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ANNEX

of the Commission Implementing Decision on the Annual Action Plan contributing to the Western Balkans Energy Support Package in favour of the Republic of North Macedonia for 2023

Action Document for State and Resilience Building Contract for North Macedonia

ANNUAL ACTION PLAN
This document constitutes the annual work programme in the sense of Article 110(2) of the Financial Regulation, and annual and multiannual action plans and measures in the sense of Article 9 of IPA III Regulation and Article 23(2) of NDICI - Global Europe Regulation.

1. SYNOPSIS

1.1. Action Summary Table

Title	State and Resilience Building Contract for North Macedonia Annual Action Plan contributing to the Western Balkans Energy Support Package in favour of North Macedonia for 2023
OPSYS	ACT-61594
ABAC	JAD.1108474
Basic Act	Financed under the Instrument for Pre-accession Assistance (IPA III)
Team Europe	No
Beneficiary	North Macedonia
Programming document	IPA III Programming Framework
PRIORITY AREAS AND SECTOR INFORMATION	
Window and thematic priority	Window 3 – Green agenda and sustainable connectivity Thematic Priority 2: Transport, digital economy and society, and energy (57%) Window 4 – Competitiveness and inclusive growth Thematic Priority 1: Education, employment, social protection and inclusion policies, and health (40%) Thematic Priority 2: Private sector development, trade, research and innovation (3%)
Sustainable Development Goals (SDGs)	Main SDG: SDG 7 Ensure access to affordable, reliable, sustainable and modern energy for all Other significant SDGs: - SDG 5 Achieve gender equality and empower all women and girls - SDG 8 Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all

<table>
<tr><td></td><td colspan="4">- SDG 9 Build resilient infrastructure, promote inclusive and sustainable industrialisation and foster innovation
- SDG 10 Reduce inequalities within and among countries
- SDG 13: Take urgent action to combat climate change and its impacts
- SDG 17 Strengthen the means of implementation and revitalise the Global Partnership for Sustainable Development</td></tr>
<tr><td>DAC codes</td><td colspan="4">15110 - Public sector policy and administrative management (7%)
15142 - Macro-economic policy (1%)
16010 - Social protection (40%)
23110 - Energy policy and administrative management (40%)
23210 - Energy generation, renewable sources multiple technologies (10%)
32130 - Small and medium-sized enterprises (SME) development (2%)</td></tr>
<tr><td>Main Delivery Channel</td><td colspan="4">12000 – Recipient government</td></tr>
<tr><td>Targets</td><td colspan="4">☒ Climate
☐ Gender
☐ Biodiversity</td></tr>
<tr><td rowspan="13">Markers
(from DAC form)</td><td>General policy objective</td><td>Not targeted</td><td>Significant objective</td><td>Principal objective</td></tr>
<tr><td>Participation development/good governance</td><td>☐</td><td>☒</td><td>☐</td></tr>
<tr><td>Aid to environment</td><td>☐</td><td>☒</td><td>☐</td></tr>
<tr><td>Gender equality and women’s and girl’s empowerment</td><td>☐</td><td>☒</td><td>☐</td></tr>
<tr><td>Reproductive, maternal, new-born and child health</td><td>☒</td><td>☐</td><td>☐</td></tr>
<tr><td>Disaster Risk Reduction</td><td>☒</td><td>☐</td><td>☐</td></tr>
<tr><td>Inclusion of persons with Disabilities</td><td>☐</td><td>☒</td><td>☐</td></tr>
<tr><td>Nutrition</td><td>☒</td><td>☐</td><td>☐</td></tr>
<tr><td>RIO Convention markers</td><td>Not targeted</td><td>Significant objective</td><td>Principal objective</td></tr>
<tr><td>Biological diversity</td><td>☒</td><td>☐</td><td>☐</td></tr>
<tr><td>Combat desertification</td><td>☒</td><td>☐</td><td>☐</td></tr>
<tr><td>Climate change mitigation</td><td>☐</td><td>☒</td><td>☐</td></tr>
<tr><td>Climate change adaptation</td><td>☒</td><td>☐</td><td>☐</td></tr>
<tr><td rowspan="2">Internal markersand Tags</td><td>Policy objectives</td><td>Not targeted</td><td>Significant objective</td><td>Principal objective</td></tr>
<tr><td>Digitalisation</td><td>☒</td><td>☐</td><td>☐</td></tr>
</table>

	Tags digital connectivity digital governance digital entrepreneurship digital skills/literacy digital services	YES ☐ ☐ ☐ ☐ ☐		NO ☒ ☒ ☒ ☒ ☒
	Connectivity	☐	☐	☒
	Tags digital connectivity energy transport health education and research	YES ☐ ☒ ☐ ☐ ☐		NO ☒ ☐ ☒ ☒ ☒
	Migration	☒	☐	☐
	Reduction of Inequalities	☐	☐	☒
	COVID-19	☒	☐	☐
BUDGET INFORMATION				
Amounts concerned	Budget line: 15 02 02 01 Total estimated cost: EUR 80 000 000 Total amount of EU budget contribution EUR 80 000 000 The contribution is for an amount of EUR 80 000 000 from the general budget of the European Union for 2023, subject to the availability of appropriations following the adoption of the relevant annual budget by the Budgetary Authority, or as provided for in the system of provisional twelfths.			
MANAGEMENT AND IMPLEMENTATION				
Implementation modalities (type of financing and management mode)	Budget Support **Direct management** through: Budget Support: State and Resilience Building Contract			
Relevant priorities and flagships from Economic and Investment Plan for the Western Balkans	Contributing to the Economic and Investment Plan (EIP):	☒ Yes ☐ No		
	Priorities: “Energy”, “Green Agenda”, “Human Capital Development”, “Private Sector Support”			
Final Date for conclusion of Financing Agreement	At the latest by 31 December 2023			
Final date for concluding contribution / delegation agreements,	Not applicable			

procurement and grant contracts	
Indicative implementation period	24 months following the conclusion of the Financing Agreement
Final date for implementing the Financing Agreement	Eight years following the conclusion of the financing agreement

1.2. Summary of the Action

Energy prices in Europe began soaring in 2021 after the lifting of COVID-19 pandemic lockdowns. The situation further exacerbated following the Russian war of aggression against Ukraine in 2022. The war upended energy markets, triggering heightened price volatility and energy insecurity impacting the EU and its immediate neighbourhood. The rise in energy prices impacted consequently other sectors as well, like production, transport and all service sectors in general. This crisis situation has forced the European Commission to refocus its immediate response, through a set of short-term energy security-related measures, in Europe and beyond, as set out in the REPowerEU plan[1]and its EU external energy strategy[2]. The current energy crisis is unprecedented, and it is a challenge for not only the EU Member States but also for the Western Balkans partners. In North Macedonia, with the significant increase in energy prices, ensuring a stable energy supply and energy security have become very challenging. Lower supplies of electricity and gas already generate energy shortages and put pressure on the energy and food prices, affecting the overall economy of the country. The energy prices are the biggest concern of the citizens for the upcoming winter.

The overall objective of this Action is to assist North Macedonia in reducing the socio-economic impact of the rising energy prices in particular on public service providers, small and medium sized enterprises and households, and to strengthen the Government's overall capacity to deliver tailor-made services to vulnerable households and support the long-term socioeconomic recovery, energy security, and energy transition of North Macedonia. The action will support structural reforms facilitating the energy transition, including revising and improving the strategic and regulatory frameworks with the aim of increasing production of renewables and energy efficiency, strengthening the grid and developing storage facilities. The action will also improve access to finance for investments in energy efficiency and prosumers and protect vulnerable energy users.

This action will contribute directly to SDG 7 'Ensure access to affordable, reliable, sustainable and modern energy for all', and also to other SDGs, among them SDG 8 'Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all', SDG 9 'Build resilient infrastructure, promote inclusive and sustainable industrialisation and foster innovation', SDG 10 'Reduce inequalities within and among countries', SDG 13 'Take urgent action to combat climate change and its impacts'. The Action directly contributes to the priorities of the Economic and Investment Plan for the Western Balkans related to "Private Sector Support", "Energy", "Green Agenda", "Human Capital Development" and to the IPA III Programming Framework Window 3 "Green agenda and sustainable connectivity" (Thematic Priority 2: Transport, digital economy and society, and energy) and Window 4 "Competitiveness and inclusive growth" (Thematic Priority 1: Education, employment, social protection and inclusion policies, and health and Thematic Priority 2: "Private sector development, trade, research and innovation").

[1]COM(2022) 230 final See REPowerEU: A plan to rapidly reduce dependence on Russian fossil fuels and fast forward the green transition.
[2] JOIN(2022) 23 final. EUR-Lex - 52022JC0023 - EN - EUR-Lex (europa.eu)

2. RATIONALE

2.1. Context

Energy prices in Europe began soaring in 2021 after the lifting of COVID-19 pandemic lockdowns, followed by Russia's war of aggression against Ukraine in 2022. The war upended energy markets, triggering heightened price volatility and energy insecurity impacting the EU and its immediate neighbourhood. The rise in energy prices impacted consequently other sectors as well, like production, transport and all service sectors in general.

This crisis situation has forced the European Commission to refocus its immediate response, through a set of short-term energy security-related measures, in Europe and beyond, as set out in the REPowerEU plan and its EU external energy strategy and as reiterated by the EU President in her State of the European Union address.

The current energy crisis is unprecedented, and it is a challenge for not only the EU Member States but also for the Western Balkans partners. The EU and the Western Balkans partners need to work hand in hand to increase energy security in the EU and in the Western Balkans as a matter of urgency.

North Macedonia has defined EU integration as a strategic priority. The first Intergovernmental Conference on accession negotiations took place on 19 July 2022, following the approval of the Negotiating Framework by the Council. The Commission has started immediately the technical examination of the EU *acquis*, which covers also issues related to energy. The bilateral dialogue between the EU and North Macedonia encompasses the Copenhagen criteria and integrates the overarching challenges, including in the areas of energy, climate change and security in Europe. These priorities become further an integral part of the reform programme of the government of North Macedonia. The alignment with the European Green Deal[3] and the just transition approach towards a modern, resource-efficient and competitive economy has become increasingly important. The government of North Macedonia has committed to energy diversification, security of energy supplies, de-carbonisation and scaling up energy efficiency and renewable energy initiatives, which are expected to have a double effect – improve the energy independence of North Macedonia and decrease the pollution. The EU instruments to support this transition include the Economic and Investment Plan (EIP) for the Western Balkans[4], the Green Agenda for the Western Balkans[5], the Instrument for pre-accession assistance (IPA) and the European Fund for Sustainable Development (EFSD+).

