



REPUBLIC OF MACEDONIA

ANNUAL NATIONAL

P R O G R A M

**OF THE
REPUBLIC OF MACEDONIA
FOR NATO MEMBERSHIP**

2004 / 2005

Skopje, September 2004



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INTRODUCTION

- 1. The 2004-2005 Annual National Program of the Republic of Macedonia has been prepared on the basis of the NATO Membership Action Plan (MAP). The Program defines the plans for forthcoming activities in implementing the necessary reforms in the Republic of Macedonia for the period 2004-2005. It reflects the continuous achievements of the Republic of Macedonia in pursuing the country's strategic priorities, as well as the plans and activities set forth in previous annual national programs. It contains technical Annexes, which present additional explanations and information regarding certain issues.*
- 2. The document has been prepared in close cooperation with all the relevant ministries and institutions competent for the realization of the tasks and goals related to NATO membership. This has been achieved through the Working Committee for the Integration of the Republic of Macedonia in Collective Defense Systems, chaired by the Minister of Foreign Affairs and co-chaired by the Minister of Defense.*
- 3. Furthermore, the preparation of the 2004-2005 Annual National Program has incorporated the comments and recommendations of the Ambassadors of NATO member-states from the last Republic of Macedonia - NAC meeting, the Macedonia Progress Report and the conclusions of the Istanbul NATO Summit documents. Such an approach has enabled a synchronization of national activities with the ongoing transformation of the Alliance.*

CHAPTER 1

POLITICAL AND ECONOMIC ISSUES

CHAPTER 1 / POLITICAL AND ECONOMIC ISSUES

4. The Republic of Macedonia has a functional, stable democratic political system, providing a solid basis for the European and Euro-Atlantic prospects of the country.
5. All system institutions have their tasks and responsibilities defined according to the country's top priorities. This is a necessary precondition for successful, efficient and accelerated economic development and prosperity.

1. FOREIGN POLICY

6. The country's foreign policy priority is integration into NATO and the EU.
7. Of equal importance for the Republic of Macedonia are the relations with neighbors, other countries in the Region, as well as the activities in regional initiatives.

1.1 The Republic of Macedonia and NATO membership

8. The Republic of Macedonia has proven itself as a principled NATO ally and is actively involved in protecting the common values shared by the Alliance's member-states. Participating in NATO-led missions, the Republic of Macedonia contributes to the establishment and maintenance of the international peace and security.
9. The Republic of Macedonia actively supports the Alliance in its efforts to combat global threats to security - international terrorism and proliferation of weapons of mass destruction.
10. The Republic of Macedonia's strategic goal of NATO membership relies on wide political consensus, and is also strongly supported by its citizens. The public expects the multi-year effort and achievements of the Republic of Macedonia in its rapprochement with NATO, to promptly result in a concrete decision of the Alliance to invite Macedonia for membership.
11. The Republic of Macedonia continues to undertake concrete activities aimed at further strengthening public support for NATO. Information about events directly or indirectly related to the overall efforts of the Government and of other institutions in the process of rapprochement with the Alliance, are transparent, regular and complete. The web sites of state institutions provide ample information, presenting the overall undertakings of the country in its integration into NATO, as well as the activities of NATO, and providing a direct link with the central NATO web site. Publications have been issued about the activities under the Charter of Partnership of Albania, Croatia, Macedonia and the USA. The positive results of these activities have been confirmed by the findings of independent public opinion polls.

12. The Republic of Macedonia is in its 6th cycle of ANP implementation, and continues with the implementation of NATO standards, in accordance with the Istanbul Summit conclusions and the overall process of transformation of the Alliance. Macedonia also continues to strengthen its relations with all Alliance member-states.
13. The positive assessment by NATO of the implementation of the ANP thus far, confirms the readiness and capability of the Republic of Macedonia to efficiently fulfill the obligations and responsibilities required for membership in the Alliance.
14. In the same spirit, the Government of the Republic of Macedonia and the established coordinative inter-ministerial mechanisms for continuous monitoring and accountability for what has already been implemented will work intensively on the implementation of the activities envisaged in this ANP.
15. The presence of the NATO Advisory Team in the Republic of Macedonia is especially important. In its preparations for NATO membership the Republic of Macedonia continues to develop dynamic communication and cooperation with NATO Advisory Team.
16. The Republic of Macedonia continuously contributes to the efforts of the Alliance aimed at the stabilization, democratization and prosperity of the Balkans. As a host nation, Macedonia continues to provide logistic support for KFOR troops who stay or transit through the Republic of Macedonia. In this context, there is a procedure underway for signing a Memorandum of Understanding to regulate cooperation between the Republic of Macedonia and NATO for upgrading the road and communication infrastructure according to NATO standards. A Host Nation Support (HNS) concept is under development. The Republic of Macedonia has started to develop a Capability Catalogue and plans to establish a Host Nation Co-ordination Center.
17. The future activities of the Republic of Macedonia in its cooperation with NATO are the following:
 - Implementation of the obligations under the 2004-2005 ANP;
 - Advancement of inter-ministerial coordination, implementing the Government Decision (June 2004) under which relevant institutions are to establish separate departments and appoint officers exclusively for cooperation with NATO;
 - Personnel and technical upgrading of the Mission of the Republic of Macedonia at NATO, Brussels;
 - Enhancement of the positive public opinion and support for NATO;
 - Approximation with and affirmation of NATO policy, in cooperation with the NATO Advisory Team and the NATO Contact Point Embassy (the UK Embassy in Skopje);
 - Intensification of the participation in various NATO/EAPC forums and the NATO Parliamentary Assembly;
 - Strengthening the bilateral cooperation with Alliance member-states;
 - Enhancing the support for NATO led military missions;
 - Preparation (training) of personnel required in terms of NATO membership;

- More prominent participation in NATO led military exercises, open to partners;
- Upgrading of the road and communication infrastructure in accordance with NATO standards.

1.2 The Republic of Macedonia and EU membership

18. In accordance with the strategic priority of early integration in the EU and the adopted National Strategy for Integration, the Republic of Macedonia continues to develop dynamic partnership with the EU in the political, economic and security fields.
19. After the presentation of the Application of the Republic of Macedonia for fully-fledged membership of the EU (23.03.2004), the EU Ministerial Council adopted a decision on 17.05.2004 requesting the European Commission (EC) to prepare an Opinion on the Application. The EC announced that Macedonia would be forwarded the Questionnaires on 01.10.2004. The relevant institutions have started coordinated preparations for presenting appropriate answers to the Questionnaire.
20. On 29.03.2004, the EC formally published the European Partnership for the Republic of Macedonia. The Action Plan for its implementation adopted by the Government on 06.09.2004, will be published in its final version after the opinion of the EC is received.
21. The European Parliament (EP) adopted a Decision for the establishment of a separate Parliamentary Committee between the Parliament of the Republic of Macedonia and the European Parliament. The first meeting of the Committee is to be held at the beginning of 2005 in Skopje.
22. In the context of the promotion of cooperation under the EU Common Foreign and Security Policy, the Republic of Macedonia has aligned itself with about 90 declarations, demarches, and joint positions of the EU, on current issues of international relations. Macedonia will further pursue the role of a partner and ally of the EU.
23. Relations will be further advanced upon the conclusion of the Agreement on Security Procedures for Exchange of Classified Information between the Republic of Macedonia and the EU until the end of 2004.
24. On 24.06.2004, the Financial Agreement on the 2004 CARDS Annual Action Program was signed for 47.5 mil. EURO, intended primarily for support of political, economic and social reforms, as well as for the completion of the implementation of the Ohrid Framework Agreement.
25. The European Agency for Reconstruction will remain in Macedonia until the end of 2006. By then the institutions are to acquire the necessary capacities and standards for independent operation, which will enable decentralization in using EU assistance.
26. The Republic of Macedonia positively evaluates its cooperation with the EUPOL and EUMM.

Stabilization and Association Process (SAP)

27. At the end of March 2004, the EC published the third Report on the progress of the Republic of Macedonia under the SAP, defining the short-term and mid-term obligations of the Republic of Macedonia regarding European integration. These coincide with Government priorities.
28. Upon entry into force of the Stabilization and Association Agreement on 01.04.2004, the first agreement of this type in the region, the relations between the Republic of Macedonia and the EU acquired a new political and legal quality. The Republic of Macedonia has completed the negotiations for conclusion of the Enlargement Protocol to the SAA, which became applicable as of 01.05.2004.
29. The integration process of the Republic of Macedonia into the EU was substantially accelerated with the first meeting of the Stabilization and Association Council - the highest institutional body in charge of the SAA implementation, held on 14.09.2004 in Brussels. As a preparation for the SAC meeting, the first meeting of the Stabilization and Association Committee took place in Skopje on 03.06.2004.
30. The fact that these meetings were held immediately after the entry into force of the SAA shows the confidence of the EU in the commitment and the capacity of the Republic of Macedonia for successful completion of the EU integration process.
31. The Republic of Macedonia, along with the four other SAP countries, continues to cooperate with the EU at the multilateral level, within the Political Dialogue, both at the level of Ministers of Foreign Affairs and of Political Directors.
32. Following the conclusions of the EU Thessalonica agenda, the Republic of Macedonia actively participates in pre-accession programs, utilizes the TAIEX Office services, works on twinning programs and participates in EU tenders. The Republic of Macedonia has presented its interest to host the planned Regional Higher Education School for the reform of the public administration.

1.3 The Republic of Macedonia and the UN

33. Actively participating in the regular sessions and meetings of the UN bodies and agencies, the Republic of Macedonia bases its 2004 activities on the priorities of the Security Council and the General Assembly agenda.
34. The Republic of Macedonia supports the position of NATO and EU-member states when numerous, economic, security, social and other development issues arise. The Republic of Macedonia continues to promote regional stability and security and its role as an active contributor to the fight against international terrorism.

35. During the 59th UN General Assembly, within its First Committee agenda, under the item "Maintenance of International Security-Stability, Good-Neighborliness and Development of South-East Europe", the Republic of Macedonia traditionally submitted a resolution of the same title, in close consultations with the NATO and EU member-states. The Resolution is an important contribution to strengthening regional cooperation and stabilization.
36. Good cooperation between the Republic of Macedonia and UNMIK continues through the UNMIK Liaison Office in Skopje. In the period 2002-2004 there has been significant progress made in the contractual cooperation with UNMIK in various fields (interim protocols on police cooperation, interim agreement on opening provisional border crossings in the border section towards Kosovo, cooperation in the field of education). The cooperation will be widened to additional fields.

1.4 The Republic of Macedonia and the OSCE

37. The close cooperation between the Republic of Macedonia and the OSCE and its institutions continues in 2004. On the initiative of the Republic of Macedonia, the SEE countries' cooperation and communication within the OSCE framework was strengthened and aimed at achieving joint positions on issues of interest for the region.

The OSCE Mission in the Republic of Macedonia

38. The OSCE Mission in the Republic of Macedonia, in pursuance with its mandate and in close cooperation and coordination with the Government of the Republic of Macedonia, and with other international organizations, is engaged in providing assistance in the implementation of the Framework Agreement in the fields of confidence building measures, public administration reforms, rule of law, police training, local self-government, human rights and inter-ethnic relations.
39. The training program for ethnic communities members is now under the competency of the Ministry of the Interior. The Mission still assists in training an additional number of cadets and organizes specialized courses for existing police officers. The concept of community policing will continue to be implemented this year, and a new initiative is the regional training of the border police.
40. In cooperation with other International Organizations, mostly NATO and EU, the OSCE Mission is involved in the implementation of the concept of enhancing border security and management, as well as in the Reform of the Police Academy in Skopje.
41. In 2004, the Republic of Macedonia continues to participate in OSCE activities. Now, four monitors from the Republic of Macedonia participate in the OSCE Mission to Georgia. Furthermore, on several occasions, the Republic of Macedonia has participated in ODIHR monitoring of elections in member countries.

1.5 The Republic of Macedonia and the Council of Europe

42. The cooperation between the Republic of Macedonia and the Council of Europe continues, with special emphasis on the process of reform of the local self-government and the decentralization process.
43. The Republic of Macedonia pays special attention to the implementation of the recommendation of the European Committee against Torture, for which the Government adopted a conclusion whereby all competent institutions are obliged to fully implement the recommendations of the Committee.
44. Talks are in progress between the Government of the Republic of Macedonia and the Council of Europe on the implementation of the Framework Convention on National Minorities, as well as with the European Commission against Racism and Intolerance, about issues within the competence of the Commission.

1.6 Regional Cooperation

45. A lasting commitment the Republic of Macedonia is to promote regional cooperation and contribute to building good-neighbourly relations, security and stability in cooperation with all Southeast Europe countries.
46. The Republic of Macedonia sees NATO enlargement with SEE countries as an additional contribution to the further stabilization, democratisation and prosperity of the Region. This offers wide opportunities for enhancement and deepening of the cooperation between all three aspirant countries and other countries of the Region, as well as with their neighbours that are Alliance members.
47. The Republic of Macedonia actively participates in the regional cooperation initiatives, at the same time intensifying its role within the enhanced activity of the entire SEE region towards its Europe and Euro-Atlantic integration.
48. The Republic of Macedonia is a fully-fledged member of SEECP, CEI, and SECI. The Republic of Macedonia is especially active within the SEDM Process and the NATO SEE Initiative-SEEGROUP. The procedure for full membership in BSEC is in progress. The Republic of Macedonia has observer status in the Adriatic - Ionian Initiative, in the Danube Process and the Szeged Process.
49. Concrete activities within the Regional initiatives - **ANNEX 1**.

1.6.1. Cooperation within the Charter of Partnership among Macedonia, Albania, Croatia and the USA

50. The implementation of the Charter of Partnership among Macedonia, Albania, Croatia and the USA, is a strong mechanism for cooperation among the three aspiring countries. The Partners are intensifying the democratic, political, economic and military reforms necessary for attaining full and fast integration in Euro-Atlantic institutions. Macedonia, Albania and Croatia are working jointly on the further stabilization of the Region. The Partners are undertaking specific activities in strengthening the security of the borders and helping to prevent trans-national threats, directly contributing to Trans-Atlantic security.
51. The Partners are especially focusing their joint efforts on fighting corruption, organized crime, terrorism, proliferation of weapons of mass destruction and illicit trafficking in arms, narcotics and human beings.
52. As coordinator of the Partners' activities for the first half of 2004, Macedonia hosted the Second Meeting of the Partnership Commission on the implementation of the Charter. Representatives of the three countries adopted a Joint Communiqué where they reiterated their commitments for early NATO membership.
53. Just before the NATO Istanbul Summit, the Foreign Ministries of the three Charter of Partnership countries had their first joint appearance before the NATO NAC. In this context, they again stated their firm commitment for NATO membership, thus reaffirming their determination to jointly develop capacities that will contribute to NATO missions. The first joint initiative is the trilateral medical team to be sent to join ISAF in 2005.

