

BTI 2014 | Macedonia Country Report

Status Index	1-10	7.17	# 27 of 129	
Political Transformation	1-10	7.20	# 32 of 129	➔
Economic Transformation	1-10	7.14	# 27 of 129	➔
Management Index	1-10	6.12	# 29 of 129	
	scale	score	rank	trend

This report is part of the Bertelsmann Stiftung's Transformation Index (BTI) 2014. It covers the period from 31 January 2011 to 31 January 2013. The BTI assesses the transformation toward democracy and a market economy as well as the quality of political management in 129 countries. More on the BTI at <http://www.bti-project.org>.

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Key Indicators

Population	M	2.1	HDI	0.740	GDP p.c.	\$	11654.2
Pop. growth ¹	% p.a.	0.1	HDI rank of 187	78	Gini Index		43.6
Life expectancy	years	74.9	UN Education Index	0.697	Poverty ³	%	9.1
Urban population	%	59.4	Gender inequality ²	0.162	Aid per capita	\$	83.3

Sources: The World Bank, World Development Indicators 2013 | UNDP, Human Development Report 2013. Footnotes: (1) Average annual growth rate. (2) Gender Inequality Index (GII). (3) Percentage of population living on less than \$2 a day.

Executive Summary

Political polarization and gridlocked conflicts have hampered the Republic of Macedonia's democratic consolidation and progress toward European Union membership. Early parliamentary elections were held on 5 June 2011. The ruling Internal Macedonian Revolutionary Organization – Democratic Party for Macedonian National Unity (VMRO-DPMNE) accepted the opposition's request for early parliamentary elections in order to end the political crisis that emerged from the opposition's boycott of the parliament in response to the freezing of several media outlets' bank accounts. Having won the elections, the VMRO-DPMNE and its coalition partners were able to renew the government of Prime Minister Nikola Gruevski.

On 24 December 2012, the conflict between the governing coalition and the major opposition party, the Social Democratic Union of Macedonia (SDSM) escalated after the government decided to adopt the 2013 state budget in an emergency procedure. Rows between governing and opposition deputies caused the VMRO-DPMNE president of the parliament to order the eviction of observing journalists and opposition deputies. While the deputies of the governing coalition approved the budget without the participation of the opposition, the SDSM and its coalition partners have started boycotting parliamentary sessions and have also threatened to boycott the local elections.

The governing parties have strengthened their control over many important democratic institutions (including the NGO sector, media, universities and research institutes). The government has also increased the number of employees in public administration, seeking to create a large constituency of politically loyal supporters in public services. Public investment projects have been awarded to specific business groups supporting the government. The official separation of powers is undermined by personal relations between the prime minister, his entourage and relatives and loyal supporters of the governing party holding positions in institutions formally charged with making

the government accountable. Political interference and the government's selective approach to reforms have harmed the implementation of judicial and anticorruption reforms.

Macedonia's process of EU accession has continued under a new framework, High Level Accession Dialogue (HLAD). This dialogue has been launched by the EU to prepare for accession negotiations. The opening of formal negotiations was blocked by Greece that insisted on Macedonia changing its official name, which Greeks view as implying a territorial claim over Greece's region of the same name.

The effects of the worldwide financial crisis in 2009 – 2010 did not affect Macedonia broadly, but the country's real economy did suffer, with thousands of private company bankruptcies. The damaging effects of the crisis, exacerbated by the government's misguided economic policies, have been and will continue to be felt in 2012 and 2013. The government embarked on a "road-show" to promote the country's positive business climate and increase Foreign Direct Investment. However, the FDI results have been very disappointing.

The government continued to implement the Ohrid Framework Agreement (OFA) that was concluded in 2001 to stabilize interethnic power-sharing between Macedonia's ethnic Macedonian and ethnic Albanian communities. Although relations between the VMRO-DPMNE and its ethnic Albanian coalition partner, the Democratic Union of Integration (DUI) were occasionally strained, OFA provisions on the decentralization of public administration and on the proportional employment of ethnic minorities in public administration were applied.

