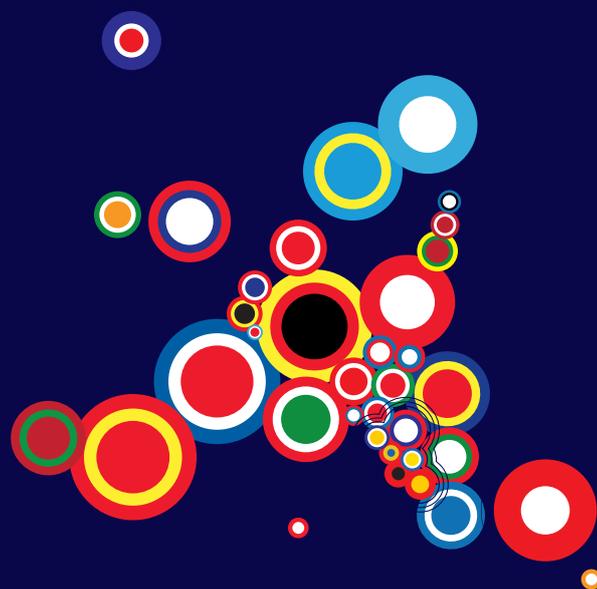




INSTRUMENT FOR PRE-ACCESSION ASSISTANCE (IPA II) 2014-2020

THE FORMER YUGOSLAV REPUBLIC OF MACEDONIA

Local and Regional Competitiveness



Action Summary

Increase of competitiveness at local and regional level by supporting municipalities in their integrated local development with a view to stimulate growth and local job creation.

Action Identification	
Programme Title	Annual Action Programme for the former Yugoslav Republic of Macedonia for 2014
Action Title	Local and Regional Competitiveness
Action Reference	IPA 2014/037-706
Sector Information	
ELARG Sectors	Competitiveness and Innovation
DAC Sector	25010
Budget	
Total cost (VAT excluded) ¹	EUR 21,176,471
EU contribution	EUR 18,000,000
Management and Implementation	
Method of implementation	Indirect management
Indirect management: Responsible Unit or National Authority/Implementing Agency	Indirect management with the World Bank (with fall back option UNDP).
Implementation responsibilities	The World Bank (or UNDP as fall back option) will be responsible for the overall administration of all the activities required to implement the Action.
Location	
Zone benefiting from the action	The former Yugoslav Republic of Macedonia
Specific implementation area(s)	Nation-wide activities, based in the statistical regions and municipalities in the former Yugoslav Republic of Macedonia
Timeline	
Deadline for conclusion of the Financing Agreement	2015 (n+1)
Contracting deadline	d+3
End of operational implementation period	d+6

¹ The total action cost should be net of VAT and/or of other taxes. Should this not be the case, clearly indicate the amount of VAT and the reasons why it is considered eligible.

1. RATIONALE

Improving socio-economic development through fostering economic growth and creating employment is a priority objective of the Government² and the European Commission. The action is designed to improve conditions for competitiveness and job creation at local and regional level, including tackling regional disparities and rural depopulation.

"Competitiveness is defined as the capacity of an economy to maintain increasing standards of living for those who participate in it, by attracting and maintaining firms, with stable or raising market shares in an activity. As such, competitiveness of a region will depend on its ability to anticipate and successfully adapt to internal and external economic challenges, by providing new economic opportunities, including higher quality jobs"³ The former Yugoslav Republic of Macedonia has in recent years maintained its position on the global competitiveness index (ranked 79th place out of 148 countries, GCI 2013-2014). Its progress in sustaining competitiveness, following the economic crises can be attributed to governments' simplification of legislative framework for operation of businesses, the establishment of special economic zones, support measures for attracting foreign direct investment and supporting start-up micro companies. However, the country faces multiple challenges in the areas of education and training, employment, innovation and environmental sustainability.⁴ There are still remaining bottlenecks that relate to the action: insufficient local public administration capacity to contribute to positive development and business climate, poor management performance of SMEs, insufficient infrastructure, little integration of cross cutting measures at the level of programming and strategies, lack of high valued added production by SMEs.⁵

At regional level comparison of GDP per capita (in PPP) has illustrated great disparities⁶ within the country. One of the reflections and further causes of disparate development levels across regions (as well as between the capital and the rest of the country) is the unfavourable demographic situation. The demographic indicators at regional level show considerable differences in the territorial distribution of the population. A trend of rural-urban divide has also continued. It is characterised by a growing concentration of population mainly in the capital city and slightly in southwest region, while other regions are being depopulated. There is a direct and reciprocal correlation between a region's population density and its economic opportunities. Enterprises and other legal entities contribute significantly to local revenues and tend to be situated in the most populated areas. A great number of municipalities in the former Yugoslav Republic of Macedonia face the problem of lack of development funds due precisely to their small tax base (number of inhabitants) on which many of

² Government Programme 2011-2015, includes support to Business Climate and Competitiveness, Decentralisation and Regional Development, infrastructure and public administration

³ Centre for International Competitiveness [definition](#) used for European Competitiveness Report

⁴ The Europe 2020 Competitiveness Report 2012

⁵ System Review Report on Competitiveness Sector, EC financed external study, Spring 2014

⁶ In 2011, the Skopje Region had the biggest share (42.4%) in the gross domestic product, while the Northeast Region had the smallest share (5.5%). A higher gross domestic product per capita compared to the average of the former Yugoslav Republic of Macedonia was recorded in the Skopje Region, with an index of 144.0, Southeast Region with an index 115.6, Vardar Region with an index 102.2, and in the Pelagonia Region, with an index of 102.0. All other regions had gross domestic product per capita below the average of the former Yugoslav Republic of Macedonia. The smallest gross domestic product per capita compared to the average of the country was recorded in the Polog Region, with an index of 47.3. Disparities are set out in detail in the "State statistical office book 2013 -Regions in the country"⁶ across four development indicators: GDP per capita, change in population-basic demographic indicators⁶, educational attainment-basic data according to the levels of education, and unemployment rate.

