety¹⁶) is not valid anymore with the entry into force of the Law on Safety of the Traffic on the Roads¹⁷. All bylaws that are needed for implementation of the Law on Police, derived directly from this Law, are adopted in the foreseen time period.

Regarding item (b), a total of 55 laws and bylaws are foreseen to be harmonized with the EU legislation. So far a total of 48 bylaws are adopted and 3 bylaws are not necessary to be adopted i.e. to be amended or harmonized with the existing ones and the remaining 4 are currently in drafting phase.

¹⁴ “Official Gazette of the Republic of Macedonia” No. 114/06

¹⁵ For the sake of the space will not mention the large number of laws and bylaws adopted.

¹⁶ “Official Gazette of the Republic of Macedonia” No. 14/98 and 38/2002

¹⁷ “Official Gazette of the Republic of Macedonia” No. 54/2007

Least activity by SPKR was manifested in the adoption of the Laws and bylaws from the third segment of activities planned (item c), in the area of finalization of the police reforms process where only 11 laws and bylaws are adopted from the total of 70 planned. However, we need to emphasize that the deadlines for their adoption were met – most of them are planned for 2008. During the reporting period, SPKR was active in the adoption of 26 additional laws and bylaws that are not included in the said Action Plan.

The Law foresees changes in the manner of appointment of the police station commanders. These will be appointed following proposal by the Ministry of Interior from several candidates by the local self-government units. In this regard, the procedure for appointment of the police station commanders was related to the entry into force of the Law i.e. it commenced after 11 November 2007. During the reporting period, the Ministry of Interior continued with appointment of the police station commanders selected by the local self-government units where more than 95% of the commanders are appointed and they already started to perform their duties.

Starting from the 1 January 2008 the enforcement of the Law on Aliens commenced. It imposed the need to issue personal identification documents to foreigners with biometric security in the frames of the project “New Personal Documents” for the citizens of the Republic of Macedonia with biometric protection that started with implementation in April 2007. The foreigners are issued with the following personal documents: I.D. card for foreigners, travel documents for foreigners (passport and travel sheet), permanent stay license and temporary stay license.

The Law also foresees that the visas for entry into Macedonia the have visa regime with Macedonia to be issued only in the Macedonian diplomatic-consular missions abroad. This novelty had impact on our neighbors Greece and Albania. In other words, until this Law entered into force, the citizens of Greece were able to enter Macedonia only with IDs and now they can enter with passport without visa and the citizens of Albania that used to get their visa on the border crossings.

For the citizens of Albania that travel to Macedonia a transitional period was introduced for obtaining visas on the border crossings with duration of one month. There were huge reactions by the citizens of Albania who travel frequently to the Republic of Macedonia and the political parties of

Albanians in Macedonia. In this sense Macedonia and Albania started the bilateral negotiations for abolishment of the visa regime on 14 December 2007.

In the area of international police cooperation, mainly the cooperation with Europol, currently in establishment phase is the Department for Cooperation with Europol that will be located in the Sector for International Police Cooperation. A liaison officer was appointed for contacts with Europol and there are intensive efforts on the development of operational agreement with Europol on the basis of the Strategic Agreement signed (16.01.2007).

In the first quarter of 2008 it is foreseen that there will be ascertainment of the final version of the SELEC Convention which foresees establishment of SELEC Center that will follow after SECI Regional Center in the fight against the cross border crime.

The activities for establishment of integrated border management and approximation of the Macedonian legislation to the Schengen System for control of the EU borders are in place. Measures are being undertaken to finalize the TETRA system for radio communication of the border police.

Currently in implementation are the electronic connections between the border crossings and the central services of the Ministry of Interior. During the reporting period a total of 200.000 Macedonian visa stickers for foreigners were developed that include security measures against forging in accordance with the European standards.

9.1.2.1. Fight against organized, violent crime and corruption

The fight against organized crime and corruption remains to be priority for the Ministry of Interior. In favor of the fight against corruption in the reporting period measures and activities were undertaken for expansion of the “Snake Eye” raid that included investigation against larger number¹⁸ of employees of the “Macedonian Roads” Public Enterprise that misused their official position and damaged the budget of the state by 5 million euros.

¹⁸ During the Ministry of Interior raid, over 80 collectors from all pay tolls in the country were detained, including several controllers and one deputy-head.

During the reporting period in the fight against organized violent crime in Prilep there was a campaign against six¹⁹ present and former employees and officers of the police and criminal proceedings were initiated against them for various criminal acts: extortion, blackmails and threats and they are also charged for the bomb attacks in the city of Prilep that happened in front of the houses of businessmen, the house of the Mayor of Prilep, the former head of the forensic department in the police and in front of other catering facilities, for setting fires in cars and other for other activities aimed to acquire profit illegally.

