



GOVERNMENT OF THE REPUBLIC OF MACEDONIA
MINISTRY OF AGRICULTURE, FORESTRY AND WATER ECONOMY

ANNUAL REPORT
ON
THE IMPLEMENTATION OF THE IPARD PROGRAMME 2007-2013
for the period 1 JANUARY 2014 – 31 DECEMBER 2014
(in compliance with Art. 68 of the Sectoral Agreement)

CCI No: 2007MK06IPO 001

June, 2014



Abbreviations

Art.	Article
BP	Business Plan
DG AGRI	Directorate General for Agriculture and Rural Development
EC	European Commission
EU	European Union
FR	Farm Register
GDP	Gross Domestic Product
GVA	Gross Value Added
ha	hectares
IPARD	Instrument for pre-accession assistance for rural development
IPARD Agency	Agency for Financial Support in Agriculture and Rural Development
M 101	Investments in agriculture holdings
M 103	Investments in processing and marketing
M 302	Rural diversification
M 501	Technical Assistance
MA	Managing Authority
MAFA	Multi-Annual Financing Agreement
MAFF	Multi-Annual Financing Framework
MAFWE	Ministry of Agriculture, Forestry and Water Economy
MC	Monitoring Committee
MIPD	Multi-annual indicative planning document
MoF	Ministry of Finance
MoESP	Ministry of Environment and Spatial Planning
NAO	National Authorising Officer
NBRM	National Bank of the Republic of Macedonia (Central Bank)
NGO	Non-Governmental Organisations
NF	National fund
No.	number
PRO	Public Revenue Office
SA	Sectoral Agreement
SAI	State Agriculture Inspectorate
SSO	State Statistical Office
TPE	Total Public Expenditure
TPP	Technical Project Proposal



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SECTION 1: Introduction

1.1: Identification sheet

Programme	IPA for Agriculture and Rural Development (IPARD)
Country code	MK
Programming period	2007-2013
Programme id	2007MK06IPO 001
Programme title	NATIONAL PROGRAMME FOR AGRICULTURE AND RURAL DEVELOPMENT

Annual Implementation Report	2014
Reporting period	from 1st of January – 31st of December, 2014
Date approved by the IPARD Monitoring Committee	26th of June, 2015

This is the fifth annual implementation report to be produced on the National Programme for Agriculture and Rural Development under the Instrument for pre-accession assistance for rural development for the programming period 2007-2013 (hereinafter “the IPARD Programme”) and covers the calendar year 2014.

This report is prepared in compliance with the provisions of Article 68 of the Sectoral Agreement (SA) between the Government of the Republic of Macedonia and the Commission of the European Communities, ratified by Law and published in the Official Gazette no.165 from 30.12.2008.

The report is prepared by the IPARD MA at MAFWE based on the monitoring and data collection system (hereinafter referred to as “Monitoring system”) and with contribution from the IPARD Agency and the National Fund at the Ministry of Finance.

As part of its remit the IPARD Monitoring Committee (MC) must consider and approve all annual implementation reports prior to their submission to the European Commission. On the 26 of June 2014 PMC members agreed this report via written procedure. Comments received are duly represented in this report.



1.2: Executive summary

The IPARD Programme 2007-2013 as basis for the implementation of the Council Regulation (EC) No. 1085/2006 of 17 July 2006 establishing an Instrument for Pre-Accession Assistance (IPA) has been approved by Commission Decision C(2008)677 of 25.02.2008.

The start of IPARD Programme implementation is preceded by the conferral of management of aid by the EC, which was granted to the relevant institutions via Commission Decision No. C2009/987/EU on the 18.12.2009 for M 101, M 103 and M 302.

So far six modifications of the IPARD Programme have been approved by the EC. The last modification was approved by Commission Decision C(2014)9618 from 10.12.2014.

IPARD Agency published two public calls during 2014, the ninth i.e. 01/2014 which was opened on the 15.02.2014 (closing date 17.04.2014) and tenth public call (02/2014) published on 27.10.2014 (closing date 10.12.2014). Total of 833 applications were submitted in 2014. In the period of preparation of this report the applications from the public calls announced in 2014 are still in process of administrative procedure for approval.

Total 1394 applications were submitted on 10 public calls published by the IPARD Agency out of which 371 are contracted for co-financing, with an amount of €11.433.298.

Total of 309 contracts are concluded in the measure M101, with an amount of €4.338.564, out of which €3.253.923 are EU funds; 49 contracts are concluded in measure M103, with an amount €6.229.994, out of which €4.677.496 are EU funds and 13 contracts are concluded in measure M302, with an amount of €864.740 out of which 648.555 € are EU funds.

Total of 175 contracts were paid in amount of €3.977.650. 151 contracts were paid in measure M101 with total amount of €1.164.634, out of which €873.476 are EU funds. 24 contracts were paid in measure M103 with total amount of €2.813.016, out of which €2.109.762 are EU funds. There are no payments for measure M302 in 2014.

Total of 75 contracts were canceled by the IPARD Agency or by the beneficiaries themselves (48 in the measure M101, 18 in the measure M103, 9 in the measure M302), with total amount of €3.998.516, out of which €2.998.887 are EU funds. Total of 121 projects are in implementation phase, with total public expenditure of €3.457.132.

Most of the total submitted applications are from the region of Pelagonija (468), Vardar (343), East (165) and Southeast (151). Pelagonija has also the biggest number of approved applications (186), followed by Vardar (70), Southeast (46) and East (37).

The ratio between submitted and approved applications (rate of approval) is highest in the Pelagonija (39,7%), followed by Southeast region (30.4%), East (22.4%) and Vardar (20.4%).



Most of the paid contracts are from the Pelagonija region (116) with TPE €1.016.026, followed by East (17) with TPE €1.103.083, Southeast (17) with TPE €685.224 and Vardar region (16) with €TPE 366.092.

Interest of applicants is biggest in the municipality of Resen, which have the best quality of requirements. From 279 requests, in this municipality, in all measures are concluded 152 contracts, and paid 101 projects, but the biggest interest occurs measure M101. In measure M 103, we have the biggest interest in the municipalities of Kavadarci (10 submitted), Gevgelija (10 submitted) and Strumica (8 submitted).

EC adopted the sixth modification of the IPARD Programme 2007-2013 with decision C (2014) 9618 on December 10, 2014. The amendments are of a financial and technical nature. Amendments to the financial tables were made in accordance with the EU decision to return the unused EU funds allocation for 2010.

The collection of the data and preparation of reports was maintained manually in excel. During 2014, IPARD Agency started the implementation of the new software for collecting data for preparation of reports.

Further to the receipt of the accreditation package of 12.08.2014 concerning the Application by the for the Conferral of Management of Measure 501 (Technical Assistance) to the Operating Structure for the Component V - Rural Development (IPARD), the Commission services (auditors - DG Agri – Unit J5) conducted an IPARD conferral mission from 11 to 14 November 2014. The purpose of the mission is conducting audit and verification of readiness of national structures for granting accreditation for decentralized implementation without ex-ante controls of the measure 501 - Technical assistance. Key findings were presented by the auditors during the mission that must be resolved by obtaining the conferral.

In the reporting period Monitoring Committee held one meetings in Skopje, the 14th held in June 2014. The second meeting was held in the period of preparation of this report i.e. in February 2015.

The procedure for hiring an independent evaluator to assess the IPARD 2007- 2013 and, was initiated on 17 February, 2014. Consortium IBF-ADE-NIRAS has won the tender for the evaluation of the IPARD program and EU aid to Department of Agriculture and Rural Development. On-going evaluation was performed in 2014 and the final report was submitted in the period of preparation of this report.



SECTION 2: Changes to General Conditions

2.1.: Political and Institutional Framework

Macedonia's transition to a more market-based economy has been facilitated by relatively high social and political stability that has enabled the economy to adapt to comprehensive reform measures. In spring 2014, simultaneously with Presidential elections early Parliamentary elections were held. The elections did not result in changes of the governing structure.

Membership in NATO and the European Union remain a strategic course for reform measures. The foreign policy was intensified towards economic diplomacy as the Government economic agenda is pursuing to increase the foreign direct investments and increase of employment.

In October, 2014, the Commission has published regular progress report for Republic of Macedonia confirming the high level of alignment with the EU acquis relative to the country's phase in the accession process (candidate country since 2005). The Council failed to act upon the Commission's recommendation to the Council to open the accession negotiations which means that the accession negotiations have still not been opened.

There were not significant changes in relation to the political and institutional framework which affected the implementation of the IPARD Programme.

2.2: Socio-economic conditions in 2014

Population

According to the recent population estimates in 2013, the number of population has increased to total of 2 065 769 inhabitants. However, the increase in the population in predominantly rural regions compared to 2002 was insignificant (1%) than in the intermediate regions (3,7%).

Around 59 percent of the 2 million people live in the predominantly rural regions. According to population observations in 2013 made on the level of rural municipalities, almost all rural municipalities experience decline in the population and 80% of the population increase in 2013 is in the Skopje region only.

The average age of the population in Macedonia is approximately 40 years, and 70,7% of the population is of working age (between 15 and 64). According to gender structure of the population 76,8% of men are between 15-64 years of age and 52,7% of women being between 15-64 years of age.

Table 1: Population by Age in 2013 (estimates)

Population by Age	Number (in '000)	% in total population
- Below working age (0-15)	348.416	16,9
- At working age (15-64)	1.461.625	70,7
- Above working age (65 and above)	255.728	12,4
Total	2.065.769	100

Source: SSO(2014)



Macroeconomic Situation

The trend of a sound macroeconomic policy is consistent in the past years, apart from the decrease of the GDP in 2009 (- 0,9%) and in 2012 (- 0,4%) due to the contraction of global trade in 2009 which led to drop in foreign demand for Macedonian export products, in particular in those branches that have highest share in the industrial production index.

According to the National Bank, the economy started to recover in 2013 reaching positive rates of GDP growth of 2,7%. The GDP growth has increased in 2014 reaching 3,8%. GDP growth is based on the increase of all economic sectors. Highest growth has been recorded in the construction and manufacturing sector. There has been a recorded increase of exports and investments.

Inflation has averaged 2,5 percent over the past 10 years. After the sharp decrease (- 1,6%) in 2009, the inflation rate has reached its pick of 4,7% in 2012. In 2013 the inflation rate dropped to 1,4%. The inflation rate in 2014 was negative -0.4%. The reasons and effects of the deflation are yet to be analyzed.

Table 2: Macroeconomic indicators

	2009	2010	2011	2012	2013	2014
GDP in million € (current exchange rate)	6.767	7.109	7.554	7.585	8 112*	8.533*
GDP (per capita in €)	3.300	3.459	3.665	3.680	3.930*	4.220*
GDP real growth rate (in %)	-0,4	3,4	2,3	-0,5	2,7*	3,8*
Inflation (in %)	-1,6	3,0	2,8	4,7	1,4	-0,4
Average exchange rate (denar/€)	61,27	61,51	61,53	61,53	61,58	61,62
Unemployment rate (in %)	32,2	32	31,4	30,6	29	28
Export of goods and services in mill. €	1.932,6	2.530,1	3.210,9	3.106,9	3206,3	3.723,0
Import of goods and services in mill. €	3.492,2	3.977,9	4.859,2	4.863,5	4.790,7	5.485,0
Balance of trade in mill. €	-1.559,6	-1.447,8	-1.648,3	-1.756,6	-1.584,4	-1.762,0
Balance of trade in % of GDP	25,3%	23,5%	24,5%	25,9%	20,6%	20,6%

Source: SSO and NBRM, 2015(*estimation)

Trade exchange

Export growth accelerated in 2014 as the country has diversified its exports in recent years both in terms of products and destinations. Export growth is still largely driven by an increase in Foreign Direct Investment (FDI) related exports. Most FDI related exports are connected to the automobile industry and include goods such as catalysts and electronic dashboard components. Tobacco products, fresh vegetables, and furniture have also significantly contributed to export growth. By contrast, iron, steel, and apparel as traditional export goods, have fallen in importance. Notwithstanding the strong export growth, the country has been running persistent current account deficits, mainly because



of high oil and electricity imports. The share of the trade deficit in the GDP has remained steady at around 20% in 2013 and 2014.

Employment

Despite these recent improvements in emerging economic drivers, the country still faces considerable challenges in achieving sustained rapid growth and lowering unemployment.

The decrease of the unemployment rate which has started in 2012 and continued in 2013 and 2014 is a result of the governmental policies for employment and self-employment as well pursuing increase of FDI's in the technological and industrial zones. The unemployment rate of 28% in 2014 still does not compare favorably with the EU 27 average of 10,8%. The high unemployment rate of young people (15-24) is an additional problem that leads to the out migration of the young labour force from rural areas to urban centers and abroad.

Unemployment rate is worse in rural than in the urban regions. The average unemployment rate in 2013 in the predominantly rural regions is above the national unemployment rate (30,5% vs. 29,1%) while the unemployment rate in the intermediate rural regions of 26% is lower than the national average.

SME's

As in most economies, SMEs represent the vast majority of all enterprises. According to the number of employees, 65 375 or 92% were micro and small enterprises out of which around 90% are with number of employees between 1-9 which is one of the qualifications for ranging the legal entities as micro enterprises. The number of entities with 250 or more persons employed have a share of only 0,3% in the total number of enterprises.

Slightly over one third of active enterprises are in the wholesale and retail trade sector (35,7%). Other important sectors include manufacturing (11%), transport, storage and communication (9%), and construction. These four sectors comprise over three-quarters of the total number of active enterprises. The four sectors in which most business entities are operating are also the biggest contributors to employment (65%).

The national average business density is 36 business entities per thousand inhabitants or 32 SME per 1 000 inhabitants. The number of active SMEs translated into an SME density of 32 per 1,000 inhabitants on national level is higher than average figures for the SEE region (23 per 1 000 inhabitants), but is far below the EU 27 average of 45 per 1 000 inhabitants. SMEs are also important in terms of employment creation, accounting for estimated 80% of the total employment in the country.

There were no significant changes in relation to the general socio-economic conditions that would affect the IPARD Programme.

2.3: Agriculture production and economy in 2014



Agriculture GDP share is around 9% in the period 2008-2012 (compared to the 1,7% in the EU 27). After the 2013 increase of the share of agriculture in the national GDP, there is a significant drop recorded in 2014. (Table 3). The decrease of the share of agriculture in GDP indicates that growth has not been sufficient to follow the overall growth rate of the national GDP and the economic activities which lead this growth – such as construction and trade and service and exports.