these units are reliant upon for local income. As a consequence, a large number of local self-government Units – greatly rely on financial transfers and aid from the national budget. The situation should improve over time, at least for the wealthier municipalities, as the process of fiscal decentralization continues towards successful take over of devolved competencies. The main driver in this process has been the Law on Financing the Units of Local Self-Government. There is significant disparity in unemployment rates across regions, which presents a challenge to economic development. While the most developed regions show relatively low unemployment rates⁷ of around 13.8%, which compares to the national average of 31%, the least developed regions have high unemployment rates which in 2012 amounted up to 52.8 %. Broadly correlated with the regions' employment share and GDP is the number of enterprises. Data on the location of economic activity on the regional level, measured in terms of registered businesses, shows SMEs' concentration in a few major urban centres and their surrounding areas. Economic activity is therefore to a great extent concentrated in larger urban centres and areas that gravitate towards them.⁸ Quantitative figures on enterprise density across the former Yugoslav Republic of Macedonia regions reflect also the more qualitative figures on regional entrepreneurial activity, measured through the active programmes for entrepreneurial development and new start up's in the country, as an active measure implemented by the Government. The SME sector is of central importance to the country's economy as a significant contributor to employment and GDP.⁹ At the same time, SMEs have steadily increased their share of employment to about 64.7% (including the craft sector) in 2012. While this is still slightly lower compared to the EU15 figures (65.7%) it does mark a significant rise in their importance to economic activity and employment creation. A potential source of enhanced knowledge and growth – i.e. of competitiveness – for countries enterprises is Foreign Direct Investment (FDI). FDI is becoming an increasingly important factor of development, in terms of job creation as well as of improvement in management and technological advancement.

There is a lack of infrastructure provision as impediment for competitiveness.¹⁰ Although basic infrastructure such as roads, electricity and telecommunication is generally in place, it is not necessarily in a reliable and high-quality condition. As such it prevents stimulation of private sector investors. Sustainability and effectiveness of competitiveness strategies and investment decisions strongly depend on transparent and inclusive consultation mechanisms involving all relevant stakeholders including private sector as well as civil society. The principles of good governance, ensuring cooperation at all levels is lacking "Consensus oriented, participatory, following the Rule of Law, effective and efficient, accountable, transparent, responsive, equitable and inclusive decision making procedures"¹¹ are key principles to stimulating sustainable development and increasing competitiveness. There is room for improvement as regards the former Yugoslav Republic of Macedonia's ranking among the World Bank Governance Indicators. Therefore, the action will place specific emphasis on putting good governance principles into effect at all involved levels. Against the above background, the action's main objective is to increase competitiveness at local and regional level by supporting municipalities and regions in their integrated local development with a view to stimulate growth and jobs.

⁷ Page 32 of the Statistical office book for Regions http://www.stat.gov.mk/Publikacii/Regioni_vo_RM_2013.pdf

⁸ The clear lead belongs to the City of Skopje, whose share in the total number of entrepreneurs in the year 2012 amounted to 38.4%. Another extreme is the Northeast region, where this share was 5.8%⁸.

⁹ Out of the total number of registered business entities in the country 99.4% are SMEs. The SME sector has played an important role in industrial restructuring, competitiveness and innovation, and in generating new employment. It has also been able to absorb a part of the many workers laid off by large enterprises, which have gone through a process of downsizing.

¹⁰ The former Yugoslav Republic of Macedonia ranks on 86th place, with only 3.6 point out of 7 in GCI 2012

¹¹ UN Definition of Good Governance principles

Tourism has been identified as an area with a substantial growth potential in the whole territory of the country¹². It is an area that is characterised by job-intensive, inclusive and SME-driven growth with a potential to attract more FDI to the country. The action will provide support to infrastructure, to tourism activities and attractions, promotion of destinations, as well as ensuring direct links with its respective industries and SMEs (agri-products, textile, wine making, wood-industry, etc.). It will in addition, support relevant vocational training and education programmes, local and regional civil initiatives (NGOs), etc.) and strengthen respective public administrations.

PROBLEM AND STAKEHOLDER ANALYSIS

Despite many Government interventions to raise competitiveness of the country the overall international competitive position of the country and its tourism sector still needs to improve.¹³ The following are some of the key problems the sector faces:

- weak public administration with low coordination between the central government and local authorities and no proper bottom-up approach in planning and developing strategies
- absence of culture of real participation of stakeholders in preparation and implementation of strategies and projects
- insufficient means for the implementation of indispensable facilities and infrastructure investments in order to set up the basis for local and regional development and to attract investors
- cooperation between public bodies and private operators is not systematic and needs to be upgraded
- low competitiveness in lagging behind regions: large disparities in basic infrastructure and services
- -lower levels of SME formation and activities at local and regional level; inadequate access to finance for SMEs
- high unemployment rates in most areas between 25%-60% of total working population with an unfavourable structure of unemployment – high level of long term unemployed and youth unemployment - and very low participation of women in the labour market as well as high levels of informal employment
- lack of match of demand and supply in the labour market
- in terms of tourism, tourism related facilities and infrastructure are centred on a few tourist destinations and still remain of insufficient quality
- -the resources allocated to tourism observation, promotion and heritage protection are still limited
- -tourism welcoming facilities and tourism information offices (only three in the country) remain to be upgraded
- -private investments in tourism and tourism related industry need to be further encouraged.

