

Conclusions on the former Yugoslav Republic of Macedonia

(extract from the Communication from the Commission to the Council and the European Parliament "Enlargement Strategy and Main Challenges 2010-2011", COM(2010)660 final)

The former Yugoslav Republic of Macedonia continues to sufficiently fulfil the **political criteria**. Following substantial reforms in 2009 further progress has been made although at an uneven pace. Overall, the governing coalition is stable and there is cooperation between political forces. Some progress has been achieved as regards the reform of the parliament, the police, the judiciary, public administration and respect for and protection of minorities. However, further efforts are needed in most areas related to the political criteria, in particular important ongoing concerns as regards independence of the judiciary, reform of public administration and freedom of expression in the media. Political dialogue needs to be strengthened.

The Ohrid Framework Agreement remains an essential element for *democracy and rule of law* in the country. There has been some progress on implementing the law on languages, on decentralisation and equitable representation. Continuous efforts, through dialogue, are needed to fulfil the objectives of the Agreement and ensure its full implementation.

There has been further progress in the reform of the *parliament*. Amendments to the rules of procedure were adopted which safeguard the rights of the opposition. The parliament took measures to strengthen its institutional capacity, in particular through the establishment of the Parliamentary Institute. However, dialogue on inter-ethnic relations was hampered by the failure of the relevant parliamentary committee to meet regularly.

The partners in the *government* coalition are maintaining constructive cooperation. They are committed to reforms to prepare the country for accession to the European Union. However, more dialogue is required on issues concerning inter-ethnic relations. Additional efforts are necessary to take forward the decentralisation process in line with the Ohrid Framework Agreement. The financial framework for local government needs to be more transparent and equitable. The government's cooperation with the National Council for European Integration needs to be developed further.

There was some progress as regards the functioning of *public administration*. The Law on public servants was adopted. The Law on internal affairs regarding reform of the police entered into force and most implementing legislation has been adopted. However, significant further efforts are needed to ensure the transparency, professionalism and independence of the civil service. There has been undue political interference in recruitments and promotions at all levels in the public administration. The legal framework needs to be further improved, in particular as regards merit-based staff recruitment. The process of converting a large number of temporary posts into permanent ones in many cases did not provide for competitive and merit-based recruitment.

There was limited progress on *judicial reform*. The efficiency of courts was strengthened through improved budgetary management. However, there are concerns about the independence and impartiality of the judiciary: no further progress was made in ensuring that existing legal provisions were implemented in practice. In this context it is important that graduates from the Academy for Training of Judges and Prosecutors be given priority in new recruitments.

Progress was made in the field of *anti-corruption policy*. Large scale police operations making use of special investigative measures were carried out. Whilst the legislative and institutional framework is broadly in place, the track-record of successful convictions on cases of high level corruption needs to be strengthened. Existing provisions on asset declarations, conflict of interest and financing of political parties are not implemented effectively. The resource base of the State Commission for Anti-Corruption needs to be ensured. Corruption remains prevalent in many areas and continues to be a serious problem. .

The legal and institutional framework for *human rights and the protection of minorities* is in place and *civil and political rights* are broadly respected. However, existing legal guarantees need to be fully enforced.

The semi-open ward of Idrizovo prison, where conditions were degrading and inhumane, was closed down. However, the strategy to address the remaining serious shortcomings in prison conditions is progressing slowly. Oversight of law enforcement agencies remains incomplete. With regard to freedom of expression there are growing concerns about political interference in the media and undue pressure on journalists. The involvement of civil society in the policy development process remains limited.

The Ombudsman continued to be the main focal point for the protection and promotion of human rights. His workload increased over the reporting period. However, the proportion of recommendations accepted by public bodies decreased. The authority and the resources of the Ombudsman need to be strengthened.