History and Characteristics of Transformation

Modern Macedonia emerged in 1945 as one of six constitutive republics of the Socialist Federal Republic of Yugoslavia (SFRY). When Yugoslavia disintegrated in the second half of 1991, Macedonia chose to assert its own independence rather than remain in a truncated Yugoslav state likely to be dominated by Serbia without the counterbalancing influences of Croatia and Slovenia. Macedonia declared independence on 8 September 1991, and today is a democratic multiparty state with a population of around 2 million. According to the 2002 census results, Macedonians make up 64% of the total population, while Albanians are the biggest ethnic minority with 25%. Macedonia's reforms in the last 15 years have been focused simultaneously on three issues: state building, democratic development and establishment of a functioning market economy. During the 1990s Macedonian political elites clashed with their ethnic Albanian counterparts over the basic idea behind the concept of the state. Various elements in the constitution, the census taking, laws on education, local self-government, and public display of national minority symbols, the ethnic make-up of the police, army, as well as the public administration, were all contested by ethnic Albanians in this period. While ethnic Macedonians have insisted on a unitary nation-state, ethnic Albanians have refused to be considered as an ethnic minority in a Macedonian nation-state and have advocated for an official bi-ethnic state system. Political transformation was formulated

as a zero-sum game, pitting ethnic Albanian grievances against Macedonian fears for “their” country’s security and integrity. Armed conflict erupted between Albanian rebels and government forces in 2001 but was quickly ended through an EU- and U.S.-mediated agreement, signed in August of that year.

The so-called Ohrid Agreement envisioned a series of political and constitutional reforms, fulfilling much of the demands raised by the Macedonian Albanians throughout the 1990s and introducing some features of power-sharing, such as a system of double majorities requiring consent from minorities represented in the parliament to key decisions of parliament, a substantial degree of municipal decentralization, equitable representation in the public administration of the non-majority communities, as well as confidence-building measures to overcome the immediate consequences of the 2001 conflict. Furthermore, the agreement established the principle of achieving equitable and just representation in public administration at the national and local level as the highest priority, a key reform in the public sector.

The process of interethnic consolidation based on the Ohrid Agreement is supported by the European Union. The European Union uses the Ohrid Framework Agreement as a key conditionality for further integration of Macedonia. In 2001 Macedonia signed a Stabilization and Association Agreement with the European Union that envisaged the successive liberalization of trade and established an institutional framework for cooperation. Since December 2005 Macedonia has been an official candidate for EU membership.

Due to Greek objections, the admission of Macedonia to membership in the United Nations in April 1993 required the new member to be “provisionally referred to for all purposes within the United Nations as ‘the former Yugoslav Republic of Macedonia’ pending settlement of the difference that has arisen over the name of the state.” Although the reference to the former Yugoslav past was to be used within the United Nations as a result of Greek pressure, other international institutions have kept referring to Macedonia as a “former Yugoslav republic.” Despite reaching an UN-backed interim agreement in 1995 normalizing relations between the countries since 2008 Greece has deliberately blocked Macedonia’s admission to the North Atlantic Treaty Organization (NATO) and the beginning of negotiations for EU membership. The view from Athens is that the name Macedonia implies territorial irredentism on the part of Skopje. Greece claims the name to be exclusively part of its cultural and historical heritage. Macedonia has renounced territorial ambitions over Greek territory but refuses to change the name of the country, treating it as a part of its identity. The view from Skopje is that Macedonians have a right to self-determination and that ancient Macedonian history is as much a heritage of the Republic of Macedonia as it is of the Republic of Greece.

The BTI combines text analysis and numerical assessments. The score for each question is provided below its respective title. The scale ranges from 1 (worst) to 10 (best).

Transformation Status

I. Political Transformation

1 | Stateness

In principle, the state monopoly on the use of force is in place mainly due to implementation of the provisions of the Ohrid Framework Agreement, which, by and large, subdued the interethnic conflicts on the territory of the Republic of Macedonia and contributed to consolidation of the state's monopoly of use of force. Inter- and intra-ethnic divisions remain noticeable in social and political life, and the general impression is that politicians additionally polarize ethnic relations for political reasons. Today, Macedonian society is free from excessive influence of extremist and intolerant nongovernmental institutions and organizations. There are no visibly active organizations, private militias or vigilante groups advocating racist or xenophobic agendas or threatening the political and social stability or the country's transition to democracy. However, recent changes to the law regulating private security agencies gave those agencies law enforcement powers, including the right to detain and search people and to use force and bear firearms. Many domestic and international experts in this field have expressed their concern that the law fails to prevent abuse of these authorizations, especially the abuse of firearms. With more than 4,000 private security forces, the number of persons in the state with police powers, now around 7,000, will increase by more than 60%. On 12 April 2012, five people were killed on the shores of Lake Smilkovci by Islamic extremists – or so claimed police authorities. However, evidence offered at trial to support the claim was inconclusive, and the matter worsened interethnic tensions.