This Action will address the problems mentioned above with a coordinated set of instruments and activities (see section Description of the Action) directed to the needs of the country, local and regional stakeholders.

¹² According to the National Strategy for Tourism Development, the sector's contribution to GDP could raise from 6.2% to 7.3% . The related employment is expected to rise to 6.7% of total employment or 1 in every 14.8 jobs by 2020. Real GDP growth is expected to average a growth rate of 6.1% per annum over the coming 10 years.(World Travel and Tourism Council country report 2010).

¹³ The 2013-2014 Global Competitiveness Index, the former Yugoslav Republic of Macedonia was ranked at 73rd position among 148 countries. Under the Travel and Tourism competitiveness index, the country ranked at 75th place out of 140 countries, it was just ahead of Albania, Serbia and Bosnia and Herzegovina.

In addition, this Action will take into consideration a number of systematic challenges¹⁴ related to tourism: Access to skilled human resources, Public private sector engagement, Barriers to Business destination, Destination Awareness, Quality Assurance, Profile and range of attractions and activities, Effective visitor information, Data and market knowledge

The regional competitiveness agenda in the country consists of multiple, interrelated policy agendas falling under the scope of a number of institutions and stakeholders. In respect to the design of the action, the following key stakeholders will play a key part in the action and will be direct beneficiaries:

- The Cabinet of Deputy Prime Minister for Economic Affairs, responsible for strategic coordination of economic policies and state institutions, including planning of large infrastructure, attraction of foreign investors, improvement of the business climate and development of economic policies to foster growth.
- Ministry of Economy – Tourism Department: Responsible for the regulatory framework of the sector and national tourism planning. The National Strategy for Tourism Development and Action Plan 2011-2015 is presently under implementation. The Tourism Department, will be supported by the Action to improve effectiveness in the functional organisation and the implementation of Action Plans.
- Agency for Promotion and Support of Tourism: In charge of promotion, i.e. marketing of the country and of tourism information on the national level will be supported to improve effectiveness and functioning of the organisation.
- Ministry of Local Self-Government: is responsible for implementation of the Law on balanced regional development and the Strategy for regional development. The action will ensure that the Ministry is involved in the preparation of the action related to the implementation of the Law and Strategy, in order to achieve main strategic goals, i.e. competitive planning regions and increased demographic, economic, social and spatial cohesion among and within the planning regions.
- Other line Ministries: depending upon action activities, respective line Ministries will also be able to take part in the action namely Ministry of Transport and Ministry of Culture..
- The Economic Chambers (including regional) and Chambers of Tourism: are placed to prepare the ground for improving business conditions. They will benefit and play an important part in the action, representing the private sector.
- Local self-government units - Municipalities: in accordance with the decentralization policy, municipalities have responsibility for planning and development on the local level. Their Local Economic Departments will be strengthened through the action in order to better perform their functions in the preparation of strategies and the implementation of respective legislation, strategies and projects. The action will encourage inter-municipal cooperation in order to bundle resources and capacities.
- Centres for development of planning regions: are placed as important actors to promote cooperation between municipalities within regions and between the local and government level as well as ensuring sound planning and project preparation/implementation.
- Civil Society: represents an effective mechanism and leverage for better coordination and cooperation of local stakeholders in the current institutional landscape of the country.
- Micro, small and medium Enterprises: Their involvement aims at investment, and upgrade of quality and diversity of products and services. The private sector is greatly affected by the current lack of public infrastructure and support measures, which hamper their interest in further investment.
- Educational Institutions: will benefit from direct cooperation with the private sector demand, to upgrade and accommodate their curricula and training.

¹⁴ World Bank Assessment in 2012 and 2014

RELEVANCE WITH THE IPA II STRATEGY PAPER AND OTHER KEY REFERENCES

The proposed activities within the action are relevant to the Indicative Strategy Paper for the former Yugoslav Republic of Macedonia¹⁵. It is stated that local and regional competitiveness needs to be strengthened in a concerted effort. The country's competitiveness is affected by regional disparities and rural depopulation. The Government has undertaken some actions to ensure stability reduce poverty and increase competitiveness through support for key sectors, such as tourism, and also creating opportunities for new investments by development of tax increment reinvestment zone in different regions, support the creation of Industrial zones and Tourism development zones. Further efforts are needed to reduce disparities and contribute to a better investment climate through developing better quality local services and infrastructure in more deprived sectors and regions." The action will ensure that, while being implemented in cluster areas in the form of integrated development projects, it will address balanced regional development in the country by also specifically targeting disadvantaged regions and localities. A set of measures, addressing at the same time major deficiencies such as lack of infrastructure, weak institutional set-up and quality of goods and service and their promotion in a coherent manner will boost the conditions for further investments and job creation.

Priorities of the Enlargement Strategy and Annual Progress Report:

The country's key objectives remain promotion of growth and employment.¹⁶ This action will support socio-economic development, promoting growth and employment as a priority, especially in light of the economic crises that has impacted the economy of the country. The action will ensure that much needed infrastructure will be implemented in order to stimulate private investment, that will have a sustainable impact on growth and job creation. Strengthening the rule of law and democratic governance is central to the enlargement process¹⁷ and as such the action will integrate it into its programming and implementation. In addition, it will ensure the harmonization and approximation with EU best practices, which accelerate the economic growth and enlargement process.

Action and link to EU policies: Based on the Lisbon Agenda, the Europe 2020 Strategy encourages "smart, sustainable, inclusive growth, brought about through greater coordination of national and European policy."