Table 3: Agriculture and food processing economic development indicators

	2009	2010	2011	2012	2013	2014
Agriculture value added, at basic prices, in million € (current exchange rate)	629	686	690	691	783*	751*
Agriculture (GVA in % of GDP)	9,4%	9,9%	9,2%	9,1%	9,6%	8,8%
Agri-food exports (% of total exports)	18,5%	16,7%	14,6%	15,4%	15,7%	13,1%
Agri-food imports (% of total imports)	14,3%	13,4%	12,8%	14,0%	13,7%	11,8%

Source: SSO GDP statistics, 2015 (MAFWE calculations) (* estimations)

Agriculture activity

Macedonian agriculture is dominated by cereals cultivation that covers around 32 percent of the utilized agricultural land. Cultivation of vineyards, orchards and vegetable are also prominent in the agriculture production structure covering 17,4% of the utilized agriculture area in 2014.

The total utilized agricultural area has remained unchanged in the recent years varying between 509 and 511 thousand hectares.

There is a sharp decrease in the number poultry of around 11 percent in 2014 compared to 2013, while there is slight increase in the number of cattle and sheep (just over 1% respectively). Evident increase is recorded in number of bee hives of just over 8 percent in 2014 compared to 2013.

Positive trends are recorded in the cow milk production, meat production and eggs quantities in 2014. Following the increase of cow milk production quantities in 2013, the quantities of milk have reached its pick in 2014 comparing to the annual quantities produced in the past 25 years. The milk quality is slowly improving but it still remains in the focus of policy concerns.

Farm structure

According to recent SSO structural survey in agriculture (2013) there were 170 885 agriculture holdings in June 2013 compared to 192 082 in June 2010 and 192 675 agriculture holdings censused in 2007. The reduction of number of agriculture holdings is 11,3% (or less than 1,6% annually). Almost the whole reduction rate can be attributed due to the decrease of number of individual agriculture holdings.

The structure of agriculture holdings can be attributed as large number of very small semi-subsistence farms (< 1,5 ha and < 2 LSU) cultivating 85% of the total available



agriculture land and very small number of large agriculture holdings (>100 ha and >100 LSU) cultivating 15% of the agriculture land.

The average size of agriculture holdings in terms of utilized agriculture area is 1,85 ha has increased compared to 2010 but is still far below the EU 27 average of 14,3 ha. The problem of small farm size increases to the fact that 58,2% of total agriculture holdings utilized less than 1 ha of land.

Gross Agriculture Output¹

According to the latest statistics on economic accounts in agriculture, the total agriculture production value has been estimated to 1,2 bn. EUR in 2013, which is increase of about 12% compared to 2012. The increase of the agriculture production value is largely due to the increase of prices at farm level as the overall agriculture production quantities has not increased significantly.

Table 4: Structure of Gross Agricultural Output

Description	2012		2013	
	Value (in mill EUR)	% of total	Value (in mill EUR)	% of total
Crop output	818,2	75,2	872,8	74,8
Livestock output	270,8	24,8	293,1	25,2
Gross Agriculture Output	1 089,0	100,0	1 165,9	100,0

Source: SSO, Statistical Yearbook (2015).

The increase of value of crop output in 2013 is attributed to the increase of value of cereal production, vegetable production and fruit growing, while the increase of livestock output is solely due to the increase of the value of animal products (namely milk production) as the value of livestock has decreased in comparison to 2012.

A little less than two thirds (63,2%) of the agriculture output in the country was made from the agriculture holdings specialised in field crops (cereals, industrial crops and vegetables), specialised (grazing) livestock and mixed livestock – crop production, which was much higher proportion than the EU 27 average (52,6%).

The biggest contributors to the formation of the gross standard output are agricultural holdings with mixed livestock – crop production (21,4%), while the smallest contributors were the agriculture holdings specialised in cereals and industrial crops with only 6,7%, despite the fact that on every five farms one is specialised in production of cereals, oilseeds and/or other industrial crops.

Agriculture employment²

Agricultural sector, including forestry and fisheries accounts 18,7% in the total employment in 2013 which is more than two-thirds higher than the EU 27 average of 5,2%. In 2013, total of 127 186 people were engaged in agriculture in 2013, which is around 18% of the total employment. Majority of the engaged persons are either self-

¹ At the time of reporting the data on economic accounts for agriculture are available for 2013.

² At the time of reporting the data on agriculture employment are available for 2013.



employed or are unpaid family workers. Only around 9% are regularly (full-time workers) employed. Around 13% of the total engaged labour force in agriculture is engaged as part-time or seasonal basis.

The increase of the overall employment in the country has been represented also by the increase in the share of employment in agriculture of 1,4 % in 2013 compared to 2012.

More than half of the total employed persons in agriculture are engaged in growing crops and perennial plantations and the rest are engaged in combined cultivation of crops and animals.

Taking into account the amount of time actually worked, the regular agricultural labour force in Macedonia was estimated to be the equivalent of 118 000 people³ working full-time (in annual work units). (Table 5)

Table 5: Total agriculture labour input (1000 AWU)

Description	2008	2009	2010	2011	2012
Total agricultural labour input	130	118	117	131	118
Non-salaried agricultural labour input	60	55	55	68	62
Salaried agricultural labour input	70	63	62	63	56

Source: SSO, "Economic accounts for agriculture", 2013

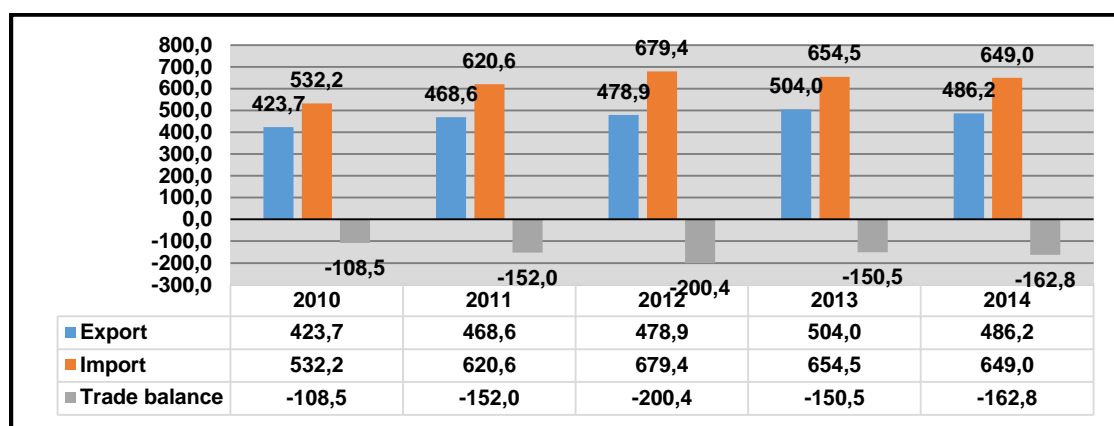
The higher share of family workers indicates the majority of farms being subsistence or semi-subsistence. The net salaries in agriculture amounted to average € 240 a month (approximately about € 11 a day).

Agri-food trade

The Agri-food trade, the export in 2014 compared with 2013 has decreased by 3,5% (from €504,0 million to €486,24 million). The imports have decreased at lower rate i.e. by 0,8% (from €654,5 million to €649,02 million). Considering the overall increase of total trade, the share of agri-food trade has decrease in 2014 to 13,1% compared to the exports in 2013 (15,7%) and to 11,8% compared to the imports in 2013 (13,2%).

Figure 1: Agricultural trade (in million €) for the period 2010-2014

³ This represented 1.2% of the full-time equivalent agricultural workforce in the EU 27 in 2010.(source: http://epp.eurostat.ec.europa.eu/cache/ITY_OFFPUB/KS-FK-13-001/EN/KS-FK-13-001-EN.PDF)



The agriculture economic indicators reflect overall decrease of value added and trade in 2014. The production structure has remained steady with predominant crop and perennial cultivation. The slight increase of the livestock output is due to increase of milk production quantities reaching its peak in 2014 meaning that the quantities produced are the highest recorded in the last 25 years.

The agriculture sector can be still regarded as unfavorable farm structure comprised of majority share of small individual farming households with mixed production, extensive methods of production (especially in the grain sector), with low cash-flows and low competitiveness in terms of productivity. All of this impedes investment levels in advanced technologies and determines relatively low crop yields.

Agriculture is prone to spring and summer hail, droughts and early spring floods. In 2014, due to unfavorable weather conditions, vineyards and apple production have been damaged with estimated losses of around 30%.

2.4: Changes in national and sectoral policies

VAT legislation

The Law on VAT was amended to decrease the VAT rate from 18 percent to 5 percent for livestock feed, feed additives and live animals. The amendment was due to previous MAFWE analysis in relation to prevent “home” slaughtering as the individual agriculture producers are not eligible for VAT reimbursement and thus the high VAT rate is posing a burden on the price for slaughtering of the animals. The decrease of VAT for feed is expecting to decrease the costs for inputs in the livestock breeding sector primarily for meat (pigs and poultry).

Law on agriculture land

In 2014, the Law on agriculture land was amended in three turns. First amendment considered provisions for renting state owned land for fast growing tree species on parcels which are on altitude higher than 700 meters and to include provisions for mandatory crop rotation for monoculture contracts. The second amendment was to regulate the modalities of renting state owned land with parcel size above 10ha via public electronic auction. The third amendment of the Law on agriculture land was related to the fiscal decentralization as it provides that 50% of the public revenues from renting



state owned land must be transferred to the Municipality where the land is located. The transfer of the collected revenues to the Municipalities is condition that the transfer will occur if 80 percent of local property tax has been collected by the Municipality.

SAA amendments due to Croatian accession to the EU

Following the Croatia accession to the European Union and respective mutual consultations, the Protocol to the SAA started was enacted with full application from 18.09.2014 following the Decision of the European Council (2014/665/EU) from 18.02.2014. The Protocol encompasses the bilateral trade arrangements which were applicable in the trade between Macedonia and Croatia before Croatia accession to the EU.

National Agriculture and Rural Development Strategy (NARDS)

Pursuing to the Article 6 of the Law on Agriculture and Rural Development (Official Gazette of the Republic of Macedonia, No. 49/10 from 12.04.2010), the planning of agriculture and rural development policies is conducted via process of drafting of National Strategy for Agriculture and Rural Development (NARDS). New strategic document was prepared by MAFWE with support of FAO. The strategic document for agriculture and rural development covers the strategic period 2014-2020. The document was officially approved and published in the Official Gazette No. 197/2014.

The “new” NARDS for the period 2014-2020 reflects the continuity of the national priorities for developing agriculture and rural areas, through further improvement of the existing sector related policies and by increasing their efficiency. The ultimate goal remains to further improve the competitiveness of the agricultural sector in an open and volatile market and to maintain the development of rural areas through optimal use of relevant natural resources.

Agriculture Quality standards

One of the agriculture policy priorities in 2014 was the regulation related to the raw milk market in terms of the quality. Thus, amendments of the Law of quality of agricultural products were prepared for supporting establishment of the systems for quality control of milk, especially in the terms of:

- Building a system of training of controllers employed in dairies for sampling of the milk for quality checkup.
- Authorization of institution to conduct training of controllers and their certification. Decided to start pilot system for taking samples for quality check up of the milk with the largest dairy in Macedonia.
- Authorization of laboratories for analysis for determination of the quality of raw milk samples that meet the conditions stipulated in the Law on quality of agricultural products.
- Analysis for defining acceptable system for quality control and evaluation of the quality of milk relevant to all stakeholders in the chain (milk, dairy laboratories).



Amendments of the law were prepared in the reporting period but the adoption is still pending in the period of preparation of this report.

In 2014, in terms of regulating of the animal feed market two (2) by-laws were adopted under the Law of quality of agricultural products and published in Official Gazette.

Wine legislation

With respect to wine, additional 2 by-laws under the Law on wine were enacted and published in the Official Gazette No. 61/14 and 14/15. By-laws are setting the implementing arrangements for traceability and recording of wine grapes, wine and wine products.

National direct payments and input subsidies schemes

The direct subsidies scheme is implemented on the basis of Annual programme and Decree for its implementation adopted by the Government on the basis of the Law on Agriculture and Rural Development. The Programme for support in agriculture for 2015 was adopted in January 2014 for the following type of payments:

- Area / Headage payments

Payments are made per hectare planted area / number of animals above the minimal threshold (of 0.3 ha of arable land or 0.2 ha of permanent crops and vegetables, or 30 heads of sheep, 10 of goats, etc.). In order to manage with the budget expenditure priorities and provide justified allocation of funds between farmers with different scale of economies, the amount of subsidy per unit of area or headage above certain capacity size levels is reduced by escalating percentage along with growing of capacity size. Toward decoupled scheme, the amount of area payments are depended on crop type at general sub-sectoral levels, each being paid with flat rate payment per hectare for: 1) a group of wide range of arable crops (including cereals, fodder crops, industrial crops excl. tobacco) at €150/ha; 2) the permanent crops (vineyards and orchards) at €650/ha and €400/ha respectively; and 3) a group of vegetables with €330/ha.

- Premium scheme payments

For group of products which are strategically important for agricultural and rural development, and due to the need to increase still low productivity level, some premium-based support is also granted to product units delivered to the upper processing stage of the market chain (processing/slaughter facilities). In 2014, premium payments were paid to quantities of products as per: kilogram (of vegetables – 3 EUR cents per kg and of tobacco 1 EUR per kg), liter (of milk – 5 EUR cents), and per head of slaughtered animals in registered slaughter houses (cattle – 33 EUR, pigs – 17 EUR, broilers – 50 EUR cents hens – 40 EUR cents). Payments are verified by presentation and approval of documents that confirm the sale to the registered slaughter houses.

- Non-production criteria based payments

In order to stimulate the interest for utilization of agro-chemical analysis support is given, which includes coverage of 70% of the cost for soil chemical analysis but not exceeding 150 EUR per beneficiary. In addition to this measure, individual farmers are



also subsidized with 60% of the value of the annual insurance premium for vineyards, vegetables, fruits, cereals, tobacco production and bee hives.

- ***Input subsidies were granted as to the following purposes:*** use of certified seed for cereals (additional MKD 50 EUR/ha for area based payments); in vitro insemination (MKD 20 EUR/per newborn calf); production of plant seeds (excluding tobacco) including vegetables with area based payment of 230 EUR/ha, and subsidies for production of vine and fruit seedlings, 40 EUR cent per tree.

The total amount of direct payments in 2014 was €101,80 million compared to €111,96 million in 2013. Under the sub-sectoral structure, crop production accounts for approximately 50,4% of the amount, while livestock contributes with about 32%. The rest of the non-production measures (quality standards, organic production, technical assistance and support etc.) counted to 17,6% of the total subsidy funds.

The allocation of resources by products (expenditures) shows that five product groups uptake three-quarters of the total funds for direct payments i.e. cereals, tobacco, cattle, and grapes / orchards, sheep and goats.