The country's various ethnic, religious and cultural minorities are not de jure or de facto excluded from political citizenship. By law, all citizens have the same civil rights. However, ethnic identification is strong and nationalism is again on the rise among both ethnic Macedonians and ethnic Albanians. In general, the large majority accepts the nation-state as legitimate even if, in an election year, the populist idea of "Great Albania" still figures into politicians' speeches. Ethnic Albanian nationalism has been supported by nationalistic euphoria in the region, a result of the elections in

Question
Score

Monopoly on the
use of force

9

State identity

8

Albania, status negotiations with Serbs in Kosovo and the local elections in Macedonia. Ethnic tensions flared when some municipalities with dominant ethnic Albanian population changed the names of schools to honor Albanian dignitaries. Macedonian Albanians put forward an initiative to establish a public holiday celebrating the centenary of the Albanian flag. But the parliament adopted a program for the 2012 celebration that did not list it among public holidays; instead, the holiday was to be celebrated in the Institute for Cultural and Spiritual Heritage of Albanians.

During the reporting period, the VMRO-DPMNE-led government pursued its program of “antiquization,” a nationalist policy that links the origin of present-day ethnic Macedonians with the Macedonians of antiquity and the legacy of Alexander the Great. The government’s antiquization agenda included erecting monuments of historical personages, changing facades and constructing new museums and government buildings. The process of antiquization is noticeable in the project Skopje 2014, which inter alia aims to give Skopje more classical appeal by the year of 2014. The project and the antiquization push have been contested by many ethnic minorities and some ethnic Macedonians, who question the financial and nation-building aspects of both. In addition, the fragile interethnic relations could be additionally affected by the difficult social and economic conditions in the country.

Church and state are separated by the law; the political process is generally secularized while the law on the legal status of churches, religious organizations and religious groups is well implemented. However, preferential treatment in public life is given to the main Orthodox Christian and Islamic denominations. In 2012, the involvement of religious organizations (both the Macedonian Orthodox Church and the Islamic Religious Community) in politics increased to levels unprecedented in the last two decades. Religious leaders offered a number of very direct political comments and opinions on entirely nonreligious matters. They have been encouraged and strongly and officially supported by the conservative Macedonian government. The public broadcaster Macedonian Radio Television is extensively covering all religious activities. The presence of religious officials and initiatives has significantly increased in the public sphere. New Christian and Islamic denominations cannot officially register under the same name and operate in the country. Two more religious entities were registered in 2012 under the Law on the Legal Status of Churches, Religious Communities and Religious Groups. Thus, the total number of registered religious entities is 30. Two applications for registration however were rejected. In addition, the Bektashi community from Tetovo remains unregistered. It has filed a case with the European Court of Human Rights relating to restitution of property

No interference of religious dogmas

8

The administrative structures of the state provide most basic services throughout the country, but their operation is to some extent deficient. The government established a reform process for improving the performance of the public administration, but the

Basic administration

9

state apparatus still suffers from widespread corruption, political patronage, conflict of interest and lack of technical skills.

2 | Political Participation

Macedonia has universal and equal suffrage, with regular but not entirely free and fair elections conducted by secret ballot. The multiparty electoral system is free of major barriers to political organization and registration, and the public is politically engaged. Since independence, power has rotated among different party coalitions representing competing interests and policy options. Members of the Macedonian parliament (MPs) are elected for a four-year term in six multimember electoral districts, plus, for the first time, three out-of-country districts: Europe and Africa, North and South America, and Australia and Asia. Each district in Macedonia has about 290,000 voters and elects 20 members by proportional representation. An additional three members of parliament are elected by majority vote, each from the three out-of-country districts, making the total number of MPs 123. Macedonian citizens vote for a closed type of electoral list, and seats are distributed on a proportional basis, according to the d'Hondt formula. The nomination lists may be submitted by parties, coalitions of parties, or groups of at least 500 voters. Turnout for the first parliamentary elections after independence, in 1990, was extremely high at 85%, dropping to 57% in 2008; turnout reached 63% in the 2011 early elections.