Important to emphasize is the criminal attack against the vehicle of the special police forces by several armed perpetrators that fired from a moving vehicles with automatic weapons, killing one police officer. After short period of time, in the village of Arachinovo in Skopje, during the effort to arrest one of the suspects for this attack there was a shoot out between the police forces and the suspect, where the suspect was killed. This police action shake the security situation in the village and was followed by harsh reaction by the local self-government. However, the misunderstanding was resolved and the security situation in the village has been re-established again. Very important to emphasize is the fact that the composition of the police forces when trying to arrest the suspect that was later killed, was composed of officers with mixed ethnic background.

During the reporting period, in the region of Skopska Crna Gora mountain larger quantity of heavy and light weapons were seized. The weapons had various origins. According to the experts, it dates since the crisis period in 2001.

9.3. Overall evaluation of the expert for the reporting period

The commitments of the Government i.e. its relevant Ministries and institutions in charge for implementation of the activities in the area of justice and security i.e. internal affairs were constant during the reporting period. The completion of the Judicial Report has finalized the cycle of harmonize of most of the Macedonian with the European legislation. Conditions were established for depolitization of the judiciary and its independence from the executive power. The Administrative Court in Skopje and the Appeal Court in Gostivar are functioning thus realizing two

¹⁹ Three of them were detained, one is serving the prison sentence and two are on loose.

more (from a total of 12) conditions for entry of the Republic of Macedonia into NATO. This finalized the required reforms for entry in this security alliance that will provide Macedonia with greater level of stability and opportunity for economic development.

The legal framework for election of election of the Council of Public Prosecutors has been finalized, including the Law on Public Prosecution that was several months late after the deadlines. What follows is the establishment of the Council that will provide conditions for depolitization of the election of the public prosecutors. An argument in favor of the above reforms in the area of judiciary is the successful realization of the training implemented so far on the Academy of Judges and Public Prosecutors as additional condition for depolitization of this important segment in the judiciary.

In the frames of the implementation of the Law on Police, all foreseen bylaws were adopted, most of police station commanders were selected and appointed (joint action by the Ministry of Interior and the local self-government). What remains is to select and appoint just a few more of the commanders.

10. HEALTH

10.1. Activities implemented during the reporting period

10.1.1. Quality of services

On the 22nd session of the Health Insurance Fund in December, measures were adopted that changed the quality of the goals of the preventive activities in the private health institutions. These goals include early detection and treatment of the most common diseases (cardiovascular diseases, diabetes, malign diseases, brain strokes, etc.). The European prevention model was introduced according to which every doctor whole have to carry out specific number of preventive exams per year, than systematize and record this information. Minimum of 15% of the population should be included on annual level. For this purpose audit was performed of the capitation model of payment to the doctors according to which the Health Insurance Fund will pay 60-70% while the remaining 30-40% will be paid only after the realization of the preventive activities.

In 2008 the main goal of the doctors in the private health care will be the prevention of cardiovascular diseases. In order to meet these goals it will be necessary to include at least 250.000 insures per year. For this purpose, the Fund will refund the funds invested for procurement of the EKG devices in the amount of 1.000 euros as well as organization of minimum 30 educational sessions. The quality of the gynecologist health protection is also improved with the increase of the PAP tests by 50% and refund of the funds invested in colposcopic devices of 1.000 euros. This will result in routine diagnostic exams being performed solely at the primary gynecologists while the Clinics for gynecology and delivery will have established national database of PAP tests.

The project for flat price of the drugs on national level started in January 2008. The pharmacies were given 30 days to spend the drug inventories they procured in accordance with the valid market prices and the full implementation is foreseen for February 2008. The introduction of the flat prices of drugs will enable procurement of drugs in all pharmacies in the country and for that purpose the packaging of the drugs will contain unique banderole. Another novelty is that the Health Fund has decided that there

will be no limits on the total number of prescriptions issued by the doctors in the private health care and the goal that was introduced was to issue prescriptions with the determination of the quota on the amount of 500 denars per capitation point.

10.1.2. Modernization, management and prevention

Competition for the IVth round of trainings will be announced for the new managers of the health organizations. In the meantime there is election of the management bodies in the health institutions. These managers are recruited from the 284 candidates that have passed the trainings in health management and have successfully passed the final exam in the Agency for Civil Servants.