The legal provisions on the protection of *social and economic rights* are largely in place. The implementation of the strategy against domestic violence has continued. The membership of the Economic and Social Council has been agreed, thus facilitating a social dialogue. A framework anti-discrimination law has been adopted. However, sexual orientation as a ground for discrimination has been omitted. A strategic approach to equal opportunities needs to be developed. Additional efforts are needed to implement the juvenile justice law and the UN Convention on the Rights of the Child.

Progress was achieved in the area of *respect for and protection of minorities and cultural rights*. There has been some progress on equitable representation and the government undertook steps to foster inter-ethnic integration in the education system. Nonetheless, the integration of ethnic communities remains limited and greater dialogue is needed to foster trust especially in the areas of culture and language. As regards the rights of Roma the number of persons lacking personal documents was reduced. Measures were adopted to avoid undue placement of children in special schools. However, Roma continue to face very difficult living conditions and discrimination.

Regarding *regional issues and international obligations*, the former Yugoslav Republic of Macedonia maintained full co-operation with the International Criminal Tribunal for the former Yugoslavia (ICTY). The domestic legal system is processing cases referred by the ICTY back to the national authorities.

As regards the International Criminal Court, the bilateral immunity agreement with the United States does not comply with the EU Common Positions and guiding principles. The country needs to align with the EU position.

The country has continued to participate actively in regional cooperation initiatives, including the South East European Cooperation Process (SEECP), the Regional Cooperation Council (RCC) and the Central European Free Trade Agreement (CEFTA).

The former Yugoslav Republic of Macedonia is an active partner in the region and its bilateral relations with neighbours are generally good. With the completion of the demarcation of its border with Kosovo, the former Yugoslav Republic of Macedonia has no outstanding border issues. However, relations with Greece continued to be adversely affected by the unresolved name issue. The country is engaged in talks under the auspices of the UN on resolving it. Actions and statements which could negatively impact on good neighbourly relations should be avoided. The direct meetings at the highest political levels are positive steps, although this momentum has not yet led to concrete results. Maintaining good neighbourly relations, including a negotiated and mutually acceptable solution to the name issue, under the auspices of the UN, remains essential.

The **economy** of the former Yugoslav Republic of Macedonia contracted only slightly due to the financial sector's low exposure to toxic international assets, resilient private capital inflows and a stable public sector. Structural reforms have continued. However, high structural unemployment, in particular among young and poorly educated, remains a major cause of concern. Some minor improvements have been achieved with respect to addressing institutional weaknesses, but deficiencies in the rule of law continue to have a negative bearing on the business climate.

As regards the **economic criteria**, the former Yugoslav Republic of Macedonia continues to be well advanced. In some areas, it has made further progress towards becoming a functioning market economy, notably by reducing barriers to market entry and exit and improving the capacity of the courts to handle economy-related cases. It should be able to cope with competitive pressures and market forces within the Union in the medium term, provided that it vigorously implements its reform programme in order to reduce significant structural weaknesses.

The country has maintained a broad consensus on the essentials of economic policies. Monetary policy, based on the de facto peg to the euro, contributed to macro-economic stability. After an expansionary approach in 2008, fiscal policy became more stability oriented during 2009. The country's external balances improved, reflecting a slight recovery in exports, a drop in imports due to weak domestic demand, and strong private capital inflows. Privatisation is largely completed. Price and trade liberalisation has been largely accomplished. Some further progress has been achieved in improving market entry and registration and in simplifying the regulatory framework. The duration of bankruptcy procedures has been further reduced and property registration is largely completed. The financial sector weathered the crisis well and the independence of some of its supervisory and regulatory agencies has been strengthened.

As a result of widening fiscal deficits, public sector debt increased. The quality of public spending deteriorated, partly due to a decrease of medium-term oriented capital spending. Unemployment remained very high. FDI inflows continued to decelerate from an already low level. The functioning of the market economy remained hampered by institutional weaknesses, lack of stability in the administration and weaknesses in the rule of law. Lack of consultations with stakeholders prior to government decisions hampers the predictability of the business environment. The judiciary is still a bottleneck and regulatory and supervisory agencies sometimes continue to lack the necessary independence and resources to fulfil their functions effectively. The degree of legal certainty remains low, which has a negative bearing on the country's attractiveness for foreign investment. The informal sector remains an important challenge.