Free and fair
elections

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Early parliamentary elections were held on 5 June 2011. The ruling party VMRO-DPMNE accepted the opposition's request for early parliamentary elections in order to end the political crisis that emerged from the opposition's boycott of the parliament in response to the freezing of several media outlets' bank accounts. The electoral process, according to the OSCE/ODIHR, was competitive, transparent and well conducted throughout the country, although some aspects require further attention. These include measures for ensuring appropriate separation of the state from party structures, revision of the voter lists, and clarification of some provisions of the electoral code. A number of well-documented election manipulations by the government, including blackmail, have been published in the media, without any concrete consequences. The State Election Commission (SEC) is composed of seven members appointed by parliament. The SEC president and two members are nominated by the opposition parties, and the vice president and three members are appointed by the governing parties. On 23 February 2011, the SEC president resigned, citing developments harmful to his impartiality and credibility. Although the opposition nominated a successor, amendments were made to the electoral code to allow the vice president to convene meetings of the SEC in absence of the president. OSCE/ODIHR expressed concern about this development, and it was perceived as an increased politicization of the SEC.

The field of political actors is generally free from potential veto powers – such as the military, foreign powers, totalitarian parties, regional hierarchies and/or economic oligarchies – that are able or willing to depart from democratic procedures. The military and the intelligence services, according to the constitution, are under full civilian control. However, the oversight bodies show worrisome signs. The parliamentary commission in charge of oversight of civilian intelligence service’s activities has not functioned in the last few years. The alternative check of the civilian intelligence service could be provided by the media and by civil sector actors, but they first need to build up their knowledge and capabilities. Civilian democratic control of the military is in place, but democratic control of the civilian intelligence service is disputable; this body is headed by a relative of the prime minister, and has increased its budget considerably since the VMRO-DPMNE-led government entered office in 2006.

Effective power to govern

8

Freedom of association and assembly rights are guaranteed by the constitution and the legal framework for the functioning of civil society is generally free from excessive state pressures and bureaucracy. The law for citizens’ associations and foundations was adopted in 1998 and amended in 2007 and 2009. It provides for the wider practice of the right of association, including by legal entities, foreigners and minors, and the right to associate without needing to register a formal legal entity. The VMRO-DPMNE-led government does not limit the freedoms of association and assembly, but favors civil society organizations that are affiliated with the ruling political parties. The government also went to court to prohibit a strike threatened by physicians who wanted to protest the introduction of a “pay-for-reporting” scheme aimed at monitoring their performance.

Association / assembly rights

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Freedom of speech and access to information are guaranteed under Article 16 of the constitution. The legal framework protecting the freedom of expression is in place and meets most international standards. There is a diverse selection of both electronic and printed sources of information at both at national and local levels, representing a wide range of political views. However, media ownership is highly concentrated and tied to politics. Editors and journalists are subject to increased political pressure and intimidation, resulting in widespread self-censorship. Under the pressure of the Broadcasting Council, several media outlets had to change their ownership structures, since up until recently owners of media outlets were at the same time presidents of some of the parties that participate in the government coalition. Thus, the Broadcasting Council improved its record regarding conflicts of interest and illegal concentration of ownership. The Broadcasting Council also revoked the license of the TV channel A1 TV, on the grounds that its programming was not in line with the license requirements. Thus, the A1 television station completely ceased to exist. Three pro-opposition newspapers, Vreme, Spic and Koha e Re, were closed for alleged nonpayment of taxes. Alfa TV, considered to be critical of the government, was recently acquired by pro-government owners. The government mostly chooses

Freedom of expression

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the public broadcaster and the pro-government media to advertise itself, thus financially increasing their power at the expense of the pro-opposition media.