The public health institutions will be additionally modernized and will contribute to the increase of the quality of services in the procurement of the new medical equipment. After the selection procedure was carried out and endorsement was received from the World Bank, the INA ENERGO SYSTEM Company was selected to install the GPS system in the urgent medical aid and home care service.

10.1.3. Health insurance

The Health Insurance Fund has successfully completed the project for implementation of integrated IT system that has established unified IT solution between the HQ and 30 regional offices. The system enables quality structure of information as well as high degree of protection of the beneficiaries data. The system should facilitate the adoption of decisions by the management team on the basis of correct and timely information, quicker and more efficient services for the beneficiaries as well as shorter time frames for refunds. The most important thing is that this system should be the basis for electronic linking of all stakeholders in the health sector with an overall goal to introduce integrated health system in the Republic of Macedonia and the basis for introduction of electronic health card and system of payment per diagnostically related groups.

Currently ongoing is process of selection of foreign consultants that should deliver training of the financial auditors in the Health Insurance Fund; the expectations are that the decision will be adopted at the beginning of February. The purpose of this training is to establish appropriate capacity of

human resources that will perform effective audit of the transactions between the Health Insurance Fund and the health institutions. This training should include: *strategic and business planning in the health institutions; budgeting and control; understanding and analysis of the financial statements; the Law on Public Procurements and procedures; costs and accounting management as well as cash flow and management of the liquid risk.*

10.1.4. Primary health

In the frames of the *Program Loan for Development of Policies* by the World Bank, the Ministry of Health and the Ministry of Finance signed agreement with the first ranked consultant Mr. Hernan Fuendaliza-Puelma who had his first visit in Macedonia in December. During the visit he had numerous trainings with the key persons from the Ministry of Health as well as field visits in the City General Surgical Hospital in order to discuss the current problems and needs for eventual legal changes that will help in the establishment of the autonomy of the public health institutions. In consultation with the World Bank representatives it was proposed that this Law will be dedicated for the hospitals since, after the privatization of the private health institutions, many legal issues are already defined. At the end of the mission the consultant submitted the report that was forwarded to all parties and persons involved for their consideration and comments.

The research about the level of satisfaction of the patients from the level of services in the private health care which was implemented by the Ministry of Health, in cooperation with the National Authority for Health Protection in the first week of December showed that the general attitude of the beneficiaries about the services is positive, that the beneficiaries feel the changes that have occurred after the privatization in the private health care although there are differences between the regions that should be subject of more detailed research.

The research that was implemented by the Project Coordination Unit, with aim to assess the attitudes of the people about the reforms in the health sector in Macedonia has show that large number of reforms in the health sector in the following 12 months was requested by high percentage of the surveyed beneficiaries and their expectations for improvement of the situation in the health sector are huge. The research gave some answers but in the same time opened huge series of issues regarding the attitude of the

medical personnel in the upcoming period especially through such content of the reform that tackles them the most.

The results from the survey (research) are published on the website of the Ministry of Health.

10.1.5. Stomatology

In agreement with the Chamber of Stomatology of Macedonia agreement was achieved that the primary stomatology care will remain on the burden of the Health Insurance Fund and the amount of the capita point in the stomatology will be 35 denars while the co-financing of the insured persons is between 120-260 denars.

The basic package of stomatology services (OPZU, described in details in the function II.3) is still subject to debate; the results of the costs of the basic services in the stomatology protection as well as the basic package of services that will be made available to the citizens will be published together with the overall OPZU.

10.1.6. New generation of hospitals

Starting from the 1 January 2008 the new manner of payment in the hospitals has entered into force and also the diagnostically related groups were introduced (DRGs). The newest equipment in the total value of 40 million euros is expected to result in modernization of the existing services in the hospitals, reduction of the time for diagnostics and treatment of most of the diseases as well as training of the health professionals about the latest health trends.

10.1.7. Private health

The completely privatized primary health protection is free of charge for all beneficiaries of the Health Insurance Fund and the doctors are required to comply to the legal rights and not to collect payment for their services. The amount of the capita point will remain unchanged. The Health Insurance Fund adopted a series of proposed measures that were also accepted by the Chamber of Doctors, Association of Private Gynecologists and the Chamber of Stomatologists of Macedonia. These foresee penalties in a case of “cancellation of the agreement with the Health Insurance Fund” in the

amounts of 75.000 or 150.000 denars. This will enable continuous and quality protection for all beneficiaries and in the same time will help to avoid the consequences caused by doctor faults.

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

What remains is that at the beginning of 2008 it is necessary to realize all the above activities whose implementation has started as well as to summarize and analyze the results from the large reform undertakings that were started in 2008. All these activities are just the preparation for introduction of key reform undertakings in the health sector and the results will be visible on a longer term.