Eligibility criteria for apply for direct payments are requiring that the applicant has to be registered in the Farm Register providing the following data as minimum: the identity of farmers, members of the household and their notary consent, or tax and registration data of the legal entity representing the farm, cropping plan, right to use the cultivated land, livestock number as registered in the animal ID system, the husbandry and breaded animals. In order to benefit the direct payments, the farmers must timely serve all the liabilities (to be free of debts) for utilization of state-owned land or agricultural mechanization distributed under subsidized conditions, pasture license or concession and use of water for irrigation or for drainage and all tax and social-pension contribution liabilities.

In relation to provide possibility to farmers for cessation of the debts with the subsidy entitlement, the Law on Agriculture and Rural Development has been amended in 2014. Amendments of the law were prepared in the reporting period but the adoption has been made official in the period of preparation of this report.

National rural development support schemes

National financing of the rural development measures is implemented under the Annual Programme for Financial Support of Rural Development (PRD). The Programme for Financial Support of Rural Development for 2014 was adopted on 20th of January 2014 and published in the Official Gazette No. 10/14. The budget for its implementation amounted approximately €33 million.

Implementation of the measures is regulated under Rulebooks for rural development measures (Rulebook on the criteria for selection of beneficiaries of the rural development measures and Rulebook on detailed additional conditions for the support of rural development measures, the eligible costs and amount of support for eligible costs per beneficiary for each measure) being adopted in October 2011 and amended in June 2013.



Total of eight calls were published under the PRD for 2014, by the implementing agency – AFSARD in the period of February-December 2014. The highest percentage of expenditures related to the PRD is for Municipal investments in rural infrastructure; public investments in water management – reconstruction of large irrigation schemes, maintenance of drainage channels and building new primary irrigation schemes and dams, and investments in agricultural holdings for the purchase of agriculture machinery for cereal and industrial crops which are not eligible under the IPARD Programme. The PRD also supported around 22 beneficiaries with young farmers grant scheme support.

Top-ups for organic production are also supported under the PRD. The top-ups are calculated as percentage of the amount of the direct payments entitlements for conventional production, i.e. minimum 30% of the amount of direct subsidies being claimed by the farmer.

Veterinary policy

In the reporting period, the Food and Veterinary Agency has conducted a number of activities related to harmonization process of the EU legislation following the subsequent changes in the EU Acquis, including implementing legislation, concerning specific areas of the veterinary policy.

As regards framework legislation, a new Law on animal protection and welfare was adopted in the second half of 2014. The law is published in the Official Gazette No. 149/2014. The Law is fully harmonized with the relevant EU acquis i.e. with 32007L0043, 32010L0063, 32008L0119 and 32005R0001. With the entry into force of the new Law, the Law on protection and welfare of animals (Official Gazette No 113/07 and 136/11) was repealed.

Water management

During 2014, Government has established a working group for transformation of the water management system to improve the management of the irrigation and drainage systems including multipurpose dams in a centralized manner via establishment of centralized state owned company “Vodostopanstvo”. This new body will bring together all the regional water management bodies and will act as central body for water management. The results from the work were articulated in a single legal act Law on water management also repealing the Law on water communities. The Law was adopted in the period of preparation of this report. It is expected to simplify and regulate the procedure for using water for irrigation purposes as well as to improve the evidence of payments and contractual relation with the farmers. These changes of system nature are expected to ease the administrative procedure of IPARD Programme implementation in specific to Measure 101.



SECTION 3: Progress of the IPARD Programme implementation

3.1: Summary of IPA objectives and indicator targets

The strategy, objectives and measures oriented towards the achievement of sustainable development of the agricultural sector and rural areas are outlined in the IPARD Programme follow the objectives framework set for in the IPA Council Regulation 1085/2006 and subsequent EU Implementing Regulation 718/2007.

The priorities that need to be implemented due to making the strategy of the program operational are set in the Multi-Annual Indicative Planning Document (MIPD), which is a three year rolling document reviewed annually. The last MIPD was published for the period 2011-2013⁴. The priorities set out in the MIPD serve as a basis for the annual programming of EU funds.

The main goal for IPA Agriculture and Rural Development is to reinforce the ability of the agricultural sector to compete in the integrated regional markets of the European Union and South-Eastern Europe, through measures for increasing the efficiency of agricultural production, processing and marketing, contribute to the gradual alignment to the EU standards and *acquis*, and to build viable rural communities through sustainable rural development, which are also prepared to adapt to the effects of climate change. The Food Safety policy of the country is one of the Government priorities, including three main objectives: food safety and protection of human health; consumer protection; and, application of the EU standards.

The objectives achievement is through investment support to prepare the agricultural sector for the EU accession via upgrading of the farms and the food establishments to meet the EU environmental, hygiene, food safety and animal welfare standards is of high importance.

Indicators to assess the impact of the EU support include, inter alia:

- Improved income of the IPARD beneficiary;
- Increased added value of agricultural products through improved and rationalised processing and marketing of products.
- Improved processing and/or marketing of quality agricultural products as well as preparation for the implementation of Common Market Organisation (CMOs) in the beneficiary sectors through the setting up of producer groups (in case of successful accreditation of measure "Support for the setting up of producer groups" after 2010).
- Increased participation of local actors in the development and implementation of rural development strategies
- Increased income of the beneficiary rural population through the development and diversification of on-farm and/or off-farm activities;
- Compliance of food processing establishments with EU standards;

⁴ COM(2010) 640 10.11.



- New employment opportunities created through the development and diversification of on-farm and/or off-farm activities;

3.1: Summary of IPARD objectives and indicator targets

Complementing the overall objectives framework, the IPARD Programme constitutes a strategy which aims at tackling specific shortcomings in the agriculture development and rural areas, with consecutive concerted solutions to priority problems grouped in sub-sector actions per measure.

Thus, IPARD is programmed to reach the following specific objectives:

- Improving the technological and market infrastructure of commercial agricultural holdings and food processing industry aimed at increased added value of agro-food products and achieved compliance with EU quality, health, food safety and environmental standards;
- Improved quality of life of the rural population, increased income and creation of new employment opportunities;

The corresponding priority development areas of the IPARD Programme are as follows:

a. Priority axis 1: Improving market efficiency and implementation of the Community standards

In the support of the structural adjustments in the agricultural sector emphasis is made on the increased production competitiveness and higher product quality. IPARD Programme measures aim towards the improvement of the technological and market infrastructure and the increase in the added value of the agricultural products as well as the achievement of the EU standards for quality, food safety, animal protection and protection of the environment.

Measures implemented under this priority axis are as follows:

- Measure 101 “Investments in agricultural holdings to restructure and to upgrade to Community standards”, and
- Measure 103 “Investments in the processing and marketing of agriculture and fishery products to restructure those activities and to upgrade them to Community standards”

b. Priority axis 3: Development of the Rural Economy

The priority axis 3 puts its main focus on the investing in development and diversification of economic activities in rural areas, assisting the rural population in building on and off-farm economic activities, creating additional income sources and job opportunities. This axis implements the following measure:

- Measure 302 “Diversification and development of rural economic activities”

In addition to the above measures, the IPARD also envisages the possibility to introduce other areas of intervention such as support to producer groups under Priority axis 1, preparatory actions for the implementation of agri-environmental measures and



development of local development strategies, similar to the LEADER approach under Priority axis 2, and improvement in training and investments in rural infrastructure as measure options under Priority axis 3.

Up to date, the IPARD Programme is distributing assistance under three out of four programmed measures:

- Measure 101 “Investments in agricultural holdings to restructure and to upgrade to Community standards”, and
- Measure 103 “Investments in the processing and marketing of agriculture and fishery products to restructure those activities and to upgrade them to Community standards”
- Measure 302 “Diversification and development of rural economic activities”

The fourth measure, Technical assistance for programme implementation has been nationally accredited in 2014 and is subject to conferral of management powers which progress is reported in section 5 of this report.

The data collection system for monitoring purposes is organised around set of indicators to measure the achievement of targets and the output, results and impact achieved. The measure indicators have been developed as part of the IPARD programming exercise and the related ex-ante evaluation of the IPARD Programme. The initially set indicators targets were adapted in the process of Programme modification and can be further adapted to the needs of the programme during the ongoing evaluation process.

3.2: Qualitative analysis of progress achieved per priority axis and measures

Since the start of the IPARD Programme implementation, three of all four measures under the IPARD Programme were implemented through total of 10 public calls. The last public call was closed in December, 2014.

Out of the total received applications (1833), 1394 applications were processed resulting in 371 contracts being signed; 75 contracts were cancelled or terminated and 175 contracts were paid. The total number of received applications from the last public call in 2014 (439) and 374 applications from the first public call in 2014 were in the pipeline of the administrative approval process and the outcomes will be reported in the next reporting period. Also at the time of preparation of this report, 121 payment applications were pending for approval at the IPARD Agency.

Out of a total of 75 canceled contracts, 13 contracts are canceled due to breach of contract, 33 applicants had not submitted a request for payment, 23 contracts have been cancelled due to the outcomes from the controls of the offers, 4 contracts are terminated due to tax and social and pension debts to the PRO and 2 not reached the stipulated standards.

Table 6: Overview of submitted, contracted and paid applications per priority axis

Measures	Processed				
	Submitted	Rejected	Approved	Cancelled	Paid



M101	1002	363	309	48	151
M103	151	94	49	18	24
M302	241	192	13	9	0
Total	1394	649	371	75	175

Source: Monitoring system, (cumulative 2014)

The interest of applicants in the last three public calls has increased and the increase can be solely attributed to Measure 101, as the number of applications is 71,8 % of the total number of submitted applications.

Table 7: Qualitative analysis of public calls

Public call	Submitted	Rejected	Approved	Cancelled	Paid	% of approval rate
01/2009	133	106	27	8	19	20,3
01/2010	112	76	36	13	23	32,1
01/2011	74	34	40	28	12	54,0
02/2011	60	37	23	11	12	38,3
03/2011	92	65	27	7	20	29,3
01/2012	67	53	14	2	12	20,9
02/2012	61	50	11	1	9	18,0
01/2013	401	228	173	5	68	43,1
01/2014	394	/	20	/	/	/
02/2014	439	/	/	/	/	/
Total	1833	649	371	75	175	26,6

Source: Monitoring system (cumulative 2014)

The quality of the applications submitted measured as the ratio between submitted and approved applications in 2014 is 35,1%⁵ which is an improvement compared to 17,8% approval rate reported in 2012 and 26,6% reported in 2013.

Despite the increase in the interest to apply under the IPARD Programme and the improvement of the approval rate, the quality of the applications still remains an issue as out of 649 rejected requests, 316 requests failed to complete the application with supporting documents and the remaining 333 are found ineligible either in the definition of beneficiaries or the eligibility of the investments being proposed.

PRIORITY AXIS 1

MEASURE 101 – Investments in Agriculture Holdings

Start date⁶: 23.12.2009

Measure budget⁷: €19.713.496

The measure has, as a general objective, the support of tangible or intangible investments in agricultural holdings to upgrade them to Community standards and to improve their overall performance. The measure focuses on the improvement of the competitiveness of the agriculture sector through increase of the quality of production by using modern production means and technological improvement of production processes in compliance

⁵ Not considering the number of applications in the pipeline (833) in the total number of applications.

⁶ First call for implementation was opened on 23.12.2009

⁷ EU contribution



with the Community standards related to animal welfare, animal and plant health and environmental standards.

The specific objectives of this measure is to promote focused investments in the animal breeding and in the plant sector at the farm level, for the improvement of farm buildings (for livestock breeding and for plant sectors), investment in new machines and equipment, upgrade to water-efficient irrigation schemes and renewing and improvement of fruit and vineyard plantations.

The targeted priority agriculture sectors to be supported under this measure are vineyards, orchards, vegetable production, breeding of dairy animals and for meat production.

Out of the total received applications (1833), 1390 applications were submitted for Measure 101 out of which 1002 applications were processed resulting in 309 contracts being signed; 48 contracts being cancelled or terminated and 151 contracts were paid.

The total number of received applications from the last public call in 2014 (388) and 331 applications from the first public call in 2014 were in the pipeline of the administrative approval process and the outcomes will be reported in the next reporting period.

Out of total processed application under M101 (1002), more than half are for investments in the orchard sector including table grapes (521).

Table 8: Qualitative analysis per priority sector under M101

Priory sector	submitted	rejected	approved	paid	cancelled	on going	pipeline
Poultry meat	8	7	0	0	0	0	1
Pork meat	27	15	7	2	5	0	5
Dairy cows	41	34	4	2	1	1	3
Dairy sheep	4	2	1	0	1	0	2
Dairy goats	5	2	0	0	0	0	3
Greenhouses	29	18	9	5	3	1	2
Glasshouses	4	4	0	0	0	0	0
Open field vegetable	132	39	27	5	2	20	66
Vineyards	220	66	47	13	8	26	107
Orchards	517	171	213	124	27	62	133
Table grapes	4	2	1	0	1	0	1
Total	1002	363	309	151	48	110	323

Source: Monitoring system (cumulative 2014)

The rate of approval for the measure 101 for all public calls is 30.8% as out of the 1002 processed applications, almost one-third, or 363 requests did not pass the administrative controls for completeness and eligibility. The rate of approval of applications processed in 2014 has been improved as for the public call 01/2014 the approval rate reaches almost 58%. Highest rejection rate has been calculated for project for investment in the milk production sector.



Concerning the rejected projects, 175 were rejected as the applicants fail to complete the application, while 188 applications were considered as non-eligible of the following reasons: noncompliance of the production capacities (47 applications); 39 applications proposed non-eligible investment in terms of proposed investment value below the threshold of 3 000 EUR, TPP assessment resulted negative); 32 applicants were in debt towards the tax authorities and the MAFWE; 28 applications submitted offers with capital connection and 10 applicants started the investment before contracting; 8 applicants have refused signing of contracts due to other reasons.

Most of the applicants under this measure are for agriculture machinery, attachments and irrigation equipment. Only 22 projects proposed reconstruction of buildings.

In view of the EU common monitoring indicators, financial targets per priority sector and the measure specific indicators, the objectives under M101 have limited achievement against the targets set. Positive progress of achievement may be noted in terms of increase number of applications. However, the current approval rate is far below the target of 80%.