The dialogue between the Association of Journalists and the government has addressed some key challenges relating to the media. Consequently, a memorandum of understanding was signed that urged discussion in four areas: decriminalization of defamation and “insult,” transparency of government advertising, improving journalists’ and editors’ respect for professional standards, and strengthening of the public broadcaster. In September 2012, the Law on Civil Liability for Insult and Defamation was passed, aiming at alignment with the relevant European Court of Human Rights (ECHR) principles. However, the opposition and the governing coalition clashed when the latter suggested the accused should bear the burden of proof.

During the forced eviction from parliament of opposition members on 24 December 2012, the security services of the parliament also removed a journalist from the gallery. The Association of Journalists characterized this as an act of censorship, which is forbidden by Article 16 of the constitution. The association also pointed out in a press release that, under the Article 70 of the constitution, parliamentary sessions are public. A qualified majority of the parliamentary deputies may vote to close sessions to the public, but the association claimed that in this case such a decision was not taken. Although the speaker of parliament, president and prime minister expressed their regrets about the incident, no one took responsibility. The ministry of foreign affairs’ sector for internal control and professional standards is still investigating whether security services acted according to the law.

3 | Rule of Law

Power in Macedonia is divided among the three branches of government: the parliament (Sobranie), the executive (the government, with president and premier) and the judiciary (Supreme Court, Constitutional Court and the public prosecutor). The president may veto legislation, but the parliament can overrule this veto by a two-thirds majority. Since the president is elected by universal and direct suffrage, serving a period of five years with a two-term limit, the personality of the president has a great impact on the position’s actual power. Kiro Gligorov, acting as a “father of the nation” from 1991 to 1998, set the trend for influential presidents, with the late Boris Trajkovski and Branko Crvenkovski following his example. The president during the period under review, Georgje Ivanov, who was elected in spring 2009, has not managed to make considerable impact on policy, which remains heavily influenced by the dominant party. The opposition criticized Ivanov for acting as a spokesperson of the government and the dominant political party when he called for a timely adoption of the budget in his 2012 address to parliament.

Separation of
powers

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The official separation of powers is undermined by personal relations between the prime minister, his entourage and relatives and loyal supporters of the governing party, as those relationships influence the institutions responsible for holding the government accountable.

In the last 15 years, governments have been formed by a coalition of parties, typically a major Macedonian and Macedonian-Albanian party and a smaller party as a junior coalition partner.

Even though Macedonia is a parliamentary democracy, in practice the executive strongly dominates the Assembly by introducing laws to be adopted or amended. The control function of the parliament is not very strong. The most important reasons for this are a lack of competence and lack of administrative capacity to support parliamentarians. To a large extent, the early parliamentary election in 2011 diminished the power of the government coalition, since the biggest opposition party won 42 MPs, which is 24 more than in the previous election, when it won 18. Nevertheless, the government coalition is still using its political and party power to heavily influence policymaking.

In addition, political parties in power have often attempted to influence the judiciary. Direct government involvement in court cases remains a serious problem.

The system of checks and balances suffers from a low degree of professionalism in all state branches.

An informal rule of the Macedonian political system holds that the government be composed of a multiethnic coalition. This rule has been the only mitigating factor in the last couple of years preventing the total concentration of power when a political party or coalition gains control of both the legislature and the executive branch. Governing such a coalition requires some political maneuvering and compromise, making the total concentration of power difficult and potentially unstable.

The independence of the judiciary is formally guaranteed by the country's legal framework and has gradually been strengthened in practice since the initiation of judicial reforms in 2005. However, though significant justice system reforms were made prior to 2010, no comprehensive strategy has emerged since then. Budget management has improved. The Court Budget Council completed a project to determine the average cost of court proceedings, with the goal of establishing the human and budgetary resources needed by national courts. According to the European Commission's 2012 progress report, the number of unresolved court cases was reduced from 678,670 in 2010 to 295,769 in 2011.

The Judicial Council consists of 15 members, eight elected by judges of their own ranks and three elected by parliament; two are elected by parliament upon suggestion of the president, while the justice minister and the president of the Supreme Court are

Independent
judiciary

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ex-officio Judicial Council members. The European Commission report noted that the council continues to disregard the legislative requirement that 50% of the first-instance judges should be graduates from the Academy for Judges and Prosecutors (AJP). This raises concerns about the credibility of the current requirement provision and the Judicial Council's commitment to merit-based recruitment.