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

We can conclude that the establishment of Unit for Policy Analysis must be established within the Ministry of Health as soon as possible in order to provide analytical function that will greatly facilitate the adoption of decisions and planning of interventions in the health sector. This body is supposed to replace the existing factografic presentation of the Ministry of Health activities with latest analytical approach and this process will facilitate the adoption of proof-based decisions. Special attention must be paid to the positioning of this unit in the structure of the Ministry of Health in order to avoid the impact from the so called “cabinet” capacities of the existing sectors in the Ministry of Health that at the moment have advisory role.

The processes of election of management bodies in the public health institutions should be finished as soon as possible, especially in the Clinica Center that already have to deal with brand new manner of management with the allocated funds – this process requires knowledge in the issue and exceptional analytical and management capabilities.

It is necessary that the government must immediately adopt the basic package of health services and in the context of the reports and recommendations provided from a series of international consultants the potential risks are the postponing of the package of health services for 2008; inability to harmonize the negative list of service, underestimate of the true

costs of services in the private health institutions, inability to make the link between the allocation of resources with the existing resources of the package for health services, non-realization of the deadline for adoption of the proper legal framework as well as the inability to find solution for the existing amount of debt.

10.4. Overall evaluation of the expert for the reporting period

This reporting period was too short in order to provide evaluation on the implementation of the major undertakings in the health system. The conclusions and recommendations for further actions are only directions in which the processes that have started should be moving; detailed analysis and evaluation can be made only by analyzing the overall processes that were started, are in the phase of implementation or finished during the 2007. Since most of the activities are just “preparation” for one marathon process the results of which will be visible only after several years, the conclusion remains that the implementation should not be rushed – it is first necessary to plan the implementation procedures well and the key issue is the development of indicators/ parameters for monitoring of the process so appropriate recommendations can be provided for changes or supplements.

11. TRANSPORT AND COMMUNICATIONS

11.1. Activities implemented during the reporting period

11.1.1. Construction

Roads

The Ministry of Transport and Communications drafted the text of the new Law Proposal of the Law on Public Roads that passed the Government procedure and will now proceed into Parliamentary procedure for adoption.

The drafting of the Study for Transformation of the Road Sector in the Republic of Macedonia has resumed. The consultancy company has drafted the second version.

After the end of the first phase of the project “Reconstruction of the Bridges on the M-1 (E-75) highway, section Katlanovo-Veles, with donation from NATO, the investor NAMSA (NATO Agency for procurements and agreements) in the recent period immediately started the implementation of a tender for realization of the second phase of the project: “Reconstruction and Refurbishment of the bridges on the M-1 (E-75) highway”, section: Demir Kapija – Gevgelija. After the selection of the contractor the preparation works have started immediately and they are currently in progress. The official start of the construction works is planned for 1 March 2008 and it will last until 21 December 2008. The estimated value of the works is expected to be between 12 to 13 million euros.

In accordance with the latest methodology for calculation of the road fee for using the highway, the price of the pay toll fee for buses and trucks has been reduced which means reduction of the transport costs for the companies while the road fee for cars has been rounded by 5 denars higher.

The Annual Program for Construction, Reconstruction, Maintenance and protection of the regional and national roads in the Republic of Macedonia has been adopted. The total value of this Program is 6,25 billion denars (around 102,5 million euros). Most of these funds are dedicated for construction of capital projects from the road infrastructure while some of

them are dedicated for rehabilitation and signalization infrastructure along the roads, expropriation, studies and designs and one small portion is also dedicated for maintenance of the national and regional roads.

Railway

The project for reform of the Public Enterprise “Makedonski zeleznici” (Macedonian Railways), according to the plan is supposed to finish by the end of 2009. It is being implemented with a World Bank loan. The transformation project is based on the following four studies:

- Study for provision of public services (Final Report for this Study has been provided);
- Study for access to the railway infrastructure (draft Final report has been developed which was provided to the Committee for Technical Experts – this body was established by several Ministries, pending endorsement);
- The Study for Rationalization/ Cost Efficiency (this study is in the same phase – it is pending approval from the Committee of Technical Experts) and
- Study for Privatization.

The first, the second and the third study are related to the two companies – Public Enterprise “MZ-Infrastruktura” and “MZ-Transport” A.D. and the fourth study is only about “MZ-Transport” A.D.

The bids that were submitted for the two international tenders published for procurement of basic assets were opened (it is about two diesel electrical locomotives and 80-160 plato wagons) necessary for operation of “MZ-Transport” A.D. Currently the bids are being considered.

