**EU FINANCIAL SUPPORT FOR THE REPUBLIC OF MACEDONIA**

***Marina Radosavljevik – Bojceva - Junior assistant, MSc.***

***Zoran Temelkov - Junior assistant, MSc.***

**Abstract**

The European Union, in the last few decades, has paid special attention to promoting economic and social cohesion among the member countries of the Union, and it is particularly interested in providing support to the economic and social development of the potential candidates in order to ensure them a high quality of life.

The EU’s policy has the objective of helping these countries with specific targeted financial aid.

The instruments like PHARE, CARDS, SAPARD, ISPA and the newest IPA with their efficiency and effectiveness provide support for the potential candidates to transform their country to conform to the EU’s standard.

The EU financial support is available for the Republic of Macedonia in order to help it to realize the economic and political reforms, investment projects, to strengthen democracy that respects human right and the rule of law as well as functioning market economy which can face up to increased competition in the global economy.

**Key words**: European Union, cohesion, instruments, pre-accession assistance, financial support

**JEL classification**:

**Introduction**

The EU’s assistance aims to help the country complete the planned reforms necessary to obtain EU membership. Since 1992 the financial aid of the European Union was distributed through the PHARE, ISPA, SAPARD and CARDS programmes.

Since 2007 the Republic of Macedonia has received EU financial aid under the instrument for pre-accession assistance (IPA).

The purpose of support under the Instrument for Pre-Accession Assistance (IPA) programme is to help the country to progress towards fully meeting the Copenhagen political and economic criteria as well as adopting and implementing the EU acquis.

Financial assistance is being implemented through numerous projects following the process of programming and contracting.

At the present time, more than 250 EU-financed projects were completed or are being implemented in the Republic of Macedonia.

**EU financial support for the Republic of Macedonia**

The European Union is the largest economic, political and cultural alliance in the world. Increasing the international role of this alliance will be the biggest test of the years to come. The challenges of the modern world increase and the role of a united Europe is to protect its interests and at the same time to promote democratic principles around the world. This will not be possible without increasing the internal cohesion and economic power within the EU itself. Therefore, the EU is developing mechanisms in order to boost the future members economically before joining the EU. Different funds are designed to strengthen democratic values ​​in these countries, and to build and reinforce the institutions for implementing the assistance processes from EU funds, to develop a system which will allow an easier use of structural and cohesion funds after inclusion in the EU. These funds enable the use of larger amount of assistance and the mechanisms of their functioning are rather complex.

Using funds from European Union funds depends on the application of economic and social, political and institutional criteria. According to these criteria, each state must have a functioning market economy, stability of institutions, and existence of rule of law and to accept common rules, standards and policies that comprise the body of EU laws. Meeting these criteria is a condition for the future membership in EU.

All the assistance received is intended to facilitate the accession of the candidate to the EU. The Republic of Macedonia, as one of them, has made a considerable progress in fulfilling these criteria.

The main institutions participating in the creation of policies, priorities and allocation of funds are: The European Commission, The Europe Aid Office, and European Agency for Reconstruction, The European Parliament and Council.[[1]](#footnote-1)

There are different ways of managing funds for programs outside the EU. Centralized management exists when the EC institutions are responsible for the entire project cycle, and decentralized is when the management and the responsibilities are transferred from the Commission to the recipient country.

The EU financial instruments can be divided into two groups: internal and external instruments. Internal are those instruments that are intended to support the cohesion between the Member States of the EU (Structural Funds and Cohesion Fund), while the external are intended to prepare the countries aspiring to EU membership.

Hoping to assist the candidate countries in their preparations for joining, the EU provides them with financial support implemented through the so-called External instruments: Phare, SAPARD, ISPA and CARDS.

Republic of Macedonia in its process of transition and reform processes of socio-political and economic system, from the moment of its independence, has received the most support from the EU, which is also the largest donor to multilateral basis.

First, this aid was provided in 1992 through the Office for Humanitarian Aid of the European Community (ECHO). In 1996 started the Phare Program, where the main priority areas of work were upgrading the institutions and economic and social cohesion[[2]](#footnote-2). In July 1996, Macedonia became a full member with the right to use the opportunities this program offers. Through national programs operating from 1996 to 1999, the Republic of Macedonia implemented projects in various fields, totaling 60.96 million euro.