According to the European Commission's report, dismissal procedures for judges are not fully impartial and objective, and the most common basis for dismissal (unprofessional, untimely or inattentive exercise of judicial office) is not sufficiently clear, precise and predictable. The professional evaluation of the judges conducted by the Judicial Council revealed that, out of 612 judges in 2011, 77% were rated very good, 20% good, 2.45% satisfactory, and 0.49 % unsatisfactory.

Macedonia's anticorruption legal framework is in place, but existing laws are not sufficiently enforced. Different domestic and international reports and surveys indicate that corruption in Macedonia is a serious and widespread problem that affects many aspects of social, political and economic life. The fight against corruption remains one of the priorities of the government and a highly important condition for growth, development and adjustment to European standards. However, the main problem remains the selective approach of law implementation and the disregarding of widespread conflicts of interests by government representatives.

In 2012, the parliament amended the political parties financing law and conflict of interests law to improve the relevant authorities' verification and enforcement powers. However, the parliament postponed the effective date of the new criminal procedure law until December 2013. The State Commission for the Prevention of Corruption (SCPC) adopted new programs to prevent and repress corruption and to prevent and reduce conflicts of interest. In 2012, the current president of the SCPC, Ljubinka Korabovska, said that SCPC had worked on 7,378 files, of which 6,898 related to corruption, 480 to conflicts of interest and 1,127 to elections. However, the SCPC is still widely perceived as inefficient and too tolerant of state administration abuses and misconduct, especially regarding public procurement and the widespread violations of the conflict of interests law.

This was confirmed by a public opinion survey presented by the SCPC on 7 December 2012. The survey also revealed that citizens perceive a high level of corruption in public administration, higher education and the media, and that they consider the fight against corruption selective, partial and inequitable. Following an initiative by the SCPC, the parliamentary Committee for Election and Appointment, on 9 January 2013, dismissed SCPC former president Voislav Zafirovski, citing abuse of office. Zafirovski was charged with issuing an opinion on a candidate for prosecutor to the Council of Public Prosecutors without consulting the other members of the SCPC. Another salient case SCPC dealt with in the period under review was that of Natasha Gaber-Damjanovska, for alleged conflict of interest. Gaber-

Prosecution of
office abuse

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Damjanovska, judge at the Constitutional Court of Macedonia, was at the same time a lecturer at the Institute for Political and Sociological Researches at the University of Cyril and Methodius. The SCPC found a conflict of interest and asked Gaber-Damjanovska to resign one of the positions. Consequently, Gaber-Damjanovska resigned as a lecturer at the Institute for Political and Sociological Researches.

The prosecution of high-level corruption cases is mainly inefficient and selective, since only a handful of cases have been brought before the court. Not a single important case of corruption on a higher level in the current government was discovered or prosecuted in the last six or seven years. The capacity of the judiciary to deal with corruption cases remains low and the problems are mainly related with the inadequate examination of evidence by lower courts; the court of appeal often remands these cases.

The government uses corruption charges to discredit and disqualify opposition politicians, but many of its allegations are justified by the practices of previous opposition-led governments. One of the cases that strongly resonated in the public involved a leader of an opposition party, who was arrested on 5 June 2011, a day after the early elections. The opposition leader was charged with illegal financing of his party after the police found a large amount of money in his possession when he was arrested. This raised the question of a possibly politically motivated prosecution.

Civil rights are guaranteed by the Constitution, and in principle, they are respected. However, some vulnerable groups of the population are often subject to discrimination and denial of basic liberties. The authorities' selective application of established laws especially harms Roma and the poor. There have been, however, certain improvements regarding the prevention of torture and ill-treatment. According to a European Commission report from October 2012, the Ombudsman's Office's national prevention mechanism remains an important tool for prevention of torture and ill-treatment, but lacks authority and resources to fulfill its mandate. Professionalism among the staff members of the Ministry of the Interior's Sector for Internal Control and Professional Standards has improved regarding their capacity for regular monitoring of police work; however, the results remain limited. In the period under review, efforts were made to educate police officers about European standards for prevention of torture and ill-treatment, especially during detentions. An action plan was adopted for renovation of detention facilities.