The former Yugoslav Republic of Macedonia has made some progress in improving its **ability to assume the obligations of membership**, in particular as regards the free movement

of goods, company law, financial services and justice, freedom and security. Less progress has been achieved in certain other areas such as public procurement, information society and media as well as social policy and employment. Overall, there was further progress in the fulfilment of the priorities of the Accession Partnership. However, sustained efforts are needed to strengthen administrative capacity for the implementation and enforcement of legislation. Commitments undertaken in the Stabilisation and Association agreement have been implemented.

There has been good progress in the area of *free movement of goods*. Part of the horizontal and sector *acquis* has been transposed. The administrative capacity of the market surveillance authorities is insufficient to ensure the enforcement of technical legislation. Little progress can be reported in the area of *freedom of movement of workers*. There was some progress in the area of *right of establishment and freedom to provide services*, more particularly in the area of postal services. The preparations for mutual recognition of professional qualifications are at an early stage. There was overall progress in the area of *free movement of capital*. Restrictions remain on short-term capital movements and on cross-border payment transfers. The legislative framework, the administrative capacity and the enforcement record in combating money laundering are moderately advanced.

Progress has been made in the area of *public procurement*. The Public Procurement Bureau adopted a strategy for the development of the public procurement system. The legislation on concessions and public-private partnerships is not in line with the *acquis*. The administrative capacity to apply procurement rules at the operational level is still not satisfactory. Good progress has been made in the area of *company law*. However, alignment with the auditing *acquis* remains at an early stage. Some progress has been made in enhancing the legal framework in the area of *intellectual property*. The National Strategy on Intellectual Property is being implemented. However, further efforts are needed as regards enforcement.

Some progress was made in the area of *competition*. In the area of state aid, the number of *ex-ante* decisions increased moderately. However the human and financial resources of the Commission for Protection of Competition need to be strengthened in the sector of antitrust.

There was overall good progress in the area of *financial services*. Efforts have been made to ensure regulation and supervision of the insurance sector. Some financial services, such as leasing, remain to be regulated or supervised.

There has been uneven progress in the field of *information society and media*. Alignment with the EU *acquis* and market liberalisation are improving. However, the sustainability of the public service broadcaster is yet to be ensured. Media legislation is not yet aligned with the Audiovisual Media Services Directive.

Progress has been achieved in the field of *agriculture and rural development*. The rural development policy is gradually being aligned with EU requirements. While AFSARD and IPARD operational structures have been strengthened, the capacity of other administrative bodies in the sector needs to be improved. Alignment with the *acquis* requires further sustained efforts. There has been some progress in the area of *food safety, veterinary and phytosanitary policy*, in particular with respect to legislative preparedness and implementation by food business operators. Administrative capacity needs to be strengthened, in particular as regards the effectiveness of monitoring and control systems.

Some progress can be reported in the area of *transport policy*. The process of opening the market for rail transport faced challenges. Further efforts are needed to improve the functioning of the safety authorities, in particular the Air Accident Investigation Committee.

Some progress has been made in the energy sector. New energy strategies were adopted. However, the new comprehensive energy law remains to be enacted. Electricity tariffs do not fully reflect costs. Whilst there has been good progress, a final resolution of the dispute with the distribution system operator, a major EU investor, is still outstanding. The energy regulator and the radiation protection regulator need to become functionally independent.

No progress was made in harmonising direct and indirect *taxation* legislation with the *acquis*. Some progress can be reported in the area of operational capacity for the tax administration as regards taxpayers' services and audit efficiency. Audit and tax investigation capacity to fight fiscal evasion remain weak.