Against this background, the privileged relationship of the Western Balkans, has allowed to extend to the Region several initiatives that were taken in the EU in the last months.

For instance, as immediate response to the energy crisis at EU level, there are several objectives that focus on the gas sector. Under the mandate of the European Council, the European Commission and the EU Member States work together on establishing joint purchases of gas. Those efforts are accompanied by supporting measures: international outreach to current and potential gas exporters, and regional and pan-EU work streams for ensuring the most efficient use of the existing infrastructure under new patterns of gas flows. This work will also serve as a basis for the development of the global hydrogen market.

The European Commission and the European Council have invited the Western Balkans to join the platform for joint purchases of gas to lower dependency on Russian gas. The regional platform for South East Europe has prepared a detailed action plan outlining quick measures needed to accurately assess the gas demand and infrastructure potential in the region. Serbia and North Macedonia have participated in this discussion (all IPA III beneficiaries from the Western Balkans were invited). It should be noted that currently only three of the

[3] COM(2019) 640 final of 11.12.2019
[4] COM (2020) 641 final of 6.10.2020
[5] SWD (2020) 223 final of 6.10.2020

Western Balkans have gas markets (Bosnia and Herzegovina, North Macedonia and Serbia). The EU Gas Storage regulation was incorporated in the Energy Community law on 30 September, making the filling targets and arrangements as well as storage certification mandatory also in the Western Balkan economies.

While supporting citizens and businesses to face energy and electricity price increase is the immediate priority, the short- and medium-term objectives for the region (decarbonisation, energy diversification, renewable energy generation, energy efficiency, connectivity of electricity and gas networks and interconnectors) stay unchanged to achieve the targets set under the Green Agenda for the Western Balkans[6]. The upcoming Energy Community Ministerial Council in December 2022 is expected to adopt 2030 climate and energy targets for each Energy Community Contracting Party. In the case of North Macedonia, the Government will revise the adopted National Energy and Climate Plan (NECP) making reference to the roadmaps to achieve 2030 renewable energy and energy efficiency targets and commit to coal phase-out dates in line with the National Energy Strategy and the Just Transition Action Plan.

In addition, in order to provide additional direct support to the Western Balkans region, at the Berlin Summit of 3 November 2022, the European Commission announced a pledge[7] for the Energy Support Package of EUR 1 billion in EU grants, with expectations to leverage investments of up to EUR 2.5 billion. The Energy Support Package aims at addressing immediate, short-term and medium-term needs in the Western Balkans and in the context of the ongoing energy crisis:

- The immediate needs are related to the price increases in energy and specifically the electricity, which require the provision of budget support under this Action.
- The short- and medium-term needs relate to the energy transition, namely energy diversification, renewable energy generation, energy efficiency, connectivity of electricity and gas networks and interconnectors supported by the funding under the Western Balkans Investment Framework (WBIF).

The new Energy Support Package is expected to provide to the Western Balkans approximately EUR 500 million budget support in the form of State Building Resilience Contracts as immediate assistance under IPA III. The present Action, through a State and Resilience Building Contract, aims to mitigate the immediate socio-economic needs as a result of the impact of rising energy prices on vulnerable households and small and medium sized enterprises (SMEs) and to set the basis for energy transition and resilience.

The Energy Support Package is consistent with and further reinforces the EU policy framework for cooperation with and for financial assistance to the Western Balkans, first and foremost the **Economic and Investment Plan for the Western Balkans[8]** (EIP) adopted by the European Commission on 6 October 2020.

Through the EIP, and its flagship projects, the EU support in the field of energy has been reinforced. Strong emphasis is put on energy market integration, decarbonisation and clean energy, increased use of renewable energy sources, increased digitalisation of the energy systems and smart grids, energy efficiency, including modernisation of district heating, and energy security. Enhanced connectivity and extension of the Energy Union to the Western Balkans is also instrumental for a successful clean energy transition in the region. In addition, new funding has been approved to replenish the Regional Energy Efficiency Programme in support of energy efficiency projects for public and private buildings.

The **Green Agenda for the Western Balkans** is an essential element of the EIP. Western Balkan leaders endorsed the EIP and the Green Agenda at the Sofia Summit in November 2020.

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[6] SWD(2020) 223 final of 6.10.2020.

[7] Berlin Process Summit: EU announces €1 billion energy support package for the Western Balkans and welcomes new agreements to strengthen the Common Regional Market, available at https://ec.europa.eu/commission/presscorner/detail/en/ip_22_6478

[8] COM(2020) 641 final Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions An Economic and Investment Plan for the Western Balkans

The **IPA Programming Framework**[9] sets the overall objectives of the EU's assistance under Window 3- Green agenda and sustainable connectivity. The overall objectives of the EU's assistance under Window 3 are to promote the green agenda by reinforcing environmental protection, contributing to mitigation, increasing resilience to climate change, accelerating the shift towards a low-carbon and circular economy and develop the digital economy and society. The current action will contribute to boosting resilience of the Western Balkans partners in the current energy crises. The action is also relevant for Window 4- Competitiveness and inclusive growth, particularly for supporting private sector and vulnerable households.

On 12 October 2022, the European Commission adopted its **2022 Enlargement Package**[10], providing a detailed assessment of the state of play and the progress made by the Western Balkans and Türkiye on their respective paths towards the European Union, with a particular focus on implementing fundamental reforms, as well as clear guidance on the reform priorities ahead. When it comes to the energy crisis, the package refers to the need of closer coordination of actions and cooperation amongst the Western Balkans partners and with the EU to tackle the energy crisis.

In **North Macedonia**, the energy crisis, increased energy costs and increased inflation has put great pressure on the country's economy, the state budget and energy policies. The economy of North Macedonia is characterised by high energy intensity and low energy efficiency, including a dependency on Russian gas, representing 9% of the total energy supply. The country has no gas or oil domestic resources, and operates with limited quantities of (low caloric value) coal, thus depending on energy imports. With the recent significant increase in prices, ensuring stable energy supply and energy security have become significant challenges. Lower supplies of electricity and gas already generate energy shortages and put pressure on the energy and food prices, affecting the overall economy of the country. Approximately two thirds of electricity is domestically produced and around one third is imported. The energy prices are the biggest concern of the citizens for the upcoming winter.

Not fully recovered from the COVID-19 pandemic, the Gross Domestic Product of North Macedonia has seen a decline in 2022 and growth projections for 2023 are also dropping from 2.8% to 2.1% (World Bank data). The biggest contributor to the rising inflation (average annual inflation in the period January-September 2022 of 12.4%) is the increase in import prices of food and energy, affecting the industry and the small and medium-sized enterprises (SME) sector directly. The government has declared a state of Emergency and prepared several packages of anti-crisis measures, including the National Energy Action Plan. The total national spending for energy generation in the period January-September 2022 was around EUR 154 million. This had a direct effect on the central budget, and the general government expenditures were revised upwards by an additional EUR 261 million, or 5.9% higher compared to the original 2022 budget. The budget deficit increased by EUR 150 million, reaching EUR 695 million. Knowing the current fiscal space and rising public debt, the government is securing EUR 530 million from the International Monetary Fund (IMF) through a Precautionary and Liquidity Line (PLL). An EBRD loan of EUR 100 million, which is pending Parliament approval, aims to support energy generation and security. This Action is complementary, allowing the government to support its citizens and the economy in a targeted way and to mitigate the impact on the state budget.

2.2. Problem Analysis

Short problem analysis

According to the Energy Community Secretariat the security of supply risk profile for the season 2022/23 in the Western Balkans is considered "low" for Bosnia and Herzegovina and Serbia and "medium" for the

[9] C(2021) 8914 final of 10.12.2021 on the Instrument for Pre-Accession Assistance (IPA III) Programming Framework for the period 2021-2027.
[10] COM(2022) 528 final

remaining four partners (compared to “high” in Ukraine and Moldova). The specific risk profile for North Macedonia is as follows:

<u>**Energy Community risk assessment 2022/23**</u> **LEVEL OF RISK** (high, moderate, low): *Moderate*
Sources of risk: gas delivery interruption, coal availability, hydrological conditions; European and regional market disturbances; affordability issues
Total final energy supply by source (approx. 110 000 TJ in total): 8% biofuels and waste, 9% natural gas, 40% oil products, 39% coal, 4% hydro.
- imports: 5 126 TJ coal, 2 177 TJ crude oil, 8 679 TJ electricity, 12 974 TJ natural gas, 49 892 TJ oil products.
- exports: 20 TJ coal, 2 099 TJ electricity, 6019 TJ oil products.

Gas

- 9% of total energy supply. (100% of Russian origin, coming through a single connection with Bulgaria)
- 75% of gas is used for heat and electricity production, the rest is used by industry
- One gas-fired Thermal Power Plant uses Russian gas, stop of gas delivery would further reduce domestic production
- The supplies which have been contracted for long are enough only for the demand of industrial customers. However, gas supplies from Russia for heat and electricity production was procured in November. The duration of this contract is not known.
- New gas supplies can only come in via the interconnector with Bulgaria and will depend on available supplies in Greece and Türkiye and the demand of Bulgaria. North Macedonia has been proactive to open and unlock the unused capacity of this interconnector, the Interconnection agreement for this point with Bulgaria was signed on 31 October 2022. It will apply as of 1 January 2023 allowing additional gas volumes to come into the gas market of North Macedonia.

Electricity
<u>electricity production mix:</u> 50% coal, 20% hydropower, 17% natural gas, 2% wind and solar, 1% oil

- North Macedonia imports around 35% of needed electricity; it has 5 cross-border lines 400 kV and is very strongly connected with neighbouring economies except Albania (construction works are in progress)
- Domestic coal supply is insufficient; procurement of coal and fuel-oil for the winter is ongoing and needed amounts are expected to be ensured; hydro potential is at the normal level for this period of the year
- Import of 200 MW from Bulgaria for October 2022-March 2023 is being negotiated with Bulgaria

EIP priority projects: North Macedonia-Kosovo* and North Macedonia-Serbia Gas Interconnection

The most significant problem in the region in the short term is related to prices of imported electricity. Western Balkans partners except Bosnia and Herzegovina are systematically net importers of electricity. The import needs in 2022 are further exacerbated by the lower outputs of hydro plants due to draught.

Electricity prices in North Macedonia are regulated only for universal service suppliers and have remained below the import price, as well as below the European market price (between 22-41% of the EU average). This puts additional pressure on partners’ budgets to cater for the financial losses of the utility providers.

An increase of electricity prices to market level is perceived by partners as destabilising the social situation, being not affordable for the majority of residential consumers, and even a factor leading to bankruptcy for commercial users.