Domestic and international organizations have reported on the denial of some basic civil rights to women, especially in rural areas. Women continue to be underrepresented in the labor market and in political life, especially at the local level. People with disabilities remain on the fringes of society, their social integration and access to special-needs healthcare being very limited. Macedonia assumed the presidency of the Decade of Roma Inclusion (2005 – 2015) for the 2011 – 2012 term,

Civil rights
8

but due to lack of adequate resources, it failed to implement its own action plans, especially regarding the improvement of the position of Romani women.

The Anti-Discrimination Law, adopted in April 2010, came into force in January 2011. Many international and domestic NGOs have criticized the law, as it lacked provisions on protection of gay, lesbian, bisexual and transgender people. Also, the NGO sector raised concerns about the capacity and independence of the Commission for Protection against Discrimination, as the elected members lacked expertise in human rights, and the three other members were employed in the state administration. According to the annual report of the ombudsman in 2011, the number of complaints has increased. The increase in the number of citizen complaints is not just a result of the increased visibility of the ombudsman in the society and the heightened consciousness of the public, but also indicates that the public administration provides an unsatisfactory level of services to its citizens, thus hindering them in exercising their rights. The largest portion of the citizen complaints were related to the long duration of the court proceedings, in particular administrative court proceedings.

There is a widespread belief, occasionally publicly confirmed by independent security specialists, that the number of surveillance cases undertaken by the secret police against political opponents (including civil rights activists, party officials, business representatives, etc.) is constantly increasing, not only for political intelligence, but also for business intelligence purposes.

According to the official statistics of the Ministry of the Interior's Sector for Internal Control and Professional Standards, during the first six months of 2012, the number of civil complaints against police activities involving brutality has doubled, to 758 cases, over the same period of 2011. No data for the full year 2012 is available.

4 | Stability of Democratic Institutions

Democratic state institutions perform their functions without major inter-institutional conflict. In the period under review, the High Level Accession Dialogue (HLAD), launched as a new platform for cooperation between the EU and Macedonia to jumpstart the EU accession process, was supported by all political parties. In addition, several laws were adopted by the parliament with a view of strengthening the reform process under HLAD. However, interethnic issues are still threatening to derail the interethnic dialogue. In November 2012, the political dialogue between coalition partners VMRO-DPMNE and DUI was interrupted, as the VMRO-DPMNE proposed a law on state defenders, which DUI blocked in committee, proposing more than 1500 amendments. Institutions that provide monitoring, evaluation and audits of the government have not been very effective. This is especially true for the parliamentary committees. Therefore, in the period under review, a number of measures were taken to strengthen these bodies. The Parliamentary Institute, established to increase

Performance of
democratic
institutions

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parliament's research capacity, continues to recruit assistants to parliamentary groups, so that all parties have greater access to information and analysis.

The political dialogue in the country has been seriously disrupted since the main opposition party SDSM left the parliament and called for civil disobedience. The dispute between the government coalition and the opposition began in earnest on 24 December 2012, when the government passed the 2013 budget, after opposition MPs and a journalist were ejected by security services. SDSM and its coalition partners threatened to boycott the upcoming local elections in 2013. Instead of local elections, they requested early parliamentary elections, but under certain conditions: full adoption of the OSCE/ODIHR (Organization for Security and Co-operation in Europe Office for Democratic Institutions and Human Rights) recommendations and change of three key ministers.

All influential political actors in principle accept democratic institutions and regard them as legitimate. However, after the forced eviction of opposition deputies from the parliament in December 2012, the legitimacy of the country's democratic institutions has been contested by the SDSM and the opposition parties that joined the so-called resistance against the dictatorial regime. Moreover, the opposition parties vowed to boycott the March local election since, according to them, the government is not able to organize normal, free and fair elections.