The Enlargement policy aiming to facilitate accession of respective countries is also be centred around addressing the competitiveness weaknesses, including institutional build-up, thus setting the economies on a more solid footing that can better facilitate their integration¹⁸.

Regional Strategy (SEE 2020): SEE 2020 has the objective of creating a pattern of job-rich growth, that will both help improve the labour market situation and contribute to raising living standards. The Strategy will also reinforce the countries' efforts to advance along their EU accession pathway.¹⁹ The Commission will continue associating enlargement countries with the Europe 2020 strategy. It will examine the possibility of more targeted use of SAA meetings to tackle the issues of competitiveness and employment. To that aim, and in line with the Europe 2020 approach, the enlargement countries are encouraged to consider national targets in the fields of employment, innovation, climate change,

¹⁵ C(2014)5861 final, 19.08.2014

¹⁶ Progress Report 2013 and The 2013 Pre-accession Economic Programme (PEP) for the period 2013-2015

¹⁷ Enlargement Strategy and main challenges 2012-2013, p.2

¹⁸ The Europe 2020 Competitiveness report 2012, Defining European policies to unleash competitiveness

¹⁹ SEE 2020 Strategy

energy, education, poverty reduction and social inclusion.²⁰ As such the action will be in line with the targets.

Relevant national strategies and action plans, that should be considered by the action, such as the action plan for improving competitiveness, the action plan for combating unemployment the strategy for industrial policy, the strategy for entrepreneurship, etc.

National Tourism Development Strategy and Action Plan until 2015: The Action serves the needs outlined in the Strategy and is in line with priority interventions of the Action Plan. In particular, it supports the proposed actions at the local and regional level as well as cross cutting areas of support, such as business development, marketing, human resources and training and sector monitoring (statistics).

Regional Development Strategy 2009-2019 and Law on balanced Regional Development: The Action takes into account the main strategic objectives of the Strategy and Law: i) competitive planning regions, distinguished for dynamic and sustainable development and ii) bigger demographic, economic, social and spatial cohesion among and within the regions. It addresses Priority 1.5: Creating competitive advantages of the planning regions.

Planning documents for eight statistical regions in the country: There are eight 'regional strategies' for each statistical region that will also serve as basis for the Action. The planning period ends in December 2014. However they will be updated as required by the Law on Balanced Regional Development. These regional strategies outline priorities related to competitiveness, including infrastructure needs and private sector investments.

The action is supported by other respective donors within the country:

- **World Bank** – The Country Partnership Strategy 2011-2014 of the former Yugoslav Republic of Macedonia is designed to integrate the country's EU accession goals into all development interventions. This strategy is based on three pillars, the following two directly relate to the action: i) faster growth by improving competitiveness and ii) more inclusive growth by strengthening employability and social protection.
- **UNDP** – its country priorities in respect to the action are good governance (ensuring better quality public services and process of decentralisation) and social inclusion (supporting Government in its effort to reduce unemployment and increasing social inclusion).
- **UNIDO** – is developing a cluster tourism strategy in two regions (Tikves and Ohrid), enabling a more equitable integration of SMEs into local, domestic and regional supply chains.
- **Swiss Embassy/Swiss Agency for Development and Cooperation: Increasing Market Employability** is a five year project, which will apart from other sectors, focus on three touristic destinations in the country where youth and women will be empowered, by training and creation of jobs and growth throughout the country.
- **GIZ Regional Economic Development Programme (with support from EU and Swiss development Cooperation)**– i Will revise regional development strategies in the eight statistical regions that plan for future regional development. These will serve as basis for the Action support.

SECTOR APPROACH ASSESSMENT

²⁰ Enlargement Strategy and main challenges 2012-2013, p.9-10

This Action Document contributes directly to the improvements of the sector based approach (SBA) in the Competitiveness and Innovation Sector. As defined in the Indicative Strategy Paper, this sector requires specific task to enable both infrastructure and soft measure development for increased growth and competitiveness. Nevertheless, the essentials of SBA in this, like many other sectors are not met and this Action Document will facilitate the improvements for better coordination and communication mechanisms. At the same time, it unifies a number of national institutions and Councils, allowing them to function with a unified approach and set of priorities when it comes to local and regional competitiveness. The same is applied to improved consultation mechanisms at local and regional level, and ensuring a proper monitoring and performance based framework. Since it is specific for local and regional stakeholders, the SBA

LESSONS LEARNED AND LINK TO PREVIOUS FINANCIAL ASSISTANCE

There was little EU financial assistance in the past related to the areas of this Action. There were some interventions and efforts to increase local and regional competitiveness through the CARDS programme, Cross Border Cooperation small initiatives and IPARD.

The main strengths of the previous related assistance, in particular the CARDS programme were²¹: (i) the efficiency of the EC in programming and delivering support; (ii) the good quality results of CARDS programme assistance and; (iii) CARDS programme contribution to raising awareness among beneficiaries and policy makers of pre-accession assistance and putting them into practice. Infrastructure rehabilitation and/or construction assistance have achieved the most sustainable results. The needs were evident and acute, and required a fast and well organised response from the programme. In addition, assistance provided to infrastructure brought quick, tangible results that were much needed at the time and which, for the most part proved sustainable in the longer term.

The main weaknesses of previous CARDS programme were (i) the lack of involvement of the beneficiary institutions in the programming, monitoring and evaluation of the programme; (ii) its over-ambitious institution building interventions that had objectives which were more aspirational than realistic and; (iii) a lack of co-financing element in institution building, which represented a missed opportunity to promote “ownership” and thus sustainability

The weaknesses can be avoided with the current proposed action, by effectively supporting administration to coordinate on issues related to programming, monitoring and evaluation of the action, in close cooperation of final beneficiaries, ensuring beneficiaries' co-financing part as compulsory element in financing, thus contributing to ownership and long term sustainability. The action will focus on support, which will have immediate and long term impact on socio-economic development, stimulating growth and jobs. In order to ensure proper monitoring, baseline and impact evaluations will take place, measuring achievements of indicators and long term sustainability.