Limited progress has been made in the area of *economic and monetary policy*. Alignment with the *acquis* is incomplete and administrative capacity for policy implementation diverges widely. There was good progress in the field of *statistics*. However, the resource situation of the State Statistical Office remains weak and equitable representation needs to be ensured. It is essential that funds are secured for the population and housing census 2011. Efforts to improve sector statistics need to continue, in particular for economic statistics.

Little progress has been made in alignment to the *acquis* in the area of *social policy and employment*. A framework anti-discrimination law has been adopted but with some substantial gaps and without the support of the relevant civil society groups. Tripartite and bipartite social dialogue continues to be weak. Inclusion of people with disabilities and other socially excluded people is slow.

There has been some progress in the field of *enterprise and industrial policy*. Good progress has been achieved in reducing the administrative barriers and costs for operation of businesses. New bodies have been established and significant resources have been devoted to their operation. However, strategies to support enterprises and the SME sector need more financial support.

Some progress was made in the area of *trans-European networks*. The country is continuing to participate actively in the South-East Europe Transport Observatory and the Energy Community. However, progress on corridor X is significantly delayed.

Some uneven progress was made in the area of *regional development and coordination of structural funds*. The implementation of the operational programme for regional development is significantly delayed. The administrative capacity in the line ministries, in particular technical expertise, needs to be strengthened. It is also necessary to strengthen project preparation and implementation in order to ensure future absorption of IPA funds. Overall, alignment with the *acquis* in the area of regional policy and coordination of structural instruments is at an early stage.

There has been limited progress in reform of the *judiciary* and in safeguarding *fundamental rights* and some progress in addressing *corruption*. The Judicial Council and the Council of Public Prosecutors need to ensure high standards of independence and impartiality of the judiciary in practice. Large scale anti-corruption operations were carried out by the police using special investigative measures. However, the track record on high-level corruption cases remains to be strengthened. The new legislation on conflict of interest and financing of political parties needs to be effectively implemented. As regards fundamental rights, while the legal and institutional framework is broadly in place the existing legal guarantees need to be fully enforced.

In the area of *justice, freedom and security*, good progress can be reported on asylum, visa policy, external borders and Schengen. The increase in asylum seekers in the EU that arose in

the first period of implementation of the visa-free regime was addressed. However, a new rise in asylum applications was registered in August and September. The authorities need to continue addressing this issue and informing citizens about the rights and obligations stemming from visa-free travel. The implementation of police reform has continued and international police cooperation has improved. However, the role of the Ministry for the Interior in authorising interception orders needs to be addressed, as does the effectiveness of the external oversight mechanism.

Some progress can be reported in the area of *science and research*. The rate of participation in the Seventh EU Research Framework Programme has increased. Some progress has been made in alignment to the *acquis* in the areas of *education, training, youth and culture*. However, management of the Lifelong Learning and Youth in Action programmes remains poor.

Further progress has been made as regards the *environment*. Alignment of national legislation has progressed in particular in the air quality and waste sectors. However, efforts to align with the EU *acquis* in the water sector need to be significantly strengthened. Administrative capacity and investments need to be considerably increased. Some progress has been made in the area of *consumer and health protection*. As regards public health, good progress was made in the field of tobacco control.

There was some progress in the area of *customs union*, in particular as regards administrative and operational capacity. Alignment of the customs legislation with the *acquis* is well advanced, except in the case of transit. The administrative capacity of the customs administration to implement legislation and to tackle cross-border crime and corruption needs strengthening.

Progress was made in the area of *external relations*, in particular as regards the common commercial policy. There has been progress in the area of *foreign, security and defence policy*. The country aligned with most EU declarations and common positions and showed a continued commitment to participate in CSDP operations. Sustained efforts are needed to reduce the number of illegal weapons.

As regards *financial control*, some progress has been made. The SAO's functional and financial independence has been strengthened; however, its constitutional anchoring is missing. Efforts are needed for the establishment of Financial Management and Control systems. In the field of *financial and budgetary provisions* some progress has been made towards improving the operational capacity of the customs and tax authorities, and the state statistical office. Further efforts are needed to combat customs duty and VAT fraud.