1.7 Relations between the Republic of Macedonia and its neighbours

54. Relations and cooperation between the Republic of Macedonia and its neighbours: Albania, Bulgaria, Greece and Serbia and Montenegro, are characterised by high degree of understanding and intensive political dialogue at all levels. Numerous agreements signed with each neighbour have created the legal framework for economic cooperation. The bilateral agreements on protection of investment, avoidance of double taxation, financial transactions, free trade, etc., as well as the process of the harmonization of the domestic legislation with the EU legislation, provide conditions for lasting development and cooperation promotion.

Republic of Macedonia - Republic of Albania

55. Bilateral relations and cooperation with the Republic of Albania are characterised by an open dialogue on all issues of common interest. Thirty-four bilateral agreements govern cooperation in various fields. The harmonization of the draft text of the Agreement on Good-Neighbourly Relations and Friendship is underway, the signing of which will wrap up the contractual framework between the two countries.

56. Cooperation within the framework of Adriatic Charter is improving rapprochement to NATO. Both countries have enhanced cooperation on common border control, fighting terrorism, organized crime and illicit trafficking. In order to improve the movement of people and goods, two more border-crossing points in the region of Debar will be opened (Dzepiste-Trebiste and Steblevo-Libradz) in addition to the four existing ones.
57. Use and protection of the waters of Lake Ohrid are governed by bilateral agreement. A similar agreement on Lake Prespa will be signed soon.
58. Both countries coordinate their activities within regional initiatives, in order to secure financial support for regional infrastructure projects, such as Corridor 8, the Prespa Euro-Region, the AMBO Trans-Balkan oil pipeline and other projects of regional importance.

Republic of Macedonia - Republic of Bulgaria

59. Macedonian - Bulgarian relations continue to develop in many areas. A priority issue is the widening of economic cooperation, which in spite of signing the bilateral Free Trade Agreement, is characterized by considerable Macedonian trade deficit.
60. Thirty-nine bilateral acts were signed while an additional seven (in the area of finance) are about to be drafted or ratified. In August this year, a Memorandum on Cooperation in Euro-Atlantic Integration was also signed.
61. There are joint activities and measures for securing the borders and preventing terrorism, organized crime and illicit trafficking. In addition to the three existing border crossings, three more (Berovo-Klepavo, Pehcevo-Ajducki Kladenec, Delcevo-Crna Skala) will be opened in order to improve the movement of people and goods.
62. Both countries cooperate on a number of regional initiatives and projects: Corridor 8 construction, the AMBO project, as well as several trilateral projects. In spite of a joint interest for the improvement of infrastructure connectivity, the progress of these projects has been halted due to a lack of funds.

Republic of Macedonia - Republic of Greece

63. Macedonian - Greek relations and cooperation have made significant progress. Talks continue on overcoming the last open question between both countries - the name issue. At the same time, political contacts take place at different levels, and there is an enhanced economic cooperation. Greece is among the top three investors in the Republic of Macedonia. There is also continuous cooperation within regional initiatives.
64. We expect further Greek support in the integration of the Republic of Macedonia in European and Euro-Atlantic structures.

65. An Economic, Consular, and Commercial Affairs Office will open in Bitola and Thessalonica. In this context, the Macedonian side looks forward to further visa-regime liberalization and simplification of the visa procedure.
66. We eagerly await the continuation of activities in the framework of the Greek Plan for economic reconstruction of the Balkans for the period 2002 - 2006.
67. In order to further improve relations, it is necessary to conclude other bilateral agreements in addition to the existing 22 bilateral and three trilateral agreements.

Republic of Macedonia - Serbia-Montenegro

68. A priority interest in the development of good and stable relations with Serbia and Montenegro remains to be the enhancement of economic cooperation.
69. The two countries have signed 22 bilateral agreements. In July this year, as the first of its kind, an agreement was signed on the protection of the Macedonian national minority in Serbia and Montenegro and the Serbian and Montenegrin national minority in the Republic of Macedonia. The Republic of Macedonia has also initiated signing of an agreement on good-neighbourly relations and friendship.
70. The Republic of Macedonia is committed to faster and complete implementation of the Agreement on delineation and demarcation of the border between the Republic of Macedonia and Serbia and Montenegro. The demarcation started by placing a border-pyramid at the tri-border point between the Republic of Macedonia, Serbia and Montenegro and the Republic of Bulgaria. Weather permitting, the demarcation of the border with Serbia and Montenegro (without the part towards Kosovo) will be completed by the end of 2004 or early next year.
71. A protocol was signed on opening four temporary border-crossings, two of which are on the part of the border towards Kosovo (the Strezimir - Restelica border-crossing is functional; however, the Debalde - Tanusevci border-crossing was damaged by the local population on the other side of the border and is no longer functional).
72. The Republic of Macedonia supports the integration of Serbia and -Montenegro in European and Euro-Atlantic structures and is prepared to share its experiences in this context.
73. The Republic of Macedonia follows the developments in Kosovo with due attention and interest. We support the implementation of UN resolution 1244, as well as the "standards before status" policy of the International Community that should provide stability, rule of law, democratic institutions, economic development and a true multi-ethnic society.

74. We support the dialogue between Belgrade and Prishtina, with international community participation, and will welcome a solution that will not represent a risk for the security situation and the political and economical processes in the region.
75. The Republic of Macedonia considers it of particular importance that the demarcation of the borderline between Macedonia and Serbia and Montenegro, in the part towards Kosovo, is finished before the definition of the final status of Kosovo.

2. DOMESTIC POLICY

76. The security, stability and prosperity of the country are the basic guidelines upon which the domestic policy priorities of the Government of the Republic of Macedonia are carried out.
77. The stability of the state and the functioning of its institutions were not disturbed by the March riots in Kosovo, nor by the tragic loss of President Boris Trajkovski. Early presidential elections held this spring were conducted in peaceful and democratic atmosphere.
78. Reforms in the areas of the security, defence, economy, finances, judicial system and the social sector are underway.
79. The implementation of the Ohrid Framework Agreement (FA) is proceeding and, with the passing of the Law on Territorial Organisation and the Law on the City of Skopje, it is entering the final stage.
80. The Law on Territorial Organisation will be subject to a referendum, to be held on 07.11.2004. The referendum is slowing down the Decentralization process and has postponed the local elections for March 2005.
81. The remaining obligations resulting from the FA have either been finalised, or are nearing completion.

2.1 Implementation of the Framework Agreement

82. Significant progress has been achieved, particularly regarding legislation for non-discrimination and equitable representation, while special emphasis has been put on decentralization.
83. Concrete activities related to the appropriate and equitable representation of the communities' members, their education and the return of internally displaced persons are in their final stage.
84. There are forthcoming activities in the area of the use of languages and communities symbols.

2.1.1 Legislative aspect of the Framework Agreement

85. All 15 amendments to the Constitution, and the majority of laws envisaged in Annexes A, B and C of the FA have been adopted. By the end of 2004, all remaining laws should be adopted.
86. The Law on the Use of Symbols of the Communities and the Law on the Use of Languages of the Communities should be adopted by the end of 2005, which will complete the legal framework for the implementation of the FA provisions.

2.1.2 Equitable representation in state and public administration

87. According to the Ministry of Finance data of July 2004, the number of ethnic community members employed in the public administration (budgetary users) is as follows:

	Employees		Percentage %
Macedonians	70254	or	81,4%
Albanians	9448		13,4%
Serbs	1172		1,7%
Turks	890		1,3%
Roma	357		0,5%
Vlachs	332		0,5%
Boshnjaks	180		0,3%
Other	667		0,9%

88. Concerning new employment in the state administration, a total of 69 civil servants were admitted in 2003, of which 44 were members of the Albanian community. In the period January-August 2004, 152 new job opportunities have opened up for ethnic communities members.
89. In 2004, most state institution adopted annual plans for appropriate and equitable representation of communities' members. The aim of these plans is to set out a long-term implementation policy for equitable representation. These plans incorporate: the actual structure of communities members, the data on the effects of the measures taken previously, the data on new employment and the measures for education and advanced training, related to the implementation of the provision. The application of this provision at the municipal level will be monitored closely in the forthcoming period.

2.1.3 Additional measures and activities

90. With a Government decision, a sector for the implementation of the Framework Agreement was established in the General Secretariat of the Government.

91. In its final stage is the training program for 600 civil servants from the ethnic communities that will be employed in public and state administration at all levels. The necessary budgetary assets have been allocated for the employment of these civil servants by the end of 2004.
92. Further measures are being taken for the employment, education and training of court typists and translators in the languages of the communities.

2.1.4 Equitable representation in the Ministry of Interior, Ministry of Defence and the Army of the Republic of Macedonia ANNEX 2 and ANNEX 3

2.1.5 Use of Languages in Public Administration and the Judiciary

93. Activities related to the use of languages of the members of communities in public administration and judiciary are underway as follows:
 - Publishing of the laws and other regulations and acts in the Official Gazette of the Republic of Macedonia in Macedonian and Albanian languages
 - Publishing announcements for new jobs in state and public administration in the daily newspapers in Macedonian and Albanian languages
 - A priority contained in the draft-Strategy on Reform of the Judiciary, Public Prosecutor's Office, Penitentiary System, Public Legal Office, Bar and Notary's Office (in governmental procedure), is the implementation of the provision on the use of languages during court proceedings by employing competent personnel.
 - Continuous preparation, education, recruitment and selection of candidate judges from members of ethnic communities.
94. Since June 2004, in accordance with the law, bilingual identification cards are issued upon the applicant's request. Final preparations for issuing passports are also underway.

2.1.6 Education

95. Education in the Republic of Macedonia is governed according to the Constitution. Obligations from the Framework Agreement have been included in it, and are providing compulsory education in all languages of the members of the ethnic communities. According to the Law on Higher Education, access to higher education is provided to all members of the ethnic communities, and there is a state - quota for the non-majority ethnic community members.
96. With the latest amendments to the Law on Higher Education (07.2004), there is guaranteed financing of higher education in the language of the ethnic communities who represent more than 20% of the population. With the latest amendments to the Laws on Primary and Secondary Education, the establishment, management, financing and ownership of schools is transferred from state to municipal level.

97. In February 2004, the law on the establishment of a State University in Tetovo was adopted.
98. Adopted Laws on Education - **ANNEX 9**.
99. Education has also been going through reforms, most importantly:
- Introducing a nine (9) year compulsory elementary education
 - Introducing a state final exam in the higher education, thus providing an integrative link between higher and high education
 - Harmonization and adjustment to the Bologna Declaration standards and criteria (high education).

2.2 Internally displaced persons

100. The return of internally displaced persons to their homes has been ongoing since the signing of the Framework Agreement and the stabilization of the security situation. As of 02.09.2004, there remain 1829 internally displaced persons in Republic of Macedonia.
101. Data on internally displaced persons, the damage incurred and the reconstruction process, as at 01.09.2004 - **ANNEX 4** and **4a**.

2.3 Local self-government and the decentralization process

102. The implementation of the local self-government reform continues in the projected direction. The decentralization process, as a part of this reform, is realized in accordance with the activities foreseen in the 2003-2004 Operative Program on decentralization of government.
103. A large segment of the activities planned for 2004 have been implemented, especially those relating to law harmonization. Certain delays are due to the fact that it is a very complex process, additionally burdened by an unfavorable economic situation. All laws related to the local self-government system and the transfer of power from national to local level, are expected to be adopted by end of 2004.
104. Implementation of the Operative Program for decentralization of government 2003-2004 - **ANNEX 5**.
105. Taking into consideration that the decentralization process is a strategic priority of the Republic of Macedonia in 2004, a large number of projects for strengthening the infrastructure and institutional enhancement of the local self-government units, that were or are being implemented, were financially supported by the international donor community.
106. List of projects relating to the decentralization process - **ANNEX 5a**.

107. In accordance with the need for a sustainable local self-government reform, a Strategy on implementation of the local self-government reform, with an Action Plan, will be adopted by end of 2004, that will determine the actions to be taken within the next few years, keeping its focus on decentralization. Major emphasis will be placed on activities for local self-government development, aimed at: introduction of fiscal independence of municipalities; promotion of local economic development; improvement of quality, efficiency and equal access to local public services; higher transparency and participation of local people in planning the development process of their municipality; establishment of a national system to train local self-government officers; development of forms and mechanisms for inter-institutional dialogue and cooperation between tiers of government; and development of inter-municipality and cross-border cooperation.
108. Activities planned for 2005 - **ANNEX 5b**.

3. REFORMS

3.1. Reform of the public administration

109. The reform of the public administration is a continuous process, conceptualised in the Strategy for Reform of the Public Administration, adopted by the Government in 1999. The goal of the reform process is the improvement of structures, rules and procedures of the administration. The reform is also related to the system of public administration in the wider sense, the civil service system, the local self-government system, redefinition of the role of the state and restructuring of public finances.
110. There has been significant progress in these areas, especially in terms of the adoption of a relevant legal framework, and the establishment of an institutional structure for the management and implementation of the reform process. The adoption of the Law on Civil Servants and by-laws regulating the status, rights and duties and responsibilities of civil servants is of special importance.
111. The reform of public administration is to produce a small and de-concentrated, democratic, protected public administration that will be able to resist political and other pressures (i.e. interest groups). It aims to be a responsible, citizen-focused administration, functioning as an efficient service to citizens and legal entities.
112. The foundations for reformed public administration are: rule of law, transparency, competence, political neutrality, accountability, equality, efficiency and sound working ethics. The reform of public administration and redefinition of the role of the state will transfer unessential services from the state to the private sector. This is a process pursued in parallel with downsizing.
113. New to the civil service system is the introduction of mechanisms for assessment and control of the work of civil servants, with a special focus on their training.

114. Additional activities defined in the Strategic Development Plan of the General Secretariat of the Government and the Plan for its implementation is underway. The main purpose of the Plan is to reform the General Secretariat, by strengthening its capacity for strategic planning and policy coordination.
115. The functional analysis in all ministries will be complete by the end of 2005.
116. Despite the achieved goals and results in the implementation of the Strategy, the Government of the Republic of Macedonia is aware that there are still substantial activities to be undertaken in the reform of public administration.

3.2. Reform of the Justice System

117. The reform of the justice system is aimed at fostering rule of law, establishing of a system for efficient and effective protection of human rights and developing the basic principles guaranteed in the Constitution and international documents.
118. The reform of the justice system is part of the synchronized reform project which covers:
 - Reform of executive power and public administration;
 - Reform of local self-government;
 - Reform of the justice system.These will be carried out in line with economic reform.
119. On 06.09.2004, the Government of the Republic of Macedonia supported the Draft-Strategy for the reform of the judiciary, the public prosecutor's office, the penitentiary system, the public attorney, and the lawyer and notary system.
120. The basic aim of the Strategy is the establishment of an efficient judiciary system, based on international standards, while the specific goals are: strengthening of independence, increase of efficiency, enhancement of transparency and coordination among relevant institutions.
121. The implementation of the Strategy should overcome the identified deficiency areas in the justice system: delay in procedures, case overload, lack of specialization, the election and appointment of judges and public prosecutors, their susceptibility to party influence, corruption.
122. The reform of the justice system encompasses:
 - Reform of the substantive laws;
 - Reform of the procedural laws;
 - Structural reform.