The current energy challenges are exacerbated by the **weaknesses of the energy policy** and lack of investment in national energy structures. While North Macedonia has a decent strategic framework and is quite advanced with the alignment with the Energy Community Treaty, several shortcomings are negatively impacting the implementation. The fragmentation of responsibilities on policy level has affected the energy supply, security, and the performance and operational effectiveness of the state companies. This, combined with weak management of the companies affected the liquidity and sustainability, as well as compliance with the

*This designation is without prejudice to positions on status, and is in line with UNSCR 1244 and the ICJ Opinion on the Kosovo declaration of independence.

regulatory requirements. The 2022 Commission Report on North Macedonia[12] highlights the need of aligning the national legislation with the Clean Energy Package, ensuring the effective implementation of the Third Energy Package, adopting legislation on the energy efficiency, infrastructure and biofuels. The country also needs to prepare the assessment required by the Energy Efficiency Directive and implement the PROSUMER (households and small businesses) related legislation. Notably, North Macedonia needs to ensure the integration of renewable energy sources into the grid and to remove the capacity cap per type of renewable energy technology to enable the achievement of the 2025 renewable energy targets. The country must equally create financing incentives towards energy efficiency (including by setting up the energy efficiency fund), ensure adequate and sustainable financing of the energy sector, both at central and local level, and develop and implement energy efficiency programmes at municipal level. To comply with the 2030 target phasing out of coal, North Macedonia needs to accelerate the transition towards clean energy, including a governance mechanism, an action plan and a monitoring mechanism for a 'just transition' process. This is only possible if North Macedonia commits to optimising the institutional framework, including redefinition of policy and implementation responsibilities, reporting lines and coordination platforms and building the necessary administrative capacity, including for strategic planning, implementation and enforcement.

North Macedonia has also **to address energy poverty** in times of crisis, in line with the existing legislative framework in the country. In May 2019, North Macedonia adopted the *Law on Social Protection* which ensures the citizens' right to social security and social insurance, social justice, humanity, and solidarity. As a response to the COVID-19 outbreak, the law was amended to allow people facing a sudden loss of earnings due unforeseeable events, to be entitled to Guaranteed Minimum Assistance. The recently amended *Law on Children Protection* provides for financial benefits for children to eradicate children's poverty and guarantee their equal opportunities. The new *Law on Social Security of the Elderly* provides financial assistance for persons aged 65 and above who are materially deprived. Overall, North Macedonia progressed on the eradication of poverty – the poverty rate has been decreasing[13] in the last ten years from 27% (2010) to 21.8% (2020) of the population. The high price of the electricity and the inflation risk to revert the trend. According to EUROSTAT, 25% of the citizens of North Macedonia cannot heat their households properly. Without a structured, all-inclusive and realistic strategy, energy poverty is expected to further increase. The most affected groups are those who are already addressing poverty challenges - 27.8% of the children, and 21.2% of the working-age population 18-64. Roma families (around 15 000), experiencing high unemployment (67%) and low-paid employment, and single parent families as well as retired people with low pensions are more exposed to vulnerability.

Another category of strongly affected energy users are the Municipalities, which are left to procure electricity on the open market to ensure electricity for the schools, health care institutions and public utilities. This is a serious burden for municipal budgets and risk discontinuation of the public services in most vulnerable municipalities (rural, peripheral and mountainous).

The economic recovery is in need of external financial support. In 2022, the government reached out to several financiers, including the European Commission, requesting budget support and ensuring budget liquidity. Despite the macro-economic challenges, the government has committed to:

- Avoid electricity shortages;
- Absorb costs so citizens do not feel any significant price pressure;
- Provide assistance to vulnerable groups;
- Provide assistance to micro, small and medium-sized enterprises (MSMEs') and industry;
- Increase capacities of the national electricity production companies to subsidise and ensure security of energy supply.

[12] SWD (2022) 337 of 12.10.2022

[13] From 27% in 2010 to 21.5% in 2015, followed by a mild stagnation and in 2019 it was 21.6%. Source EU-SILC: https://ec.europa.eu/eurostat/databrowser/view/ILC_LI02/default/bar?lang=en

In response to the urgent needs, on 30 October 2022, North Macedonia imposed restrictions[14] on the energy consumption, provided financial incentives for the energy state owned and private companies, and agreed on assistance to the most vulnerable groups. The emergency situation was prolonged until April 2023.

On 9 October 2022, the government announced the measures to offset the impact of the energy prices:

- General measures covering all households i.e. preferential tax rate of 5% on the electricity bills and subsidising the market price of electricity with 80% for 611 000 households and 78 000 small consumers. The overall costs of these measures are estimated to around EUR 240 million. Measures covering public service providers such as schools, health care institutions municipalities, municipal utility companies, food producers and involving electricity subsidies (EUR 9.3 million), financing of municipal energy efficiency projects (EUR 10.5 million loan from the World Bank) and strengthening the obligation for implementation of fiscal sustainability measures for all state and municipal enterprises.
- Short term measures targeting specific vulnerable groups and pensioners, involving electricity subsidies, ad hoc cash transfers and implementation of a new methodology for pension calculation, amounting to EUR 37.6 million.
- A large spectrum of measures, supporting the economy, including direct financial support to the agricultural sector (EUR 52 million), extension of credit-guarantee scheme of the Development Bank of North Macedonia (EUR 5 million), direct credit line to support the liquidity of micro, small and medium-sized commercial companies and sole traders, direct credit lines for support of food production companies, companies that produce essential crops, artisans (who pay taxes on real income), and accelerated and increased VAT refund and digitalisation of the VAT refund (EUR 178 million);
- Specific measures targeting the energy sector involve: a 10% cap on profit margins, VAT exemptions on imports of natural gas and electricity, heat or cooling energy (EUR 28 million), favourable loans for investments in energy efficiency and renewable energy sources through the Development Bank of North Macedonia (EUR 100 million), postponing the introduction of the environmental tax (EUR 25 million), consulting support for the development of projects / studies for investments in energy efficiency and renewable energy sources, direct subsidises of energy companies.

According to national estimates, the cost for offsetting the energy crisis and inflation reach EUR 1.120 billion, out of which EUR 750 million for direct budget costs for subsidies and EUR 370 million additional costs for electricity prices in the liberalised markets and support to implement the government measures. Preliminary estimations to support only the process of energy production in the heating season in the period January-April 2023 is estimated at EUR 200 million.

This policy of subsidising and maintaining the affordable tariffs for households and SMEs should nevertheless be seen as a temporary measure to address the energy crisis effect. In parallel, the country is engaged in a sample programme of institutional and legislative reforms, coupled with significant investments, in particular on renewables, energy efficiency and further integration with the neighbours. The result of these combined actions, inked in the incoming National Energy Action Plan of North Macedonia is expected to rationalise better the production, use and cost of energy in the country in the years to come.

The main stakeholders to be covered by the action include:

- The Ministry of Economy (www.economy.gov.mk) is responsible for setting energy policy in the country, including developing energy strategies and action plans, establishing the energy balance,

14 Decree on Declaring Emergency Situation in Electricity Supply, Official Gazette No. 232, of 2nd November 2022.

monitoring the energy markets and addressing energy poverty. The Ministry has an Energy Department organised in five units - for strategic planning, for electro energetics and energy investment projects; for fossil fuels; for energy efficiency; and for renewable energy sources.

- The Central Government, encompassing the Prime Minister and his Cabinet, supervising the crisis management measures, the Deputy Prime Minister for economic affairs, coordinating and monitoring the implementation of the overall economic policy and responsible for big infrastructure projects, the Ministry of Finance (responsible for setting the fiscal policy and managing the national budget), the Ministry of Labour and Social Policy, responsible for the social support to vulnerable groups. Other ministries such as the Ministry of Agriculture, the Ministry of Transport and Communication, the Ministry of Environment, and the Ministry of Education have also some competencies related to green energy.
- The four large companies of electricity production – ESM Skopje (71.05% share of the market of electricity produced - state owned), Company for production of electricity and heat TE-TO AD Skopje (20.83% share - private), Thermal Electrical Central Negotino (usually kept as ‘reserve’), and EVN Power Plants (2.43% share - private) - and the Electricity Transmission System Operator, MEPSO (Joint Stock company fully state-owned, established in 2005).
- The Energy Regulatory Commission (ERC) (www.erc.org.mk), established in 2003, benefitting of high technical expertise and regulatory independence, and responsible for monitoring the functioning of the energy markets; adopting regulations and tariff systems and methodologies; adopting rules on the supply of electrical and thermal energy and of natural gas.
- The Energy Agency (www.ea.gov.mk), established in 2005, responsible for providing support in implementing the energy policy.
- The Energy Efficiency Fund is being established with the support of the World Bank and the EU, under the umbrella of the Development Bank of North Macedonia.
- Women and men – citizens of North Macedonia, and private sector at large.

2.3. Lessons Learned

The energy sector in North Macedonia has benefitted of significant EU financial support: over EUR 20 million from the national IPA strand, and more than EUR 215 million from WBIF. Various bilateral donors and international organisations have also contributed to different environmental priorities.

In 2020-2022, North Macedonia implemented successfully the first State and Resilience Building Contract “EU for Social and Economic Resilience” addressing the socio-economic consequences of the COVID-19 pandemic. The EU provided EUR 40 million for free-interest credit line with a targeted grant component for companies, and grant lines for unemployed people registering their companies, and for SMEs creating new jobs. The action contributed to the establishment and functioning of more than 4 400 businesses, with over 2 500 operating in sectors that are related to the European Green Deal. The EU support helped preserve more than 3 000 jobs and created over 2 000 new job opportunities. The programme mitigated the negative impact of the pandemic. The horizontal thematic evaluation[15] of these emergency measures found that the COVID-19 crisis response has been effective in granting the beneficiary economies the fiscal space enabling budgetary rearrangements to respond to the social needs of the vulnerable actors (households and economic stakeholders).