The Government of the Republic of Macedonia undertook even 78% of the debts of Public Enterprise “MZ Infrastruktura” and A.D. “MZ-Transport” that were inherited from the joint Public Enterprise “Makedonski Zelenici” (Macedonian Railways). It is about 128,5 million euros that will be converted as investment of the state in these two enterprise. The plan is that, during 2008 the remaining debt of these companies will be also undertaken this enabling normal and profitable operation of these two companies.

Spatial and urban planning

The Government of the Republic of Macedonia and the Public Enterprise for Management with Housing and Business Space (JPSSDP) started implementation of their plan for finalization of the construction of the City Stadium in Skopje. International tender was announced. In the first phase a total of 11 construction companies applied both local and international. Total of 7 companies were short listed. The contract was signed with “Beton” Construction Company that provided the best price of around 15 million euros. This Project should finish in 18 months and then the plan is to further finalize the western and the eastern stands which will yield one of the most modern stadiums in the Balkans with capacity for around 40 people.

The Public Enterprise for Management with Housing and Business Space (JPSSDP) also undertook activities for construction social apartments in several cities all over Macedonia as well as the finalization of the sporting hall “Boris Trajkovski” as one of the capital multifunctional buildings in the City of Skopje.

The Ministry of Transport and Communications (MTV) implemented several public bids for sales of construction land owned by the Republic of Macedonia on multiple locations in the country (for construction of hotel on attractive location in Ohrid; agreement was signed with foreign company for construction of ultramodern trade center in the Municipality of Centar – Skopje by the middle of 2010; agreement was signed for construction of hotel from the “Residor” chain in Skopje; agreement was signed for construction of health institution in the Municipality of Gjorche Petrov – Skopje by the middle of 2010).

There was public presentation of the new services in the State Authority for Construction Works (DZGR) that will provide the users (mainly the banks, lawyers, notaries, enforcement agents, real estate agencies) with quick and simple access to the DZGR database. This service provides information about the title deeds, rights, cadastre parcels, buildings, eventual burdens on the objects and mortgages, notes and limitations. It can be accessed by all using the appropriate service (with minimal fee for use) thus enabling them to enter the electronic database of property certificates for the real estate). The introduction of this service in the DZGR is part of the Cadastre reform

and reform of the manner of its work as well as complete change of the image of this institution.

Developed and submitted into Parliamentary Procedure is the Law on Changes and Amendments of the Law on Construction, Law on Construction Land and the Law on Changes and Amendments of the Law on Spatial and Urban Planning.

11.1.2. Transport

The consultancy company NACO BV Airport Consultants (Holland), in accordance with the terms of references submitted the necessary reports in the first phase for development of Study for Concession Model of development of the “Alexander the Great” airport in Skopje and “St.Paul the Apostole” airport in Ohrid. In order to progress into second phase it is necessary to select the proposed options from the first phase and start the development of the model concession agreement (for the “Alexander the Great” Airport in Skopje: expansion of the existing terminal building by 2012 when new terminal will be built, extension of the landing strip, construction of access roads, concession agreement on 30 years. For “St.Paul the Apostole” airport in Ohrid: concession in package with the Skopje Airport as alternative and for stimulation of the regional development and development of tourism, investments in equipment and construction, etc.).

On “Alexander the Great” Airport in Skopje, in 2007 (compared to 2006) there was an increase in commercial flights and transport of passengers by 15,5% (a total of 627.000 passengers were transported) which is above the European average. The increase in cargo transport is also 11% more compared to 2006. On “St.Paul the Apostle” Airport in Ohrid there is reduction of transport of passengers by 10,4% and there is an increase of 9,2% in the cargo transport.

New regular airline was established between Skopje and Sofia that will contribute towards improvement of the economic and cultural cooperation between the two countries but it also means cheaper flights for the Macedonian citizens to Sofia (39 euros) and other European cities (100 euros).

In accordance with the latest Law on Road Transport that is harmonized with the European regulations, the Ministry of Transport and Communications established that the transport companies must have license in order to perform road transport. One of the conditions for obtaining such license is that the managers should have certificate of professional competency and the drivers must have certificate for participation in international road transport. Because of that, the Ministry of Transport and Communications established Exams Committee and there were exam sessions for the drivers while this process is yet to start for the managers.