*Table 1. National program operating from 1996 to 1999 for the Republic of Macedonia[[3]](#footnote-3)*

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Year** | **1996** | **1997** | **1998** | **1999** |
| **Milion euro** | 16.72 | 16.8 | 12.64 | 14.8 |

Besides the National programs there were projects implemented through the Cross-border program amounting to 36.83 million euro.

After 2000, the assistance to the Republic of Macedonia continued to be conducted through the CARDS program (Community Assistance for Reconstruction, Development and Stabilization of the Western Balkans). The key priorities of the CARDS program are: reconstruction, democratic stabilization, reconciliation and refugee return, institutional development and modernization of legislation, including the harmonization of norms and standards of the EU, sustainable economic and social development, promoting closer relations, mutual regional cooperation and cooperation with the EU. With Regulation 2666/2000 of the European Council, adopted on December 5, 2000, the distribution of aid to Macedonia was drawn through: National strategy paper (CSP), which covered a period of six years, Multi-annual indicative programs (MIP), covering a period of three years, and annual action programs (AAP).

*Table 2. Annual action programs from 2001-2006 for the Republic of Macedonia[[4]](#footnote-4)*

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Year** | **2001** | **2002** | **2003** | **2004** | **2005** | **2006** |
| **Milion euro** | 38.5 | 37.5 | 38.5 | 47.5 | 34.5 | 30.5 |

Numerous projects related to: democracy and the rule of law, economic and social development, justice and home affairs and the environment were implemented through the proposed annual programs.

The Pre-accession instrument started its application on 01.01.2007, following the timing of the new financial perspective of the EU (2007-2013). IPA takes the work of the previous five financial assistance instruments (Phare, ISPA, SAPARD, Turkey instrument and CARDS), and thus unite the whole pre-accession assistance given by the Union. The new IPA instrument is introduced in order to ease management of aid by the European Union, however, it does not mean that all countries will have the same treatment – the differentiation to the IPA components is provided with different approaches for different categories of countries.

The main objectives of the IPA instrument are: strengthening democratic institutions and rule of law, reforms in public administration, carrying out the economic reforms respecting human and minority rights, promoting gender equality, supporting the development of civil society and advancing regional cooperation; as well as sustainable development and reducing poverty in these countries.

The total amount of funds proposed for IPA Programme for the period 2007- 2013 is about 12 million euro, whereas according to the IPA budget for 2007-2013, calculated by components for the Republic of Macedonia amounted to 507.3 million euro.

*Table 3. IPA budget for 2007-2013[[5]](#footnote-5)*

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Year** | **2007** | **2008** | **2009** | **2010** | **2011** | **2012** | **2013** | **Total** |
| **Milion euro** | 1.40 | 1.57 | 1.63 | 1.82 | 2.08 | 2.17 | 2.23 | 12.90 |

*Table 4. IPA budget for the Republic of Macedonia[[6]](#footnote-6)*

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Components** | **I** | **II** | **III** | **IV** | **V** | **Total** |
| **Year** |  |  |  |  |  |  |
| **2007** | 41.6 | 4.2 | 7.4 | 3.2 | 2.1 | **58.5** |
| **2008** | 39.9 | 5.3 | 12.3 | 6 | 6.7 | **70.2** |
| **2009** | 38.1 | 5.6 | 20.8 | 7.1 | 10.2 | **81.8** |
| **2010** | 36.3 | 5.7 | 29.4 | 8.4 | 12.5 | **92.3** |
| **2011** | 34.5 | 5.8 | 35 | 9.4 | 14 | **98.7** |
| **2012** | 32.9 | 5.9 | 39.4 | 10.5 | 16.9 | **105.8** |
| **Total** | **190.4** | **26.6** | **104.9** | **34.1** | **45.5** | **507.3** |

There is no enough information on the criteria and ways of using the five IPA funds whose regulations need to be learnt by the Macedonian companies, civil organizations and other interested institutions, if they want to apply and use the funds. When it comes to using the funds from the EU pre-accession funds, the rules are very strict and precise. There is no improvisation.