[15] Fast-track assessment of the EU initial response to the COVID-19 crisis in partner countries and regions (2022), available at https://international-partnerships.ec.europa.eu/policies/monitoring-and-evaluation/strategic-evaluation-reports/fast-track-assessment-eu-initial-response-covid-19-crisis-partner-countries-and-regions-2020_en

The main conclusions from the analysis of the implementation of the EU aid include:

- The energy sector, being part of the Green Deal, inter-links with other sectors and requires the involvement of numerous stakeholders. It is important to strengthen the inclusive sector policy dialogue through the Sector Working Group on Energy at policy and technical level, and also to ensure cross-sectoral approach by analysing the implications of the energy policy and the urgent measures on the sectors of agriculture, competitiveness, education, employment and social protection. This complies with the lessons learned from the implementation of the State and Resilience Building Contract, recommending to maximise the use of policy dialogue as a leverage to inform and monitor the implementation of the crisis response plans of partner economies.
- The political vision has to be backed by strong coordination and administrative capacity. The policy measures need to be coupled with strong capacity building at different levels and with different partners.
- The energy sector needs are huge and public funds cannot cover them all. It is very important to find the right tools to channel private investments. Development of blending tools i.e. Energy Efficiency Fund, Greening Business Funds and the other financial tools planned by the government in the Growth acceleration plan needs to be accelerated. It is equally important to decentralise the process of decarbonisation and increase the involvement of municipalities, having the potential to enter into public-private partnerships at local level.
- It is equally important to support North Macedonia to pursue support to medium- to longer-term fiscal and public expenditure reforms aimed at increasing domestic revenue mobilisation and at promoting debt sustainability during both crisis and post-crisis responses.

2.4. Additional Areas of Assessment

2.4.1. Public Policy

The strategic framework is well developed. In 2019, North Macedonia adopted the “Strategy for Energy Development up to 2040” setting the basic principles of North Macedonia’s energy and climate policy. The country committed to align with EU policies and modernise the energy sector in line with EU energy trends. This will contribute to increased access, integration, and availability of energy services, reduction of local and global pollution, and increased participation of the private sector, taking into account the development of potential and domestic specifics. In 2020, the country signed the Sofia Declaration on the Green Agenda for the Western Balkans, committing to decarbonisation. In 2021, North Macedonia submitted the enhanced nationally determined contribution (NDC) to the United Nations Framework Convention on Climate Change (UNFCCC) and adopted the Long-term Strategy on Climate Action. The National Energy and Climate Plan (NECP) was adopted in 2022. The strategic documents are consistent and allow to measure progress on the three strategic objectives: achieving sustainable development of the energy sector; reducing import dependency and diversification of energy sources.

In line with the phase out coal objective foreseen in the NECP (by 2027) a Just Transition Action Plan has been drafted and is planned to be adopted in early 2023. The plan foresees support to re-skilling of the workforce thus tackling the consequences of the green transition.

The implementation of the strategic targets is however lagging behind. Although North Macedonia is a Contracting Party to the Energy Community Treaty and has the obligation to implement the EU energy *acquis*, legal fragmentation persists. The Energy Law adopted in May 2018 transposes the

Third Energy Package[16] in the electricity and natural gas sector, as well as part of the Renewable Energy Directive[17]. It establishes, among others, the rules for organising and structuring the electricity and natural gas markets as well as the rights and obligations of all market participants. The February 2020 Energy Efficiency Law transposes the EU Energy Efficiency Directive, Energy Performance of Buildings Directive, Regulation on Labelling of energy-related products, and Directive on Eco-design of energy-related products. The implementing rules are not yet fully in place. The draft laws on energy infrastructure and on biofuels still need to be adopted and aligned with the relevant EU Regulations.

Addressing the energy poverty is an essential part of the sector public policy. North Macedonia has put in place a solid strategic and legislative framework to provide support for the most vulnerable citizens. The revised Employment and Social Reform Programme (ESRP) has created a credible strategic outline for the social protection reforms. North Macedonia improved significantly the legislative framework, which encompasses the laws on social protection, on children protection, on social security of the elderly, on pensions, as well as the laws on mandatory social security contributions, on pension and disability insurance, and on mandatory fully funded pension insurance. The impact of social transfers (excluding pensions) on poverty reduction has constantly been increasing over the past decade – from 9.03% in 2012 to 14.96% in 2019[18]. The national efforts to address poverty resulted in a significant decrease of the share of the population at risk of poverty - from 27% (2010) to 21.8% (2020). Despite this progress, there are still about 452 000 citizens living below the poverty line in 2021. An adequate response to the inflation and the energy crisis will allow North Macedonia to limit the risks of a large group of citizens going beyond the poverty line and preserve the achievements of the social policy so far.

In November 2022, the Government prepared a National Energy Action Plan, encompassing short-term and medium-term measures to address the energy crisis, strengthen the energy resilience and security, and enhance the energy transition to low-carbon economy. This plan, expected to be adopted officially in December 2022 will be the basis for this budget support intervention and the follow-up monitoring.

The institutional set-up is complex and shows weaknesses. The responsibilities at policy level are shared among various stakeholders with different political agenda and affiliations. This negatively impacts the energy supply and security, and the performance and operational effectiveness within the sector. While the main responsibility for the sector policy remains with the Ministry of Economy, the majority of line ministries have a share in the policy-making, and no effective coordination mechanism exists. The Department of Energy at the Ministry of Economy does not have sufficient capacity, knowledge and resources to analyse the weaknesses in the sector and propose an adequate response. To address these weaknesses, the Ministry of Economy was included in the pilot stage of the state reorganisation process. This process, funded by the EU, is expected to result into better staffed institutions in charge of Energy Policy which will be charged with the overall coordination of the sector. The institutional reform has to be further extended to the reorganisation of the state companies.

The monitoring system of the Ministry of Economy needs to be significantly improved while the one of the Ministry of Labour and Social Policy, and of the Public Revenue Office are well established and smoothly functioning. They provide good quality information in timely manner.

The policy level coordination also needs to be strengthened, since various institutions and stakeholders share competencies. A more coordinated approach is needed on key areas such as energy supply,

[16] See Natural Gas Transmission Networks Regulation (EC) No 715/2009, Electricity Regulation (EC) No 714/2009, Regulation Establishing an Agency for the Cooperation of Energy Regulators (EC) No 713/2009, Natural Gas Directive (2009/73/EC) and Electricity Directive (2009/72/EC). Full information on the package available at https://energy.ec.europa.eu/topics/markets-and-consumers/market-legislation/third-energy-package_en

[17] 2009/28/EC, available at https://eur-lex.europa.eu/legal-content/EN/ALL/?uri=celex%3A32009L0028

[18] EUROSTAT, Table "Impact of social transfers (excluding pensions) on poverty reduction by sex [TESPM050]" https://ec.europa.eu/eurostat/databrowser/view/tespm050/default/table?lang=en.

energy efficiency and renewable energy. To address this need, North Macedonia established in 2022 a Sector Working Group (SWG) on Energy, which still needs to prove its effectiveness. For the purpose of this sector budget operation, the SWG will meet quarterly at policy level.

The sector policy budgeting needs improvement. North Macedonia does not yet benefit from a robust medium-term expenditure framework to anchor the costs for the major reforms and ensure their credibility. The ongoing Public Finance Management reform programme aims at addressing this issue through the adopted in September 2022 Organic Budget Law. Significant IPA support is already available to advance this process. In the absence of a solid medium-term expenditure framework, the country has a quasi-programme for energy to back up the sector policy objectives.

In conclusion, the policy is sufficiently relevant and credible for budget support contract objectives to be largely achieved. Therefore, the policy can be supported by the Commission with the proposed budget support contract.

2.4.2. Macroeconomic Policy

The economy rebounded in 2021, after the COVID-19 pandemic-related output drop in 2020, with real GDP growth at 4%, driven by domestic demand. Remittances from abroad returned to pre-crisis levels, bolstering households' disposable income, and wage subsidies from the government helped to keep employment stable. COVID-19-related containment measures were gradually lifted. Growth dynamics slowed down towards the end of 2021, as external demand weakened, disruptions in global supply chains aggravated, and food and energy prices started to rise rapidly. The pace of economic recovery accelerated in the second quarter of 2022. Entirely driven by domestic demand, real GDP increased by 2.8% y-o-y, after 2.4% in the preceding three months. I. With real import growth considerably higher than the increase in exports, the contribution to growth from the external side was negative in Q2 (-13.2 pps.), like in the preceding 2 quarters. High frequency data for Q3 of 2022 point to a slowing economy. In July and August, industrial production declined by 2.4% y-o-y on average, after a meagre increase of 1.9% in Q2, reflecting continued supply shortages. Manufacturing output declined by 1.6% in the same period. Energy production was lower by 7.4%. The annual decline in retail sales (except automotive fuels, in real terms) deepened in July and August (6% on average), compared to Q2 (3.6%)[19].

Beginning in late 2021, import price increases accelerated, and domestic price pressures firmed up, including from sustained wage growth, which was further fuelled by an 18.5% hike in the minimum wage as of March 2022. The consumer price index rose by 3.2% in 2021, compared to 1.2% in 2020; the latest data shows an annual inflation rate of 18.7% in September, or average annual inflation in the period January-September 2022 of 12.4%, driven by higher prices for food (+18.5% y-o-y) and electricity and fuels (+13.2%). Second-round effects on other sectors, in particular transport, have led to an accelerated rise in core inflation in Q3 of 2022.

Driven by higher tax income, public revenue recovered gradually throughout 2021. Capital spending, at 79% of the revised budget, was, again, severely under-implemented, yet much increased compared with 2020. The deficit (5.4% of GDP) remained below the revised target, and substantially below the 2020 deficit (8.2%). While the original 2022 budget foresaw a gradual phasing out of pandemic-related support amidst a large increase in capital expenditure, the government, by October 2022, adopted measures totalling some EUR 750 million, to mitigate the negative economic impact from rising food and energy prices, including transfers to the state-owned electricity producer to subsidise prices on the regulated market, as well as temporary reductions in the VAT rate on fuel, gas oil and liquefied petroleum gas (LPG) from 18% to 10% and a zero rate on basic food products (expired on 1 June), as well as an extension of the lower VAT rate on electricity, delaying the gradual return to the regular 18% rate. To accommodate this package, the government, in May 2022, revised the budget, raising

[19] EU Candidate Countries' and Potential Candidates' Economic Quarterly, 3rd quarter 2022, October 2022

the deficit target to 5.3% of GDP (+1pp compared to the original budget). At the same time, it adopted the medium-term Fiscal Strategy for 2023-2025, with prospects to 2027. The strategy, though based on an optimistic GDP growth forecast, projects gradual expenditure-based fiscal consolidation, with the budget deficit decreasing from 4.6% in 2023 to 2.8% in 2027, in line with the new fiscal rule. Capital expenditure is projected to remain at 4% of annual GDP over the entire period.

Both general government debt and public debt declined marginally in 2021 as a share of GDP, after surging in 2020. Government debt remains moderate, at 51.8% of GDP at end-2021 and 46.7% of projected full-year GDP at end-June 2022. Government-guaranteed debt of public enterprises is projected to peak in 2023, as a result of energy crisis-related borrowing by power plants as well as borrowing for road infrastructure. In 2022, financing needs from deficit financing and debt repayments total some EUR 850 million, or some 6.5% of projected GDP, with low debt rollover needs. These financing needs are expected to be covered by the first disbursement of an IMF precautionary liquidity loan (PLL) on which negotiations are being finalised, as well as financing through a recent private placement in Germany (EUR 250 million) at a decent interest rate, in addition to domestic bond issuance, a domestic bank loan (EUR 50 million), and deposit withdrawals (EUR 240 million).