11.1.3. Telecommunications

The Government of the Republic of Macedonia and the Agency for Electronic Communications are implementing the tender procedure for awarding radio-frequencies to the mobile operators from the third generation (3G which transmits picture, voice, internet and video materials through the mobile phones). The Agency for Electronic Communications opened the bids and will evaluate the two that were submitted. On the basis of the tender conditions it will decide who will win the 3G radio frequency for period of 10 years. The selected 3G operator is obliged to start its work within 6 months. In the first year it must cover 50% and in the second year the entire territory of the Republic of Macedonia. In order to prevent monopoly behavior, the winner of the 3G tender will be obliged within 6 months after the start of its work to offer this service also to other mobile operators that are present on the market, under defined conditions.

The Agency for Electronic Communications will also announce public call for submission of bids by interested companies for provision of digital television services.

The deadline for start of operation of the national WiMax operators is about to expire. The American “NexCom” and the Greek “Cosmotelco”. If they do not start within the foreseen deadline, they will be deprived from the concessions. The two companies have announced significant investments in this area.

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

The following are the activities that are either not implemented or not yet finished in the last two-month monitoring period:

- Some of the laws that are important for harmonization of the Macedonian with the European legislation are still not adopted and they are pending in the Parliament procedure (Law on Changes and Amendments of the Law on Construction, Law on Construction Land, Law on Changes and Amendments of the Law on Spatial and Urban Planning, Law on Public Roads);
- Development of Study for Restructuring of the Road Sector of the Republic of Macedonia and transformation of the system for management with the roads;
- The two companies that won the national WiMax licenses on the tender have not yet started their operation;
- Initiation of the project for modernization and improvement of the collection of pay tolls and the collection services. This project is implemented in cooperation with the World Bank and is supposed to contribute to the modernization of the system and improvement of efficiency in the work. According to the Ministry of Transport and Communications Program it was supposed to be implemented in 2007 and will contribute towards the reduction of corruption;
- The fourth mobile operator (although there were announcements for open call for selection of the fourth mobile operator so far there is no realization of this announcement).

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

Some of the following could be influential factors and potential risks, either individually or in synergy, to the implementation of the Government reforms in the monitored sector of transport and communication in the upcoming period:

- Certain political differences between the Government and the opposition. It is possible that there could be obstructions of the reforms by the opposition;

- The eventual early Parliamentary elections could cause certain delay or interim postponing of the foreseen reforms;
- Late reforms and prolonging of the deadline for implementation of the activities planned (for example, the adoption of the necessary legal framework);
- Consistency in the efforts for reforms and implementation of some projects;
- The ambitious implementation plans as well as the short time period for realization of the planned activities. This could result in partial or non-quality implementation;
- Persistency towards the reforms in the institutions that are supposed to implement them and reduction of the number of employees.

11.4. Overall evaluation of the expert for the reporting period

The ending of the tender and selection of the contractor for the second phase of the project for “Reconstruction and Strengthening of the Bridges on the M-1 Highway, section Demir Kapija-Gevgelija has once again confirmed the consistent attitude of NATO as well as the support and friendship between NATO and the Republic of Macedonia.

The proposed draft text of the Law on Public Roads in the essence is significant step ahead in relation to the existing law. The experts active in this field provided some constructive proposals that will contribute towards increase of the Law performances which will be in benefit of all stakeholders.

The second report of the Study for Transformation of the Road Sector in the Republic of Macedonia has been drafted. The changes in the Road Sector are expected to result in competition and increase in the efficiency of the work so the minor (“cosmetic”) changes should be avoided and replaced with essential changes that will yield true results for the country, institutions in the sector and the staff.

On the basis of the newly established methodology for change in the price of the pay toll fee for the highways, the prices of the pay toll fees were reduced for some categories of vehicles (trucks, buses) and some were shifted into lower category that pay less fees. We deem that the effect of this

would have been significantly more positive if the pay toll fee was rounded to the smaller value and to the higher value.

It is obvious that the collection yield from the pay tolls has been significantly increased after the implementation of the “Snake Eye” raid. Therefore it is necessary to react promptly and implement the foreseen reforms of the pay tolls as soon as possible, especially because the funds lost from the collection are almost equal to those needed for the planned project.

The adopted The Annual Program for Construction, Reconstruction, Maintenance and protection of the regional and national roads in the Republic of Macedonia in the total value of 6,25 billion denars (around 102,5 million euros) is an increase by almost 40% in relation to the last year’s budget for the same purpose. The state finally acts as investor in the area of road infrastructure because it is clear that the large public investments can be the engine of the economic development of the country.

However, the intention of the authorities who foresee a modest 970 million denars (16 million euros) for maintenance of the national and regional roads in the Republic of Macedonia remains unclear. According to some estimates, these funds are only 50% of the real needs for maintenance of the roads. If we take into account that in the National Strategy for Public Transport it was ascertained that our roads are in bad shape than it is unclear why they have allocated the same Budget for maintenance as in 2007 (970 million denars), with note that back than the total roads Budget was 4.55 billion denars (almost 40% less than the current one).