Table 9: Progress of M101 Output indicators

Type of indicator	Indicator	Target	2014	% of implementation
Output	Number of applications received	2700	1390	51%
	Number of applications approved	2160	309	14,3%
	Number of farms/holdings supported	2160	151	7%
	Total volume of investments, €	91.5 Mio. EUR	8.2 Mio EUR	9%

Source: Monitoring system (cumulative 2014)

Table 10: Implementation of M101 financial targets

Group of investments		% of the measure 101	EU funds planned	EU funds contracted	EU funds paid	% of budget implementation
1011	Vineyards	10,50%	2.069.917	626.061	120.810	5,8%
1012	Orchards	9,50%	1.872.782	1.118.869	441.870	23,6%
1013	Vegetable	16%	3.154.160	455.756	74.901	2,4%
1014	Milk production	39%	7.688.263	523.131	159.577	2,1%
1015	Meat Production	25%	4.928.374	530.106	76.317	1,5%
	Total	100%	19.713.496	3.253.923	873.475	4,4%

Source: Monitoring system (cumulative 2014)

The quality analysis of the projects paid under M101 shows that the financial indicators which express the priority of objectives (being put on milk hygiene and animal welfare) have yet not been achieved as only 4,4% of the dedicated budget for Measure 101 has been disbursed.



The measure specific indicators calculated on projects paid under M101 are presented in the table below:

Indicator	Quantified target	2014
Share of reconstructed vineyards of the total area of vineyards	approx. 5%	15,66 ha (0%)
Share of reconstructed orchards of the total area of orchards	approx. 2%	9,7 ha (0%)
Share of constructed/reconstructed fixed greenhouses of the total area under fixed greenhouses	approx. 30%	2,07ha (0%)
Share of constructed/reconstructed glasshouses of the total area under glasshouses	approx. 5%	0%
Share of projects including post-harvest activities into total number of projects under Measure 101	approx. 8%	0%
Share of assisted agricultural holdings that have introduced animal welfare improvements of the total number of livestock agriculture holdings in the concerned priority sector	approx. 4%	N/A
Share of assisted agricultural holdings that have improved milk hygiene requirements according to Community requirements of the total number of livestock agriculture holdings – dairy cows, sheep or goat	approx. 4%	N/A
Share of assisted agricultural holdings that have improved farm manure storage practices of the total number of livestock agriculture holdings – cattle, sheep, goat, pig and poultry	approx. 4%	0%
Share of young farmers of total assisted farmers	approx. 18%	45,03%
Share of women of total assisted farmers	approx. 15%	37,75%
Share of assisted agricultural holdings located in the mountainous areas of total assisted agricultural holdings	approx. 15%	N/A

Source: IPARD Programme, data calculated from the Monitoring system (cumulative 2014)

The analysis of the implementation based on paid projects shows that the objective related to number of assisted young farmers has been implemented at 250%. The same result has been observed for achieving the objective related to number of assisted women. Out of total 151 paid projects, 57 paid projects are implemented by women and 68 paid projects are implemented by young farmers.

MEASURE 103 – Investments in processing and marketing

Start date⁸: 23.12.2009

Measure budget⁹: €22.413.739

The measure aims to improve the processing and marketing conditions for agricultural products in order to fulfil the EU requirements (hygiene, food safety, quality, environment, animal welfare etc.) and to contribute to implementation of the National Programme of Adoption of the EU Acquis (NPAA).

The support under this measure is also destined to improve the performances of agro-food production from the point of view of quality standards with respect to rationalisation of the installed capacities, their efficient use and to eliminate the supply chain malfunctions, manifested on specific markets.

Thus the measure specific objectives are as follows:

⁸ First call for implementation was opened on 23.12.2009

⁹ EU contribution



- ✓ To promote focused investments for strengthening the supply chain in the dairy and fruit and vegetable sub-sector through setting up or modernisation of local collecting networks, of reception capacities, storing, conditioning, sorting and packing of agricultural products,
- ✓ To contribute towards improvement and optimisation of production flows, processing and marketing of agricultural products, in terms of investment in modernisation of the existing production technologies to improve the product quality, marketing of products and improvement of the environmental standards.
- ✓ To promote investments for modernisation of certain operations in the slaughter sector and wine production, for investment in modernisation of the technological lines and equipment and quality control systems.
- ✓ To support investments aimed at adjustments to Community standards for the establishment as whole;
- ✓ To promote investments aimed at decreasing negative impact on the environment.

The targeted priority agriculture sectors to be supported under this measure are wine processing, fruit and vegetable processing, milk and dairy products and meat processing.

Out of the total received applications (1833), 167 applications were submitted for Measure 103 out of which 151 applications were processed resulting in 49 contracts being signed; 18 contracts being cancelled or terminated and 24 contracts were paid.

The total number of received applications from the last public call in 2014 (16) were in the pipeline of the administrative approval process during the reporting period and the preparation of this report, therefore the outcomes will be reported in the next reporting period.

Out of total processed application under M103 (151), more than half are for investments in the fruit and vegetable processing sector (86).

Table 11: Qualitative analysis per priority sector under M103

Priory sector		submitted	rejected	approved	paid	cancelled	on-going	pipeline
Meat processing and slaughtering		15	8	5	1	1	0	0
Milk and dairy	Collection centres	7	5	2	2	0	0	0
	Processing	20	11	8	7	1	0	0
Fruit and vegetables processing	Collection centres	48	34	11	1	9	0	3
	Processing	38	19	19	11	6	0	0
Wine production		19	13	4	2	1	0	2
No type		4	4	0	0	0	0	0
Total		151	94	49	24	18	1	7

Source: Monitoring system (cumulative 2014)



The rate of approval for the measure 103 for all public calls is 37% as out of the 151 processed applications, slightly more than two-thirds, or 94 requests did not pass the administrative controls for completeness and eligibility.

Concerning the rejected projects, 43 were rejected as the applicants fail to complete the application, while 51 applications were considered as non-eligible of the following reasons: noncompliance of the SME eligibility (18 applications); 12 applications proposed non-eligible investment i.e. the investment costs are not eligible under the Programme; 2 applicants were in debt towards the tax authorities and the MAFWE; in 3 applications the responsible person exceeds the age limit (below retirement age); 12 applications submitted offers with capital connection or a non-comparable and 2 applicants started the investment before contracting; while 2 applicants have renounced the application due to other reasons.

In view of the EU common monitoring indicators, financial targets per priority sector and the measure specific indicators, the objectives under M103 have been partially achieved against the targets set for the indicator “number of applications received”. However, the current approval and payment rate is far below the target of 90% and 100% respectively.

Table 12: Progress of M103 Output indicators

Indicator	Target	2014	% of implementation
Number of applications received	190	167	87,9%
Number of applications approved	170	49	28,8%
Number of enterprises supported	170	24	14,1%
Total volume of investment	72.5 Mio. EUR	12,5 Mio. EUR	17,2%

Source: IPARD Programme, data calculated from Monitoring system (cumulative 2014)

Table 13: Implementation of M103 financial targets

Group of investments		% of the measure 101	EU funds planned	EU funds contracted	EU funds paid	% of budget implementation
1031	Wine Production	3%	672.412	605.916	78.718	11,7%
1032	Fruit and Vegetable Processing	11%	2.465.511	3.169.859	1.594.242	64,66%
1033	Milk processing and Dairy Products	20%	4.482.748	444.108	290.608	6,5%
1034	Meat Products	66%	14.793.068	452.612	146.194	1%
Total		100%	22.413.739	4.672.495	2.109.762	9,4%

Source: IPARD Programme, data calculated from Monitoring system (cumulative 2014)

The quality analysis of the projects paid under M103 shows that the financial indicators which express the priority of objectives (being put on food safety in the milk and meat sector and animal welfare in slaughter houses) have yet not been achieved as only 9,4% of the dedicated budget for Measure 103 has been disbursed. The quality analysis of contracted projects shows that the financial target for wine processing will be achieved and the financial targets for fruit and vegetable processing sector are achieved over the targets i.e. 128%.



The measure specific indicators calculated on projects paid under M103 are presented in the table below:

Indicator	Quantified target	2014
Share of modernised processing establishments of total registered establishments in the priority sectors covered by the measure	approx. 80%	24 of 445 registered food establishments (5,4%)
Share of reconstructed slaughterhouses in full compliance to Community standards of total registered slaughterhouses	approx. 90%	0%
Share of supported establishments that have improved milk hygiene requirements according to Community requirements of total registered milk and dairy establishments	approx. 70%	33,33%

Source: IPARD Programme, data calculated from the Monitoring system (cumulative 2014)

The analysis of the implementation based on paid projects shows that the objective related to improved milk hygiene requirements according to Community requirements of total registered milk and dairy establishments has been implemented at 33%. Only 5,4% of the registered food establishments have benefited this Measure.

PRIORITY AXIS 3

MEASURE 302 – Diversification of rural economy

Start date: 23.12.2009

Measure budget: €4.304.370

The overall objective of this measure is to contribute to the creation of new jobs and to the maintaining of existing jobs through the development of micro-business activities, thus raising the economic activity level of rural areas and stemming rural depopulation. Assistance under this priority shall also contribute to achieve the improvement of the quality of life of the wider beneficiaries in the rural areas.

The specific objectives of Measure 302 follow the type of interventions which are supported, aiming at:

- ✓ To support the additional sources of sustainable income for agriculture holdings through promoting value added niche products;
- ✓ To preserve and to develop traditional handicraft activities;
- ✓ To sustain the agricultural activities in the rural area through the accomplishment of specific services;
- ✓ To sustain the activities which are specific to the rural tourism;

The targeted priority agriculture sectors to be supported under this measure are investments for the creation and development of micro and small economic businesses in rural areas related to food processing, non-food production activities, introducing new alternative agriculture production on agriculture holding and provision of agriculture services, crafts and rural tourism. The measure is applicable for investments in rural areas only.



Out of the total received applications (1833), 276 applications were submitted for Measure 302 and 227 applications were processed resulting in 13 contracts being signed (out of which 9 contracts being cancelled or terminated). Up to 31.12.2014 no contract has been paid under Measure 302 although 4 contracts were ongoing.

The total number of received applications from the last public call in 2014 (35) and 13 applications submitted under the public call 01/2014 were in the pipeline of the administrative approval process during the reporting period and in the period of preparation of this report, therefore the outcomes will be reported in the next reporting period.

More than 80% out of the total processed applications under Measure 302 were proposing investments in the rural tourism (106).

Table 14: Qualitative analysis per priority sector under M302

Priory sector	submitted	rejected	approved	paid	cancelled	on-going	pipeline
Production activities	91	67	6	0	4	2	18
Traditional crafts	14	10	2	0	1	1	2
Agriculture services	4	1	3	0	3	0	0
Alternative agriculture activities	12	7	0	0	0	0	5
Rural tourism	106	94	2	0	1	1	10
Total	227	198	13	0	9	4	35

Source: Monitoring system (cumulative 2014)

Rate of approval of applications for measure M302 is 5.3% (considering that 35 applications are still being processed, but are part of the total number of submitted requests).

The low approval rate is due to the problems which the applicants encountered during the process of completion of the application package and the low degree of quality of the submitted projects. This measure has the lowest quality of applications, i.e. 87% of the submitted applications are rejected. Out of 198 rejected applications 89 are found ineligible. In 30 cases the investment proposed was not located in rural area. Also in 30 cases, ineligibility is in terms of capacity of entity (micro or small), applicants are not registered as craftsman or person in charge isn't employed in the entity. IPARD Agency has determined capital relationship with suppliers in 14 applications, while 7 have renounced the request. Two applicants exceeded the age limit, three commenced investment before signature of the contract.

Rate of cancellation of contracts has been also very high as 70% of the contracted projects have been terminated. The reasons for the cancellation of the contracts are:

- 3 contracts have been cancelled for similar or identical bids;
- 3 contracts were cancelled because it was detected capital connection between suppliers;



- 1 contract is cancelled due to his disrespect of the applicant;
- 1 contract is cancelled due to untimely submission of request for payment;
- 1 contract is cancelled due to the inability of the applicant to provide proof of ownership of the land that is the subject of investment.

So far no payment has been made under this measure. As 4 contracts are ongoing in the reporting period, first payments under this measure occurred in the time of preparing this report.

In view of the EU common monitoring indicators, financial targets per priority sector and the measure specific indicators, the objectives under Measure 302 have not been achieved yet, except for the targets set for the indicator “number of applications received”. The current approval and payment rate is far below the target of 37%.

Table 15: Progress of M 302 Output indicators

Indicator	Target	2014	% of implementation
Total number of applications received (per sector)	417		
(3021) Establishment and upgrade of non-agriculture production activities in rural areas	286		
(3022) Diversification of agriculture income and provision of agriculture services in rural areas	61		
(3023) Promoting rural tourism activities in rural areas	70		
Total number of applications approved (per sector)	155		
(3021) Establishment and upgrade of non-agriculture production activities in rural areas	72		
(3022) Diversification of agriculture income and provision of agriculture services in rural areas	37		
(3023) Promoting rural tourism activities in rural areas	46		
Total number of beneficiaries (per sector)	155		
(3021) Establishment and upgrade of non-agriculture production activities in rural areas	72		
(3022) Diversification of agriculture income and provision of agriculture services in rural areas	37		
(3023) Promoting rural tourism activities in rural areas	46		
Total volume of investments, million € (per sector)	31.030 Mio Euro		
(3021) Establishment and upgrade of non-agriculture production activities in rural areas	9.930 Mio Euro		
(3022) Diversification of agriculture income and provision of agriculture services in rural areas	8.378 Mio Euro		



(3023) Promoting rural tourism activities in rural areas	12.722 Mio Euro		
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Source: IPARD Programme, data calculated from the Monitoring system (cumulative 2014)

Table 16: Implementation of M302 financial targets

Group of investments		% of the measure 101	EU funds planned	EU funds contracted	EU funds paid	% of budget implementation
3021	Establishment and upgrade of non-agriculture production activities in rural areas	32%	1.377.398	249.425	0	0%
3022	Diversification of agriculture income and provision of agriculture services in rural areas	27%	1.162.180	136.053	0	0%
3023	Promoting rural tourism activities in rural areas	41%	1.764.792	263.076	0	0%
Total		100%	4.304.370	648.554	0	0%

Source: IPARD Programme, data calculated from the Monitoring system (cumulative 2014)

The quality analysis of the projects paid under Measure 302 shows that the financial indicators which express the priority of objectives have yet not been achieved. Considering the commitments this is expected in the next reporting period as 15% of the financial targets have been committed.

The measure specific indicators cannot be calculated on projects paid under Measure 302. However, for the purpose of coherence of the quality analysis, these are presented in the table below:

Measure specific Indicator	Target	Quantified target	2014
Number of new micro-small enterprises established and active in the rural areas	417	N	N/A
Number of projects diversifying economic activity of agriculture holdings	286	N	N/A
Number of new jobs for rural dwellers created	61	to be monitored	N/A
Number of beds in rural tourism modernised and created	70	N	N/A

Source: IPARD Programme, data calculated from the Monitoring system (cumulative 2014)

3.3.: Amendments to the Programme

In parallel with the financial programme modification, technical amendments were proposed to correct for technical mistakes, provide clarifications but most importantly to introduce simplification of requirements. Changes have been made in accordance with the proposal of the IPARD Agency and followed by analysis of the Managing Authority based on the requirements of potential IPARD users and endorsed by the IPARD MC.