The currency remained stable in a de facto pegged exchange rate regime with the euro. In early 2022, in light of accelerating inflation, the central bank started tightening monetary policy. The central bank raised the key policy rate further in Q3 of 2022 and again in October, in three steps of 50 bps. each, to 3.5%. Since April, it has been raised in 5 consecutive steps.

Given a deterioration in the merchandise trade deficit, on account of a stark rise in the value of imported mineral fuels and gas, the current account deteriorated in the first half of 2022. In Q2, the 4-quarter moving current account deficit amounted to 7.2% of GDP, slightly above the Q1 value (6.3%). Overall, in the first half of 2022, the current account deficit almost quadrupled compared to the same period one year earlier. Secondary income in Q2 was some 40% above its level of one year earlier, amounting to 18.3% of GDP (Q2 2021: 15.1%). Yet, it was not sufficient to cover the deficit in the merchandise trade balance. Foreign Direct Investment (FDI) inflows increased in 2021 and further in the first half of 2022, rising much above their 2020 levels.

After increasing in the previous two years, foreign reserves decreased by almost 11% between end-2021 and August 2022. The decline was due to the rise in energy imports; external debt payments; and decreasing valuations of securities holdings. However, over the summer, forex markets stabilised somewhat, with seasonally high inflows of foreign currency exceeding central bank expectations, and the central bank intervening to purchase foreign currency. In July and August, reserves increased month-on-month. Overall, central bank policy managed to keep the pegged exchange rate of the denar to the euro stable.

The banking system has so far remained resilient, well capitalised and profitable. The non-performing loan ratio (non-financial sector) remained low, at 3.2% in the second quarter of 2022.

Once the economic recovery is firmly under way, the government needs to focus policies on ensuring the sustainability of public finances. This implies reinforced emphasis on reforms in fiscal governance. After long delays, in mid-September 2022, the Parliament adopted the new Organic Budget Law, which foresees the introduction of fiscal rules; a fiscal council; and a proper medium-term budget framework. Key provisions are planned to enter into force as of January 2023. The law’s implementation is likely to improve fiscal discipline and boost the country’s credibility in international capital markets. In August, the government proposed a number of tax system reforms, which would contribute to enhancing public revenue, by i.a. broadening the tax base. To improve the execution and management of public investment (PIM), the government is setting up a dedicated PIM department in the Ministry of Finance, as a pre-condition for implementing the PIM Action Plan. It also drafted a new law on public-private partnerships (PPPs), aimed at strengthening PPPs as an efficient vehicle to implement public investment and to better monitor its fiscal risks, which is still awaiting adoption by the government.

On the IMF support, the PLL is awarded to countries that have sound economic fundamentals and practice sound macroeconomic policies. In the process of finalising the PLL, IMF assessed the fiscal and monetary policies and found them largely effective. For example, the latest Art. IV Report of February 2022 that was published before the Russian war of aggression against Ukraine in 2022, concluded that policy support provided during COVID-19 cushioned the economic impact of the pandemic. Fiscal lifelines helped prevent large job losses and protect the most vulnerable, while monetary and financial measures kept credit flowing to the economy. On past support, in April 2020 the IMF approved the disbursement of EUR 176.53 million (100 percent quota) under the Rapid Financing Instrument (RFI) in emergency financial assistance to help cope with the COVID-19 pandemic. This financial support supported the health and macroeconomic measures as well as the balance of payments needs arising from the COVID-19 pandemic. In 2021, the IMF granted a new external borrowing in the amount of the full SDR[20] quota (about EUR 180 million). Also prompted by the IMF support, in 2020 the Commission provided a Macro–Financial Assistance (MFA) to North Macedonia of EUR 160 million.

Overall, even though the economy is highly sensitive to the current rise in energy prices and growth is likely to slow down, sound fiscal and monetary policies, a moderate debt level and the adoption of the Organic Budget Law are solid foundations of macroeconomic stability.

In conclusion, the authorities are pursuing a stability-oriented macroeconomic policy and the eligibility criterion is met.

2.4.3. Public Financial Management

North Macedonia continues to implement a credible Public Financial Management (PFM) reform. The implementation of the PFM Reform Programme (2018-2021) was finalised with some delays. Some results had not been achieved and transferred to the new **PFM Reform Programme 2022-2025 (PFMRP) adopted in June 2022**. The new PFMRP is articulated through eight pillars that cover systemic weaknesses identified by Public Expenditure and Financial Accountability (PEFA) 2021 and SIGMA 2020 assessments, as well as a Development of Implementation and Monitoring Directives (DIAMOND) assessment in 2020 and a Tax Administration Diagnostic Assessment Tool (TADAT) assessment in 2021:

Pillar 1: Economic analysis, macroeconomic and fiscal framework.
Pillar 2: Revenue mobilization.
Pillar 3: Planning and budgeting[21]
Pillar 4: Public procurement.
Pillar 5: Integrated public finances –FMIS implementation-
Pillar 6: Public Internal Financial Controls
Pillar 7: External controls and Parliamentary oversight
Pillar 8: Public Finance Management at local level.

Whereas the last PEFA report notes that PFM performance registered an overall improvement compared to 2015, SIGMA 2021 points at a slight deterioration of PFM systems, moving slightly downwards, from 2.9 in 2017 to 2.8 in 2021. Out of 28 PEFA performance indicators, 11 indicators maintained equal rating, 11 indicators registered improved scores, and six indicators showed deteriorated scores. The improvements in scores relate primarily to the areas of budget formulation, budget execution and reporting, and external oversight. The indicators that support aggregate fiscal discipline (PI-1, PI-3) and public procurement (PI-19). Performance slippage is found mainly in the

[20] Special Drawing Rights
[21] Including gender-responsive budgeting, which is still in an early stage at this moment.

indicators that affect comprehensiveness and transparency of the budget (PI-5, PI-7) and composition of the expenditure outturn (PI-2). Some drops in performance ratings appear to be the result of COVID-19 crisis and State of Emergency, which may be easy to rectify.

Main **systemic weaknesses addressed by the PFMRP 2022-2025 include**:

Budget reliability and aggregate fiscal discipline. Deviations between estimates and outturns at aggregate level are reasonably limited. Nevertheless, variance in revenue composition is high, tax and non-tax revenues are overestimated, while social security contributions are under-estimated. Whereas expenditure aggregates are accurate, variance in expenditure composition by economic category are high largely due to the under execution of the capital budget and overspending on the transfers and subsidies budget line.

Budget preparation and Policy based fiscal strategy. The Fiscal Strategy does not yet play a strategic role in the policy planning of the Government, as it has several methodological shortcomings. It is expected that credibility of fiscal framework will be improved following the adoption of the Organic Budget Law (OBL) that introduces clear fiscal rules and the establishment of a Fiscal Council. The Fiscal Strategy does not include explanations of deviations from its objectives and targets are weak.

Transparency of Public Finances. The coverage of the budget could be more comprehensive. While a substantial share of total central government activity is covered in financial reports, they do not capture the activities of regulatory agencies, public corporations and the activities of the public health institutions' self-financed activities and some donations excluded from the budget. Programme Budgeting remains at a relatively early stage of implementation, information on programs is provided and planned performance is presented by most budget users.

Revenue mobilisation. Whereas the Public Revenue Office (PRO) has developed some strong components of tax administration, many important functions are still in the early stages of development. Most of the PRO strengths are in the area of taxpayer service. The benefits of these strengths are however not fully due to the poor state of the information technology (IT) system, limited execution of compliance risk management (CRM) approaches, and inadequate management of large taxpayers. In addition, the absence of an independent administrative review process, deficient management of VAT returns and refunds, and insufficient consultations with taxpayers undermine the tax administration's effectiveness and trust of the system by taxpayers.

According to the estimates and analysis of the Fiscal Strategy 2023-2027, total revenues of the Budget of North Macedonia (central government and Funds) for the period 2023-2027 are projected to reach 29.5% of GDP. Tax revenues account for 59.9% of the projected revenues, followed by revenues on the basis of social contributions accounting for 30.1%, non-tax revenues and capital revenues accounting for 7.7%, while the rest of the revenues are expected to be generated from IPA Funds and other donations

Public Internal Financial Controls (PIFC). The implementation of the various PIFC concepts is primarily driven by the Central Harmonisation Unit (CHU) of the Ministry of Finance. Implementation of the PIFC concept is lagging and PIFC-related manuals are not applied consistently by budget organisations. Weak controls of budget execution at commitment level are expected to be overcome with the upcoming Integrated Financial Information System (IFMIS).

Public procurement practices have been being progressively aligned with the EU *acquis* but this process has not been completed. The Law on Concessions and Public-Private Partnerships 2012 (Concessions and PPP Law) is not fully harmonised with the EU Directive 2014/23/EU on Concessions 234 (EU Concessions Directive). The public procurement in times of emergency needs to be improved. In November 2020, the State Audit Office (SAO) published two reports on institutional weaknesses in the management of non-financial assistance during the COVID-19 pandemic and award of public procurement contracts. Both reports point at severe weaknesses and lack of guidelines to carry out public procurement during emergencies. The Public Procurement Bureau has developed some guidelines on emergency procurement to respond to SAO's findings but the level of preparedness to address past weaknesses remain to be tested.

North Macedonia continues to implement the **Public Investment Management** (PIM) Action Plan 2020-2024, which envisages the creation of a new PIM Department to manage the identified weaknesses. Public investment management lacks national guidelines or standards for project appraisal of proposed investment projects, except projects financed externally. Fragmentation affects all stages of the PIM cycle as infrastructure projects are managed individually, but neither a sectoral nor a national oversight function is performed within the public sector preventing the Ministry of Finance, or the government, to clearly identify costs overruns and projects delays, to take corrective actions in a timely manner.

Debt Management. Although the risk profile of the debt portfolio has improved, it is still high. Debt sustainability might deteriorate as result of the energy crisis and increasing interest rates. Fiscal risks are incomplete and do not disclosure of risks related to PPP contracts.

External audit and scrutiny. The legal framework includes sufficient provisions for the independence and mandate of the SAO but its independence is not yet anchored in the Constitution. With the exception of the SAO's annual report, the audit reports are not used by the Parliament. The parliament does not issue a separate set of recommendations, nor does it follow up on the SAO recommendations.