3.2.1 Measures and activities for reform of the Judiciary - **ANNEX 6.**

3.3 Police reform

123. Reform of the police is a substantial and complex process of building a modern model of police organization that serves democratic society. It will be anchored in the rule of law, protection and respect of fundamental human rights and freedoms. The reforms aim to achieve the following:
- Efficiency in the work of the police;
 - Organization, professionalism and cost-effectiveness;
 - Modernizing equipment and technology;
 - Raising standards of responsibility and motivation among employees;
 - Planning, development and education of personnel;
 - Appropriate and equitable representation of all ethnic communities;
 - Functioning of the police as a service to the citizens;
 - Strengthening the fight against organized crime;
 - Improving regional and international cooperation;
 - Separating non-police functions from the basic competences of the Ministry.
124. In accordance with the objectives and directions of the Strategy for police reforms, the Action Plan for its implementation was adopted in January 2004. It is the basis for the launch of the new organizational structure in January 2005.
125. The reform process should be accomplished in three phases. Specific sub-groups and bodies will carry out the concrete project-tasks and activities of each phase.
126. Future organizational structure of Mol - **ANNEX 2a.**
127. Harmonization of domestic MOI legislation with European legislation and the Framework Agreement - **ANNEX 2b.**
128. Challenges related to police reforms:
- Optimization of the number of Mol employees in accordance with EU standards;
 - Acquiring financial support for the new competences, structure and police facilities;
 - Additional training for employees in local branches;
 - Adoption of laws, by-laws and internal acts for the implementation of reforms;
 - Computer-network connectivity of the organizational units within the Mol.

3.3.1 Integrated Border Management

129. In accordance with the National Strategy for Integrated Border Management (adopted on 2.12.2003) and the Action Plan for implementation of the Strategy (to be adopted by the end of 2004), the establishing the Border Police is proceeding ahead of schedule.

130. The Border Police officially started functioning on 07.05.2004, with the handover of the control of the border with Greece, the establishment of the National Center in Skopje and the Regional Southern-Border Center in Kavadarci. On 01.09.2004, the responsibility of the eastern border towards Bulgaria was also assumed, with a regional center in Delcevo.
131. Simultaneously, amendments and supplements to the Law on Internal Affairs and the Law on Crossing the State Border and Border-Line Movement were adopted. A new Law on Surveillance and Control of the State Border is under preparation. 280 employees from the Ministry of Defense were retrained and transferred to the Border Police and are deployed at the southern border. Training of a total of 3000 members of this police structure should be accomplished by 2006.
132. This year, at the Brussels Conference, five partnership goals regarding border security were adopted. These were in the field of strengthening the capacities for fighting international terrorism.

3.4 Cooperation with the EUPOL Mission - PROXIMA

133. In accordance with the Law on Ratification of the Agreement Between Republic of Macedonia and the European Union, the activities of the EUPOL Mission PROXIMA in the Republic of Macedonia started on 15.12.2003
134. The cooperation contributes towards police reforms, implementation of Integrated Border Management, fight against organized crime, and implementation of several CARDS Programme projects, improvement of police efficiency, assistance in crime investigations, and confidence-building and other activities.
135. A Coordination Group of representatives from relevant ministries was formed. Technical arrangements on the working procedures of the Coordination Group and on the protective element of PROXIMA were signed. In recognition of the capability of the host country to take care of the security of PROXIMA, EUMM and OSCE personnel, the 30-member PROXIMA protective element was withdrawn on 15.06.2004.
136. PROXIMA personnel, at a central and local level, participated in planning daily, monthly and yearly Mol activities. They contribute to the establishment of the Border Police, have round-the-clock communication with the Mol Operational Center, cooperate with the Special Task Unit "Tiger" and the Special Police Units. They contributed to the smooth running of the presidential elections with their presence at the polling booths, observe the operational activities of the criminal police, etc.
137. In compliance with their mandate, they have an advisory and mentoring function.

3.5 Special Units

138. The unit for special tasks "Tiger" was established in 1981 and is engaged in all security cases when members of the regular police force cannot completely and successfully overcome them. This includes the planning and performing of the most complex tasks in the fight against terrorism, solving hostage cases, cases of resistance with firearms, security of threatened VIP's and facilities, assistance in the fight against all forms of organized crime, etc. The unit consists of four companies, totaling 264 authorized Mol members and Police Academy cadets.
139. The activities for reform of this unit are underway, by determining its competences in compliance with European standards. The new organizational structure will decrease the number of personnel. The new formation will have a command body and three operational groups: tracing and monitoring, negotiation, and planning and support.
140. There is a need to modernize the technical and telecommunication equipment of the unit, as well as the means for personal protection and armament.

3.6 The "Rastanski Lozja" case

141. At the beginning of March 2002, seven foreign citizens were killed in the area of "Rastanski lozja". The suspicious circumstances of their death prompted the relevant authorities to conduct an investigation. After the case was documented, on 29.04.2004 Mol brought criminal charges to the Public Prosecution Skopje against the former General-Commander and three members of the now disbanded Unit for Rapid Deployment "Lions", due to the reasonable suspicion that they had committed murder. Mol also brought criminal charges against the former Minister of Interior, a former Head of Mol Department, and against another Mol employee for assisting in committing a criminal act.
142. The case "Rastanski Lozja" is a subject of further procedure in the competent judicial institutions in Republic of Macedonia.

4. FIGHT AGAINST CORRUPTION, ORGANIZED CRIME AND TERRORISM

4.1. Corruption

143. In accordance with the Government's Decision on Strategic Priorities for 2004, the fight against corruption and organized crime and the activities for their prevention are strategic priorities of the Republic of Macedonia. Measures that produce concrete results are undertaken in terms of prevention and suppression of corruption.
144. National legislation is being harmonized with international documents in this field.

145. There is an intensified activity, cooperation and coordination of state institutions in the field of detection and reporting of crimes of corruption and organized crime offences. Public awareness of the fight against corruption has been raised through the inclusion of the civil and NGO sector and investigative journalism.
146. In 2003, there were 296 criminal charges of corruption, of which 72 resulted in verdicts. The other cases are still pending. In 2004, the effectiveness of processing and completing cases has increased, due to the adoption of various laws focused on the fight against corruption, organized crime and terrorism.
147. There is continuous cooperation with GRECO of the Council of Europe and with the anti-corruption bodies of Albania, Bulgaria, Serbia and Romania.
148. Toll-free telephone numbers have been established which citizens can use to report cases of corruption and corruptive behaviour by police, customs and Public Revenue Office members. The results are positive.
149. The Government Action Plan for Prevention of Corruption defines concrete measures for addressing the personnel, material and premises problems of the special institutions and bodies. These include:
- Strengthening the cooperation of state authorities, especially in the field of the efficient exchange of data and information;
 - Strengthening financial control authorities, (State Audit Bureau, Public Revenue Office, Customs Administration, Financial Police, Market & Labor Inspection, Public Procurement Bureau, etc.) as a pre-condition for the functioning of market mechanisms and for abiding by the laws on corruption and abuse of office;
 - The Laws on Access to Official Information, Prevention of Conflict of Interests, and on Broadcasting are in the adoption stage.

4.1.1. Reform of the Criminal Justice System and penal legislation

150. Significant progress has been achieved in the reform of the penal law. The implementation of the new and amended laws (harmonized with international standards) will provide higher efficiency in criminal prosecution, organization and methods of work, cooperation of the organs in charge of prevention and suppression of corruption, organized crime and terrorism.
151. Amendments to the Constitution and legislation related to the fight against corruption, organized crime and terrorism - **ANNEX 7**.

4.1.2. State commission for prevention of corruption

152. With the amendments to the Law on Prevention of Corruption, the role of the Commission has been

strengthened, i.e. it has become a legal entity with its own budget and Secretariat.

153. Report on the work of the State Commission for prevention of corruption - **ANNEX 7a**.

4.1.3. State Program for prevention and suppression of corruption

154. By the end of 2004 and in 2005, the Government of the Republic of Macedonia and other state institutions will work on the concrete and intensive implementation of the State program. The Program sets out measures for:

- Intensification of the reform of the judiciary;
- Amendments to the procedural laws and preparations for their implementation, in order to secure greater efficiency of court procedures in the field of corruption;
- Decreasing the discretionary rights of appointed officials, especially in the field of economy;
- Intensification of activities aimed at training specialized bodies and institutions the fight against crime and corruption;
- Strengthening the efficiency of the audit bodies; State Audit Bureau, Public Revenue Office, Customs Administration, Financial Police, Market & Labor Inspection, Public Procurement Bureau, etc.

155. Measures, activities and results of the Ministry of the Interior (Mol) in the fight against corruption - **ANNEX 7b**.

4.2. Organized Crime

156. The Action Plan for the Fight Against Organized Crime was adopted by the Government on 10.10.2003, It was drafted in accordance with the obligations assumed at the London Conference and the Thessalonica Summit and was presented at the meeting of Ministers of Justice and Home Affairs in Brussels, 28.11.2003.

157. The Action Plan defines the following measures:

- Establishment of a regional network of Public Prosecutors;
- Regional cooperation in the protection of informants and witness;
- Strengthening the capacities for prevention of money laundering and financial crime;
- Within the Public Prosecutor's Office, establishment of a department for the fight against organized crime and corruption;
- Specialization of judges in the fight against organized crime;
- Establishment of a Department for Organized Crime at the Mol;
- Establishment of a Sector for Criminal-Intelligence Analysis at the Mol.

158. On 04.05.2004, the Government adopted the Report on the progress of priorities defined in the Action Plan. The implementation of activities continues.

159. **ANNEX 7** - Amendments to the Constitution and legislative related to the fight against corruption, organized crime and terrorism

4.3. Trafficking in human beings

160. In accordance with the National Program for the Combating Trafficking in Human Beings (adopted in 2002), a Unit for combating trafficking in human beings and a Subgroup for combating trafficking in children, were established in March 2003.
161. In the first six months of 2004, 29 crimes related to trafficking in human beings, perpetrated by 64 persons (seven of which are directly linked with trafficking in human beings - Article 418-a of the Criminal Code), were detected.
162. The number of crimes has decreased by 48.2% as compared with the previous year. This is due to the fact that, during the previous year, several international routes used for trafficking human beings were detected and disrupted.

4.4. Money laundering

163. The Directorate for Prevention of Money Laundering was established within the Ministry of Finance. The Directorate is composed of: department for analysis, department for suspicious transactions and department for international cooperation and development. It is mandated to cooperate with institutions of other states and international organizations in combating money laundering.
164. In July 2004, the Parliament of the Republic of Macedonia adopted a new Law on the Prevention on Laundering Money and other Income from Criminal Activity. The new Law is aimed at consistent implementation of the following provisions: UN Convention against Illicit Traffic in Narcotic Drugs and Psychotropic Substances (from 1988 Vienna Convention); Council of Europe Convention on Laundering, Search, Seizure and Confiscation of the Proceeds from Crime (from 1990 Strasbourg Convention) and UN Convention against Trans-national Organized Crime (Palermo Convention); 40 recommendations by Financial Action Task Force - FATF on money laundering prevention, eight special recommendations by FATF on financing terrorism; EU Directive 91/308 on prevention of the use of the financial system for the purpose of money laundering; and EU Directive 2001/97 amending Directive 91/308.

4.5. Illicit trafficking in arms

165. In the first six months of 2004, 107 crimes of illicit manufacturing, possession and trafficking in arms and explosives were detected, and criminal charges were brought against 119 perpetrators. In the same period, 876 pieces of arms were confiscated, of which: 199 military weapons, 16 sports hunting weapons, 614 other types of arms, 8.900 pieces of ammunition, 1 kg of TNT, and 5 kg explosive materials.

Small arms and light weapons - SALW

166. During UNDP's project "Small Arms Control", which ran from 19.05.2003 to 31.03.2004, significant progress has been made in addressing the availability and use of small arms in the country. The project resulted in the voluntary surrender of over 7,500 weapons and a measurable increase in public awareness of the dangers associated with small arms.
167. In accordance with the results and experiences of the UNDP project, a National Strategy and Action Plan for control of small arms and light weapons is being prepared, with the assistance of the UNDP. Multi-year UNDP assistance intervention will also be prepared.
168. The Plan will focus on the elimination of reasons for illegal possession of small and light weapons. There will be provision for technical assistance for legislative and regulatory reform; assistance on further weapons destruction, as well as training and capacity building for government officials, NGOs and journalists.
169. A "Safer Community Development" initiative is conducted in two communities (Gostivar - Vratnica / Tearce) and involves the formulation of safer community plans and the certification of safer municipalities;

4.6. Terrorism

170. The Criminal Code of the Republic of Macedonia sanctions the crime of "terrorist organization" and contains elements for the prevention of financing terrorism in accordance with international conventions. In this context, the security services of the Ministry of the Interior in charge of combating terrorist activities - the Security and Counter Intelligence Departments, collect information on the presence of foreign nationals suspected of being linked with terrorist organizations, groups and individuals, and exchange this information with foreign intelligence services.
171. In accordance with the law, the financing of international groups and individuals currently present in the Republic of Macedonia, suspected of being linked with terrorist organizations, groups and individuals, is also being investigated.
172. This year, as mentioned above, five partnership goals were adopted in the field of border security, for the improvement of capacities to fight international terrorism.
173. Security services cooperated in preventing possible terrorist activities in and outside the Republic of Macedonia during the course of the 2004 Olympic Games in Athens.
174. Coordination of services in the Republic of Macedonia is done through the exchange of information, working agreements for certain activities, etc.
175. The Republic of Macedonia regularly cooperates with the UN SC Committee for the fight

against international terrorism established under Resolution 1373 (2001) and has thus far submitted two reports (initial and additional) on the achieved implementation of the obligations under the Resolution at national level.