The action will ensure synergies with comparative past and current projects, namely those financed by the Cross Border Cooperation programmes, IPARD diversification activities; direct grant to Business Advisory Services and IPA financed small-scale infrastructure investments in the field of local economic and social infrastructure.

²¹ CARDS ex-post evaluation (CARDS 2002-2006)

2. INTERVENTION LOGIC

LOGICAL FRAMEWORK MATRIX

OVERALL OBJECTIVE	OBJECTIVELY VERIFIABLE INDICATORS (OVI)	SOURCES OF VERIFICATION	
<i>Increased economic growth and job creation through improved local and regional competitiveness</i>	<ul style="list-style-type: none"> • GDP local and regional growth in selected target regions New job creation and unemployment rate (in regions which benefit from funding) 	<ul style="list-style-type: none"> • Comparison of regional GDP and employment data (data published by the State Statistical office) 	
SPECIFIC OBJECTIVE	OBJECTIVELY VERIFIABLE INDICATORS (OVI)	SOURCES OF VERIFICATION	ASSUMPTIONS
<i>Increase of competitiveness at local and regional level by supporting municipalities in their integrated local development with a view to stimulate growth and local job creation.</i>	<ul style="list-style-type: none"> • Municipal revenues tax increase from 2016 to 2020 by 2% in targeted municipalities • At least 150 new sustainable jobs in targeted economic destinations • At least five new private-sector investments valued at 200 000 EUR • Improved public sector good governance indicators 	<ul style="list-style-type: none"> • Municipal records of revenues, including from tourism tax • Regional/Municipal records of employment • World Bank's Worldwide Governance Indicators (WGIs), developed and measured local good governance indicators (UNDP guide on local 	<i>Progressive aggregation of public and private sector investments and organization of stakeholders (cluster effects)</i>

RESULTS	OBJECTIVELY VERIFIABLE INDICATORS (OVI)	SOURCES OF VERIFICATION	ASSUMPTIONS
<p>Result 1: Administration is enabled to effectively develop and implement policies and strategies to increase competitiveness, using principles of good governance.</p> <p>Result 2: The improvement of public infrastructure creates new private sector investment opportunities</p> <p>Result 3: Upgrade and promote of business products and public and private services, including those related to the tourism sector</p>	<ul style="list-style-type: none"> • 60% of actions specified by the National Tourism Development Strategy at the national level have been initiated • A regional tourism office, including tourism information Centre is set up in at least 3 of the selected regions • Local and/or regional municipal infrastructure, which has direct impact on private sector activities, is operational (ex.: access road, signalization, hiking and bicycle paths, cultural heritage rehabilitation, etc.) • User satisfaction with the number and quality of products and services available on the market • At least 1 joint (NTA with regional partner) marketing campaign carried out per selected region for tourism 	<p style="text-align: right;">governance)</p> <ul style="list-style-type: none"> • Experts findings and reports • Baseline and final action evaluation • Project Progress reports and final report • Project Monitoring Reports • Measured and analyzed collected evaluations data 	<p>Proposed action must have productive effect on overall improvement of business environment and on mobilization of private sector investments.</p>

	<i>destination and/or marketable local products</i>		
ACTIVITIES	MEANS	OVERALL COST	ASSUMPTIONS
<p>Activities to achieve Result 1:</p> <p>1.1 <i>Assisting public administration in applying good governance principles in decision making processes related to preparing and implementing public investments</i></p> <p>1.2 <i>Provision of expertise, training and capacity building at national, regional and local level enabling effective tourism destination management</i></p> <p>1.3 <i>Support to the facilitation of local and regional stakeholder cooperation in the promotion of local and regional competitiveness</i></p> <p>Activities to achieve Result 2:</p> <p>2.1 <i>Provision of large and small scale municipal infrastructure, which has a direct impact on competitiveness and private sector investments</i></p> <p>Activities to achieve Result 3:</p> <p>3.1 <i>Support to SMEs, public sector and civil society for upgrading and promotion of products and services, including in the tourism sector</i></p>	<p><i>Indirect Management Delegated Agreement</i></p>	<p>EUR 21,176,471.00 (IPA EUR 18,000,000 and co-financing of EUR 3,176,471)</p>	<ul style="list-style-type: none"> • <i>Ministry of Economy, Department for Tourism and National Agency for Tourism Promotion is sufficiently funded and staffed</i> • <i>Cooperative, high quality staff in local administration (local economic development departments)</i> • <i>Regions can effectively demonstrate their potential for further investment</i> • <i>Well trained employees are needed to increase productivity and service provisions.</i>

ADDITIONAL DESCRIPTION

In order to maximize local and regional competitiveness, the IPA Programme addresses a) good governance and capacity building of administration at all levels, b) a critical lack in public infrastructure and c) private sector limitations, in particular regarding the availability and promotion of quality products and services. The Action also aspires to address regional economic disparities in the country which are a limiting factor to overall economic development. Activities shall, therefore, contribute to reducing regional disparities in favour of a more balanced regional development in the country. The Action will mainly, but not exclusively, focus on the tourism and tourism related sector. Tourism is a sector that is underexploited and has a great potential for growth and job creation in the country. Appropriate expertise and know-how transfer needs to accompany the implementation of investments and lead the process towards professional destination management, which will in turn contribute to more competitive and attractive localities and regions.