Some of the most important simplifications are related to the document for proving the age of the perennials which is substituted by provision of the information by the applicant in the project proposal. Further clarification has been provided for investment in agriculture mechanization as it should be linked to the overall farm operations and not only with the specific priority sector.



SECTION 4: Financial implementation of the indicative financial plan

4.1.: Summary of Programme financial implementation

According to the division of financial indicators per priority axis and the percentage of allocation of EU contribution from the IPARD Programme, 87,3% of the finances of IPARD are allocated for the implementation of priority axis 1 and 8,9% for priority axis 3. The remaining 3.8% of the funds are allocated to Technical Assistance measure.

Table 17: Financial implementation of per IPARD priority axis and measures

(in EUR)

Priority axis	Total public expenditure	EU contribution (75%)					
		Indicative financial plan	Contracted	Cancelled	Paid	% of contracted	% of paid
Priority axis 1	56.169.647	42.127.235	7.926.419	1.185.766	2.983.238	18.8	7.0
Measure 101	26.284.661	19.713.496	3.244.197	1.185.766	873.475	16,5	4,4
Measure 103	29.884.986	22.413.739	4.672.496	1.474.277	2.109.762	20,8	9,4
Priority axis 3	5.739.160	4.304.370	648.555	1.474.277	0	15,0	0
Measure 302	5.739.160	4.304.370	648.555	338.844	0	15,0	0
Technical assistance	2.247.466	1.797.973	0	0	0	0	0
Total	64.156.273	48.229.578	8.574.974	2.998.887	2.983.238	17.7	6.1

Source: Monitoring system (cumulative 2014)

Since the start of implementation of the Programme, 175 projects were finished and paid, in total public expenditure of €3.997.650, out of which €2.983.238 are EU funds. The payment is related to implemented projects under Measure 101 and Measure 103. While the majority of paid projects in terms of number of paid contracts is for Measure 101 (86% or 151 paid projects), almost 71% of the funds disbursed are for finalized projects under Measure 103.

The average value of paid public expenditure per project reaches 7.745 € for Measure 101 and 117.209 € for Measure 103. In terms of disbursement of the contracted amount, 45% of the contracted amount under Measure 103 has been paid, against 27% under Measure 101. This largely indicates on slow payment approval process as many small applications are received by the IPARD Agency, which regardless of the amounts have to pass the same controls as large projects typical for Measure 103.

4.2.: Financial implementation during 2014

In 2014 total of 192 applications were approved and contracted in amount of EU funding of €1.494.110. Out of 160 received applications in 2014, 74 were paid in amount of EU funding of €309.997 and 6 claims for payment were rejected and 1 contract was terminated before payment.

Table 18: Financial implementation of per measures in 2014

Measures	Contracted		Cancelled		Aid paid	
	Number	EU Contribution	Number	EU contribution	Number	EU Contribution



101	Investment in Agricultural Holdings	182	1.494.110	7	208.982	74	309.997
103	Investments in processing and marketing	6	871.610	0	0	0	0
302	Rural Diversification	4	309.711	0	0	0	0
Total		192	2.675.431	7	208.982	74	309.997

Source: Monitoring system (cumulative 2014)

Regarding the implementation of the IPARD Program, in 2014 the IPARD Agency has announced two Public Calls for all three investment measures under the IPARD Program. Under the Public Call 01/2014, 394 applications were received in total sum of the investment of €20.244.367, and requested financial support of 9.968.453. After the administrative check of all applications, 20 contracts were signed in 2014 with total amount of the financial support reaching €1.219.919.

Under the Public Call 02/2014, 439 applications were received in total sum of the investment of €14.362.909, and requested financial support of €7.719.174. The administrative check of these applications is still on-going at the time of preparation of this report.

During year 2014, 7 contracts with total public expenditure of €278.643 were cancelled and 6 decisions for recovery of funds were issued.

In the table below are presented the executed payments – IPA contribution in Euros for the period 2011-2014:

Table 19: IPA contribution in Euros for the period 2011-2014

Measure	Executed payments - IPA contribution in Euros				
	2011	2012	2013	2014	Total
Measure 101	272.141,89	183.339,64	107.997,23	309.996,58	873.475,34
Measure 103	738.499,17	1.004.812,69	366.450,26	0,00	2.109.762,12
Measure 302	0,00	0,00	0,00	0,00	0,00
Measure 501	0,00	0,00	0,00	0,00	0,00
Total	1.010.641,06	1.188.152,33	474.447,49	309.996,58	2.983.237,46

Source: NAO, 2014

Declarations of Expenditures that serve as Payment Applications were submitted for 2014 to the Commission. The payment applications were regularly sent through SFC 2007¹⁰ by National Fund. The Payment applications are presented in Annex 1 to this report.

From the moment of payment of the pre-financing by the EC to the NF Euro Account the interest on the Community financing was transferred by the National Bank of Republic of Macedonia to the NF account. The interest earned on the NF IPARD Euro account is

¹⁰ System for Fund Management in the European Community 2007 – 2013



€228.775,96 cumulative. The interest earned is declared to the Commission with submission of the Payment Application.

During 2014, recovery of funds from 7 (seven) Final Beneficiaries was made and the funds (principal debt plus interest incurred) were transferred to NF IPARD Euro Account.

The balance of the NF Euro Account for IPARD on 31.12.2014 is €9.664.720,69.

4.3.: Financial modifications

Taking into consideration the executed payments for the IPARD projects the de-commitment of funds for 2014 for IPARD Programme is in amount of €15.703.403.

The EC adopted the sixth modification of the IPARD Program 2007-2013 on 10 December, 2014, with the Decision C (2014) 9618. The amendments are of financial and technical nature. The amendments to the financial tables were made in accordance with the EU decision to return the unused EU funds from the allocation for 2010.

The financial modification for the purpose of arranging the IPARD Programme budget for de-commitments occurred has been the fourth modification in a row since 2011. The table below is presenting the budgetary de-commitments of the IPARD Programme indicative budget which are based on the reported requests in the Payment applications.

Table 20: De-commitments of indicative financial allocations of the IPARD Programme

TOTAL Allocations 2007-2013	2007	2008	2009	2010	2011	2012	2013	Total
	2.100.000	6.700.000	10.200.000	12.500.000	16.000.000	17.991.604	2.157.737	67.649.341
YEAR of de-commitment (n+3 rule)	/	/	2011	2012	2013	2014	/	/
De-committed amount based on payment applications	0	0	7.393.882	12.025.881	15.636.044	0	0	35.055.807
De-commitment rate	0%	0%	72%	96%	98%	0%	0%	52%
TOTAL Allocations 2015	2.100.000	6.700.000	2.806.118	474.119	363.956	17.991.604	2.157.737	32.593.534

Based on the qualitative analysis in Section 4 and the financial analysis in this section, the de-commitment risk is pending for the financial allocations of 2012 in the amount of approximately 15,5 Mio. EUR.

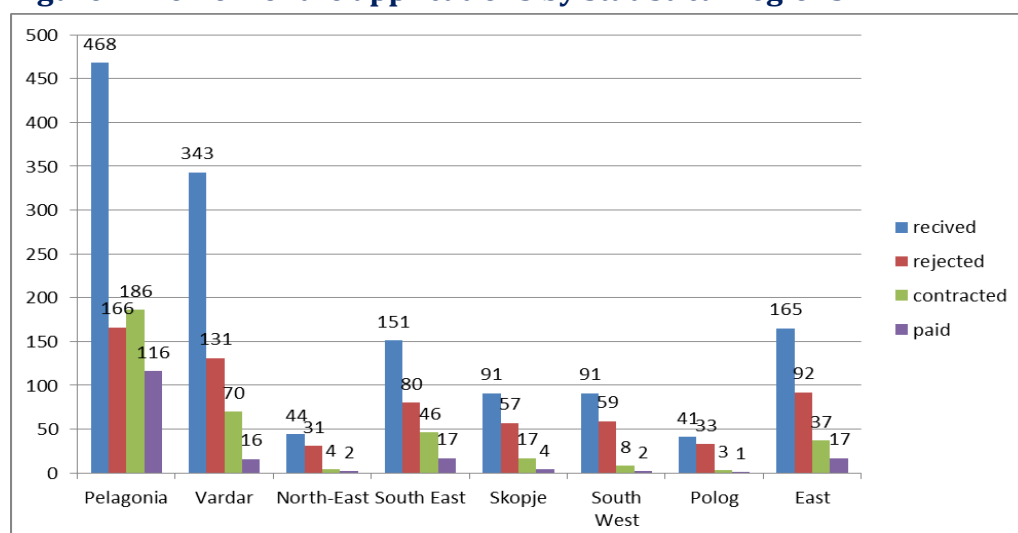


SECTION 5: Geographical analysis of the IPARD Programme's implementation

The data for the geographical implementation of the IPARD Program and the support to the regional development of the Republic of Macedonia are presented in this report by statistical regions (NUTS 3) and municipalities.

Most of the total submitted applications come from the region of Pelagonija (468), Vardar (343), East (165) and Southeast (151). 371 of those applications were accepted. Pelagonija has also the biggest number of approved applications (186), followed by Vardar (70), Southeast (46) and East (37).

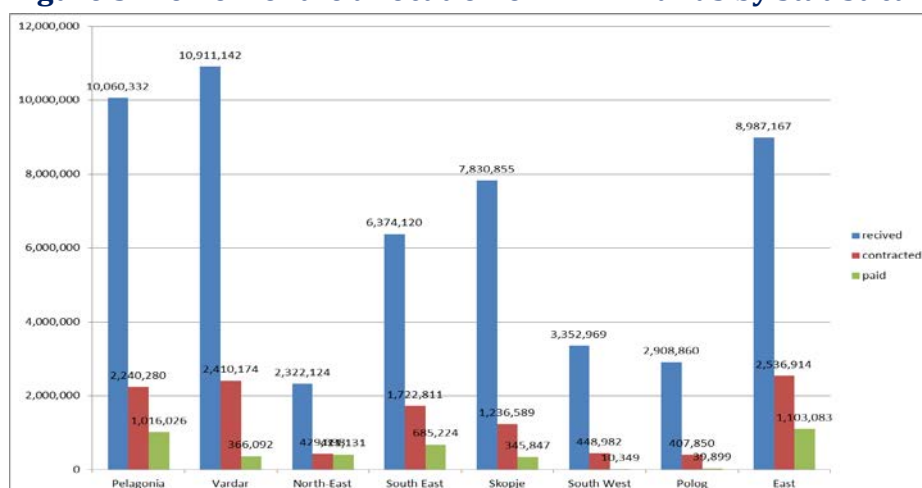
Figure 2: Review of the applications by statistical regions



Source: Monitoring system, 2014 (Geographical data)

The ratio between submitted and approved applications (rate of approval) is highest in the Pelagonija region (39.7%), followed by Southeast region (30.4%), East (22.4%) and Vardar (20.4%). These are all regions with most advanced agricultural production.

Figure 3: Review of the allocation of IPARD funds by statistical regions in EUR



Source: Monitoring system, 2014 (Geographical data)

The largest number of paid projects (116) have Pelagonija region with TPE of €1.016.026, followed by the East with 17 paid projects with TPE of €1.103.083, South-



East with 17 paid projects with TPE of €685.224 and Vardar with 16 paid projects with TPE of €366.092.

If we compare the number of projects and the amount of funds which are paid, the biggest amount is paid in East region, although in this region are paid 99 projects less than Pelagonija, which leads to the conclusion that the projects in this region are with higher amounts. In this region we have 7 paid projects with total sum of €1.103.083 i.e. the average of paid project is €64.887 apart from Pelagonija region where the average is €8.759.

The highest average of paid project is in North-East region with 2 paid projects and amount of €205.565 per project, followed by Skopje region, with 4 paid projects amounting on average of € 86.461 per project.

The interest of the applicants was largest in the municipalities in which the wine, fruit and vegetable production is predominant.

Table 21: Geographical – quality analysis by municipalities

Municipality	No. of applications M101			No. of applications M103			No. of applications M302		
	Submitted	Approved	Paid	Submitted	Approved	Paid	Submitted	Approved	Paid
Resen	264	150	100	7	1	1	8	1	0
Negotino	65	7	0	5	0	0	3	0	0
Kavadarci	63	13	1	10	5	1	3	0	0
Bitola	49	14	6	5	0	0	16	1	0
Rosoman	42	10	4	1	0	0	2	0	0
Veles	38	12	3	4	0	0	6	0	0
Prilep	36	8	2	7	3	2	5	0	0
Gradsko	28	9	3	3	1	1	4	2	0
Valandovo	22	8	1	6	1	1	0	0	0
Sv.Nikole	21	7	1	5	2	0	2	0	0
Gevgelija	21	7	1	10	4	2	1	0	0
Mogila	18	5	2	0	0	0	0	0	0
Karbinci	18	8	3	3	1	1	1	0	0
Krivogastani	16	2	0	1	0	0	0	0	0
Delcevo	15	3	2	2	2	1	7	0	0
Shtip	14	3	0	6	3	3	1	0	0
Ohrid	13	3	0	4	1	0	7	0	0
Struga	13	1	0	1	0	0	6	0	0
Vinica	13	3	0	0	0	0	7	0	0
Debarca	13	2	1	0	0	0	2	0	0
Bogdanci	12	4	1	3	3	2	0	0	0
Strumica	10	3	1	8	4	2	1	0	0
Radovish	9	1	1	4	2	0	6	1	0
Berovo	9	2	2	1	0	0	7	0	0
Gazi Baba	9	2	0	3	0	0	1	0	0
Bosilevo	9	4	3	0	0	0	0	0	0

Source: Monitoring system, 2014 (Geographical data)

Interest of applicants is the biggest in the municipality of Resen, which is well known of production of apple. Out of total 279 submitted requests, 152 contracts are concluded in this municipality, 101 were paid, with the biggest interest notified under Measure 101. Greatest interest for investments under Measure 103, are quantified in the municipalities



of Kavadarci (10 submitted), Gevgelija (10 submitted) and Strumica (8 submitted). All three municipalities are well known for production of wine, fruit and vegetable.

In terms of disbursement of funds, the biggest amount paid for Measure 101 is for investments in the municipality of Resen, while the biggest amount paid under Measure 103 is for investments in municipality of Stip.