Gender-sensitive budgeting. The Open Budget Law adopted in September 2022 foresees that the Minister of Finance shall prescribe the structure and the content of the Gender Budget Statement. The EU has provided technical assistance via a twinning project to define the content of the Gender Budget Statement to be included in the budget circular. This process will offer the opportunity to further consider gender policies into the budget process. Furthermore, in collaboration with the WB, the EU will support implementation of the Integrated Financial Management Information System (IFMIS). Implementation of IFMIS will strengthen the capacity to tag climate change and gender expenditures. Nevertheless, implementation of gender responsive budgeting will required substantial capacity building to integrate a gender perspective in sector planning and to formulate and monitor gender-disaggregated indicators.

In conclusion, the public finance management reform strategy is sufficiently relevant and credible and progress is satisfactory, including on domestic revenue mobilisation, and the eligibility criterion is met.

2.4.4. Transparency and Oversight of the Budget

The entry point is considered to be met, as both the Executive Budget Proposal and final budget are timely published in the website of the Ministry of Finance and Parliament website. North Macedonia has benefitted from an updated PEFA assessment in 2021 and the last Open Budget Index (OBI) was published in 2021. Conclusions and recommendations of both reports are incorporated in the PFM annual report.

The 2021 Open Budget Survey notes that North Macedonia makes 6 out of 8 key budget documents publicly available online in a timeframe consistent with international standards.

While the OBI index gives more importance to the disclosure of documents, the PEFA framework focuses more on the quality and reliability of the information. The 2021 PEFA report sees improvements in quality and timeliness of annual financial statements (PI-25); Scope, nature and legislative scrutiny of the budget law (PI-27); and legislative scrutiny of external audit reports (PI-28). Nevertheless, it points to a number of weaknesses in terms of information disclosure and extent of unreported government operations and several indicators are below international good practice scoring (C or D scoring).

Comparison of PEFA Results 2015-2021 (PEFA 2011 framework applied for comparison of results)			
Indicator	**Description**	**Score 2015**	**Score 2021**
PI-6	Comprehensiveness of Information included in budget documentation	B	B
PI-7	Extend of unreported government operations	C+	C
PI-10	Public access to key fiscal information	A	A
PI-24	Quality and timeliness of in-year budget reports	C+	C+
PI-25	Quality and timeliness of annual financial statements	D+	D
PI-26	Scope, nature and follow-up of external audit	D+	B+
PI-27	Legislative scrutiny of the annual budget law	D	D+
Open Budget Survey			
	Description	2017	2019
	Transparency	41	36
	Public Participation	0	6
	Budget Oversight	54	54

Although the improvements in scoring are limited, some progress has been achieved during implementation of the PFMRP 2018-2021:

Starting from the second half of 2017, the Ministry of Finance has focused on improving transparency in the management of public finances by creating additional information and quality information easy to use and accessible to the wider public. New budget execution data were provided on the Ministry of Finance web site such as reports on budget execution by budget users on a monthly basis; reports on budget execution by municipalities on a quarterly basis; quarterly report on the execution of the general government budget; semi-annual report for execution of the budget of North Macedonia.

Additional data and analysis are provided in the Budget Proposal documentation and Fiscal Strategy (additional coverage of the fiscal data tables, wider scope of the narrative part, new tables and graphs for the local government budget, data for public enterprises and state-owned companies, public debt management policy).

Since October 2020, the Ministry of Finance started publishing regularly the execution of the local government budget (fiscal table for local government) on a quarterly basis, as well as data on revenues and expenditures of public enterprises and state-owned companies, by enterprise on a quarterly basis.

In November 2019, the Ministry of Finance launched the new portal "Open Finance" open.finance.gov.mk, which is aimed at providing the public with an insight into the data, available in the Treasury system within the Ministry of Finance, as regards the realisation of transactions of all budget users. Furthermore, a new tool was introduced for monitoring the realisation of capital expenditures by budget users, realised in relation to what is planned in the Budget, https://kapitalni-rashodi.finance.gov.mk/?lang=english .

Additionally, the Ministry of Finance in February 2020 upgraded the Open Finance portal with data on public debt, where is presented data on public debt, its trends by years, repayment, projected disbursements for current year and its financing. Transparency related to public debt data has been improved with the amendments to the Law on Public Debt from May 2019 by including the non-guaranteed debt of public enterprises in the definition of public debt.

Transparency of public finance management need to be improved. In August 2022, the State Audit Office published a performance review of the "Efficiency of the economic measures of the Government for support of tourism sector”, implemented in the period 2020-2021. The report highlights numerous weaknesses in managing emergency measures, such as poor planning and justification of measures, no proper system for monitoring and control of the measures, and low level of implementation of government measures in the tourism sector. The audit report concluded that the unavailability of timely, consolidated and clear data on the awarded financial support makes it impossible to timely prepare efficient analyses of the effect of measures in tourism sector.

The last Open Budget Index highlights the measures needed to improve budget transparency:

- Publish the Pre-Budget Statement in line on a timely manner
- Produce and Publish the Mid-Year review in line in a timely manner
- Include additional policy and fiscal risk information in the Executive’s budget proposal
- Include in the Executive’s proposal data on the financial position of the government and information on performance and policy changes
- Improve in the Year-End Report comparisons between borrowing estimates and actual outcomes, comparisons between planned nonfinancial outcomes and actual outcomes and comparisons between the original macroeconomic forecast and actual outcomes.
- Improve comprehensiveness of the In-Year reports by providing information on actual expenditures by individual programs, provide expenditure and revenue comparisons to the Enacted Budget and/or same period in the previous year and provide additional information on the composition of total debt.

The new PFM Reform programme encompasses a number of these measures. The adoption of the new OBL is also expected to bring further positive impact on budgetary transparency. Furthermore, the new IFMIS will have a positive impact on the quality of the data available. In addition, improved transparency could be ensured through the introduction of one single entry point and software solutions with possibilities for tracking data per year/programme/institution.

Based on the analysis, it is concluded that the entry point is met and that there is sufficient progress towards increasing budgetary transparency. In conclusion, the relevant budget documentation has been published and the eligibility criterion met.

3. DESCRIPTION OF THE ACTION

3.1. Intervention Logic

The Action consists of a State and Resilience Building Contract to mitigate the immediate socio-economic impact of the energy crisis and set the basis for building energy resilience in North Macedonia. The budget support contract will expand the country’s fiscal space and will allow the government to implement measures to reduce the likelihood of energy poverty by assisting the economy and vulnerable households and ensure the continuous delivery and access to essential services. At the same time, it will support North Macedonia in upscaling the energy efficiency and promote energy savings with the objective to not allow an increase in energy consumption. The action will contribute to the country’s long-term socio-economic recovery, energy security and energy transition in line with the commitments North Macedonia has under the Energy Community law and the Energy Community Decarbonisation roadmap. The foreseen policy dialogue during the implementation of this operation will take place in the format of regular (quarterly meetings) Sector Working Groups gathering all sector stakeholders in which progress in the implementation of the policies and challenges will be discussed.

The Overall Objective (Impact) of this action is to mitigate the immediate socio-economic impact of the energy crisis on vulnerable households, public service providers and economic operators and to set the basis for a sustainable economy based on climate resilient low carbon principles.

The Specific Objectives (Outcomes) of this action are:

1. ***Accelerated energy transition to a sustainable climate neutral economy and energy security***

   This specific objective will be achieved through the following induced outputs:
   1.1. Strategic framework for the energy policy refined
   1.2. Legislative framework updated
   1.3. Institutional framework strengthened
   1.4. Improved access to finance for investments in energy efficiency and prosumers

2. ***Energy users are protected from increase in energy prices***

   This specific objective will be achieved through the following induced outputs:
   2.1. Ensured continuity in the delivery of public services to the population
   2.2. Enhanced system protecting the most vulnerable women, men and children and other energy users

The underlying assumptions are:

- The government of North Macedonia is committed to preserve the macro-economic stability of the country, to pursue the accession process and continue the alignment of its policies and legislation with the EU.
- The measures put in place by the government in the National Energy Action Plan have the potential to strengthen the energy policy and mitigate the socio-economic impact of the inflation and energy prices, particularly over the most vulnerable communities.
- The structural reforms will be progressing to improve the effectiveness and efficiency of the public administration and the management of the public finance.
- The citizens and businesses of North Macedonia support the policy of energy transition and engage in savings of natural resources.

3.2. Indicative Activities

Under Outcome 1: Accelerated energy transition to a sustainable climate neutral economy and energy security

→ ***Activities related to Output 1.1. Strategic framework for the energy policy refined***

In order to ensure energy diversification, increase energy security and resilience of the national energy sector, North Macedonia will adopt:

- Just Transition Action Plan;
- National Green Agenda Action Plan;
- Updates of the Energy Strategy reflecting the targets for coal phase out, inclusion of hydrogen as the fuel for the future, investment in storage and battery;
- A revised National Energy and Climate Action Plan.

→ ***Activities related to Output 1.2. Legislative framework updated***

North Macedonia will prepare and adopt, after a large consultative process, the following laws, which are key for the energy security and climate change mitigation:

- Upgraded prosumer legislation;
- Amendments to the Law on Energy Efficiency and secondary legislation;
- Amendments to the Law on Energy including REMIT measures and adoption of secondary legislation necessary for its implementation;
- Alignment with the Clean Energy Package including legislation on renewables.

→ ***Activities related to Output 1.3. Institutional framework strengthened***

North Macedonia will put in operation well-staffed and functioning instruments to support the energy transition, channel private funding to energy-related priorities, improve energy efficiency and energy savings. This involves:

- Reorganisation and strengthening the state institutions dealing with Energy Policy;
- Establishment of the Energy Efficiency Fund.

→ ***Activities related to Output 1.4. Improved access to finance for investments in energy efficiency and prosumers***

The measure will promote in practice the PROSUMER concept through creating incentives for small scale energy efficiency measures and renewables generation. This measure will allow households to become energy self-sufficient/reduce their energy dependence/provide potential electricity surpluses to the grid. It is a sustainable investment for the future years. The action is intended to contribute to some broader ongoing initiatives of the government such as:

- Installation of photovoltaic power stations on roofs - min 500 households;
- Installation of solar thermal systems for households (energy efficiency) – min 1 300 households;
- Replacement of old windows and doors with new PVC (energy efficiency) – min 1 700 households.

Under Outcome 2: Energy users are protected from increase in energy prices

→ ***Activities related to Output 2.1. Ensured continuity in the delivery of public services to the population***

The operation will support financially ***municipalities***, and ***public service providers*** such as educational establishments, public health institutions and public utilities which have been severely hit by the energy crisis and face high electricity bills.