4.7. Arms control and prevention of proliferation of weapons of mass destruction

176. As a member of the international anti-terrorist coalition, the Republic of Macedonia actively cooperates with the EU member-states and the USA in the fight against proliferation of weapons of mass destruction, at a bilateral level, as well as within the auspices of the UN, IAEA, OSCE and regional initiatives.
177. The Republic of Macedonia is a party to the CTBT, the Non-Proliferation Treaty, Chemical Weapons Convention, and the Biological Weapons Convention. A National Body is established for implementation of the obligations stemming from the Chemical Weapons Convention, and a Seminar was held in Macedonia in cooperation with the Convention Secretariat on the issue of implementation of the Convention obligations on national level.
178. As a non-nuclear state, the Republic of Macedonia has concluded an Agreement with the IAEA on the acceptance of control mechanisms for verification of fulfilment of international treaties on non-use of nuclear programs for development of nuclear weapons (IAEA Safeguard Agreement). Activities are underway for the conclusion of an agreement on the Additional Protocol to the Safeguard Agreement.
179. The Government of the Republic of Macedonia expressed the commitment to fulfil the guidelines contained in the IAEA Code of Conduct on Security and Safety of Radioactive Sources and has accordingly notified the General Director of the IAEA.
180. By submitting a unilateral statement, the Government of the Republic of Macedonia obligated itself to follow the Guidelines on transfer of sensitive technology for missile systems, and the Annex on Equipment, Software and Technology to the Missile Technology Control Regime (MTCR). As a first step in this regard, the Government decided to place the equipment and technology covered by the MTCR under a special licence control regime. A draft Law with comprehensive amendments to the existing national legislation has been prepared in accordance with international standards for export control of such equipment, including the dual-use technology.
181. The Republic of Macedonia supports the new US Proliferation Security Initiative (PSI), and the relevant ministries are evaluating the existing institutional framework and capacities, as well as identifying eventual challenges to the implementation of the Interdiction Principles of the Initiative on a national level.
182. The Republic of Macedonia has taken concrete measures to implement UNSC resolution 1540 for non-proliferation of weapons of mass destruction.

5. ECONOMY

5.1 Macroeconomic performances of the Republic of Macedonia in 2003 and the first half of 2004

183. Intensification of the economic activity in 2003 lead to realization of the projected 3,2% GDP rate.
184. Unlike previous years, when certain sectors adversely affected the GDP, there was an expansion of the growth base, whereby positive rates were noted in almost all economic sectors. The increase of economic activity was basically due to the excellent performances of the steel industry and the production of ferro-silicium and ferro-nickel (as a result of the favourable external demand), which determined relatively high growth rate of the industrial production of 4,5 % in 2003.
185. In the first two quarters of 2003, the economic growth was stimulated by the positive trends distributed equally almost in all sectors, whereby the cumulative GDP growth in the first half of 2003 was almost 2,6 %. In the third quarter of 2003, compared to the same period of the previous year, there was rapid increase of the industrial activity of 14,4 %, initiated by the favourable conditions in the food industry. Such trends, accompanied with the growth in agriculture (3,8 %), lead to 5,6 % GDP growth in the third quarter.
186. In the fourth quarter of the year, the construction sector was the main driving force of the economic growth. Stimulated by the construction of several large capital facilities, it had a 13,8% growth rate. The positive effects of the construction sector were in part offset by the poor results of the industrial sector, where the GDP growth was only 2,1 %.
187. Despite the variable trends during the year, the Macedonian economy exceeded the planned rate (3 %) of real GDP growth in 2003 by 0.2 %.
188. In contrary to the envisaged continuation of favourable trends, at the beginning of 2004, the Macedonian economy entered a zone of negative growth. The sharp January decline of industrial production was a strong negative shock, and caused 3,6 % GDP decline in the first quarter.
189. The negative growth rate was recorded only in the industrial sector. All other sectors of the economy recorded growth almost identical to the projected one, which points to the fact that if industry is excluded, the GDP growth in the first quarter of 2004 is 2,8 %.
190. Because of the strategy of targeting the Denar exchange rate to the Euro, throughout this period, the Republic of Macedonia managed to maintain price stability, expressed via the low inflation rate. Thus, the average inflation rate in 2003, measured via the costs of living was 1,2 %, while in the first quarter of 2004, the average inflation rate was 0,5%.
191. The policy of rational spending of budget funds continues in 2004. In this manner, the projections

of the central budget deficit are expected at 0.9%, while the general government budget deficit will not fall under 1.5 % of GDP. The objective is to achieve medium term fiscal sustainability and stabilization of public-debt level thin internationally acceptable framework.

5.2 Budget

192. The 2004 budget of the Republic of Macedonia amounts to total of Denar 79.765 million, i.e. US\$ 1.589 million (including regular revenues, revenues from self-financing activities, donations and credits).
193. Within these framework, the 2004 Budget of the Ministry of Defence was set in the amount of Denar 6.108 million, or US\$ 122 million, which is almost 2,3 % of the projected GDP.
194. The preparations for the 2005 Budget of the Republic of Macedonia are underway and according to the preliminary projections, the Budget of the Ministry of Defence will amount to around 2,3 % in relation to the projected 2005 GDP.
195. Fiscal strategy for the 2005 - 2007 period is prepared. It contains the projections of the revenue and expenditure side of the Budget of the Republic of Macedonia for the indicated period.

5.3 Macroeconomic policy of the Republic of Macedonia

196. Main objective of the macroeconomic policy for the upcoming years will be job creation and poverty reduction.
197. Taking into account that the accomplishment of these objectives is directly related to the intensity of the economic development, the main priority of the macro-economic policy in the following years will be the creation of preconditions for the increase of Macedonian economy growth rates.
198. Accordingly, priority objectives for 2004 are the following: a) increase of investment activities; b) strengthening of domestic savings; c) intensification of structural reforms; d) creation of competitive private sector; e) improvement of institutional framework for the functioning of the market economy in line with the EU criteria.
199. Basic macro-economic indicators - **ANNEX 8**.
200. Further intensification of the economic growth in the country is envisaged in 2004, whereby the main driving forces are the increased investment activities, especially public investments.
201. In 2003, the country only received US \$97,5 million (2,1 % of GDP) of Foreign Direct Investment (FDI). In order to address this unsatisfactory level of FDI, the Government of the Repub-

¹ CPI - Consumer Price Index

- lic of Macedonia adopted the Investment Promotion Program and an Action Plan for its implementation.
202. The priority reform areas determined in the 2004 - 2006 Program are: labour legislation, registration of enterprises, access to land, and construction licenses and customs administration.
 203. As part of the activities related to attracting FDI and strengthening the promotion of Macedonia export potentials, Investment Promoter was assigned in Italy (soon also in Germany), as well as trade representatives in Serbia and Montenegro and the Russian Federation.
 204. The process of establishing Foreign Investments Agency has commenced with the adoption of a Law and the appointment of the Management Board.
 205. Free economic zones (FEZ) are one of the models for FDI attraction. In this context, the Government and a foreign investor signed a contract for long-term lease of urban land and facilities in FEZ Bunardzik, aimed at contributing to the achievement of sustainable economic growth and job creation in the country.
 206. First clusters were also set in the area of metal processing, food and shoe industry.
 207. Within the privatisation process, final solution for the remaining loss-making enterprises is expected, in line with the FESAL 2 Arrangement with the World Bank, by selling them to domestic or foreign investors. To that end, the functioning of the Privatisation Agency has been extended during the course of 2004.
 208. Having in mind the special importance of the regional interconnection and international cooperation via projects funded by the European Union and other international financial institution, the Republic of Macedonia finalized the process of concluding bilateral Free Trade Agreements with all Southeast European countries.
 209. Entrepreneurship Promotion Agency of the Republic of Macedonia and the Euro-Info Correspondent Centre were established.
 210. New regulation have been adopted in the field of trade and consumer protection in order to harmonize our legislation with EU regulations and directives, New Company Law has also been adopted, thus creating conditions for the introduction of "one-stop-shop", significantly contributing to facilitation of the registration process of the enterprises.
 211. The establishment of craft-related businesses has been made easier with the adoption of the Law on Crafts, as a part of the decentralization laws package.
 212. The 2005 activities will be aimed at additional training for acquiring entrepreneurial skills, estab-

lishment of public guarantee fund, Credit Info Bureau, commencement of the operations of the one-stop-shop registration of enterprises to be done via the Central Registry, extension of credit lines for the SME's, training for introduction of ISO and HASSP standards, and promotion of small businesses.

213. There are ongoing activities for institutionalisation of technological development of the country by transfer of new technologies, information and telecommunication services, ecology biotechnologies, promotion of research activity, innovations and their diffusion.

5.3.1 Employment Strategy and Policy

214. The Employment Strategy and Policy aimed at tackling unemployment (36,7 % for 2003, according to the Labor Force Survey method) is defined in the Macroeconomic Policy of the Republic of Macedonia and in the 2004-2005 National Employment Action Plan.
215. The 2004-2006 National Employment Action Plan (NEAP) was prepared by means of "Technical Assistance for Institutional Building as Support to the Employment Policy EU-funded (CARDS) project.
216. NEAP was prepared in line with the EU Employment Guidelines Policy and is adjusted to the conditions and specific features of the labor market in the country.
217. Certain modifications and amendments of the labor legislation have been made in NEAP context. These modifications and amendments are mainly in regard with the labor market flexibility increase.
218. Possibilities for active and more intensive inclusion of specialized private employment agencies on the labor market have been ensured.

5.3.2 Cooperation with the International Financial Institutions

219. The IMF Board of Executive Directors, on 02.08.2004, reviewed and gave a positive estimate for the Stand-by Arrangement Second Review, as well as the ex-post assessment of the arrangements so far with the IMF. They concluded that all the quantitative and structural criteria for monitoring the performance of the Economic and Financial Policy Program, supported by the Stand-by Arrangement, were met. In addition, two essential macroeconomic objectives of the arrangement - maintaining low inflation and reducing the budget deficit to a low, but sustainable level, were achieved. Successful implementation of the Stand-by Arrangement was carried out in complex political conditions and at the same time as the implementation of the Ohrid Framework Agreement.
220. The IMF has expressed willingness to continue its cooperation with the Republic of Macedonia. The main objectives of the next arrangement, to be strongly reform oriented and aimed at

strengthening the existing financial and economic policies, will be agreed with the upcoming IMF Mission in October 2004, and will be, most probably, translated into new medium-term arrangement.

221. The policies to be implemented with the next arrangement will be aimed at maintaining price stability, sound fiscal stance to incorporate fiscal decentralization pressure, improvement of the BOP position, enhancing the economic growth and gradual resolving of the unemployment issue.
222. In addition to the successful implementation of several loan agreements under several projects agreed with the World Bank during 2004, state institutions in the Republic of Macedonia have been engaged in implementation of the policies and meeting the requirements under the public administration reform arrangement - Second Public Sector Adjustment Loan (PSMAL 2).
223. In October 2004, negotiations will commence regarding the design of new structural arrangement with the World Bank. It will be a continuation of the reforms covered under the Second Public Sector Adjustment Loan (PSMAL 2), and will, at the same time, include additional reform activities in the real economy. They will be aimed at improvement of the business environment, increase of the competitiveness of the Macedonian economy and its export orientation, reduction of barriers for FDI entrance, acceleration of court procedures, labor market reforms, transformation of the loss-making enterprises, cadastre reforms, etc.
224. Program Structural Adjustment Loan (PSAL) will be medium-term program of the Government of the Republic of Macedonia and will refer to implementation of comprehensive structural and social reforms in the next 3 years. Approval of this arrangement is expected in June/July 2005.
225. In the coming period, within the structural reforms, major steps will be undertaken in the judiciary; business climate strengthening; labor market reforms; corporate governance strengthening; health sector reforms, especially in the Health Insurance Fund, to the end of rendering best social services. The main challenge remain to be the fiscal decentralization and strengthening the capacities of the municipalities, continuation of the public administration reforms and the process of integration of the Republic of Macedonia in the EU.

5.3.3 Program commitments for poverty reduction in 2004 - 2005

226. There is an ongoing procedure for amending the systemic Law on Social Protection. It should create conditions for broader application of alternative forms of social protection, by individuals and citizen associations.
227. Decentralization measures in this area are implemented at the same time, in accordance with the general commitments arising from the Law on Local Government.
228. With the adoption of the decision to give state-owned agricultural land and one-off pecuniary allo-

wance to the beneficiaries of social welfare, conditions are created for their exit from the social protection system in 2004-2005.

229. Measures are being undertaken for employment of the members of ethnic communities in the social protection institutions and the use of their languages in the procedures for exercising the rights to social protection.

CHAPTER 2

DEFENCE -
MILITARY
ISSUES

CHAPTER 2 / DEFENCE - MILITARY ISSUES

6. SECURITY POLICY

230. The Republic of Macedonia continues with the implementation of security policy priorities that stem from its National Security and Defence Concept. The reform of the security and defence system, regional security cooperation and other activities related to full-fledged NATO membership are complementary aims that represent the foundation of the security and defence policy. The Republic of Macedonia will continue to allocate considerable resources to meet the membership criteria and security-related obligations.
231. In 2003 and 2004, the Republic of Macedonia has taken a series of measures for adjustment of its security system to domestic needs and its harmonization with NATO member-countries' systems. In May 2004, the Parliament of the Republic of Macedonia passed the Protection and Rescue Law, while the Crisis Management Law is currently being developed. The Parliament is expected to adopt this law by the end of 2004. We expect that these laws will enable a significantly higher degree of integration of separate elements of the security and defence system. It will increase capability for dealing with asymmetric threats and compatibility with the Alliance transformation processes.
232. Regional cooperation, especially within the Adriatic Group framework, represents an important segment of our efforts for reaching the criteria for NATO membership, and constitutes an element of Macedonia's security policy. The regional activities of the Republic of Macedonia in the defence area are based on promotion of the principles of respect for human rights, development of democracy and economy, and are focused towards Euro-Atlantic integration and promotion of cooperative instruments for dealing with regional security challenges.
233. The absence of conventional threats against the Republic of Macedonia and the increase of non-conventional and global asymmetrical threats has strengthened our commitment to pool our resources with those of regional partners and increased engagement within the Alliance.
234. In this context, security policy is increasingly affecting the protection of fundamental state values, securing conditions for the long-term development of capabilities and capacities that will contribute to our greater involvement in international activities in addressing new security challenges.

7. DEFENCE POLICY

235. The Republic of Macedonia remains fully committed to the completion of intensive reform processes in the area of defence and fulfilment of NATO membership criteria. The Istanbul Summit recognised the progress achieved in defence reforms and provided important incentive for the successful continuation of defence and security transformation. The Republic of Mace-

donia will continue to work to achieve the goals of the tasks and reforms set out in the Strategic Defence Review.

236. The strategic guidelines foreseen in the National Security and Defence Concept and the Policy Framework of the SDR and approved by the Government in October 2003 remain the foundations of defence reform. In May 2004, the Parliament of the Republic of Macedonia adopted the Resolution on Security and Defence Transformation, thus approving the defence transformation guidelines and their implementation stemming from the Second SDR Stage.
237. The new MoD structure and the new organisation and formation posture of the ARM that will be implemented after the completion of the Third SDR Stage will provide the conditions to respond to new domestic security challenges, as well as increase the capability and capacity for active contribution to the Alliance's collective security. In order to meet these requirements, special attention will be paid in future to the development of defence and armed forces niche capabilities. At the same time, based on the assessed threats, risks and dangers, defence missions and analysis of the existing capabilities, the Republic of Macedonia has established the following defence priorities:
- Harmonisation of the capabilities of the defence system and of the Armed Forces with the new threats, risks and dangers, along with the established defence functions and missions;
 - More efficient allocation of resources within the defence budget, primarily in accordance with the existing standards in NATO countries for the purpose of providing more funds for modernisation and development, improvement of living standard, training and readiness;
 - Further development of the multi-year planning, programming, budgeting and execution system;
 - Attaining interoperability with NATO in all areas, including the capability for participation in the NATO Rapid Reaction Force;
 - Implementation of transformation plans for internal structuring, and development of a policy for personnel management in the defence and armed forces;
 - Implementation of the Plan on Improvement of the appropriate and equitable ethnic representation in the MOD and the ARM;
 - A logistic concept has already been developed and development of an education and training concept will support the new structure.