**Table 22: Geographical – financial analysis per municipality**

	TPE M101			TPE M103			TPE M302		
	Submitted	Approved	Paid	Submitted	Approved	Paid	Submitted	Approved	Paid
Resen	1,775,957	797,205	435,204	1,033,368	74,898	67,197	355,930	15,001	0
Bitola	1,559,863	360,307	31,733	1,115,122	0	0	1,007,947	82,010	0
Karbinci	1,150,002	456,869	70,603	666,926	198,003	197,750	44,004	0	0
Veles	837,839	422,270	14,433	327,715	0	0	392,909	0	0
Vinica	655,398	162,271	0	0	0	0	575,490	0	0
Mogila	606,240	398,175	212,769	0	0	0	0	0	0
Sv.Nikole	550,006	201,321	24,408	718,290	430,617	0	200,028	0	0
Kavadarci	461,362	187,307	19,860	1,605,464	751,224	15,628	285,477	0	0
Valandovo	382,125	59,739	3,266	1,203,697	267,837	256,346	0	0	0
Negotino	332,385	72,476	0	350,659	0	0	228,296	0	0
Prilep	306,141	80,104	2,988	959,099	389,607	241,972	306,931	0	0
Gradsko	299,697	54,365	10,138	1,593,969	43,294	43,291	137,589	109,717	0
Delcevo	289,515	78,951	11,432	529,893	494,669	249,092	762,423	0	0
Rosoman	250,991	57,610	16,286	15,704	0	0	383,105	0	0
Gazi Baba	234,488	54,304	0	484,806	0	0	176,967	0	0
Radovish	216,913	2,886	2,885	360,263	175,873	0	418,446	26,582	0
Shtip	177,198	44,907	0	787,390	385,548	384,773	0	0	0
Gevgelija	173,430	52,039	2,468	1,117,705	283,188	93,657	104,870	0	0
Berovo	159,633	101,642	92,840	27,881	0	0	540,286	0	0
Strumica	155,159	71,010	13,651	633,531	242,225	109,005	6,919	0	0
Struga	139,505	2,874	0	190,381	0	0	237,198	0	0
Bosilevo	121,418	65,331	35,227	0	0	0	0	0	0
Krivogashtani	114,833	25,034	0	9,017	0	0	0	0	0
Bogdanci	91,921	34,367	6,328	148,568	140,851	118,772	0	0	0
Debarca	70,671	9,188	7,263	0	0	0	131,736	0	0
Ohrid	56,220	18,970	0	338,429	20,010	0	192,341	0	0

Source: Monitoring system, 2014 (Geographical data)



SECTION 6: Quality & Effectiveness of the Programme's Implementation

6.1: Changes of the management and control system

Re-appointment of the NAO

Having in mind that the maternity leave of Ms. Suzana Peneva ended on 14 March 2014, with a Decision of the Government of the Republic of Macedonia No.42-7769/1 dated as of 30.09.2014, Suzana Peneva was re-appointed as a National Authorising Officer. The decision was published in the Official Gazette No.145 from October 3, 2014. Therefore, new Decision for authorising managerial high-level civil servant to sign acts (No.04-34074/1 dated as of 07.10.2014) and new Decision for authorising managerial high-level civil servant to sign Agreements (No.04-34075/1 dated as of 07.10.2014) were adopted.

Modification of the working arrangements

In the course of preparation for the new public call for IPARD, national authorities noticed that there is a need for adjustment of the Internal Manual of Procedures of the IPARD Agency in order to secure continuity of the IPARD process. Some procedural modifications were needed, arising from the clearance of accounts experience that national authorities had during the previous years.

The modifications were related to the following parts of the Internal Manual of Procedure:

Sector for project approval

- In order to comply with the amendment of the national legislation regarding the environmental standards the Application Form was changed and amended in the part concerning IPPC permit;
- Second issue was about the documents issued by the Public Revenue Office (PRO) regarding the taxes and contributions. The modification envisaged submission of these documents by the applicant not to obtain them ex-officio in both phases: before contracting and before payment.

Sector for authorization of payments:

- Calculation of the period of three months deadline for payments to final beneficiaries from the receipt of the supporting documents (according Article 44 from the Sectoral Agreement).

Although this was regulated upon DG AGRI directions and recommendations, IPARD Agency prepared additional change in the working procedure, in order to properly implement and fully comply with the Sectoral Agreement and respective methodology for calculation of the interval.

- Obtaining documents from PRO same as in the project approval phase.



- Irregularities procedure i.e. the change foresees not to be submitted irregularity report in case of administrative error made by the Agency (i.e. overpayment).

Technical improvements in the checklists concerning checks on accounting documents as well as streamlining the timetable for processing the claim for payment and Instructions for filling the forms.

Sector for Control:

- The main change in the on the spot control process is related to checking the 2 (two) years of the date of manufacture. This issue was thoroughly discussed on the meetings for the clearance of accounts. The other changes are technical and foresee changes in the Guideline for performing on the spot check and filing the checklist.

The IPARD Agency submitted to NAO the proposed changes of the Internal Manual of Procedures (version 2.1) with letter No.02-3409/4 dated as of 26.12.2014. Consequently, the Internal Manual of Procedures of IPARD Agency was approved by NAO with letter No.10-775/1 dated as of 27.01.2015.

Following the modifications of the Sectoral Agreement¹¹ dated 11 November 2013, in particular Article 32 (5) and Article 19 (1 (d)), national IPARD structures prepared proposal for new Evaluation System for Assessment of Reasonableness of Costs for implementation administrative checks on applications under the IPARD programme. Regarding the concerned proposal, national authorities requested input and opinion on this proposal that will further improve the procedures for implementation administrative checks on applications for approval. DG AGRI noted that such guideline shall be issued and communicated to the national authorities.

Exceptions of the Procedures

No exceptions occurred in 2014 in the management and control system. Modifications of the working arrangement approved by EC cover the previously exceptional situations approved by the NAO.

Internal Control Weaknesses

During 2014 two Registers of Internal Control Weaknesses were prepared. One of the weakness from the Register of Internal Control Weaknesses, identified in March 2013 referring to the Incomplete realisation of the tasks by the Managing Authority in the field of evaluation and publicity of the IPARD programme and reporting to the NAO/NF, was overcome during 2014. The ongoing evaluation of IPARD 2007-2013 and ex-ante evaluation of IPARD 2014-2020 was completed. The Draft reports on the Evaluation Report of the IPARD Programme 2007 – 2013, ex-ante evaluation for IPARD 2014-2020

¹¹ Sectoral Agreement signed between Government of Republic of Macedonia and the Commission of the European Communities on the rules for co-operation concerning EC financial assistance to the Republic of Macedonia and the implementation of the assistance under the Component V (IPARD) of the Instrument of Pre-accession Assistance



have been finalised by the evaluation team and submitted in the second week of December 2014. Therefore, this weakness was considered as closed.

The last Register of Internal Control Weaknesses was updated in January 2015, consisting 5 (five) weaknesses, related to:

- Delays in accreditation of the measure 501 under the IPARD Programme – identified in 2011;
- Fluctuation staff in the IPARD Agency – identified in 2013;
- Incomplete and not updated database (registers) under the competence of state institutions (for MA) – identified in 2013;
- Turnover of managerial staff in the MA – identified in 2014;
- Practical usage of SAP system could lead to weaknesses in the accounting – identified in 2014.

Regarding these weaknesses, it shall be considered that the situation is moving in positive way and corrective actions are ongoing.

Mitigation activities were defined appropriately and the actions were also foreseen to be implemented in the Action Plans for the audit findings, Action Plans for risk mitigation and conclusions from the regular meetings.

6.2.: Monitoring & Evaluation

Progress in the collection of follow-up data at the IPARD Agency

In compliance with the responsibilities undertaken from the Implementing Agreement between the MA and the IPARD Agency, the IPARD Agency reported on regular basis about the execution of IPARD Programme.

The exchange of data is done through the Monitoring and evaluation tables for IPARD Programme as well as with other prepared reports upon request of MA, which consisted data that were not included in the Tables but were relevant for the execution of the Programme.

In 2014, the IPARD Agency with the defined deadline and on a regular basis delivered to the MA the monitoring tables for implementation of the IPARD Program which include information for physical and financial indicators, reports from the performed controls, identified irregularities and additional requests for reports, defined in the Implementing Agreement.

The collection of the data and preparation of reports was maintained manually in excel. During 2014, IPARD Agency started the implementation of the new software for collecting data for preparation of reports. In primary stage, in this data base is planned to be registered all received applications for financial support, signed contracts by the Sector for project approval, received payment claims from the Sector for approval of



payments, and all payments executed by The Sector for financial affairs. The aim of this data base is to improve the collection of the data and the preparation of reports.

During 2014, the software for finance and accounting SAP was reviewed by external audit company, major problems weren't identified during the audit, but recommendations were given in terms of improvement of some reports and processes. In the period from 01.01.2015, IPARD Agency will record all transactions, parallel in excel and SAP software and in the manual forms as well. As soon as we are convinced that all reports generated threw the SAP are true and accurate, SAP software will be used as only tool for accounting in IPARD Agency and all financial indicators will be withdrawn from the system.

The IPARD Agency has implemented the software for the Integrated Administrative Control System (IACS). The new version of Reference price database was implemented in the second half of 2014. The module for the IPARD measures is currently in the phase where the new criteria for IPARD Program (2014-2020) should be implemented, and is expected to go live in 2015. In addition to being used as a tool for the processing of the applications received for the appropriate measure (IPARD, Direct Payments, Rural Development), the IACS software also includes a reporting system based on the data entered while the application is being processed.

Improving the monitoring arrangements and data collection by MA

The MA conducted an analysis of 145 relevant samples of "Decisions for rejection" of incomplete applications, from 01/2013 and 01/2014 public calls. Representative samples are properly selected, by type of investment in measure M101 i.e. from each type of investment, proportional number of samples was taken.

Due to the possibility that the "Decisions for rejection", in the rationale, can contain more than one reason, the number that show a repeat of the document which is missing or improperly filled, is exceeding the number of processed "Decisions for rejection" (two reason are listed for one document: TPP is not signed and the total expenditure are not properly calculated). Document which most often missing or inadequately is prepared, and repeated several times in the "Decisions for rejection", are offers from suppliers of equipment (634 repetitions in 145 solutions for refusal).

Next document which is commonly repeated as a reason for rejection of the applications is the Technical proposal or business plan, followed by failing to provide the following documents: Property list, Cadastral plan, a lease contract / concession of land, proof of paid debts to MAFWE, certificate of education, a request for the financial support, a certificate that the investment is in line with the strategy for local economic development, a certificate of reported production capacities, geodetic report, proof of paid debts to PRO.

The analysis of the rejection reasons has been extended to Measure 103 as well. Separate case study has been organised to analyse the reason for slow performance of Measure 302 despite the great interest expressed in number of applications.

6.3.: Controls carried out and irregularities detected

In 2014 the IPARD Agency has submitted 7 irregularities cases to the NAO. For the purpose of the Statement of assurance the irregularities from the 2014, as well as the



irregularities previously identified were analyzed. Most of the irregularities were identified after the payment was made.

Table 23: Irregularities identified during 2014

Irregularities identified during 2014				
Total number of irregularities	Irregularities before project approval	Irregularities before payment	Irregularities after the payment was made	Other cases (not related to applicant)
7	1	1	5	0

Source: NAO, 2014

The status of these irregularities is as follows:

- Four (4) cases were qualified as irregularities and three (3) of them were qualified as suspected fraud.
- Four (4) cases have been closed and three (3) of them are still open.
- One (1) of the irregularity (open case) was identified prior project approval, one (1) of the irregularity (open case) was identified before payment and five (5) of the irregularities were identified after the payment.
- All irregularities identified are properly treated and the procedure for recovery of the funds has been initiated for four (4) cases in accordance with Article 55 of the Sectoral Agreement. Total requested amount has been recovered. One case identified after payment, is under investigation of the relevant authorities, thus Decision for recovery is still not adopted by the IPARD Agency.

Pursuant to Article 28 (2) and Article 36 of the Commission Regulation No. 1828 of 8 December 2006, NAO sent Reports on irregularities to European Commission informing on the irregularities occurred in the implementation of IPARD Programme.

Table 24: Qualification of irregularity

Qualification of irregularity		Open	Closed	Total
		3	0	7
Financial Impact	Suspected fraud	0	4	
	Irregularity	1	4	7
	with financial impact	2	0	
	without financial impact			

Source: NAO, 2014

In addition the irregularities reported during the previous years have been regularly monitored by the IPARD Agency and the NAO/NF. The updated irregularity reports have been prepared and properly communicated to the authorities concerned.

The irregularity panels have been held before each quarterly submission of the Irregularity Reports to EC.

In regard to the Debtors Ledger for 2014, 6 (six) Decisions for Recovery of Funds have been adopted by the IPARD Agency out of which the recovery of funds (principal and



interest) for five (5) have been completed. The recovery of funds for the one (1) project is ongoing.

In regard to the debtors recorded for the IPARD projects and the status of recovery of debts, IPARD Agency sends the Debtors ledger to NAO/NF on quarterly bases. The cumulative data of the Debtors Ledger, as of 31st December 2014 are: sixteen (16) Decisions for Recovery of Funds have been adopted by the IPARD Agency out of which the recovery of funds (principal and interest) for fifteen (15) have been completed. The recovery of funds for the one (1) project is ongoing.

The Debtors Ledger was regularly updated and communicated to DG AGRI with submission of the each Declaration of Expenditure.

6.4.: Use of Technical Assistance

Preparation for conferral of management

The activities for preparation for conferral of management for management and implementation of the Measure Technical Assistance were in focus in 2014. After the national accreditation by NAO, the request for conferral was send to the Commission services on 12.08.2014.

The Commission services (auditors - DG Agri – Unit J5) conducted an IPARD conferral mission from 11 to 14 November 2014. The purpose of the mission is conducting audit and verification of readiness of national structures for granting accreditation for decentralized implementation without ex-ante controls of the measure 501 - Technical assistance. Key findings were presented by the auditors during the mission that must be resolved by obtaining the conferral. In order to overcome the findings, MA staff developed internal working procedures in order to conduct procurement according to PRAG rules (responsible persons / items, deadlines, lines of communication, involvement of others from MA and the Ministry as contracting authority).

Lack of appropriate staff to implement the measure was also pointed out as weakness so MA requested internal promotions and new employments. Due to changes in the Act of systematization in MAFWE and its alignment to the new Law on administrative servants, the request will be taken into consideration in 2015. In this way, on 19th of December one employee was appointed by the Minister as acting Head of Unit for implementation of measure Technical Assistance.

During 2014, the “Rules for eligibility of expenditure for measure 501 Technical Assistance” – List of eligible expenditures (LEE) were drafted and communicated with relevant DG Agri services. Official approval of the LEE is expected in the middle of January 2015.