→ ***Activities related to Output 2.2. Enhanced system protecting the most vulnerable women, men and children, and other energy users***

The Action will upscale the national measures for supporting:

- Households;
- The most vulnerable categories of citizens, who fall among those receiving social transfers i.e. unemployed people, people with disability allowances and persons with severe health conditions, single parents, beneficiaries of the Guaranteed Minimum Income of which the Ministry of Labour and Social Policy estimates that 20% of the beneficiaries are Roma, and about 153 000 Pensioners with lowest pensions (45% of the total number of pensioners in the country);
- Strategic food producers.

The measure will also encompass the promotion of the Energy sobriety through putting in place communication and incentives for promoting saving on energy and natural resources and changing of traditional lifestyle and behaviours.

3.3. Mainstreaming

Environmental Protection, Climate Change and Biodiversity

Almost 80% of total greenhouse gas emissions of the country are generated by the use of fossil fuels in energy, construction and transport sectors. To address the current energy crisis, North Macedonia increased the national electricity production. At present, approximately two thirds of the total electricity is produced domestically, while approximately one third is still depending on imports. Domestic electricity production relies heavily on lignite, followed by hydro, gas, wind, biogas and solar. Two thermal blocks in Thermal Power Plant Bitola (installed capacity 3 blocks x 200MW) and Thermal Power Plant Oslomej (installed capacity 120MW) are in operation as of December 2021, using domestic and imported coal. The third one is expected to be put in operation as well. One block in TPP Negotino (installed capacity 2 blocs x 90MW) which runs on heavy oil, which is usually kept as 'reserve', was put in operation as well and the second might be put in operation in winter as well.

Consequently, additional negative environmental and health effects are to be expected. The level of air pollution in the country will further increase given that the number of schools and hospitals operating on heavy oil will increase, and particularly in the thermal power plants regions near Bitola, Kicevo and Negotino. The planned investments in new coalmines and extension of the work of TPP Bitola can provide some short-term mitigation for the energy crisis, but are not in line with the strategic goals for decarbonisation and decommissioning of the two TPP's by the end of 2028. Opening a new coalmine would jeopardise the country's adherence to coal phase-out and international commitments. On its path towards EU accession, North Macedonia needs to take into account such considerations, especially having in mind that 'phase out coal' has to happen by 2030.

Nonetheless, the stated priorities of the country in the climate change area for the upcoming period are (i.) to finalise the law on climate action and to create an enabling environment for its implementation, (ii.) to set legally binding requirements for various institutions and (iii.) to enhance their capacities. This action will support clearing the internal dichotomy in the national energy policy, will engage the stakeholders in a dialogue on the energy future of the country, and will create incentives and mechanisms for investments in renewable sources as an alternative to fossil fuels.

Gender equality and empowerment of women and girls

As per the Organisation for Economic Cooperation and Development (OECD) Gender DAC codes identified in section 1.1, this action is labelled as G1 (significant objective). This implies that the Action will, in line with the GAP III Agenda for Gender Equality[22] and Women's Empowerment in EU External Action[23]:

- contribute to alleviating the economic burden of the inflation and the high energy prices on women and girls in vulnerable position. According to the official statistics[24], in 2020, 21.9% of the women of North Macedonia are at risk of poverty against 21.7% of the men, due primarily to low female labour market participation and high unemployment.

[22] SWD(2020) 284 final
[23] JOIN(2020) 17 final
[24] https://www.stat.gov.mk/PrikaziSoopstenie_en.aspx?rbrtxt=115

- support the continuation of the educational and social care services of the country (primarily schools and social care centres). Seasonal closure of educational establishments risks to increase significantly the economic burden on families, and particularly on women, due to the traditionally strong gender roles in the family, particularly in the non-majority communities.
- support families heat their homes in the winter months. This measure will benefit primarily women and children, who are staying at home longer due to the traditional gender roles, the low market participation (55% of all women are in inactivity compared to 33.6% of men) and high unemployment rate (12.72% for women).
- promote sex-segregated data on the success indicators and engage on analysing the impact of the energy policy over the women in North Macedonia, and factoring this analysis in the preparation of the new strategic framework.

Human Rights

According to the official statistics 451 900 citizens are at risk of poverty in North Macedonia, which constitutes 21.8% of the total population. Without the social transfers, this amount would have doubled. The action will support North Macedonia in decreasing the economic pressures on families and citizens, resulting of the high inflation and electricity costs.

Disability

As per OECD Disability DAC codes identified in section 1.1, this action is labelled as D1. This implies that Action will contribute to alleviating the economic burden of the inflation and the high energy prices on vulnerable citizens, a big part of which are people with disabilities.

Democracy

The action will continue to encourage the involvement of the Civil society in shaping the energy policy through enhanced participation in the Energy Sector Working Group as well as through the platform (ENER) for consultation on the legal and strategic acts.

3.4. Risks and Assumptions

Category	Risks	Likelihood (High/ Medium/ Low)	Impact (High/ Medium/ Low)	Mitigating measures
External environment (Political)	Non-constructive behaviour of political parties and foreign country interests are able to trigger political confrontation and instability, and social unrest.	**H**	**H**	Keeping the dynamics of the accession process is an important leverage tool to align political visions. The progress with the ongoing screening will help enhancing the societal support for the accession process. The active strategic communication on the concrete benefits of the EU accession, including with outreach to smaller locations will support the process.

Category	Risks	Likelihood (High/ Medium/ Low)	Impact (High/ Medium/ Low)	Mitigating measures
				Enhanced political dialogue with the political actors will be important in this regard.
Planning, process and systems (Policy)	The Energy policy is not well defined and not up to the current challenges.	**H**	**H**	Enhanced policy dialogue channelled through the Sector Working Group on Energy in addition to regular discussions between the EU Delegation and the government. EU financial support has been planned under other financing tools to provide advisory service to the national authorities on the reform measures.
External environment (Macro-economy)	Downside risks are exceptionally large, mainly associated with the inflation and energy prices. A larger-than projected drop in government revenue may increase the government's financing need. If the shock proves much larger, it could also jeopardise debt sustainability given the high government's financing needs in the near term.	**H**	**H**	Close monitoring of the fiscal policy, the implementation of the Economic Reform Programme and the progress on the structural reforms. This budget support operation by itself is a tool to support the macro-economic stability.
Planning, process and systems (Efficiency and effectiveness of the Public administration and control systems)	The capacity of the public administration to follow ambitious political commitments is still insufficient.	**H**	**H**	EU financial support has been planned under other financing tools to provide advisory service to the national authorities on the reform measures.
Planning, process and systems / Legality and regularity (PFM-related)	The State Audit Office reported serious weaknesses in the implementation of the extraordinary COVID-19 measures	**H**	**M**	The European Commission will continue to support the reforms in the PAR and the PFM. Extensive policy dialogue of implementation of crisis measures. Support to SAO, including through policy dialogue to promote its independence and request a

Category	Risks	Likelihood (High/ Medium/ Low)	Impact (High/ Medium/ Low)	Mitigating measures
				performance audit on the crisis measures. Engage civil society organisations in the policy dialogue on the implementation of the crisis measures. Technical assistance to the budget committee in the parliament to address external audit findings. Implementation report of the crisis measures will provide the sources of verification including budget statements.
Planning, process and systems (Operational)	Limited experience in implementation of budget support operations and measures to support the most vulnerable groups in a targeted way	**H**	**M**	The EU Delegation will carry out enhanced monitoring and will provide active guidance to the national authorities on the implementation of the budget support.

External Assumptions

- Inflation is brought under control based on effective monetary policy at European and at national level;
- The European energy market becomes more interconnected and progresses quickly towards independence, allowing for the energy markets of the Western Balkans to naturally integrate;
- Progress in the implementation of the Green Agenda.

3.5. Indicative Logical Framework Matrix

BUDGET SUPPORT MODALITY

Results	Results chain	Indicators	Baselines (value and year)	Targets by the end of the budget support contract (value and year)	Sources of data
Indicative Impact of the policy	To mitigate the economic and social impact of the energy crisis in North Macedonia. To set the basis for a sustainable economy based on climate resilient low-carbon principles	Macro-economic indicators stable Annual growth rate of real GDP Employment rate 20-64 At the risk of poverty rate Renewable energy share in the total final energy consumption	 3.2% (2019) 50.4% (2020) 49% (women) 68.9% (men) 21.8%(2020) 21.9% (women) 21,7% (men) 18.1% (2018)	 >4% (2027) >64.5% (2027) 52.5% (women) 75.5% (men) <18% (2027) >22% (2024)	National Statistical Office, and Performance Assessment Framework[25]
Expected Outcomes of the policy	1. Accelerated energy transition to a sustainable climate neutral economy and energy security	Number of households benefitting from energy-related measures Number of companies benefitting from energy-related measures Number of public service providers benefitting from energy-related measures	3500 (2022) 214 (2022) 147 (2022)	5 000 (2025) 820 (2025) 300 (2024)	Monthly and Final progress report on the implementation of the National Energy Action

[25] https://pafnorthmacedonia.mk/PAF/?s=dg&oID=cf4a49a0-130d-458b-b87c-41d897bb3d7d&iID=2287db20-63d3-4505-a63b-ee29bae7c256

	2. The energy users are protected from the increase in energy prices	Share of population benefiting from eased access to electricity	0,3% (2022)	>90% (2023)	Plan
Induced outputs	1.1. Strategic framework for the energy policy refined	Number of strategic documents adopted	n.a.	3 (2025)	Monthly and Final progress report on the implementation of the National Energy Action Plan and the other relevant national documents Energy Community Secretariat Official Gazette Official data coming from the state PFM management systems
	1.2. Legislative framework updated	Number of legal acts adopted	n.a.	5 (2025)	
	1.3. Institutional framework strengthened	Number of sector institutions reorganised	0 (2022)	5 (2025)	
	1.4. Improved access to finance for investments in energy efficiency and prosumers	Renewable energy generation capacity installed (MW) with EU support Number of households benefitting of financial support for energy efficiency measures	180 MW (2022) 30 (2022)	>500 MW (2025) >2000 (2024)	
	2.1. Ensured continuity in the delivery of public services to the population	Number of public service providers receiving support for energy bills (schools, health care, municipalities)	0 (2022)	>650 (2023)	
	2.2. Enhanced system protecting the most vulnerable women, men and children and other energy users	Number of households receiving support for energy bills Number of companies receiving support for energy bills	46,000 (2022) 0 (2022)	>190 000 (2023) >800 (2023)	
Direct outputs	Fiscal space for reallocation of funds to vulnerable stakeholders created	Volume of sources of financing available to Government for targeting relevant entities	EUR 350 million (2022)	EUR 830 million (2024)	Monthly and Final progress report on the implementation of the National Energy Action Plan Information from
	Implemented National Energy Action Plan	% of the measures of the National Energy Action Plan fully implemented	0 (2022)	100 (2024)	
	Communication policy on energy sobriety put in place	Number of communication events	0 (2022)	6 (2023)	

	Enhanced policy dialogue on energy policy through the SWG on Energy, encompassing all stakeholders	Number of technical and policy level meetings of the SWG per year Number of participants per meeting (average) – by structure (authorities, CSOs, donors)	0 (2022) 0 (2022)	4 (2023) 40 (2023)	meetings of the sector working group (agenda, invitations, conclusions)

4. IMPLEMENTATION ARRANGEMENTS

4.1. Financing Agreement

In order to implement this action, it is envisaged to conclude a financing agreement with North Macedonia.