The Action should assist authorities at all levels to apply good governance principles in planning, decision-making and implementation of this Action. A transparent and all inclusive consultation process should be put into place for decision making within this action, and in particular related to public investments financed under this programme. In addition, support to the public administration and private and non-governmental sector plays a key role in enabling a competitive environment and providing good, efficient services. An inclusive consultation and cooperation process of all private sector related stakeholders at local/regional level will be supported. At the national level, support should be provided to respective planning and implementing bodies that drive local governance, competitiveness and development (namely Deputy PM Cabinet for Economic Affairs, Ministry of Economy, Ministry of Local Self-government). As regards national actors in the field of tourism, such as the Department of Tourism in the Ministry of Economy and the National Agency for Tourism Promotion, the Action will support them in fields such as sector regulation, professional tourism planning, and destination marketing and nationwide coordination of tourism development.

As private sector operated facilities depend strongly on the availability of public infrastructure, their absence or low quality limits the full exploitation of commercial establishments. The funded operations shall be open to basic municipal infrastructure provision, which permits and facilitates the exploitation of currently available resources at local and regional level. The operation aims at putting a focus on tourism related infrastructure, necessary to fully exploit the countries potential, i.e. discovering nature and culture, practise sport or benefit from health and wellness resources. For illustrative purposes, municipal infrastructure includes, but is not limited to: access roads, hiking and bicycling trails, ski resort facilities, rehabilitation of cultural and natural heritage sites, spas, signposting, tourist information offices or facilities for events and exhibitions. The action will support both large and small scale municipal infrastructure.

Funds will be directed to localities which possess comparative advantages and which can immediately benefit from an enhanced infrastructure. As this sub-programme also aspires to address regional economic disparities, grant funds will also be allocated to less developed regions/localities/ areas of special development needs. Projects including a number of municipalities and that have a significant impact on a wider geographical area will be prioritized.

The selection of a few larger integrated projects will be done through a competitive process, with clear consultative and ownership approach, where large integrated multi-annual projects should illustrate and ensure sustainability and long term impact. In addition, challenges regarding implementation capacities will have to be addressed through substantial capacity building activities. In essence, a limited number of potential tourism destinations in the country shall be supported over a time span of 3-4 years with a combination of infrastructure, technical assistance and support to private sector and non-state sector entities. This shall result in an improved enabling environment for private sector investments, including the setting up of regional tourism destination management structures.

In addition, support for small-scale public infrastructure should aim at a different target group: individual municipalities which are not part of one of the larger projects but which dispose of means and possess the conditions to gradually upgrade their economy including their tourism offer. This part of the programme shall contribute to the promotion of the whole country with a larger range of interventions that stimulate local development. It will finance works, equipment, upgrading of services and products and promotional activities..

In order to ensure synergy with administrative capacity building and municipal infrastructure development, the action will aim to support private sector, educational institutions and civil society to spur additional development at local and regional level. This should namely be provision of expertise, transfer of know-how, training and capacity building in order to increase the entities comparative advantage within the local economy, including in tourism. In addition, the action will ensure additional funding, through a competitive procedure aiming at upgrading and promoting respective entities products and services provision.

Through the multi-annual approach the action will ensure that a) sufficient time is available for putting in place more complex investments and activities and b) a sustainable long term impact is achieved. Together with the national authorities and the EU Delegation, the managing body will assess and prepare an extensive intervention plan, prior to the implementation of the action. It will identify potential areas and stakeholders to be supported. The intervention plan and selected projects should undergo a baseline analysis/evaluation.

Risks and Preconditions:

- Strong political will and commitment among the stakeholders of the action (in particular national institutions, incl. high level support of the National Economic Council and Committee for Tourism)
- Good cooperation among the institutions and final beneficiaries
- Delayed inception and implementation of the action
- Experts recruited under the IMDA of sufficient quality
- Effective monitoring and implementation.

The risks and preconditions will be mitigated with appropriate measures and actions: such as a) establishing good communication channels and working relations between the delegated body, beneficiaries and EU Delegation, b) risk assessment of the implementation of the action and indicators to be achieved will take place prior to the start of the action, c) corrective measures will be applied during the implementation of the action, d) regular meetings and consultations with stakeholders will take place, e) regular monitoring will be conducted.

3. IMPLEMENTATION ARRANGEMENTS

ROLES AND RESPONSIBILITIES

This Action is going to be implemented under Indirect Management with a third party – Indirect Management Delegated Agreement with the World Bank (UNDP as a fall-back option), following a wide selection procedure.

The World Bank (or UNDP as fall-back option) will carry out the following budget implementation tasks in order to maximize local and regional competitiveness: capacity building and support to public administration bodies at all levels (national, regional, local); implementation of public infrastructure investments; capacity building and support to private sector, civil society and educational institutions, etc.

The World Bank (or UNDP as fall back option) will be responsible for the overall administration of all the activities required to implement the Action, among others, preparation, implementation and conclusion of grant and procurement contracts, and management of corresponding expenditures. The entrusted entity will participate in coordination meetings and other jointly organised common activities with the Commission.

The delegated body bears the responsibility of managing, implementing and monitoring of the action. This has to be done in very close communication with the Contracting Authority (the EU Delegation) and the National Authorities.

To ensure a clearer structure of responsibilities, an intervention plan will be prepared and agreed prior to the start of action implementation.