The IPA instrument provides financial assistance only for sustainable projects. The researches show that local authorities in Macedonia do not always have sufficient administrative capacity and personnel to apply.

By all the assistance provided for 2007, which amounted to about 58.5 million, only 42% were actually used and allocated to specific projects (support for implementation of police reform - 9 million euro, Local Infrastructure support for Economic and Social Cohesion - 7 million euro, Local Infrastructure support for Economic and Social Cohesion - 7 million euro, Support to the State Institute of Statistics - 2 million euro, support for implementation of reforms in public administration - 2 million euro, preparatory measures for Lifelong Learning and Action Programmes for the young - 0, 9 million euro, Participation in Community Programmes and Agencies - 0, 95 million euro training project preparation, Audit and Evaluation - 3 million euro)[[7]](#footnote-7). Unofficially, the reason for poor utilization of assets in 2007 is said to be insufficient capacity of Macedonian institutions to deal with such obligations.

In February 2008 the Republic of Macedonia signed three financing agreements (Transition Assistance and Institution Building in 2008 between Macedonia and the European Commission, the operative programme for cross-border cooperation between Greece and Macedonia, the Program for funding the participation of the Republic of Macedonia in the European Transnational Territorial Cooperation Programme "South East Europe") for the implementation of the Instrument for Pre-Accession Assistance (IPA), and for Macedonia in the coming period are set out 40 million euros[[8]](#footnote-8).

In 2009 the Ministry of Finance benefited from the "Project for Strengthening the capacities of the Ministry of Finance, Macroeconomic Policy, macroeconomic analysis and policy formulation in order to promote the process of developing policies and meeting the criteria for EU accession ". The total project was 1.3 million Euros (VAT excluded), of which EUR 1,217,500 were provided through the IPA 2009, while 82,500 euros through national co-financing[[9]](#footnote-9).

In 2010, the Ministry of Finance appeared as a user of the "Project for further harmonization with EU legislation in the area of movement of capital, payment services and financial-market securities and investment services. The total project was 1.3 million euro (VAT excluded), of which 1.117 million euros were provided by IPA 2010 while 130,000 euros through the national co-financing[[10]](#footnote-10).

For the time being the money from European funds is being used by the best farmers, who thanks to 42 million euro from the program IPARD have already applied and received grants to support agriculture.

The assistance for the European Union has been successfully used by the Macedonian Center for International Cooperation for several years. MCIC is one of the main supporters, first for relief, and then for the complete abolition of visas for Macedonian citizens. It is known that it used about 3.5 million euro from EU funds and that constantly monitors the calls for constructing new projects.

But the existing administrative / institutional capacity of the Republic of Macedonia for effective absorption of EU aid is insufficient.

More than 90 percent of these funds remain unused, and the few projects that are financed from IPA were submitted by non-governmental organizations and institutions. Businessmen rarely submit projects, primarily due to restrictive and complicated procedures.

The institutional weak capacity, lack of experience with these funds in a private sector, lack of appropriate training for them, are just some of the factors that affect this situation with EU funds in the Republic of Macedonia.

As proposals for more extensive use of IPA funds can be distinguished: clearly defined objectives, measures that should be undertaken to the objective, existence of an appropriate structure, human resources and system that enable efficient and effective management in the project implementation phase, better dissemination of information and etc.

**Concluding observations**

The financial assistance from the European Union funds is important part of the objective aimed at achieving an economic integration of the country.

The instrument Phare, SAPARD, ISPA and CARDS in many European countries were of invaluable assistance in establishing the required standards and reforms.

In the forthcoming period Macedonian administrative institutions need to be improved in order for the new and larger amount of the EU assistance that is allocated to the country, could be withdrawn and used in a proper and better way. For the time being there is no long – term strategy with regards to priorities and necessary future activities.

Measures such as better dissemination of information, quality brochures, and availability to the people responsible for managing the funds, clear and coordinated websites with all necessary information, regular consultations with NGOs, training and educational programs for IPA procedures and other Community programs can help Macedonia to increase the capacity to use and manage the EU funds.

It demands a lot of work but the vision that was set up in the early days of the Macedonian independence – joining the EU membership turns slowly into a reality thanks to the wisdom and ability to face the hardest challenges.

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