6.5.: Programme Monitoring Committee

The IPARD Monitoring Committee is established in accordance with Article 36 of the IPA Framework Agreement with the ministerial decision no. 02-1602/1 from 6 February



2009. It consists 24 members with the right to vote, including the Chairman, divided to government and non-government representatives. Mr. Vanco Kostadinovski is the Chairman of the MC appointed by the Minister of Agriculture, Forestry and Water Economy with Decision No. 30-7961/1 from 11.09.2014.

During the reporting period, the Monitoring Committee held two meetings in Skopje, the 14th was held in June 2014 and the 15th was held in February 2015 (during the preparation of this report).

At the 14th meeting, the Draft Meeting Minutes of the 13th IPARD MC was adopted. On the same meeting some conclusions were made that need to be implemented by IPARD Agency and Managing Authority. Except for one conclusion which provide activities to solve problems while obtaining construction permits, the other conclusions of the 14th meeting were fulfilled. With this conclusion, the Committee obliged IPARD Agency to prepare a detailed analysis of all applications that were not approved due to not issuing a construction permit or had problems in obtaining a construction permit and, in cooperation with ZELS, to take activities in order to solve the existing problems.

At the 15th meeting, the Draft Meeting Minutes of 14th IPARD MC were adopted and were made conclusions that need to be implemented in order to improve the utilization of IPARD funds. In reference to the unfulfilled conclusion, the Committee has obligated the Managing Authority to establish a working group consisting of representatives of the Managing Authority, AFSARD, Commission on Rural Development within ZELS, NEA, representatives of the Ministry of Transport and Communications, Association of Farmers, Federation of Farmers, Union of Farmers, in order to remove the problems when applying. Furthermore, the Committee entrusted ZELS to convene a working meeting within the Commission for Rural Development with representatives of the Ministry of Transport and Communications and the Mayors in order to overcome the obstacles regarding the issuance of construction permits.

At this meeting, the Committee entrusted the MA to prepare a proposal for modification of the IPARD Program 2007- 2013. The modifications of the Program should go in the direction of concordance with IPARD 2014 - 2020, in order to facilitate the provision the necessary documentation and to increase the proportion of co-financing. Namely, in the period when the meeting was held, Macedonia was hit by floods and landslides when out of 43 municipalities that reported damage from the floods, 18 municipalities reported damages and losses in agriculture in the amount of 13.7 million euros. Agriculture is one of the most affected sectors from these floods with about 38% of the total damages and losses. The increased rates of co-financing will be applicable only to investment projects approved in the last public call IPARD 02/2014, and are from the flooded areas, as well as investment projects from all future public calls from IPARD 2007-2013, if the purpose of the requested investment is compensation for damages that are caused by the floods.

Due to lack of quorum, the Multi-annual procurement plan for Measure 501- Technical Assistance and the Annual Communication Plan for 2015 shall be approved by written procedure.



6.6.: General publicity & information activities undertaken

The publicity & information activities undertaken in 2014 were according to the Annual Action Plan for implementation of the activities for communication and publicity for 2014. The institutions responsible for implementation of the Annual Action Plan, respectively to their powers and the functions they perform, are the Managing Authority and the IPARD Agency. Implemented activities in 2014 are as follows:

Updating the website www.ipard.gov.mk

Due to technical problems in updating of the website www.ipard.gov.mk during 2014, service contract was concluded in August, 2014 to re-design the web page. The new web-page has been developed and content was uploaded during the reporting period. The main aim of the re-design is to develop user friendly web-page for the potential beneficiaries and the general public.

Organization of IPARD info days

The content of the Action Plan for communication and publicity of the IPARD program for 2014, under the jurisdiction of the MA envisages organizing and maintaining a minimum of 10 days before any public call for IPARD funds published by the IPARD Agency. In the period before ninth public call, Presidential and Parliamentary elections were held in the Republic of Macedonia. Due to legal obstacles set in the Election law, MA wasn't able to organize IPARD info days. In this period (February- April 2014), the MA employees has been providing direct information and clarification on IPARD 2007-2013 rules to more than 30 potential applicants at the MAFWE premises and via electronic communication. Most frequently asked questions were addressed for the clarification on measures 302 and 101, (vineyards, drip irrigation, greenhouse production of flowers, investments in equipment for processing plants for pharmaceutical and cosmetic industry, eligibility criteria, etc.).

The official address of the MA IPARD, info@ipard.gov.mk, for the period December 2013 - May 2014, received more than 60 questions related to the IPARD measures and all has been properly and timely answered.

As part of the 10th public call and in order to strengthen the IPARD promotion 21 info days were organized and held in the period between June to December 2014. The Info days were held in at the following locations: Gostivar, Ohrid, Struga, Rosoman, Negotino, Sveti Nikole, Kriva Palanka, Berovo, Delčevo, Bitola, Gevgelija, Valandovo, Novo Selo, Chamber of North-West Macedonia, Kochani, Novaci, Strumica, Tetovo, Stip, Skopje and Topolcani. The organization of the info days was in cooperation with the Agency for Promotion of Entrepreneurship of the Republic of Macedonia (APE), the regional units of MAFWE and the National Extension Agency, the Chamber of Craftsmen and the agricultural associations.

Workshops and seminars



The IPARD MA organized two workshops, one on 09.07.2014 and second on 11.07.2014, which held in MAFWE. The first one was intended for primary agricultural production and the role of IPARD in supporting it. The second workshop was targeted the processing industry in the Republic of Macedonia and the possibility to modernize it through the IPARD funds. The both workshops were attended by more than 100 representatives from the Economic Chamber of Macedonia, Chamber of northwestern Macedonia, Association of Farmers, Macedonian Association of Processors, Federation of Farmers of RM, cooperatives, individual farmers, representatives of processing industries, etc. Apart from the promotional nature, the workshops also were intended for discussion of the problems and obstacles faced by potential users when applying for IPARD funds from 2007-2013, as well as proposals to overcome and improve them in order for it to be applied in the next programming period for IPARD 2014-2020.

Individual working meetings on the subject of IPARD were organized with the canning industry (19.07.2014), the slaughter industry (31.07.2014), dairy industry (01.08.2014). MA and NEA held a training / workshop on IPARD with the NEA advisors on 30.07.2014.

On 07.11.2014, at the MAFWE premises, a one-day training was held on the preparation of business plans for IPARD for advisors that are in the register of APE. The training was specifically intended for measures 103 and 302.

Appearances at national, local radios and televisions and fairs

During 2014, about a hundred IPARD informative activities were registered that were published in electronic and printed media. The responsible persons from MAFWE and AFSARD participated in specialized thematic programs on IPARD, on national TV stations like: MTV, Sitel, Alpha and Channel 5, as well as the Macedonian Radio, titled "Perspectives of the IPARD Programme", which modifications of the Programme and the opportunities for using the funds were presented, as well as the new IPARD Programme 2014-2020. Their statements were transmitted through electronic media and the print media: Dnevnik, Utrinski Vesnik and the Internet portals: Macedonian Information Agency - MIA, Kurir and others.

The Head of the IPARD Department, in 2014 participated in the morning programme "Zhurnal" on Sitel TV, Channel 5 "Brazdi" and MTV "Agrar" presenting the IPARD Programme 2007-2013 and the new IPARD Programme 2014-2020.

Annual publication of a list of beneficiaries from the IPARD Programme

The foreseen activity in accordance with the Action Plan for communication and publicity for 2014 for publication of a list of the IPARD Programme beneficiaries was conducted by IPARD Agency, as a responsible body for implementation of this activity. The list of beneficiaries who concluded an agreement with IPARD Agency for allocation of funds from IPARD was published on the website www.ipard.pa.gov.mk.

Printing and distribution informative materials



In 2014 thematic brochures per priority sub-sector of M101 and M103 were prepared and printed in 8000 copies. The brochures were distributed on the info-days and through the MAFWE regional offices and NEA.



SECTION 7: Ongoing Evaluation

7.1.: Introduction

Efforts to engage independent evaluator made at the end of 2013, according to the Commission Implementing Decision c(2013) 7488 of 12.11.2013, for adopting an evaluation programme under the IPA – Transition Assistance and Institution Building Component gave results. The procedure for hiring an independent evaluator to assess the IPARD 2007- 2013 and the ex-ante evaluation of the IPARD 2014- 2020, was initiated on 17 February, 2014. The evaluation of bids was held on the 11th and 12th of March 2014, where a MA representative was a member of the Commission for selection of the best bid.

The Consortium IBF-ADE-NIRAS has won the tender for evaluation of the IPARD program and the EU aid for the Sector of Agriculture and Rural Development. The evaluation should be carried out through three components:

- Ongoing evaluation of IPARD 2007-2013
- Prior evaluation of IPARD 2014-2020
- Influence of EU assistance on the Sector of Agriculture and Rural Development.

Expected time for evaluation is within a maximum period of six (6) months from the date of signing the contract, i.e. the deadline for submission of the Final Report on the evaluation of the IPARD program is 4 October, 2014. However, the agreement with independent evaluators is extended due to delays in the distribution of surveys through the Rural Development Network (RDN). As a result of that, the Draft Report on the evaluation of the IPARD Program 2007-2013, the ex-ante evaluation of the IPARD 2014-2020 and EU assistance in the Sector of Agriculture and Rural Development have been completed by the evaluation team and submitted in the second week of December to the MA and the European Delegation in Macedonia.

In summary, a selection process of projects was identified as a prime consideration for the poor utilization of assets, although in recent years improvements were introduced regarding the necessary documentation for applicants. Despite these incentives, the problems of applicants seem too difficult, often prompting them not to complete the application and terminate their participation in the program.

Nevertheless, the indicators for complementarity and sustainability from experience with the IPARD Program 2007-2013 are positive, showing that its role in the agricultural sector is as it was foreseen. 83.1% of the successful applicants consider the support from the IPARD 2007-2013 as "substantial" and that without it there would be no investment (27.3% of responses) or small-scale investments (50.0%) (complementarity). A significant part (86.4%) of the successful applicants intend to re-apply for support under IPARD 2014-2020.



The level of professionalism is satisfactory, however there is room for upgrade. A major problem in the functioning of the IPARD institutions, especially in the IPARD Agency, MA and NEA is a lack of personnel as well as outflow of skilled and experienced staff from the institutions.

The details on the ongoing evaluation are presented below.

7.2.: Background and Scope of the Evaluation

During the first 8 Calls there were 1,000 project applications resulting in 350 contracted projects. The actual amount agreed for disbursement for these totalled €10.7 million, compared with a provision of €58.4 million.

This is the first on-going evaluation of the programme to be conducted by independent external evaluators. This evaluation reflects the situation at 28 October 2014, the cut-off date of the report. The evaluation report considers the outcome of Calls 1-8, which are applications submitted, rejected or approved (and eventually contracted) from November 2009 to July 2014¹². In the course of 2014, two additional Calls have been launched. At the cut-off date the results of Call 9 were not yet completed, while Call 10 was still open.

The evaluation focuses on addressing the following three groups of key evaluation questions¹³:

- i) Questions related to IPARD measures 101, 103 and 302, plus also Measure 501 (Technical Assistance);
- ii) Questions related to institutions involved in the management of the IPARD programme;
- iii) Questions related to the evolution of the IPARD programme, its monitoring and evaluation.

7.3.: Main Evaluation Findings

Coherence, Relevance and Efficiency

The Programme is consistent with national policies and priorities. The Programme has proved relevant for the successful beneficiaries, considering its strategic goals of increasing their quality standards and their competitiveness. Considering the number of people dedicated to its administration, the efficiency of the Programme is assessed as poor. Around 120 units from the Paying Agency and 20 from the Managing Authority are used for the Programme implementation, against a level of expenditure of €3,584,718¹⁴ out of the total public expenditure. In addition, human resources from National Extension

¹² In July 2014, the selection process of Call 8 has been completed, so the number of rejected and approved applications remains fixed.

¹³ For practical reasons the findings for groups ii and iii are merged as Evaluation of the Process. The full set of evaluation questions is listed in Annex 1 – Scope of the Evaluation.

¹⁴ Figure resulting in April 2014, (source Paying Agency), included in the Managing Authority Semi-annual Monitoring report.



Agency, the Audit Agency, and the Food and Veterinary Agency are permanently (even if not fully) used in the Programme.

Effectiveness

The effectiveness of the Programme is assessed as poor. Considering the strategy described in the programming document, its goals and the idea of supporting a change of direction and an increase of global competitiveness of the sector¹⁵, the Programme so far does not have a sufficient degree of activation to guarantee effectiveness. In particular, increased competitiveness at national level is horizontally limited, by the scattering of individual projects that - with the only exception of Resen municipality - are not creating improvements in integrating local typical production. The investments at the individual, small farm level are of small scale and do not provide for the scope foreseen in the strategy described in the programming document. Given the traditional constraints that affect production in the agricultural sector of the Country (such as - very small individual plots, an incomplete process of land consolidation, poor individual attitudes of farmers to grouping in producer groups and/or cooperatives), the objective of creating a systemic change in the sector was very ambitious. The result is only a consolidation and strengthening of capacity at the individual level. The second objective of the IPARD I strategy : the vertical integration between production and processing between M101 and M103 projects, is also failing. Only after 5 years of Programme implementation, there are first attempts at activating production chains that may “inspire” M103 projects starting from ones funded through the M101. But this is detectable only in one municipality, out of the whole Country. With the exception of the Resen production district, other districts of typical productions did not respond to the opportunity offered by the Programme.

The Programme also fails in providing integration through exploitation of off-farm activities that may contribute to the development of rural areas. For M302, which was supposed to provide this integration, only 13 projects have been approved in five years and nine of those have been cancelled. No projects under M302 have been completed so far.

At the small farm level, the situation is different. Successful applicants are fully satisfied with the support received under IPARD I. The investments met the expectations of 81% of those surveyed in terms of increases in quality, production, sales, turnover and productivity. For 85.7% there was an increase in competitiveness, due to technical improvement of their equipment and increased quality of their production.

Impact

At present, there is a risk that the Programme’s ultimate impact will be very limited at the Country level. This also depends on interventions to modify the general strategy of the Programme: due to low levels of absorption of the financial support available,

¹⁵ In the programming document, at page 211 the goals of the Programme are expressed as follows: 1) to increase international competitiveness of the country that is required for a sustained economic growth and higher employment; 2) to strengthen the ability of the country's agriculture to compete in the integrated regional markets of the European Union and south-eastern Europe.



modifications have been introduced over time to the eligibility criteria in order to increase disbursement. So far the effect has been a small increment of applications in the processing sector (M103), and a huge increment of applications in the small-scale, subsistence level primary sector (M101). The observed trend seems to be maintained also in Call 9, with a high number of small-scale applications.