8. DEFENCE ACHIEVEMENTS AND PLANS

238. During the overall transformation process and the stages realized in 2003-2004 the Republic of Macedonia actively consulted the Alliance and intends to follow this practice for this ANP cycle. Prior to the NATO Istanbul Summit, the Ministry of Defence re-evaluated the reform process and defined the areas that need to be elaborated further. As a part of this evaluation more specific definition will be given to the status and role of Military Academy and Military Hospital, organization of MoD and ARM intelligence, set-up of logistic provisioning, financing of ARM missions abroad and financing of defence reforms, downsizing of surplus personnel, reserve forces concept and

the functioning and organization of military diplomacy. Concurrently, with this process the MOD is making activities for the implementation of the Transformation Programme (third phase of the SDR). In July 2004, the timetable of activities was approved. The timetable document regulates the required legal and system solutions, as well as the activities necessary for implementation of the new organizational and functional defence set-up.

239. Within the timetable of activities, draft amendments for revision of Defence Law, Military Service Law and the Law on Organisation and Function of the State Administration are planned for adoption by the middle of October 2004. During the same time frame, the following top priority documents should be adopted: - the MOD Transitional Organisation and Systematisation; the Military Education, Science, Military and Defence Training and Expert Advancement Strategy; the Human Resources Management Strategy; the National Logistic Defence and ARM Support Concept; the Timetable for Transformation of ARM HQs and Units; the Reserve Forces Concept; and the Military Diplomacy Concept. The development of these documents and their verification by the Government and Parliament of the Republic of Macedonia will ensure implementation of plans and programmes of the MOD and ARM Transformation Programme. At the same time, the MoD transformation will conform with the new legal solutions for the wider security system, primarily the Protection and Rescue Law and the Crisis Management Law that is to be passed by the end of this year.
240. During the roundup of the Third SDR Stage, the MoD will develop a Defence Strategy and a Defence White Paper. These documents will revise and amend the strategic guidelines of Macedonian defence policy in accordance with the results of the Third SDR Stage and will be passed during the implementation period of this-year's ANP.

8.1 Personnel Downsizing

241. According to the Strategic Defence Review, personnel downsizing is one of the key priorities of the Ministry of Defence for the year 2004. In the period 01.01.2004-31.08.2004, the employment of 116 persons ended for various reasons (redundancy, termination of work contracts, divesting of non-essential functions and employment in public economy) not including the regular retirement.
242. The Ministry of Defence initiated talks with the Service for General and Collective Issues within the Government of the Republic of Macedonia on transferring additional number of personnel from MoD and ARM to private agencies that provide technical maintenance to other state institutions. Coupled with the divestiture of the Department for Services and Production and non-essential functions, MoD personnel of this type will be reduced to a minimum.
243. The enforcement of Military Service Law, which provides for early retirement, will result in the retirement of 134 employees by the end of 2004.
244. The establishment of a Protection and Rescue Directorate, which will start functioning on

01 January 2005, will decrease MOD employees by a further 157 by the end of 2005.

245. The anticipated adoption of the Crisis Management Law and the establishment of a Crisis Management Centre will also bring about decrease of the number of MOD employees by 286 in 2005.
246. The number of conscripts will be reduced to 5664 by the end of 2004, and to 4000 by the end in 2005.

8.2 Transfer of the Responsibility for Border Security

247. In the scope of the border security transfer to the border police and for the purpose of achievement of conditions for establishment of an integrated border management system the handover of the southern border with the Republic of Greece took place on 07 May 2004.
248. The handover of the eastern border took place on 01.09.2004, two months ahead of schedule. The handover of the southern and eastern borders in 2004 will brought about reduction of the number of ARM members by 823 members.
249. According to the plans, the handover of the northern border with Serbia and Montenegro should start in May 2005, and the western border with Albania in November of the same year and be completed by the end of 2005. On completion of the transfer of the state border, the number of ARM members will decrease by an additional 637 persons.

8.3 Disposal of Obsolete and Surplus Equipment

250. The process of divesting/disposal of obsolete equipment started with the destruction of the T-55 tanks initiated in January 2004 by decision of the Government of the Republic of Macedonia. In accordance with the Plan, 61 tanks have been destroyed hitherto. The remaining 30 tanks will be destroyed by the end of 2004 upon an upcoming decision of the Government of the Republic of Macedonia. They are expected to be destroyed by the end of 2004.
251. The SU-25 aircraft have been grounded and out of function. We have made contacts for exchange of the aircraft by other assets or maintenance services for other assets of the ARM. No appropriate solution has been reached yet.
252. The remaining equipment to be destroyed (divested) with the transformation that will come out as a result of the new ARM organization/formation and in accordance with the gradual replacement by new sophisticated assets stemming from the procurement plan will be determined by decisions passed by the Steering Logistic Committee responsible for defining the disposal timelines and manners.

² This Law was passed on 26 May 2004

³ A solution has not been found yet for the divesting of the courier service due to the necessity of constancy and functionality of correspondence that will be tried to be integrating with other similar services of other governmental institutions or ministries.

8.4 Participation in Peace Operations

253. The participation in international peace operation with own forces and capacities in realistic military environment is irreplaceable experience for the Republic of Macedonia. Encouraged by the recommendations received at NATO Istanbul Summit, the Republic of Macedonia will continue to increase the scope of its participation in international peace missions. The participation in the ISAF and Iraqi Freedom operations remains on the agenda of the Republic of Macedonia. It has already increased its personnel within ISAF-5 from 10 to 19 persons. The Macedonian personnel are part of the German contingent and the rotation of its personnel is conducted twice a year, in February and August.
254. In addition, there are ongoing preparations for sending a medical team to ISAF. The team will be composed of members of the armed forces of the Republic of Macedonia, Republic of Albania and Republic of Croatia as a result of the enhanced regional cooperation within the Adriatic Group.
255. The current Macedonian engagement in the "Iraqi Freedom" mission includes one special operations platoon with strength of 32, one liaison officer in the MNF in Baghdad and two officers in USCENTCOM - Tampa - Florida or in total 35 persons.
256. Rotation of contingents is carried out two times per year, in June and December.
257. In line with the limited funds, but energetically approaching the SDR realization in the area of declared forces, the Republic of Macedonia expects to be in a position to achieve the allowed utilization of resources by engagement of 210 personnel and their rotation in various missions and contingents.
258. The Republic of Macedonia has prepared the SEEBRIG Company for peace operations, the engineering platoon and the National Support Element (a total of 162 persons) for possible participation in a peace operation in 2005.

8.5 PfP Activities and Programmes

259. In accordance with determined defence policy priorities, the PfP activities and programmes are primarily focused on the implementation of the 2004 Partnership Goals and the support of the transformation process of the armed forces.
260. With the IPP, 164 activities are planned for 2004 with a total of 243 events. By 31 August 2004, 98 activities, or 69.50% of the planned 141 have been realised for the first eight months of 2004.
261. Although it plans to decrease the participation in planned IPP activities, under 150 at annual level in 2005, the MOD will participate with respective financial input.
262. Beginning from 01 January 2005, the Republic of Macedonia will fully cover the financial costs for

its attendees at the Oberammergau NATO school courses in Germany. The relevant funds have already been envisaged in the 2005 budget.

263. The Republic of Macedonia has applied to organise and host four PWP activities in the framework of the IPP in 2005. The relevant funds have been already envisaged in the 2005 budget.

8.6 Other Achievements

264. In 2005, in accordance with the defined Military Diplomacy Concept, the Ministry of Defence plans to pay special attention to the reorganization of military-diplomatic missions. First priority in this respect is the establishment of defence section within the Macedonian Mission to NATO. It is planned for the section to be manned by two defence policy experts.
265. The moratorium on enrolment of new Military Academy (MA) cadets will continue in 2005. We initiated intensive activities for finding solutions for the future MA status after 2006. We expect the alternatives to be offered, evaluated and assessed by the Strategy on Military Education and Science, Military Training, Defence Training and Professional Specialization. It is certain that the cadet graduate studies at the MA will be abandoned because of non-profitability and financial non-justifiability. Attention will be paid to permanent professional military education and research activities in the areas of development of strategy, doctrine and utilization of lessons-learned.
266. The Ministry of Defence expects to resolve the issue of restructuring of the Military Hospital in cooperation with the Ministry of Health and the Ministry of Interior Affairs (Mol). It has initially been agreed to transfer one part of the capacities to the Mol and one to the public health. For that reason, a dynamics will be defined in the course of one year that will determine the transformation procedure. Following a request from the MOD, the Norwegian Aid Committee (NOWAG) has agreed to conduct a study for the restructuring of the Military Hospital from October 2004 to March 2005.
267. In the context of the realization of ARM Units and HQs Transformation Program, we will ensure readiness of the declared forces within the set SDR timelines, as well as transformation and achievement of initial operational capability of 60% of the active units and HQs in the first half of 2005. Criteria definition and selection and assignment procedures have been undertaken in order to select the appropriate personnel for manning of the units and HQs according to the new formation. The number of the active and reserve forces according to the new formation will not exceed the projected SDR figures. The Armed Forces of the Republic of Macedonia will have an active strength of 7,686 and reserve component of 4 851.
268. We adhering to the adopted long-term ARM Equipment Plan (forecast to 2013) and its defined equipment priorities primarily for the declared units, (the Special Forces, Military Aviation and Air Defence and other ARM units) which stem from the new materiel formation. The development of the 2005 budget conforms with the Plan and its priorities.

269. MOD and ARM property and equipment to be converted have been evaluated according the Programme for Property Conversion for 2004 and 2005,.
270. Out of the planned 13 barracks the Ministry of Defence and the ARM divested one and initiated the divesture process for additional two barracks in 2004. Out of six selected Army Homes, it initiated the procedure for divesting three of them. It divested 9 out of 16 canteens; the cattle farms will be divested or given under concession. The MoD has already divested 21 estates.
271. With the exception of one that will be re-designated for ARM needs, it has divested the border-posts near the southern border. The divesture procedure of border-post near the eastern border is ongoing.
272. In order to improve the living standard of the MoD and military personnel, and in accordance with the Governmental Decisions on Replacement of Real Estate, the MoD has exchanged part of its real estate for 42 residential apartments.
273. The Government of the Republic of Macedonia has adopted a Programme on Construction Undertakings for 2004 and it includes the Ministry of Defence for construction of collective residential facilities at the location of the barracks "Goce Delcev" in Skopje.

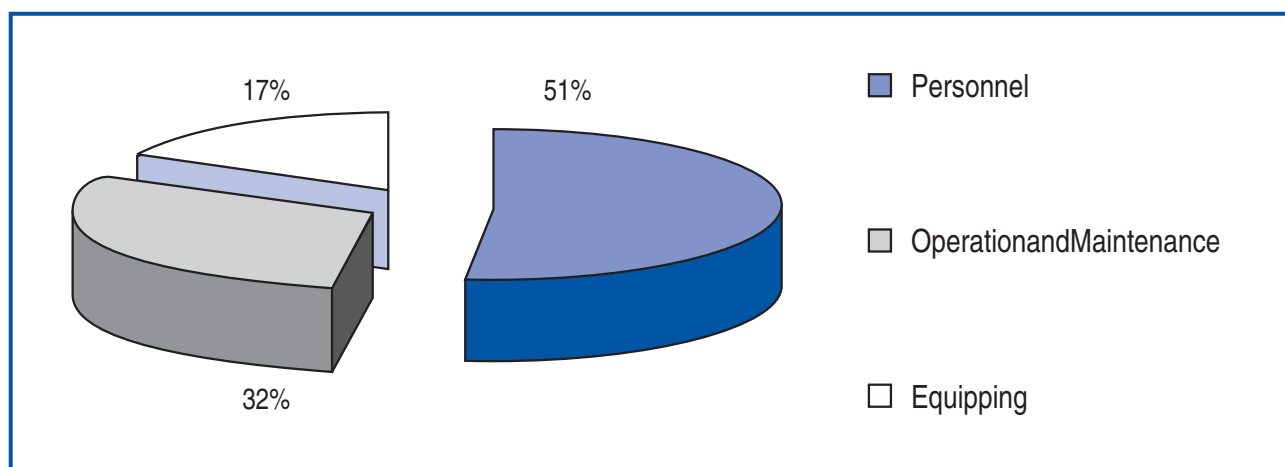
CHAPTER 3

RESOURCES

CHAPTER 3 / RESOURCES

9. DEFENCE RESOURCES

274. The long-term defence budget projection and the principles of long-term planning, programming and budgeting and the commitment for stable and long-term defence financing by allocation of 2.3 - 2.6% of GDP for the defence needs have provided the process of harmonization of the force size with defence missions and the realistic financing capabilities.
275. The amount of approved funds for the 2005 Budget of the Ministry of Defence acknowledges the fact that the Government of the Republic of Macedonia supports the agreed policy. Namely, the 2005 Defence Budget will account for Denar 6.413 million (104.2 million EURO or 122 million US\$), i.e., about 5% more than for the 2004 budget, which is in accordance with the adopted policy for defence funding with 2.3 - 2.6% of the GDP.
276. In the period until 2007, by implementation of structural changes in accordance with the SDR plans, the allocation of the financial resources and their structural representation will reach an acceptable level.
277. This means that in 2005 the personnel costs (including food and uniforms) will take up 51.65% of the available budget, operation and maintenance costs 31.52% of the budget and equipping and modernization 17.22% of the budget resources.



278. The planned allocation of the financial resources implies that the personnel segment is to undergo major changes.
279. As of 2005, the personnel costs will be drastically reduced (by approximately Denar 290 million or 9%), which will allow for a much better budget structure, in comparison with all previous

budgets, i.e., greater financial resources for training, logistics and equipping.