The reforms in the railway sector are well advanced and they already have continuity and yield initial results. These are expected to grow and develop in the upcoming period thus yielding even more positive results.

New practice has been introduced in the sales of the state owned construction land by the Ministry of Transport and Communications. There is new style of transparent work that eliminates the direct sales agreement (so called “four eyes agreements). This new approach to the work used by the Ministry of Transport and Communications has confirmed the intention of the Government of the Republic of Macedonia for zero tolerance towards corruption. Other benefits from this manner of work is the inflow of almost 3 million euros in the National Budget of the Republic of Macedonia from

sales of construction land; entry of direct foreign investments that stimulate the economic growth of the Republic of Macedonia and the possibility for opening of new jobs.

The implementation of the “Open and Available” project (direct face-to-face meetings between the Minister and the people where he/she listens to their problems, ideas and problems) had great success among the citizens and also left positive impression at the public. These meetings started at 10:00 and lasted after 22:00 hours. The plan is that the Minister will implement this manner of communication once per month.

The most recent reforms introduced in the work of the State Authority for Geodetic Works (DZGR) enable greater efficiency of the State Authority for Geodetic Works on satisfaction of the users of its service. In a nutshell, the reforms have become immanent part of the DZGR image.

The start of the work of the national WiMax operators is expected to result in true liberalization of the fixed telephony market and broadband internet where one company still has a dominant position where, because of the interconnection conditions other companies that provide fixed telephone pay way too high price for interconnection and they are forced to provide international calls mainly.

The Proposal for Changes and Amendments to the Law on Construction foresees to introduce good number of novelties that will help to bring order to the chaos that was present in this field for some time. The most specific change will be the shortening of the deadline to issue construction permit within 5 days. The principle “silence means approval” has also been introduced – if the client is not issued with such permit within 5 days than it will be considered as issued. Also foreseen are large financial penalties for the person that will not issue this construction permit within the foreseen timeframe.

GENERAL RECOMMENDATIONS

In the upcoming period, the Government should take care to streamline the process of capacity building of the administration into systematic one, since the lack of capacity will be, in the best case scenario, bottle-neck and in the worst case scenario it will be obstacle for implementation of the planned projects. The relatively weak administrative capacity will be felt mainly through the operational implementation, for example, of the program of the Government for stimulation of the investments. In this regard, the Government is encouraged to monitor regularly the implementation and realization of the deadlines foreseen in the program.

Regardless of whether we will receive the invitation for NATO membership whereas the only obstacle for entry will be to potential veto by Greece in the name dispute, in the rest of the year the Government of the Republic of Macedonia and the relevant institutions should intensively continue with drastic changes towards better in all areas that are identified in the Program for Work of the Government 2006-2010.

This should especially apply to those that are not directly related to the reforms for NATO membership. This is necessary so that the Government can improve its credibility and authority among the people, not only towards the international community.

The eventual early Parliamentary elections that are being mentioned as potential scenario could cause delay in some of the areas or timely postponing of the reforms that are foreseen in the respective sectors.

The measures and activities undertaken by the Government of the Republic of Macedonia in 2007 and in the first month of 2008 have resulted in significant change of the economic environment in the country towards positive. Of course, such measures and results should not be the reason to be proud but they should be stimulation for further relaxation and stimulation of the business climate in the country. The rapid tempo of the remaining reforms should be maintained. These reforms are related to the areas of economy and to the areas close to it such as, for example, the area of **fiscal policy**. On this road, the Macedonian economy will face some serious threats and risks in 2008.

Regarding the **trade, industrial and investment policy**, the partnership relation towards the business community and the citizens should be maintained. The monitoring and evaluation of the realization of the Budget should be improved with outcome performance and performance budgeting.

Regarding the **financial system** of the Republic of Macedonia, many segments of it are yet to be developed. Macedonia still struggles in the development of “over-the-counter” market, market of repo-operations, the insufficient long-term international competitiveness of the corporate sector and the insufficiently well trained or non-flexible labor force which can be identified in the Agency for Employment as unemployed persons and unused factor.

The tendencies in the Macedonian economy are mainly based on speculations for invitation for NATO membership and EU accession negotiations. In Macedonia we see the situation of enormous increase of the prices, drop of the standard of living for the purpose of which the state should establish Government bodies (following the best practices from the countries in the region) at least for the justification of the increase of the prices, or identify measures for subsidizing of the traders that will reduce their retail prices (as it was the case in Croatia).