For M103, the total number of approved projects is 45 (for all types of processing), while in the sector of milk processing alone there are 78 members¹⁶ of the corresponding professional association.

When it comes to institution building, the Programme has had a positive impact. The institutional framework is fully formed, and almost fully operational¹⁷. Procedures are officially established, and applied¹⁸. The level of professional competence appears adequate, despite the fast turnover of officials, especially in the Paying Agency.

The Programme also introduced a significant number of new job posts: 114 new permanent employees.

Sustainability

The indicators for complementarity and sustainability of IPARD I are positive, showing that its role in the agricultural sector is as it was conceived to be.

83.1% of successful applicants consider as “crucial” the IPARD I support, and that without it no investment (27.3% of answers) or a smaller scale investment (50.0%) would have been possible (complementarity).

A significant share (86.4%) of successful applicants intend applying again for support under IPARD I or under IPARD II during the programme period 2014-2020 (sustainability).

A potential threat to sustainability is correlated to the “conditions of operability” of the supported investment, especially for small investments of M101. In the typical case of tractors, they should be fully operational for 5 years from the time of the investment (as for all types of investments under IPARD I). This may represent a heavy condition for cheap tractors, that run the risk of being abandoned before the deadline, and possibly result in a request for reimbursement of the financial support.

7.4.: Evaluation of the Process

Information activities and the dissemination of information about the Programme are coordinated by the Managing Authority through the so-called “info days”, that are complemented by prior notice via the media. However, the information phase does not raise sufficient interest, not only in terms of attendance, but especially in terms of the

¹⁶ The contracted projects in the milk processing industry amount to ten (10).

¹⁷ The Steering Committee for the evaluation of the Programme has been appointed in 2014, but has not held any meetings at the October cut-off date 2014.

¹⁸ The only case in which a foreseen procedure has not been applied concerns the reporting by the Paying Agency to the Managing Authority of a list of the more frequent mistakes made by applicants. As a negative consequence, the Managing Authority lacks the capability for accomplishing: a) the preparation of an information brochure and b) an ad hoc questionnaire to the various farmers associations, and craft chambers.



number of potential applicants that later will actually submit an application. A valuable alternative source of information are the television broadcasts, but the most relevant source one is the internet. Access to web information significantly surpasses the attendance at info-days.

Official support in the preparation of the necessary documentation for the application, which is free of charge, is guaranteed only for M101, through the National Extension Agency. M103 and M302 applicants have to rely for support on private consultants, or on support provided by the Managing Authority, which is advice only. Common problems in the preparation of applications include: the time span of each Call being too short to collect all documents and certificates; it is not clear what documentation is requested, or what can be considered as exhaustive; the problem of finding three independent offers (which affects the large majority of applicants); the problem of a potential conflict of interest that involves the applicant and the supplier, which is also frequent. The biggest problem identified was getting the necessary certificates from technical bodies.

In its capacity of being the one and only “judge” for approval of projects, the Paying Agency is seen by applicants as the main obstacle within IPARD I. The Paying Agency applies the rules strictly and does not allow any derogation of them because it is under pressure to be wholly compliant when assessed during the regular audit missions of both national and EU authorities.

Although the internal manual of procedures of the Paying Agency defines the system of controls, in practice its degree of freedom to make decisions is constrained by the external controls performed by the national and EU auditors. The controls performed by external auditors often lead to the cancellation of projects, the blame of which is not always to be put to the project owners. “Changes of rules” between the signing of the contract and the inspection visits are often reported by applicants and professional associations, and confirmed to some extent also by the Audit Agency and the Paying Agency.

The Paying Agency acts with a degree of coordination and cooperation with other institutions, in particular with the Managing Authority but that could be improved. There is direct and indirect evidence that sometimes the other participating institutions maintain a “bureaucratic approach” and focus on their own tasks, ignoring the overall process. A higher level of submitted applications and thus of contracted projects could be achieved, if the institutions were to have the approval and reimbursement of the projects as a primary goal. Every actor is ready to list a number of weaknesses of “colleagues”, while a system of routine self-assessment and evaluation of internal weaknesses could contribute to a more efficient use of resources within each institution.

A major factor to be considered is that the Paying Agency is understaffed, considering its workload. In this respect, the quick turnover of staff, including officials with many years of experience who left the service in the last year, exacerbates the problem.

7.5.: Conclusions and Recommendations of the on-going evaluation



Conclusions

The financial performance of the IPARD I Programme is well short of target because applications are below expectations for each of the three Measures. Furthermore there are high rates of project rejection and cancellation - numbers supported for each Measure are less than 16% of target and volumes of investments are less than 10% of target.

There are early indications of an increase in the number of applications and a reduction in the number of rejections for the more recent Calls, though for M101 and M103 these are characterised by a decrease in individual and aggregate monetary values. These positive indications are attributed to new eligibility criteria, introduced with the fourth modification of the programming document, which have positively influenced the interest of potential applicants toward the Programme, after an evident decline registered during Calls 5, 6 and 7.

Although the number of actual applications and approvals is disappointing compared with target levels, a comparison with results in other IPARD I countries (Turkey and Croatia) shows that the level of interest in the Programme in the former Yugoslav Republic of Macedonia is no different overall then in those countries. This suggests that the structure and rules of IPARD I by their nature limit the number of applicants in each of the eligible sectors. The results of a survey of potential applicants indicated that complicated internal rules, the total length of the process from application to reimbursement, and the necessity of fully pre-financing the investment were the common reasons for their lack interest in the Programme.

IPARD I is consistent with national policies and the priorities of the final beneficiaries. Successful applicants confirm that IPARD I investment met their expectations, in terms of support to their typical activities. There is no overlap with national programs, although some types of investments have been “diverted” from national programs to IPARD I, in order to maintain a full separation.

The poor level of financial implementation limits the overall relevance of the Programme, although it is relevant for individual successful applicants.

The institutional framework built for the management of the Programme cannot be considered efficient. The Programme cannot be considered effective so far because is failing to activate vertical integration between the production and the processing sectors, and in promoting rural development that takes advantage of opportunities external to the sector. M302 is currently a complete failure.

At present there is a high risk that the ultimate impact of the Programme will be limited. However, complementarity and sustainability of IPARD I are positive, showing that its sector role is as conceived.

Implementation of the Programme is contributing to a high degree of capacity building within individual institutions, though improved cooperative working practices among participating institutions would provide synergy. There has been an enormous improvement in the level of expertise and professional skills within the Paying Agency



since 2007 and its monitoring system of data collection and storage is outstanding. However, there is room for improvement in the management of human resources. Applicants, professional associations and other stakeholders identify a need for better professional competence of some officials of the National Extension Agency and Paying Agency. The latter has a fast turnover of officials, with negative consequences for its fund of expertise and institutional memory. Both institutions claim they lack human resources. And the Managing Authority and the National Audit Agency, which have close working relations with the Paying Agency, agree it lacks human resources.

The selection process is identified as the most crucial element of the Programme and its success. Many potential final beneficiaries (and also successful ones) consider it too strict, and its outcome uncertain until the final reimbursement is awarded. Improvements over the required documentation for applicants have been introduced in the recent years, but in spite of such efforts the burden on the shoulder of applicants still seems too heavy, often causing them not to complete the application, and quit their participation in the Programme.

Recommendations

Recommendations for the selection process

- 1) The Paying Agency should provide eligibility criteria that do not change through time for the individual project, and remain valid throughout the lifetime of the project: “retroactive” project evaluation should not be an option. The national Audit Authority should agree to honour decisions of the Paying Agency regarding approvals, rejections etc.
- 2) The Paying Agency should explore ways to speed up the selection process, so to minimize uncertainty on outcomes from the applicant’s side. An example is to start processing the applications as soon as they arrive instead of waiting until the Call is closed.
- 3) The Managing Authority and the Paying Agency should provide stronger coverage of support with application proposals during the phase of their preparation by making technical (screening) field visits to municipalities. Visits of applicants to a centralized “help desk” should be possible, to receive help in overcoming problems and difficulties, thereby avoiding the situation whereby the applicant does not receive any information on the progress of their applications until they receive the final judgment from the Paying Agency.

Recommendations for a more integrated approach of stakeholders

- 4) The databases of the Managing Authority, the Paying Agency, the National Extension Agency and the technical bodies such as the Food and Veterinary Agency, as well as those belonging to the professional associations could be used to better identify the pool of potential applicants. The Managing Authority should pursue a policy of obtaining the practical agreement of stakeholders to ensure interconnectivity of their databases.



5) Information activities at this mature stage of the Programme could be more focused on each subsector (some initiatives in this direction have already been observed by the evaluator). In this respect, it is recommended to hold meetings, which provide both general information about the Programme and technical guidance. They would immediately tackle the challenge of what documentation the applicant is required to present, and start the process of drafting outline applications (this experience has proved successful in other IPARD countries). The Managing Authority, Paying Agency and National Extension Agency should agree to provide representatives for these meetings.

6) The Paying Agency should provide feedback to municipalities and the National Extension Agency regarding reasons for approved, rejected, and cancelled projects, and “best” and “worst” practices. By doing this their ownership and commitment will be strengthened.

Additional recommendation

7) The Managing Authority together with the National Fund should consider a mechanism for pre-financing support such as a loan guarantee fund, in order to alleviate the financial burden of those applicants, who do not have access to favourable credit terms and conditions.



SECTION 8: Summary of encountered problems, actions taken and conclusions

8.1.: Significant problems encountered during 2014

Most critical issues still remains the human resources capacities and the time frame for processing the applications. Since the number of applications received on public call is significantly increased the current staff is challenged to meet the deadlines determined by law for processing the applications and the claims for payment.

While processing the claims for payment in 2014 the Agency encountered problems during the processing of the claims for payment, difficulties for the beneficiaries in providing the necessary documentation.

Specific problem areas can be seen in respecting deadlines and stipulations stated in the contract for co-financing, providing proof for origin of the materials and the equipment, timely and correctly update of the accounting records, providing the proof for paid tax obligations from the Public Revenue Office and providing documents from other institutions.

In the modification package approved by EC, ver.2.1, December, 2014, Sector for on-the-spot Control introduced one modification in the check list used for on-the-spot control before payment regarding the rule that new equipment is to be considered if the date of manufacture is not older than 2 years. This rule has been removed and is no longer applicable, meaning it cannot be reason for rejection of the expenditure but serve as an indicator for the control team to perform more thorough check of the concerned equipment. Also the instruction for filling in the check lists and performing on-the-spot controls was updated accordingly.

While performing on-the-spot controls at investments under sub measure 10132 – open field vegetable production, controllers at some beneficiaries were unable to confirm the type of planted crops on the parcels the beneficiary has declared. Beneficiaries perform crop rotation of grain, industrial and vegetable plants and they submit with the application a five-year production and rotation plan, according to which, the parcels that in 2014 should be under vegetable production are checked.

If during the on-the-spot control prior approval vegetable production is not stated, it is checked again during the on-the-spot control before payment. Additionally open field vegetable production is confirmed through the production plan declared by the beneficiary in the farm registry for 2014. At several applicants and beneficiaries in December 2014 due to snow, the on-the-spot control were unable to determine the type of planted crops, so it has been confirmed only through the production plan declared by the beneficiary in the farm registry for 2014.

The alertness due to the loss of IPARD funds from the programming period 2007-2013, as well as for better preparation for the use of funds from the IPARD programming period 2014-2020, the Ministry of Agriculture, Forestry and Water Economy has undertaken



activities to establish a guarantee fund that would prompt the banks to be more flexible in the standards for safeguards required for commercial loans.

In this regard, the Ministry prepared an "Information on the establishment of a guarantee fund in agriculture to improve the use of IPARD funds", which was reviewed and adopted by the Government of the Republic of Macedonia at the forty-third session held on 21.12.2014. The Guarantee Fund could be established in cooperation with the Agency for International Development of the United States of America - USAID. The proposed guarantee scheme of an agricultural loan portfolio in the Republic of Macedonia would alleviate the risks to the bank that lends to new markets and would enable easier access of farmers and the processing industry to obtain loans. Because for farmers and entrepreneurs in rural areas the most common problem is to provide mortgages or other collateral, this guarantee scheme would facilitate their access to commercial loans.

8.2.: Conclusions

Conducted analysis of the 145 "Decisions for rejection" (see paragraph 2.2), point to the possibility of future significant reduction of rejected applications, which will lead to increased utilization of IPARD funds through undertaking actions on two levels:

- revising of the required documentation.

It is especially important to be stated, that in the request for submission of bids missing precise directions for applicants, in terms of the format of offers, and methodology for providing them. Further simplifications are possible by changing and increasing the limits set for the submission of three bids. Also list of required documents is too bulky and has not been adjusted to the IPARD Programme requirements although modifications of working arrangements at the IPARD Agency were made.

The purpose for which the applicant has to submit a copy of the cadaster plan (the investment location) can be determined by addressing the parcel at TPP / BP and properly checked in the property list. Hence the document "a copy of the cadastral plan" may be excluded from the list of required documents.

The documents, which confirm a paid obligations to the MAFWE and the PRO, can also be excluded from the list of required documents, because mentioned institutions possess mechanisms of control and collection of debts. (Modification of IPARD Programme is needed).

The document, which proves completed at least secondary education, can be excluded from the list of required documents or if the applicant has not completed at least secondary education, has to prove appropriate activity in agriculture in the last 2 years (paid subsidies) . (modification of IPARD Programme is needed).

Taking into consideration that IPARD program is in line with the national strategy for economic development, which is the basis of local strategies, every IPARD project that meets the criteria according to the program at the same time is in line with local economic development strategies. Therefore, the document that confirms that the



investment is in line with the strategy for local economic development can also be excluded from the list of required documents. (Modification of IPARD Programme is needed)

- Meticulously prepared guidelines for advisory services, by giving details, for filling the request of the IPARD funds and preparation of technical proposal / business plan

In many “Decisions for rejection”, in which the rationale for rejection is the TPP / BP or Request for the financial support, were listed reasons which were unknown to the applicants or the advisors.(eg. Signature on each side of TPP). Also missing detail clarification, which are incomes should be listed in the TPP / BP, income linked with investment activity or total revenues of the economy regardless of the activity.

In general, the main weakness in the IPARD Programme implementation can be reached with improving the communication materials – Guidelines for beneficiaries, introducing self-assessment kits and adaptations of the documents required according to the regular legal procedures avoiding excess of documentations. IPARD Agency should restrain itself in asking additional documents in short deadlines which are not initially published and known to the applicants. The uncertainty process affects the overall quality of IPARD Programme implementation as it is found during the ongoing evaluation.