280. The dimensioning of the overall personnel (active and reserve) will acknowledge the budget projection, and therefore, the Human Resources Management Strategy is expected to establish policies and models for enforcing the planned reduction, which will enter its implementation phase in 2005.
281. The realistic financial resources have allowed for development of a long-term equipping plan designed to make the ARM compatible with the armed forces of the NATO member states. The implementation of the equipping plan corresponds to the force structure and it is a realistic basis of the commitment of Republic of Macedonia to build a small and modern army, which will become part of the NATO Alliance.
282. The development of the long-term budget projection, the realistic dimensioning of the force structure (active and reserve component) and the long-term equipping plan have become a realistic basis for successful application of the multiyear planning, programming, budgeting and execution system (PPBES). In accordance with the cycle and timelines for preparation of the defence budget, the Ministry of Defence has met all milestones in the process and has submitted the 2005 Budget Proposal to the Ministry of Finance
283. The other budget users have also agreed to introduce the PPBES.

CHAPTER 4

SECURITY ISSUES

CHAPTER 4 / SECURITY ISSUES**10. CLASSIFIED INFORMATION**

284. With the adoption of the Law on Classified Information on 05.03.2004, the National Security Authority of the Republic of Macedonia was transformed into a Directorate for Security of Classified Information. In line with the Law, the competences and scope of work of the Directorate have been extended to all classified information exchanged between the Republic of Macedonia and a foreign country or an international organization. Within the projected legal timelines, the Directorate has drafted and forwarded to the Government for adoption the envisaged by-laws on administrative, physical, information and personnel security, as well as other regulations for the legal functioning of the Directorate. Furthermore, the new organizational setup of the Directorate envisages an increase in employees by the end of 2006, in line with NATO and EU recommendations.
285. Harmonization of the existing legislation in the Republic of Macedonia will be accomplished within one year of the adoption of the Law in order to achieve full harmonization with NATO regulations.
286. In April 2004, a seminar was held in Skopje for state administration employees to familiarize themselves with the provisions of the Law and its implementation. In addition, a number of workshops will be held after the by-laws have been adopted, concerning their implementation in practice.
287. Upon a proposal of the Directorate, the Government of the Republic of Macedonia has passed a Conclusion on the identification of the positions within state administration that require a NATO security certificate. This activity is ongoing and marks significant progress.
288. The by-law on Information Security (INFOSEC) regulates the national INFOSEC policy and establishes the security accreditation process of networks used in governmental institutions. After its adoption, the security accreditation process of the networks at the Ministry of Defence and the ARM General Staff will start in 2005.
289. The number of registries and control points at the ministries, other bodies of state administration and institutions, that use foreign classified information is anticipated to increase. The dynamism of establishing the registries and control points will be set according to the extent and flow of information and the real needs of the institutions. In 2005, the network of registries and control points in the military structure will increase.
290. The Central Registry, registries and control points meet the minimum NATO standards on security of classified information. When establishing the new registries and control points, particular attention is paid to the requirement to meet the minimum standards on physical security in line

with the by-law on Physical Security. Measures have been taken to upgrade the security features of the ARM General Staff register up to NATO SECRET.

291. Since March 2004, the Directorate has been issuing national Facility Security Clearances. Due to the increased interest in industrial security, a seminar in cooperation with the NATO Office of Security will be held in October in Skopje. The target audience will be employees in state administration and institutions, as well as other interested persons from the private sector who face issues related to this area in their line of work.
292. The Directorate has established cooperation with the relevant authorities of Albania and Bulgaria. Preparations are underway for starting negotiations for concluding agreements on the mutual protection of classified information. Furthermore, initiatives have been launched to establish cooperation with the National Security Authorities of Greece and the Netherlands. In 2005, activities will be undertaken to establish cooperation with other NATO members.
293. In May, the joint EU inspection team visited to gain an insight into the factual situation in the country from the aspect of the security of classified information. After the visit, preparations have started for the conclusion of an Agreement on Security Procedures for the Exchange of Classified Information with the EU.

CHAPTER 5

LEGAL ISSUES

CHAPTER 5 / LEGAL ISSUES**11. LEGAL FRAMEWORK**

294. According to Article 121 of the Constitution, the decision to join international organisations must be approved by the majority of Parliament of the Republic of Macedonia, upon a proposal of the President of the Republic, the Government or at least 40 members of Parliament.
295. In accordance with article 17 of the Law on Defense, the Parliament adopts decisions for membership or cessation of membership into collective security and defense systems.
296. The accession of the Republic of Macedonia to the Washington Treaty is subject to the ratification procedure at the Assembly of the Republic of Macedonia, in conformity with the Law on Concluding, Ratification and Enforcing of International Treaties.
297. After having been ratified, according to Article 118 of the Constitution of the Republic of Macedonia, the Treaty will become a part of the internal judicial system and it will not be possible to change it with a legal act. All commitments of the Republic of Macedonia resulting from this Treaty will be subsequently regulated with separate legal acts or with amendments and supplements to the existing legislation.
298. The participation of the Army of the Republic of Macedonia in activities outside the territory of the Republic is regulated with the Defense Law. According to Article 41 of this Law, the Government passes a decision on the participation of the Army of the Republic of Macedonia in exercises, training and humanitarian operations outside the national territory.
299. According to the same Article, the Assembly of the Republic of Macedonia passes the decision on the participation of the Army in peacekeeping operations outside the national territory. After the commitments resulting from Article 5 of the Washington Treaty have entered into force, this Law will be amended in order to enable participation of the Army of the Republic of Macedonia in the collective defense.

ANNEXES

ANNEX 1

Concrete activities within regional initiatives

1. In the context of the **South East Europe Cooperation Process (SEECP)**, the Republic of Macedonia is primarily committed to full implementation of the harmonized common activities defined in the Action Plan for Regional Economic Cooperation, adopted at the 2001 Skopje Summit. This is a comprehensive framework for regional cooperation, as confirmed by the Heads of State and Government at the SEECP Summit held in April 2004, in Sarajevo.
2. The proactive approach of the Republic of Macedonia within the **Stability Pact (SP)**, especially in 2004, has resulted with several initiatives and projects to be implemented or completed in the course of 2005;
3. The Republic of Macedonia will host the annual meetings of the three SP Working Tables and of the Regional Table, to be held on 18-19 November, 2004, in Skopje;
4. Skopje will be the seat of the Regional MARRI Center- Migration, Asylum and Refugee Regional Initiative Center;
5. Within the Ohrid Border Process the Republic of Macedonia has commenced with the implementation of the National Strategy for Integrated Border Management, which is expected to be complete by the end of 2005;
6. The Republic of Macedonia has signed Free Trade Agreements with all countries of South East Europe and has submitted its application for CEFTA membership;
7. As a signatory to the Athens Memorandum of Understanding for South-East European Energy Market, the Republic of Macedonia supports the initiative for establishment of the South-East European Energy Community. In the field of energy, the following regional projects are underway: AMBO Trans Balkan oil pipeline, TAP Adriatic gas pipeline, and the electric power connection with the Republic of Bulgaria.
8. The Republic of Macedonia will host the Regional Center for Social Policy, which should regulate social, pension and health issues of persons having residence in the Region.
9. Within the **Central European Initiative**, the Republic of Macedonia is committed to strengthening the economic dimension through implementation of certain priority projects of interest to the Region as a whole. The following three projects are underway: Technical Assistance to Improve the Air-navigation System of the Republic of Macedonia; Maintenance of Corridor VIII; Support for the Water-Supply Network in the Republic of Macedonia
10. The Republic of Macedonia actively participates in the activities of the **South East Cooperation**

Initiative (SECI). It is a main implementer of two projects for the unification and standardization of energy systems in the region and for the development of interconnectivity for improved and prompter integration in the energy system of the EU countries. At the SECI Center for the fight against cross border crime in Bucharest, the Republic of Macedonia has its own representatives - liaison officers from the Ministry of the Interior and the Customs Administration.

11. In compliance with the strategic development commitments, and in the context of the regional initiatives and cooperation, the Republic of Macedonia attaches great importance to the construction of Corridors Nos. 8 and 10. They will contribute to enhancing the economic development and security component in the entire Region. The Republic of Macedonia supports the commitments contained in the Memorandum for Understanding on the Pan-European Corridor No. 8 and within its available financial and foreign credit resources, works on the this strategic and important project for the Region. At the same time, Macedonia endeavors to place Corridor No. 8 project higher on the EU agenda.

12. The Republic of Macedonia actively participates in the meetings of the South East Defense Ministerial - SEDM, at all levels. It participates in the activities of SEDM-CC (Coordination Committee) and PMSC (Political Military Steering Committee) of the MPFSEE (Multinational peace forces of South-East Europe), as well as in SIMIHO (Satellite Interconnection of the Military Hospitals, SEESIM (South Eastern Europe Simulation Network), CMEPSEE (Civil Military Emergency Planning South Eastern Europe), SBSC initiative for the fight against proliferation of arms for mass destruction, combat/defense support and border security, fight against terrorism and the recent Greek initiative for cooperation in the field of military production, technology and research. In compliance with the MPFSEE Agreement, signed in Skopje on 26 September 1998, the Republic of Macedonia contributes one mechanized unit and one engineer squad to the SEE Brigade. One of the priorities of the Army of the Republic of Macedonia is to achieve the complete operative alertness of those units and the readiness for their deployment in the SEEBRIG Mission and active participation in 2005, if a joint decision is adopted. In June this year, the Ministry of Defense of the Republic of Macedonia hosted the 6th meeting of TRG for SIMIHO and participated in the Adriatic Fibelks 04 and CMEP 04 exercises. In 2005, the Ministry of Defense will chair the Council of SMER for SEE, and in regard to the initiative of SEESIM, has submitted its candidacy to host SEESIM 06. The next SEDM high-level meeting, i.e. DCGS of SEDM member-states, will be held in the Republic of Macedonia in April 2005.

13. The Republic of Macedonia continues to actively participate in the promotion of regional cooperation and coordination among the SEE countries on security issues of joint interest within the NATO Initiative for SEE. In the course of Macedonia's chairmanship the SEEGROUP (January 2003 - January 2004), with the assistance and contribution of interested member-states and partners of the Alliance, several projects and activities, foreseen in the Action Plan, were concluded. The activities were focused on the SEESTUDY and SEECHANGE, while discussions were also held about issues regarding SALW proliferation and control, border security and management, support for defense reforms, and civil emergency planning.

ANNEX 2

Fair and equal representation of the members of ethnic communities in Mol

1. The Ministry of Internal Affairs undertakes measures in order to employ the members of ethnic communities. In this direction, according to the five opened announcements, 862 individuals belonging to the Albanian ethnic community and 207 individuals from the other ethnic communities were employed in the Ministry as Police officers.

- 279 Police officers belonging to the Albanian ethnic community were employed, and are at the Police Academy in Skopje where they are undergoing basic training.
- 53 individuals belonging to the Albanian ethnic community, with a higher level of education are also employed in the Ministry, and the procedure for employment of and additional 37 is underway.

2. Therefore, the Mol Personnel Establishment has been amended to reflect the requirement of knowledge of the Albanian language for certain posts.

3. By 31.12.2003, there were 11.700 individuals employed in the Mol. Of these 83.7% were Macedonians, 11.4% Albanians, 1.9% Serbs, 0.73% Roma, 0.65% Turks and 1.5% others.

4. By the end of 2004, the new employment structure within the uniformed police should be as follows: 76.6% Macedonians, 18.1% Albanians, 1.9% Serbs, 0.9% Roma, 0.7% Turks and 1.7% others.

ANNEX 2a

Future organizational structure of Mol

1. The Mol will consist of:

- Services responsible for coordination, international cooperation and the public relations;
- Directorate for public security, which will include advisory services in charge of strategic, conceptual planning and definition of the main guidelines and working standards;
- Operational services (Central police services, Border Police and Regional police services) in charge of the operational work of the Mol
- Directorate for Security and Counterintelligence;
- Police Academy, responsible for the education of Mol personnel and personnel from other state institutions working in the security area. It started with basic courses on 01.04.2004, and it is foreseen that on 01.10.2004 it will start with higher-level education related to security. On 18.06.2004, the Police Academy became a member of the Association of European Police Colleges.

ANNEX 2b

Harmonization of domestic MOI legislation with European legislation and the Framework Agreement

1. Law on amendments and supplements of the Law on internal affairs, by which organizational restructuring is made in the MOI, paying special attention to the competences regarding the state border surveillance.
2. Law on amendments of the Law for border crossing in the border line, according to the article 75 from the SAA-"Visa, border control and migration",
3. Law on amendments and supplements of the Law on traffic security in order to harmonize this law with the Directives 91/439/EEZ, 96/47/EZ, 97/26/EK i 2000 /56/EK,
4. Law on amendments and supplements of the Law on travel documents of the Macedonian citizens, in order to harmonize the quality and the features of the travel documents with the EU standards.
5. Law on amendments and supplements of the Law on citizenship
6. The Law on asylum was passed in 2003

The following laws are in procedure:

7. Law on personal data protection
8. Law on arms
9. Law on the interception of the communications
10. Law on fight against terrorism in a procedure for preparing law project
11. Law on foreigners
12. Law on state border surveillance

ANNEX 3

Equitable Ethnic Representation in the MOD and ARM

1. In order to attain equitable ethnic representation and employment in the MOD and ARM 314 persons were trained and employed by the end of August 2004. An additional 141 persons are planned to be employed by the end of 2004.
2. A plan and a financial assessment have been developed for the required assets to increase this number in 2005 and they have been incorporated in the MOD budget proposal for 2005. According to the assessment, the number of persons belonging to the ethnic communities engaged in the defence structures in 2005 are anticipated to increase by 665 persons, 474 out of whom will be from the Albanian ethnic community. On the conclusion of 2005 Employment Plan, appropriate and equitable ethnic representation will be attained for all ethnic communities with the exception of the Albanian community.
3. In order to achieve appropriate and equitable ethnic representation in the Special Operations Unit, 39 persons have been employed by the end August 2004. By the end 2004, this number is expected to increase depending on the applicants from the ethnic communities that meet the employment requirements. It is planned to enlarge the Special Operations Unit with 150 members from the Albanian ethnic community. The procedure for their application, selection and examination has already been initiated . The 2005 budget envisages the necessary finances for the employment of the new Special Operations Unit members.

Data on the newly engaged persons in the Mod and ARM in 2004 by ethnic category and Projection for 2005

Ethnic Community	Employment period 01.01.04 – 31.08.04	Employment period 01.09.04 – 31.12.04	Planned employment in 2005
Albanians	272	141	474
Bosniaks	0	0	6
Macedonians	0	0	235
Roma	2	0	49
Serbs	17	0	23
Turks	13	0	69
Vlachs	5	0	9
Other	5	0	35
TOTAL	314	141	900

¹ Defence/Annex 3: p.2 Data on the newly engaged persons in the Mod and ARM in 2004 by ethnic category and projection for 2005.

² Defence/Annex 3:p.3 Comparative Survey 2001-2004 on distribution of persons belonging to the ethnic communities in the ARM.