In the area of **knowledge economy** the overtaken projects will assist in the change of the structure of production in the Republic of Macedonia by introducing numerous products of high added value. Furthermore, they will serve as best case practices for successful Greenfield investments in the country. Work is yet to be done in the capacity to manage the funds for science, development and research but also to improve the quality of the work of the state administration at all costs because it will be very important for implementation of future Government projects with long-term character.

Regarding the **education** area for this two-month period is that the reform activities started in the previous periods resumed and that these were upgraded or implemented with several innovations. From the aspect of the main goal of this Report (up to which extent the accountable leadership concept is being implemented) i.e. leadership that will realize its pre-election program promises – we can conclude that the overall evaluation is positive. In the foreseen period most of the program goals planned was realized in full.

The very intensive government policy for development of the **sports** should further continue, resulting in a development of the massive and successes of the professional sports, thus yielding a joint benefit for the Republic of Macedonia and its citizens.

It is a fact that large sport achievements, especially on international level, raise the optimism and spirit of the people as well as the belief in the own values. The Government policies undertaken in this area are yet to yield their results.

In the area of **agriculture** in the upcoming period it is necessary to pay much greater attention to the registration of the farming land. Beside the fact that this problem was reported in the EU progress report this is also content in the context of the collateral for favorable loans announced in this period for the farmers. In other words, one of the main problems, beside the high interest rates, was the acceptance of farming land as collateral by the banks. However, this situation will not be improved unless efficient and effective registration of the agricultural land is done.

Furthermore, Macedonia should prepare the wine sector for the extremely competitive European market where more than 10 million hectoliters of high quality wine is imported every year, beside the fact that Macedonia produces quality wine. One of the conditions for harmonization of our standards to the European standards is to establish a Wine Register. This Wine Register which, in reality, means maintenance of exact records about the land with vineyards, the number of producers and the annual wine production, will facilitate the EU efforts to correctly estimate how much money will be allocated to Macedonia every year for the viticulture.

We need to emphasize also that the registration of the farmers is a problem that deserves attention in the upcoming period. According to the farmers, they say that 2.000 denars that the Government will give this year to them to register their activity are not sufficient because they have much greater costs for payment of the contributions for pension and disability insurance.

In the area of **foreign affairs**, regardless whether Macedonia will become NATO member or not, the finalization of the reform processes that were started is necessary not only in order to meet the criteria for membership but also to raise the standard of all Macedonian citizens. The stability and progress of the Republic of Macedonia will not be threatened without NATO

membership but they will be threatened with the acceptance of compromise that will mean deletion of the identity that exists for centuries. Therefore, to be part of NATO is great advantage but the preservation of the Constitutional Name is priceless. Macedonia managed to withstand all political and economic pressures and blockades in the last years when the economic and political stability and standard of the citizens were on a much lower level. This time, with stable and functional political system, the progressing economy and clearly identified strategic allies, Macedonia has no other choice but to win in the battle of preservation of its own identity.

In the area of **justice** and security i.e. **home affairs** it is necessary to continue further with the commitment of the Government i.e. its relevant Ministries and institutions in charge for implementation of the activities in the area of justice and security i.e. home affairs. It is necessary that these institutions continue to manifest high motivation and readiness to undertake the reforms process in the area of their competency, on the road towards the Euro-Atlantic integration processes.

In the area of **health**, the Government should immediately adopt the basic package of health services.

The establishment of Unit for Policy Analysis in the Ministry of health should be done as soon as possible in order to provide analytical function that will greatly facilitate the adoption of decisions and planning of interventions in the health sector. This body is supposed to replace the existing factographic presentation of the Ministry of Health activities with latest analytical approach and this process will facilitate the adoption of proof-based decisions.

The Ministry of Health implemented two researches about the level of satisfaction of the patients from the services provided in the private health care and assessed the attitudes of the people about the reforms in the health sector in Macedonia. The research gave some answers but in the same time opened huge series of issues regarding the attitude of the medical personnel in the upcoming period especially through such content of the reform that tackles them the most. The results from the survey (research) are published on the website of the Ministry of Health and this need to be taken into account.

In the area of **transport and communications**, it is necessary to encourage the entity that proposes the Law on Public Roads in its intention to resolve the manner of financing as well as the management with the future Agency for State Roads. It should exclude the political influences and propose modern European and expert-professional solutions for some articles in the Law. It is necessary to precisely detect the goals and define beforehand all steps in the transformation of the Road Sector in the Republic of Macedonia in order to achieve the goal. It is also necessary to pay attention to the sensitive social aspect of the transformation.

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