4.2. Indicative Implementation Period

The indicative operational implementation period of this action, during which the activities described in section 3 will be carried out and the corresponding contracts and agreements implemented, is 24 months from the date of entry into force of the financing agreement.

Extensions of the implementation period may be agreed by the Commission's responsible authorising officer by amending this Financing Decision and the relevant contracts and agreements.

4.3. Implementation of the Budget Support Component

The Programme will be subject to direct management by the European Union Delegation to North Macedonia.

4.3.1. Rationale for the Amounts Allocated to Budget Support

The amount allocated for budget support is EUR 80 000 000. No complementary support is foreseen.

This amount is based on the commitment of North Macedonia to allocate national budget resources to mitigate the socio-economic impact of the energy crisis generated by Russian war of aggression against Ukraine. It represents about 10% of the estimate financing needs for the implementation of the energy crisis measures adopted by the Government as announced on 09 October 2022 adopted in Government session). This amount is informed by a comprehensive policy dialogue with the stakeholders and by the preparation of a National Energy Action Plan to address the consequences of the energy crisis, particularly on vulnerable households and small and medium enterprises. Records of the previous COVID-19 Resilience Contract to mitigate the socioeconomic impact of the pandemic have confirmed that the authorities have the absorption capacity to make use of the fiscal space induced by this contract to alleviate and support vulnerable stakeholders.

4.3.2. Criteria for Disbursement of Budget Support

a) Conditions.
The general conditions for disbursement of all tranches are as follows:

- Satisfactory progress in the implementation of the National Energy Action Plan to address the consequences of the socio-economic impact of the energy crisis.
- Maintenance of a credible and relevant stability-oriented macroeconomic policy or progress made towards restoring key balances.
- Satisfactory progress in the implementation of reforms to improve public financial management, including domestic revenue mobilisation, and continued relevance and credibility of the reform programme.
- Satisfactory progress with regard to the public availability of accessible, timely, comprehensive, and sound budgetary information.

b) Fundamental values

In case of a significant deterioration of fundamental values, budget support disbursements may be suspended, reduced or cancelled, in accordance with the relevant provisions of the financing agreement.

4.3.3. Budget Support Details

The budget support component consists of two fixed tranches. Budget support is provided as direct untargeted budget support to the national treasury. The crediting of the euro transfers disbursed into denar will be undertaken at the appropriate exchange rates in line with the relevant provisions of the financing agreement.

4.4. Indicative Budget

Indicative Budget components	EU contribution (amount in EUR)
Budget support - cf. section 0	80 000 000
Evaluation – cf. section 5.2 **Audit** – cf. section 5.3	will be covered by another Decision
Strategic Communication and public diplomacy – cf. section 6	will be covered by another Decision
Contingencies	N.A.
Total	80 000 000

4.5. Organisational Set-up and Responsibilities

The budget support operation will be managed by the Ministry of Economy, which will establish a Governance Board, involving the Cabinet of the Prime-Minister, the Deputy Prime Minister for Economic Affairs, the Secretariat for European Affairs, the Ministry of Finance, the Ministry of Labour and Social Policy, the Ministry of Local Self-Governance, and other bodies (if deemed necessary).

The Governance Board will be supported by an inter-institutional task-force, comprising the Secretariat for European Affairs, the Ministry of Finance, the Ministry of Labour and Social Policy, the Ministry of Local Self-Governance, the Deputy Prime Minister for Economic Affairs. The task-force will be responsible for monitoring, data collection and reporting.

The policy dialogue, involving also the civil society and international partners, will be channelled primarily through the Sector Working Group on Energy, which will meet quarterly at policy level. More technical meetings will take place bilaterally.

As part of its prerogative of budget implementation and to safeguard the financial interests of the Union, the Commission may participate in the above governance structures set up for governing the implementation of the action.

5. PERFORMANCE MEASUREMENT

5.1. Monitoring and Reporting

The day-to-day technical and financial monitoring of the implementation of this action will be a continuous process, and part of the implementing partner's responsibilities. To this aim, the implementing partner shall establish a permanent internal, technical and financial monitoring system for the action and elaborate monthly progress and final reports.

Every report shall provide an accurate account of implementation of the action, difficulties encountered, changes introduced, as well as the degree of achievement of the outputs, outcomes and the related indicators. The Final report shall also provide evidence for the contribution of the Action to the achievement of the Impacts, as measured by corresponding indicators, using as reference the logframe matrix and the partner's National Energy Action Plan.

The Commission may undertake additional project monitoring visits both through its own staff and through independent consultants recruited directly by the Commission for independent monitoring reviews (or recruited by the responsible agent contracted by the Commission for implementing such reviews).

Roles and responsibilities for data collection, analysis and monitoring:

- → The Ministry of Economy will have the main responsibility for the monthly and final reporting on the Action. The Ministry will establish an inter-institutional task force to collect the data and prepare the reports. The task force will also include the Secretariat for European Affairs, the Ministry of Finance, the Ministry of Labour and Social Policy, the Ministry of Local Self-Governance, the Deputy Prime Minister for Economic Affairs.

The statistical and monitoring systems as well as the quality of official data in the policy field covered have been assessed as credible and reliable.

The implementation of the operation will be discussed in the Sector Working Groups on Energy. The sector working groups (SWG) comprise authorities, donors and civil society. They are chaired by the respective ministers and convene in decision-making format from two to four times a year, and in technical format when needed. The SWG focus the policy dialogue on sector priorities and on the implementation of the policies and programmes funded from all sources, including the EU assistance. Bilateral technical monitoring meetings will be convened at least once per two months.

5.2. Evaluation

Having regard to the importance and the nature of the action, a final evaluation will be carried out for this action via independent consultants, contracted by the Commission.

It will be carried out for accountability and learning purposes at various levels (including for policy revision), taking into account in particular the emergency and recovery nature of this budget support operation.

The evaluation of this action may be performed individually or through a joint strategic evaluation of budget support operations carried out with the partner country, other budget support providers and relevant stakeholders.

The Commission shall form a Reference Group (RG) composed by representatives from the main stakeholders at both EU and national (representatives from the government, from civil society organisations (private sector, NGOs, etc.), etc.) levels. If deemed necessary, other donors will be invited to join. The Commission shall inform the implementing partner at least 30 days in advance of the dates envisaged for the evaluation exercise and missions. The implementing partner shall collaborate efficiently and effectively with the evaluation experts, and inter alia provide them with all necessary information and documentation, as well as access to the project premises and activities.

The evaluation reports shall be shared with the partner country and other key stakeholders following the best practice of evaluation dissemination. The implementing partner and the Commission shall analyse the conclusions and recommendations of the evaluations and, where appropriate, in agreement with the partner country, jointly decide on the follow-up actions to be taken and any adjustments necessary, including, if indicated, the reorientation of the project.

Evaluation services may be contracted under a framework contract.

The financing of the evaluation shall be covered by another measure constituting a financing Decision.

5.3. Audit and Verifications

Without prejudice to the obligations applicable to contracts concluded for the implementation of this action, the Commission may, on the basis of a risk assessment, contract independent audit or verification assignments for one or several contracts or agreements.

6. STRATEGIC COMMUNICATION AND PUBLIC DIPLOMACY

All entities implementing EU-funded external actions have the contractual obligation to inform the relevant audiences of the Union's support for their work by displaying the EU emblem and a short funding statement as appropriate on all communication materials related to the actions concerned. To that end they must comply with the instructions given in the 2022 guidance document *Communicating and raising EU visibility: Guidance for external actions* (or any successor document).

This obligation will apply equally, regardless of whether the actions concerned are implemented by the Commission, the partner country, service providers, grant beneficiaries or entrusted or delegated entities such as UN agencies, international financial institutions and agencies of EU Member States. In each case, a reference to the relevant contractual obligations must be included in the respective financing agreement, procurement and grant contracts, and contribution agreements.

Given that a similar action is financed simultaneously in each beneficiary in the Western Balkans, joint visibility and communication activities may be undertaken. Visibility and communication aspects shall be complementary to the activities implemented by the Directorate-General for Neighbourhood and Enlargement Negotiations and will be coordinated with the EU Delegation, to ensure coherence of narrative and message, as well as horizontal strategic communications.

This programme is part of the EUR one billion Energy Support Package, which comprises also direct support to the six IPA beneficiaries through the Western Balkans Investment Framework for energy diversification, energy transition and energy security. Visibility and communication activities should be pursued strategically also in this context and with the aim to promote the Package as a whole at regional and national level.

The Government and public administration of North Macedonia will use the communication on the energy and environment policies and their progress to promote the EU assistance and support when relevant and feasible. Visibility and communication measures should also promote transparency and accountability on the use of funds. Effectiveness of communication activities on awareness about the action and its objectives as well as on EU funding of the action should be measured.

For the purpose of enhancing the visibility of the EU and its contribution to this action, the Commission may sign or enter into joint declarations or statements, as part of its prerogative of budget implementation and to safeguard the financial interests of the Union.

7. SUSTAINABILITY

The sustainability prospect is defined by the contribution of the Action to the consolidation of the energy policy of North Macedonia, streamlining the legislative and strategic framework and strengthening the institutional set-up. The enhanced legal and financial predictability is expected to produce long-term benefits such as mobilisation of private sector and households in energy savings, energy efficiency and energy production. Ultimately, this will support achieving the targets of the Green Agenda and the Energy Community.

The Action will maintain the public services in place, and will allow citizens to continue benefiting from education, health care, social support and municipal services in time of crisis. The support to the vulnerable women and men will help them stay warm in the winter months, and will reinforce the social protection role of the state. This will strengthen the social contract between citizens and governance, creating positive triggers also for the country's structural reforms.

The Action will also support the implementation of the PFM reform Programme, particularly the domestic revenue mobilisation, through the enhanced policy dialogue.