³ Defence/Annex 3:p.4 Comparative Survey of Personnel

Comparative Survey 2001-2004 on distribution of persons belonging to ethnic communities in the ARM

No.	Ethnic Community	2001		2002		2003		2004	
		number	percent	number	percent	number	percent	number	percent
1	Macedonians	5242	91.58	7413	91.26	7479	89.09	6792	85.90
2	Albanians	116	2.03	241	2.97	483	5.75	679	8.59
3	Turks	27	0.47	33	0.41	41	0.49	48	0.61
4	Roma	13	0.23	27	0.33	29	0.35	25	0.32
5	Serbs	166	2.90	238	2.93	178	2.12	185	2.34
6	Bosniaks	5	0.09	12	0.15	22	0.26	24	0.30
7	Vlachs	14	0.24	16	0.20	23	0.27	23	0.29
8	Other	141	2.46	143	1.76	140	1.67	131	1.66
	TOTAL	5723	100.00	8123	100.00	8395	100.00	7907	100.00

Comparative Survey of ARM Personnel

COMPARATIVE SURVEY of ARM Personnel (current status, status at the end of 2005 and projected status)																												
	CURRENT STATUS									STATUS at the end of 2005								TOTAL with calculated flux to MoI	PROJECTED STATUS									
	Macedonians	Albanians	Turks	Roma	Serbs	Bosniaks	Vlachs	Other	TOTAL	Macedonians	Albanians	Turks	Roma	Serbs	Bosniaks	Vlachs	Other		TOTAL	Macedonians	Albanians	Turks	Roma	Serbs	Bosniaks	Vlachs	Other	TOTAL
Officers	1371	65	12	2	31	2	8	47	1538	1395	95	12	2	27	2	9	51	1593	1433	591	232	35	24	16	4	4	13	919
NCO	1695	330	18	4	37	9	3	43	2139	1662	359	18	4	34	9	3	39	2128	1711	1240	486	74	51	34	9	9	27	1930
Short-term Volunteers	2521	219	11	10	42	6	3	11	2823	2675	601	73	56	65	12	11	42	3535	3475	3076	1207	185	128	85	23	23	67	4794
Civilians in ARM	1211	65	7	9	74	7	9	30	1412	1137	83	13	11	68	7	9	29	1357	1297	234	92	14	10	6	2	2	4	364
TOTAL	6798	679	48	25	184	24	23	131	7912	6869	1138	116	73	194	30	32	161	8613	7916	5141	2017	308	213	141	38	38	111	8007

ANNEX 4

Situation of internally displaced persons as at 1 September 2004

1. According to the Ministry of Labor and Social Policy data, there is a total of 1829 (or 584 families) internally displaced persons (IDP) in the Republic of Macedonia. 834 IDP's (or 229 families) have been accommodated in private households and collective centers have accepted 995 persons (345 families).
2. The return of IDP's to their homes is continuous and is correlated with the reconstruction of their homes. The reconstruction process started in 2002, after the Brussels Donor Conference.
3. The process of reconstruction of the houses damaged as a consequence of the crisis took place in 2 stages.
4. The first stage involved houses with minor damage, classified into first and second category. The first stage includes the following:

	Total no. of damaged structures
1st category	3547
2nd category	1531
Total	5078

5. In general, all category 1 and 2 structures were reconstructed. During the reconstruction of damaged structures in the second stage, additional structures were registered that had not been included in the first stage. Some of them have been included in ongoing programs. 205 structures are still not included in this stage.

6. The second stage involves structures of the 3rd and 4th category, as follows:

	total no. of damaged structures	repaired as of 30 June 2004
3rd category	718	611
4th category	853	567
Total	1571	1178

7. Concerning structures under reconstruction, it is expected that a total of 29 structures would be finished by November 2004.

8. 200 structures that have been planned for are still not included.

9. 164 structures that are not presently under consideration (on land belonging to other persons), or do not meet the standards of the donors (for example, garages, backyard kitchens, barns, sheds, etc.).

ANNEX 5 IMPLEMENTATION of the Operational Program for Decentralization of Power 2003-2004 (January-September 2004)

1. ESTABLISHING STABLE LEGAL FRAMEWORK

1.1. Laws by which the local self-government system will be finalized

Ord. num.	Title of the Law	Responsible Ministry
1.	Law on territorial organization of the local self-government of Republic of Macedonia	Ministry of Local Self-Government
The Law is adopted by the Parliament of Republic of Macedonia		
<p>With the new law, instead of the former 123, now there are 84 municipalities, with an average size of 25 000 inhabitants, out of which:</p> <ul style="list-style-type: none"> - 16 municipalities up to 5 000 inhabitants - 15 municipalities from 5 000 to 10 000 inhabitants - 20 municipalities from 10 000 to 20 000 inhabitants - 14 municipalities from 20 000 to 50 000 inhabitants - 8 municipalities from 50 000 to 100 000 inhabitants - 1 municipality with over 100 000 inhabitants and - The City of Skopje with 10 municipalities and 502 665 inhabitants <p>43 municipalities have their main office in a city and 37 in the rural area. The implementation of the Law has been postponed due to the citizens' initiative for holding a referendum in favour or against the territorial organization.</p>		
2.	Law on the City of Skopje	Ministry of Local Self-Government
The Law is adopted by the Parliament of Republic of Macedonia		
<p>With the new law, the existing area of Skopje is enlarged, and instead of the former 7, 10 city municipalities are formed. The relations between the city and the municipalities that are part of it are precisely defined.</p>		
3.	Law on local elections	Ministry of Justice
The Law is adopted by the Parliament of Republic of Macedonia		
<p>In accordance with the amendments to the law, the procedures for conducting local elections have been approximated with the provisions of the general election legislation.</p>		
4.	Law on financing of municipalities	Ministry of Finance
The Law is adopted by the Parliament of Republic of Macedonia		
5.	Law on communal fees	Ministry of Finance
The Law is adopted by the Parliament of Republic of Macedonia		

6.	Law on administrative fees	Ministry of Finance
The Law is adopted by the Parliament of Republic of Macedonia		
7.	Law on property taxes	Ministry of Finance
The Law is adopted by the Parliament of Republic of Macedonia		
8.	Law on organization and work of state administration bodies	Ministry of Justice
The Law is in Governmental procedure		
9.	Law on referendum and citizens' initiative	Ministry of Justice
The Law is in Governmental procedure		

1.2. Laws by which the transfer of competences is to be conducted

Ord. num.	Title of the Law	Responsible Ministry
1.	Law on Culture	Ministry of Culture
The Law is adopted by the Parliament of Republic of Macedonia		
2.	Law on Defence	Ministry of Defence
The Law is adopted by the Parliament of Republic of Macedonia		
3.	Law on protection and rescue	Ministry of Defence
The Law is adopted by the Parliament of Republic of Macedonia		
4.	Law on trade	Ministry of Economy
The Law is adopted by the Parliament of Republic of Macedonia		
5.	Law on healthcare	Ministry of Health
The Law is adopted by the Parliament of Republic of Macedonia		
6.	Law on museum activity	Ministry of Culture
The Law is adopted by the Parliament of Republic of Macedonia		
7.	Law on monuments and commemoration plaques	Ministry of Culture
The Law is adopted by the Parliament of Republic of Macedonia		
8.	Law on libraries	Ministry of Culture
The Law is adopted by the Parliament of Republic of Macedonia		
9.	Law on primary education	Ministry of Education and Science
The Law is adopted by the Parliament of Republic of Macedonia		
10.	Law on secondary education	Ministry of Education and Science
The Law is adopted by the Parliament of Republic of Macedonia		
11.	Law on construction	Ministry of Transport and Communications
The Law is in Parliamentary procedure – II phase		
12.	Law on road transportation	Ministry of Transport and Communications
The Law is adopted by the Parliament of Republic of Macedonia		

13.	Law on naming the streets, squares and other infrastructure objects	Ministry of Transport and Communications
The Law is adopted by the Parliament of Republic of Macedonia		
14.	Law on catering	Ministry of Economy
The Law is adopted by the Parliament of Republic of Macedonia		
15.	Law on tourism	Ministry of Economy
The Law is adopted by the Parliament of Republic of Macedonia		
16.	Law on crafts	Ministry of Economy
The Law is adopted by the Parliament of Republic of Macedonia		
17.	Law on social welfare	Ministry of Labour and Social Policy
The Law is adopted by the Parliament of Republic of Macedonia		
18.	Law on child protection	Ministry of Labour and Social Policy
The Law is adopted by the Parliament of Republic of Macedonia		
19.	Law on spatial and urban planning	Ministry of Environment and physical planning Ministry of Transport and Communications
The Law is in Parliamentary procedure – II phase		
20.	Law on protection of nature	Ministry of Environment and physical planning
The Law is adopted by the Parliament of Republic of Macedonia		
21.	Law on waste management	Ministry of Environment and physical planning
The Law is adopted by the Parliament of Republic of Macedonia		
22.	Law on air quality	Ministry of Environment and physical planning
The Law is adopted by the Parliament of Republic of Macedonia		
23.	Law on fire-fighting	Ministry of Interior
The Law is adopted by the Parliament of Republic of Macedonia		
24.	Law on students' standard	Ministry of Education and Science
The Law is in Parliamentary procedure – I phase		
25.	Law on public roads	Ministry of Transport and Communications
The Law is adopted by the Parliament of Republic of Macedonia		
26.	Law on supply of drinking water and discharging of city waste waters	Ministry of Transport and Communications
The Law is adopted by the Parliament of Republic of Macedonia		
27.	Law on protection of population against contagious diseases	Ministry of Health
The Law is adopted by the Parliament of Republic of Macedonia		

28.	Law on sport	Ministry of Justice
The Law is adopted by the Parliament of Republic of Macedonia		
29.	Framework law on environment	Ministry of Environment and physical planning
The Law is in Parliamentary procedure – I phase		
30.	Law on waters	Ministry of Environment and physical planning Ministry of Agriculture, Forestry and Water Economy
The Law is in Parliamentary procedure – I phase		
31.	Law on pasture land	Ministry of Agriculture, Forestry and Water Economy
The Law is in Governmental procedure		
32.	Law on agricultural exchange market	Ministry of Agriculture, Forestry and Water Economy
The Law is in Governmental procedure		
33.	Law on public enterprises	Ministry of Economy
The Law is in Governmental procedure		

1. SECURING TRANSPARENCY OF THE DECENTRALISATION PROCESS

Ord. Num.	Activity	Responsible Ministry
1.	Information campaign	Ministry of Local Self-Government
A television video and radio clip was produced, as well as the campaign's logo. Promotion materials related to the campaign were produced. A media caravan was organised, public forums and media appearances of experts.		

ANNEX 5a

LIST OF PROJECTS

Supported by the International Donor Community related to the decentralization

DONOR: European Union

Implementing Agency	Title of the Project
European Agency for Reconstruction	<ul style="list-style-type: none"> • PHARE //Reform of Local Self Government//
	<ul style="list-style-type: none"> • CARDS 2002 //Support to the NGO sector in the economically underdeveloped areas of the country //
	<ul style="list-style-type: none"> • CARDS 2003 //Assessment of the Municipal Debts with Recommended Alternatives for their Resolution //
	<ul style="list-style-type: none"> • CARDS 2003 //Certified Training to the Employees in the Municipalities for Finances and Tax Administration //
	<ul style="list-style-type: none"> • CARDS 2004 //Development of unique system of financial reporting and accounting in the municipalities//
	<ul style="list-style-type: none"> • CARDS 2004 //Development of Units of Internal Audit in the Municipalities //
	<ul style="list-style-type: none"> • CARDS 2003-2006 //Development of Local Infrastructure Projects //
	<ul style="list-style-type: none"> • CARDS 2003-2005 //National Plan and Feasibility Study for the Waste in Eastern Macedonia //

DONOR: United States of America

Implementing Agency	Title of the Project
USAID	<ul style="list-style-type: none"> • //Technical Assistance for Local Self-government Reform (1997-1999) – first phase//
	<ul style="list-style-type: none"> • //Technical Assistance for Local Self-government Reform (1999-2004) – second phase//
	<ul style="list-style-type: none"> • //PRiSMa// (2000-2004)
	<ul style="list-style-type: none"> •
	<ul style="list-style-type: none"> • //Initiative for Self-aid of the Communities //
	<ul style="list-style-type: none"> • //Activities in the Secondary Education (2004-2007) //

DONOR: Italy

Implementing Agency	Title of the Project
Ministry of Local Self-government	<ul style="list-style-type: none"> • //Protection of the environment along the Valley of Radika River// (2004-2006)
	<ul style="list-style-type: none"> • //Local Economic Development// (2004-2006)

DONOR: Germany

Implementing Agency	Title of the Project
	<ul style="list-style-type: none"> • //Social Infrastructure - I phase // (2000-2003) • //Social Infrastructure - II phase // (2003-2004) • //Environmental Protection of Ohrid Lake// (2002-2004) • //Upgrading of the Vocational Education in Technical Occupations // (2002-2004) • //Water Supply of Ohrid and Struga (2003-2004)// • //Comercialisation of the Public Communal Enterprises // (2002-2005) • //Disposal of the Communal Solid Waste in the Southeast Part of RM // (inception phase of realisation) • //Supply of Drinking Water, Treatment of Waste Water in the Western Part of Republic of Macedonia - I phase - Tetovo// (inception phase of realisation) • //Environmental Protection of Prespa Lake// (2004-2006) • //Water Supply of Prilep// (2003-2007)

DONOR: Sweden

Implementing Agency	Title of the Project
SIDA	<ul style="list-style-type: none"> • //Integrated Rural Development// (2002-2004)

DONOR: Switzerland

Implementing Agency	Title of the project
Swiss Agency for Development and Cooperation (SDC)	<ul style="list-style-type: none"> • //Training for Decentralisation to the Municipalities//

DONOR: United Kingdom

Implementing agency	Title of the Project
DIFID	<ul style="list-style-type: none"> • //Public Administration Reform//

DONORS: United Nations, Norway, Sweden, Finland, Luxembourg, Netherlands

Implementing Agency	Title of the Project
UNDP	<ul style="list-style-type: none"> • //Building of Consensus and Environment management and Sustainable Development in Veles// (1999-2001)
	<ul style="list-style-type: none"> • //Strengthening of Capacities of Local Authorities for Transparency and Financial Accountability // (2002-2003)
	<ul style="list-style-type: none"> • //Young People Employment Support (YES)// • (2001-2003)
	<ul style="list-style-type: none"> • //IT and Support for Communication Technology for the Municipalities in Macedonia // (2000-2004)
	<ul style="list-style-type: none"> • //Development of Model of Macedonian Municipality // (2002-2004)
	<ul style="list-style-type: none"> • //Strengthening of the Capacities of the Ministry of Local Self-government // (2002-2004)
	<ul style="list-style-type: none"> • //Local e-Government in Macedonia// (2003-2004)
	<ul style="list-style-type: none"> • //Fund for Local Development// (2003-2004)
	<ul style="list-style-type: none"> • //Mapping na Socio-economic Disparities of Macedonian Municipalities// (2003-2004)
	<ul style="list-style-type: none"> • //Programme for Support to Municipalities // (2003-2004)
	<ul style="list-style-type: none"> • //Management of an Integrated Eco-system in the Cross-border Region of Prespa Park// (2003-2004)
	<ul style="list-style-type: none"> • //National Report on <i>Human Development</i> // (2003-2004)
	<ul style="list-style-type: none"> • //Support for Establishment of Information Network of Local Authorities // (2003-2005)
	<ul style="list-style-type: none"> • //Local Governance for Sustainable Human and Economic Development // (2003-2006)
	<ul style="list-style-type: none"> • //Strengthening of the Capacities of Local Authorities – building of Appropriate Economic Environment // (2003-2005)
UN-HABITAT	<ul style="list-style-type: none"> • //Municipal Administration and Planning of Urban Development// (2004-2007)