The national counterparts involved in this Action Document, inter alia, are the following:

The Cabinet of the Vice Prime Minister for Economic Affairs will ensure a strategic orientation of the action and benefit from the action as a direct beneficiary, ensuring their capacity for action to be implemented. **The Ministry of Economy, Department for Tourism** is responsible for programming of the action and will directly benefit from the action related to national support. **Ministry of Local self-government** is responsible for co-programming and will play an important part in ensuring regional development policy is ensured by the action. **National Agency for Tourism Promotion** is co-participating in programming and will act as a direct beneficiary. They will gain support in ensuring synergy of their policies and practices with the initiatives at local and regional level. **Municipalities** will have both support in good governance, government coordination mechanism and will benefit from municipal infrastructure. **SMEs** will directly benefit from the action, they will have support in establishing and upgrading their services and goods, in order to increase their competitiveness. **Educational institutions** will act as partners in integrated projects, they will benefit from capacity building and direct link to the needs of the private sector. **Non-state actors** will act as partners and beneficiaries in support to the local and regional tourism development The Action will be consulted at the **National Economic Council and Government Tourism Committee** under the remit of the Prime Minister. In addition a **steering committee** will be formed with representatives of all relevant stakeholders in charge of steering and monitoring the implementation of the action.

IMPLEMENTATION METHOD(S) AND TYPE(S) OF FINANCING

This programme shall be implemented through indirect management in accordance with Article 58(1) (c) of the Financial Regulation and the corresponding provisions of its Rules of Application. The general rules for procurement and grant award procedures shall be defined in the relevant delegation agreements between the Commission and the entrusted entity implementing this action. In case an

action needs to be implemented under indirect management by an entity other than the one defined for this action, the change of entrusted entity shall not be considered substantial provided that this entity has already been identified in this Financing Decision, the entity meets the selection criteria of Article 61(2) FR and the description of the entrusted tasks remains the same.

The Entrusted entity/Delegatee would be responsible for carrying out the tasks relating to the implementation of the Action description which specifies indicators of achievement. The Delegatee shall be responsible for the overall administration of all the activities required to implement the Action, among others, preparation, implementation and conclusion of grant and procurement contracts, and management of corresponding expenditures. The Delegatee will participate in coordination meetings and other jointly organised common activities with the Commission and designated national authorities (steering group).

In performing the tasks entrusted to it, the Delegatee may not carry out tasks involving a large measure of discretion implying political choices and it may not set nor modify objectives, strategies and priority areas of the Action. The Delegatee, however is expected to provide a detailed intervention plan of the Action that will be negotiated with the EU Delegation of the former Yugoslav Republic of Macedonia and the national authorities (steering group) prior to the implementation of the Action. The intervention plan will have to be in accordance with set objectives, strategies and priority areas. The Delegatee is expected to undertake baseline and impact evaluations in order to set and measure indicators described by the Action.

The Delegatee may directly provide technical assistance with its own staff, which should be indicated. The financing of the actions would be done by the European Union as prescribed in the Financing Decision.

The indicative tasks related to the implementation would be linked to:

- Support and strengthening of public administration bodies at all levels (national, regional, local) to increase competitiveness,
- Implementation of public infrastructure investments,
- Providing soft measures to support the private sector, civil society and educational institutions
- Baseline and final evaluation to determine the impact of the action
- Extensive Communication and Visibility activities

The overall cost of the Action Document will be in the amount of EUR 21,176,471.00, where the IPA amount is EUR 18,000,000 and co-financing of EUR 3,176,471.

4. PERFORMANCE MEASUREMENT

METHODOLOGY FOR MONITORING (AND EVALUATION)

As part of its performance measurement framework, the Commission shall monitor and assess progress towards achievement of the specific objectives set out in the IPA II Regulation on the basis of pre-defined, clear, transparent measurable indicators. The progress reports referred to in Article 4 of the IPA II Regulation shall be taken as a point of reference in the assessment of the results of IPA II assistance.

The Commission will collect performance data (process, output and outcome indicators) from all sources, which will be aggregated and analysed in terms of tracking the progress versus the targets and milestones established for the Action, as well as the Indicative Strategy Paper.

The overall progress will be monitored through the following means: a) Result Orientated Monitoring (ROM) system; b) IPA II Beneficiaries' own monitoring; c) self-monitoring performed by the EU Delegation; d) joint monitoring by EU Delegation and the Delegated body, whereby the compliance, coherence, effectiveness, efficiency and coordination in implementation of financial assistance will be regularly monitored by an IPA II Monitoring committee, supported by the Actions steering committee, which will ensure a monitoring process at the action level.

Project monitoring of the Action will also be undertaken by the Delegated body:

- Delegatee will prepare a detailed intervention plan for the whole action. The future selected projects will undergo a baseline evaluation in order to determine the baseline indicators.
- Delegatee will ensure regular monitoring at action and project level.
- Delegatee will perform final impact evaluation at end of the action, including external evaluation of the large scale projects and supplemented soft actions.

INDICATOR MEASUREMENT

Indicator	Description	Baseline (year)	Last (year)	Milestone 2017	Target 2020	Source of information
<i>CSP indicator(s) – if applicable</i>						
<i>Action outcome indicator1</i>	<i>% of participating municipalities that achieve improvements in delivery of tourism related services</i>	<i>N/A</i>	<i>N/A</i>	<i>0%</i>	<i>2%</i>	<i>Baseline evaluation and Final Evaluation</i>
<i>Action outcome indicator2</i>	<i>Number of employees in targeted economic destinations increases</i>	<i>To be determined by baseline evaluation prior to the action</i>	<i>N/A</i>	<i>N/A</i>	<i>500</i>	<i>Baseline evaluation and Final Evaluation</i>
<i>Action outcome indicator 3</i>	<i>Increase in number of tourists at the invested destinations</i>	<i>N/A</i>	<i>N/A</i>	<i>0%</i>	<i>1%</i>	<i>Baseline evaluation and Final Evaluation</i>

5. CROSS-CUTTING ISSUES

ENVIRONMENT AND CLIMATE CHANGE (AND IF RELEVANT DISASTER RESILIENCE)

The Action will throughout its activities, ensure that environmental regulations are respected. It will ensure that selected projects take environment measures on board. In addition, any projects that would include infrastructure (hard measures) will have to include environmental impact assessment reports and will have to be done according to energy efficiency standards.