WORLD BANK

Implementing Agency	Title of the Project
Project Units	<ul style="list-style-type: none"> • //Development of Municipalities and Culture// (2002-2006)
	<ul style="list-style-type: none"> • //Reforms in the Health Sector// (2002-2006)
	<ul style="list-style-type: none"> • //Development of Municipalities// (2003-2007)
	<ul style="list-style-type: none"> • //Modernisation of Education// (2004-2008)
	<ul style="list-style-type: none"> • //Implementation of Social Protection// (2004-2008)

ANNEX 5b ACTIVITIES

related to the reform of local self-government and decentralisation of power planned for 2005

- 1. Institutional and HR strengthening of the Ministry of Local Self-government in order to enable successful follow-up of the decentralisation process and support to the development of the municipalities;**

Activity	Competent Body
1. New organizational setup of the Ministry of Local Self-government	Ministry of Local Self-government
2. Employment and training of the employees in the Ministry of Local Self-government	Ministry of Local Self-government
3. Adoption of the Strategy for Implementation of the Reform of the Local Self-government 2005-2007	Ministry of Local Self-government Government of RM
4. IT support of the decentralization process as a part of the Strategy for Development of IT Society in Macedonia	Ministry of Local Self-government
5. Establishment of database for the Units of local self-government	Ministry of Local Self-government

- 2. Fiscal decentralisation including the transfer of the fiscal competencies;**

Activity	Competent Body
1. Defining and transfer of property to the municipalities	Ministry of Finance
2. Certified training for the employees in the municipalities for finances and tax administration	Ministry of Finance
3. Preparation of methodologies for allocation of from the Budget of RM and the Budgets of the Funds	Ministry of Finance
4. Strengthening of the process of financial management	Ministry of Finance

- 3. Development of legal supervision and oversight over the work of municipalities;**

Activity	Competent Body
1. Preparation of Law and bylaws for internal audit in the public sector	Ministry of Finance
2. Development of unique system for financial reporting and accounting in the municipalities	Ministry of Finance
3. Development of unique system for supervision of acts of municipalities	Ministry of Local Self-government

4. Institutional strengthening and capacity building of the municipalities for take over the new competencies and the new role, which they have in the European and Euro-Atlantic integrations;

Activities	Competent Body
1. Upgrading of the individual capacities of the employees and the appointed persons	Ministry of Local Self-government Civil Servants Agency
2. Development of methods and mechanisms for inclusion of the social partners and citizens in the creation of the policy and decision-making.	Ministry of Local Self-government Ministry of Justice
3. Establishment of an integrated IT system for the municipalities.	Ministry of Local Self-government Ministry of Education and Science
4. Building of infrastructure objects related to the implementation of the functions of the municipalities.	Ministry of Local Self-government Ministry of Environment and Spatial Planning Ministry of Transport and Communications Ministry of Finance
5. Building of efficient cooperation relations between the local and central authorities.	Ministry of Local Self-government Association of Local Self-government Units of RM
6. Development of cross-border cooperation	Ministry of Local Self-government, Municipalities, Government

ANNEX 6

Measures and activities for reform of the judicial system

1. Strengthening the independence of the judiciary

The following activities are planned to enhance the independence of the judiciary:

- Selection of judges
- Election and dismissal of judges
- Training of judges; and
- Financing of the judiciary

2. Increasing the efficiency of the judiciary

Increased efficiency of the judiciary presupposes changes in several segments of the judicial system, aimed at removing the causes for procedure delays, such as:

- Changes in the organizational structure of the courts, with the necessary amendments to the Constitution, Law on Courts, Law on Misdemeanours;
- Reform of the Forwarding system in the courts;
- Simplification of the procedures, with modifications to the procedural laws - Criminal Procedure Code, Civil Procedure Code; Laws on Executive Procedure and Misdemeanours;
- Alternative dispute resolution;
- Finalization of the process of introduction of an IT system in the courts.

II. Public Prosecutor's Office

For further improvement of the status of the public prosecutors organization, measures will be undertaken to: upgrade the constitutional and legal framework for independence of the public prosecutor, improve the appointment system, organizational structure and efficiency in the basic function of prosecuting.

III. Penitentiary system

There are activities under way for the transformation of the status and network of the penitentiary-correctional institutions, improvement of the residency conditions of the convicted and the technical equipment of the institutions. Special attention is paid to the introduction of alternative measures, such as alternative sanctions, aimed at advancing the system of criminal and misdemeanour sanctions.

IV. Public Attorney

Measures will be undertaken to ensure better protection of property rights and forms of ownership under public law.

V. Lawyer's profession

Measures will be undertaken to improve the status of the lawyer's profession as a public profession, as well as its positioning and cooperation with the courts and other bodies.

VI. Public notaries

Measures will be undertaken to improve the performance of the notaries' activities.

In respect of the implementation of the above referred to reforms an Action Plan is prepared with deadlines and implementing bodies.

ANNEX 7

Amendments and supplements to the Constitution and legislation related to the fight against corruption and organized crime)

1. Constitution of the Republic of Macedonia

At its session held on 10.09.2003, the Parliament of the Republic of Macedonia adopted a decision to adopt Amendment 19 to the Constitution of the Republic of Macedonia (amending Article 17), on legalization of phone tapping, which is a basis for amendments to the Criminal Procedure Code and adoption of a special law which will regulate the procedure for application of the special investigative measures.

2. The Law on Public Prosecutor's Office was adopted

(Published in the Official Gazette of RM, No. 38/2004)

The objective of the Law is:

- Improvement of the position of the public prosecutor and its independence;
- Harmonization of the provisions in the Law with the international standards in this area;
- Establishment of a special department within the Public Prosecution of the Republic of Macedonia with prosecutors specialized for fight against organized crime (following the recommendations of the GRECO Group of the Council of Europe for fight against corruption, as well as of other international organizations);
- Establishment of a Council of Public Prosecutors as an advisory body;
- Placing of members of MoI and other bodies at disposal to the Public Prosecution in the course of the prosecution

In accordance with the new Law on Public Prosecutor's Office, there has been a Unit against Organized Crime and Corruption established; the start of the work of this Unit is planned not later than the end of 2004.

3. Law on Amendments and supplements to the Criminal Procedure Code (in the second reading in Parliament)

The objective of the Code is creation of a normative basis for suppression of organized crime and other severe forms of crime, harmonization of the national legislation with the legislation of the European Union and with the provisions of the ratified international documents.

The Code contains provisions that establish:

- Special investigative measures;
- Preventive measures for securing the presence of the defendant in the course of the procedure;
- Securing protection of witnesses, informants and victims;
- Procedures against legal entities;
- Procedure for confiscation of property, for freezing and seizure of assets;

Implementation of the ratified international legal documents and recommendations;
Procedures for carrying out of transfer of sentenced persons.

The Law on amendments and supplements to the Criminal Code of the Republic of Macedonia was adopted (Published in the Official Gazette of RM, No 19/2004)

The objective of the Code is:

Introduction of efficient measures for prevention and strengthening the penal and legal repression and creation of efficient instruments for fight against crime.

The Code:

Establishes new criminal offences, sanctions the new forms of money laundering, computer crime, trafficking of migrants;

Foresees criminal responsibility of legal entities;

Introduces the institute of confiscation of property and material proceeds;

Redefines the system of sanctions, by introducing the alternative sanctions.

The Law on amendments and supplements to the Law on Prevention of Corruption was adopted (June 2004).

Objective of the Law is:

Strengthening of the independence of the State Committee for Prevention of Corruption; and Broadening its competencies in respect of other entities in the legal and financial operations.

6. The Law on Public Procurements was adopted.

The objective of the Law is to reduce the possibilities for corruptive behavior in the course of public procurements;

Law on Witness Protection (which also regulates issues related to protection of victims)
(Draft. Submitted for expertise to the Council of Europe. Deadline for adoption: October 2004).

Law on conditions and procedure for surveillance of communications (in the adoption stage b
Deadline for adoption: end of 2004)

9. Law on political parties
(Draft; Deadline for adoption: 2005)

Law on prevention of conflict of interest
(Draft; Deadline for adoption: 2005)

Law on free access to public information

(Draft; Deadline for adoption: 2005)

Activities at the international level:

Ratification of international documents

The laws by which the following international documents were ratified a, were adopted: (published in Official Gazette of the RM No. 30/2004):

International Convention for Prevention of Terrorist attacks by means of explosives of UN

International Convention on Prevention of Financing of Terrorism of the UN

Protocol No. 12 to the Convention for Protection of Human Rights and Fundamental Freedoms; and Protocol No. 13 to the Convention for Protection of Human Rights and Fundamental Freedoms, related to abolition of death penalty in all circumstances

The procedure for ratification of the UN Convention on Transnational Organized Crime and its Protocols started.

(The ratification was postponed pending amendment of Article 17 of the Constitution of the Republic of Macedonia. Now, after the adoption of this amendment along with the amendments to Criminal Procedure Code, which is in a parliamentary procedure, the legislation will be harmonized and, after the ratification, it will be possible to implement the Convention.

The Laws on ratification of the following international documents were adopted:

The European Convention on Sanctioning of Terrorism, of Council of Europe (July 2004, OG of RM No. 49/04)

European Convention on Transfer of Penal Procedures, of Council of Europe (July 2004; OG of RM No. 49/04);

Convention on Computer-Cyber Crime, of Council of Europe (June 2004, OG of RM no. 41/04)

By the end of 2004 and in the course of 2005 the following already signed Protocols will be adopted:

- Protocol amending the European Convention on Sanctioning of Terrorism, of Council of Europe

Additional Protocol to the Convention on Computer and Cyber Crime, of Council of Europe;
Additional Protocol to the Penal Convention against Corruption, of the Council of Europe.

In the course of 2004, the new UN Convention against Corruption, which was adopted at the General Assembly of the UN at 31.10.2004, will be adopted.

ANNEX 7a

Report about the work of the State Commission for Prevention of Corruption

1. The Commission contributes to strengthening the responsibly of holders of public offices and authorized officers of legal entities.

2. In 2003, upon the initiative of the Commission there were 593 persons detected and reported for the crime of abuse of official duties, which is 33% increase as compared with the previous year.

3. As of the establishment of the Commission until the end of June 2004, this Commission processed 926 applications submitted by citizens and legal entities:

- 266 are related to unlawful work of state organs;
- 122 are related to irregularities in the privatization;
- 189 are against irregularities in the work of courts and delays of the procedure;
- 126 against irregularities in the work of public enterprises, health care and education institutions;
- 76 against irregularities in the work of companies;
- 54 against irregularities in the bankruptcy procedure; and
- 97 other applications.

4. Upon the Initiative of this Commission, 26 procedures were initiated and 82 requests for minor offense procedures have been submitted.

5. The Commission has also submitted

- 72 initiatives for criminal prosecution and other measures:
- 14 initiatives for criminal prosecution submitted to the Public Prosecutor's Office;
- 10 initiatives for examination of the property status of appointed or elected holders of office;
- 39 initiatives for examination of the property status of legal entities;
- 5 initiatives to the Ombudsman for annulment of privatization;
- 2 initiatives for reexamination of decisions for dismissal of persons on grounds of their cooperation with the Commission; and
- 2 initiatives submitted to the Public Prosecutor's Office for rejected criminal charges.

6. In accordance with the competencies defined in the Law on Prevention of Corruption, the Commission continues:

- The procedures for examination of the survey lists submitted by appointed or elected holders of office;
- The additional examination of the property status after the end of the term of office;
- Initiatives for examination of the property status of appointed and elected persons in respect of which the Commission processes cases;
- Following the financing of the political parties, trade unions, associations of citizens and foundations;

- Following the implement of control measures of gift acceptance;
- Following the implementation of measures for control of public procurements in accordance with the new Law on Public Procurements adopted this year; and
- Prevention of corruption in the performance of duties of public interest.

7. In respect of the above, priority tasks will be:

- Evaluation of each quarter and assessment of the measures and further activities;
- Organization of round tables, public debates and other forms of public relations;
- Strengthening the cooperation with international bodies and with similar institutions;
- Cooperation with NGO's and independent experts.

8. At the Conference held at the end of June 2004, with representatives of several organs and of the Council of Europe (Pako Impact project), in addition to the assessment of the success in the implementation of the program, there were further measures for improvement / upgrading of the program defined.

9. Under the Pako Impact Program, the Council of Europe decided that the Republic of Macedonia host the forthcoming regional Conference of Southeast European countries.

ANNEX 8 BASIC MACRO ECONOMIC INDICATORS

	1999	2000	2001	2002	2003	2004
					Estimation	Projection
GDP						
-Real growth rate	4.3	4.5	-4.5	0.9	3.2	4.0
- in mil. US\$ (nominal)	3.674	3.588	3.437	3.769	4.692	5.017
Inflation (Costs of Living CPI, average)	-0.7	5.8	5.5	1.8	1.2	2.8
Investment in fixed assets (% of GDP)	16.6	16.2	14.8	16.5	16.1	17.1
Average monthly net wages						
- nominal growth	2.9	5.5	3.5	6.9	4.8	3.5
- real growth	3.6	-0.3	-2.0	5.1	3.6	0.7
Employment growth rate (in %, LFS)	1.0	0.8	9.0	-6.3	-2.9	3.0

Source: Ministry of Finance, SSO, National Bank of the Republic of Macedonia

ANNEX 9

1. Adopted Laws and regulation on Education:

- Draft Law on Changing and Amending the Law on Primary Education
- Draft Law on Changing and Amending the Law on Secondary Education
- Law on Changing and Amending the Law on Higher Education
- Draft Law on Students' Standard
- Law on Establishment of the State University in Tetovo (Albanian is the teaching language)

2. A Decision for Additional Quotas for the Members of Communities in the First Year of Studies for 2004-2005 at the State Universities "St's Cyril and Methodius" in Skopje and "St. Clement Ohridski" in Bitola was adopted.

3. Draft National Program for Development of Education in the Republic of Macedonia for 2005 - 2015 was adopted.

4. Strategy for Decentralization of Education was adopted.

REPUBLIC OF MACEDONIA

ANNUAL NATIONAL PROGRAM

2004 / 2005