ENGAGEMENT WITH CIVIL SOCIETY (AND IF RELEVANT OTHER NON-STATE STAKEHOLDERS)

An empowered civil society is a crucial component of any democratic system and is an asset in itself, contributing to building more accountable and legitimate states, enhanced social cohesion and more open and deeper democracies.²² The action will strive to involve and support the civil society. The civil society participated in the wide consultations of the Indicative Strategy Paper, which included the sub-sector on local and regional competitiveness.

During the preparation of the draft Action Programme the civil society organisations especially at the local level were consulted and their views were taken into consideration. The draft Action Programme is envisaged to be further consulted with a wide number of NGOs and civil initiatives at national, regional and local level in order to ensure participatory process prior to the approval of the Action.

In addition, the draft Action Programme was consulted with municipalities and Association of municipalities prior to its approval in the summer 2014. The Action Programme will also be presented at the Government Council for Balanced Regional Development and in the Committee and network of the local economic development at the Association of Municipalities. Regional consultations prior to the finalisation of the Action Programme also took place in six of the eight regions in spring 2014; whose outcomes were very positive and acceptable by future potential beneficiaries.

The consultative process will also take place prior to the preparation and implementation of the nation-wide project and prior to the drafting of the Guidelines for the open Calls for Proposals.

EQUAL OPPORTUNITIES AND GENDER MAINSTREAMING

The action will ensure that Gender equality is respected; in reference to the Government Gender Strategy and EC Programme of action for the mainstreaming of gender equality in community development cooperation, in particular with reference of strengthening gender mainstreaming within projects and programmes at regional and country level. The action will in particular encourage the involvement and participation of long term unemployed women and women entrepreneurs. The tourism sector has a high proportion of women employees, their further engagement and capacity building through the Action activities, should contribute to sustainable and new job creation for women.

MINORITIES AND VULNERABLE GROUPS

The action will ensure that people belonging to minority communities and vulnerable groups will be included. In terms of minorities, the action will respect balanced inter-ethnic approach in line with the Ohrid Framework Agreement. The programme will be in line with UN, EC and national policy documents respecting the rights of vulnerable groups. The vulnerable groups will be encouraged to participate in project activities, enabling them to have access to facilities, services as outcomes of projects. The projects will ensure that no forms of discrimination or prejudices are present in their activities and that any infrastructural facilities are accessible to the vulnerable groups.

²² Commission Communication 'The roots of democracy and sustainable development: Europe's engagement with civil society in external relations', COM(2012) 492, 12.09.2012.

6. SUSTAINABILITY

The investment in public tourism infrastructure and soft supportive measures offers a one-time opportunity for regions and municipalities in the next decade to significantly improve their comparative advantage, create growth and jobs. It will be in the beneficiary's interest and responsibility to give adequate consideration to sustainability aspects. Beneficiaries need to consider the productivity of proposed investments as well as possible maintenance and follow-up costs which have to be born later on. Ensuring future maintenance and repair provision will indicate the beneficiary's intention for sustainable management of the investment in the long term. An appropriate return of the investment must also be central criteria in the identification of suitable investment projects. The use of municipal funds for co-financing the investment will further increase the commitment for sustainable planning and management. Another positive indicator for long-term sustainability will be an open and inclusive project preparation and the involvement of a large group of stakeholders in the entire project implementation. This should avoid or minimize conflicts during implementation. The establishment of public-private partnerships with the supported activities of the action will be a milestone for assuming ownership of the project results/outputs. The Action should build on existing and new clusters that will sustain themselves after the completion of the action. The action should have a spill over effect into other regions and neighbouring countries.

7. COMMUNICATION AND VISIBILITY

The action is expected to have a great visibility and communication effect at the local, regional and national level, through media reporting and regular press conferences. The participation of a very large number of stakeholders and beneficiaries will have a public information effect. The realisation of physical infrastructure and private sector investment draws strong attention of the public and as such the IPA funding needs to be communicated in an appropriate manner.

A separate action plan and EC communication guidelines will be available during the implementation of the action, in order to ensure visibility and correct communication of the investments and activities. Since the large proportion of funding of the action will be spent on local and regional public infrastructure, local institutional capacity building and promotion, the visibility and right communication to the country citizens, perspective tourists and investors will play an important role in ensuring sound, quality and numerous visibility opportunities. A proportion of the grants will also go towards visibility events and communication.

It is recommended that each beneficiary organizes at least once a year a public information event in its local or regional areas in which the achievements and the next steps are presented to the general public. The IPA support shall be made visible on regional and national websites to be developed by the beneficiaries and the delegated partner.

As the delegated partner oversees the entire program implementation, regular media information shall be launched that portray the action and give an overview of the activities and achievements together with a strong presence of the Government and the EU. A website and printed material dedicated to the whole Action should be delivered.

The Action Document must observe the latest Communication and Visibility Manual for EU External Actions concerning acknowledgement of EU financing of the different actions (http://ec.europa.eu/europeaid/work/visibility/index_en.htm).

Particular attention should be given to ensuring the sustainability and dissemination of project results. The visibility issues must be addressed in all types of communications, written correspondence and preparation of deliverables (brochures, posters, new letters pamphlets and other type of promotion material). All the deliverables to be published / issued will respect and comply with visibility guidelines.