Commitment to democratic institutions

7

5 | Political and Social Integration

The main political parties in Macedonia – the SDSM and the VMRO-DPMNE – were founded on the traditions of the former League of Communists, and a historic organization linked with the Macedonian revolutionary/liberation/nationalist movement of the early 20th century. The leading political parties among Macedonia's Albanians were founded on various ideas of how best to achieve the political reforms needed to improve the status of this community. The ruling Macedonian-Albanian party was founded as a successor to the National Liberation Army created by radical Macedonian Albanians in the context of the Kosovo conflict. In 2008, a new, influential ethnic Albanian political party called New Democracy emerged. Among the parties of the ethnic Albanians, ideological differences have not played an important role. On the other hand, in recent years, the SDSM and the VMRO-DPMNE have followed their respective ideological stance more than they did in the early 1990s.

Party system

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After its electoral victory in 2006, the VMRO-DPMNE sought to broaden its political base among segments of the society that were somewhat neglected in the first 15 years of Macedonian democracy (like small, landless farmers, for example), and, on the other hand, through legal and illegal redistribution of social and state wealth, to change the overall structure of the elite in the society. This project was somewhat

successfully developed through very intensive (and expensive) populist propaganda aimed at changing public perceptions of government policies; through a dramatic expansion of the number of employees in the public administration (from 95,000 employees in 2006 to more than 150,000 in 2012), who became part of essential voting machinery for the elections; and through an attack not only against legitimate political opponents (opposition parties led by SDSM), but against anyone from the NGO and business communities, academia, the media, et al., who publicly dared to disagree with government/VMRO's projects and policies.

Since 1990, the party system has been relatively stable, as the two main parties switched between government and opposition twice with no new main players appearing on the scene. Polarization has been high among the parties representing the ethnic Albanian population, although relations between the SDSM and the VMRO-DPMNE have also been strained at times. It is difficult to see how the main political parties, Macedonian or Albanian, articulate and aggregate societal interests and mediate between society and state. Quite to the contrary, the perception among ordinary citizens is that the main political parties represent narrow cliquish interests and hardly benefit the welfare of the societal groups they supposedly represent.

The VMRO-DPMNE and its coalition partners won the elections in June 2011. The VMRO-DPMNE and its coalition partner DUI won 61 mandates, which allowed them to form a government, but their power in the parliament was significantly reduced in comparison with the previous composition of parliament. The opposition consists of SDSM with 42 seats, Democratic Party of the Albanians (DPA) with 8, and National Democratic Revival (RDK) of Rufe Osmani, the former mayor of Gostivar, with two.

The voices of interest groups are hardly heard. Trade unions, since independence, have been under political influence as a bulk of their income has been allocated from the central budget. There are 43 trade unions and eight employers' associations listed in the registry of the Ministry of Labor and Social Policy. The unions, once a major player and partner in the tripartite social dialogue, have lost much of their influence, their recent fragmentation not really helping the cause. Such fragmentation and strong political influence was visible during the recent strikes of the medical doctors against the pay-for-performance reform, introduced by the Ministry of Public Health. According to a survey conducted by Healthgrouper, 85% of doctors are convinced that political parties play a major role in the healthcare system. The influence of political parties is visible in the recent trend of competing doctors' unions supporting diametrically opposite objectives. In general, the unions lack autonomy, stable finances, management capacity and an active membership. Social dialogue remains weak, in particular in the private sector.

Associations of businessmen are often consulted by the government. New policy measures are presented to them and comments welcomed. But much of the

policymaking process is unaffected by this dialogue. Certain business interest associations are considered too close to opposition parties and are avoided or ignored.

Surveys of public opinion rarely evaluate the support for democracy in Macedonia, assuming that it is high. Yet citizens' trust in the institutional underpinnings of democracy has been very low. There is strong disappointment with the way democratic norms are put into practice, and there is a low level of trust in the government, president and parliament. Compared to the 1990s, citizens have become somewhat alienated by the political process, and their participation in the 2011 parliamentary elections, as an example of the citizenry's disillusionment, further decreased.

Approval of
democracy
7

Citizens understand that since Macedonian parties are very centralized structures, the voice of an individual member of parliament is not relevant. Party discipline is high, and, in the Assembly, parties vote as a block. Some parliamentarians even vote with the voting card of another member. Citizens have a very low level of confidence in national institutions such as parliament, the government, the presidency and the courts. In particular, the level of confidence in the Assembly has been very low for at least the past seven years, the period for which survey data is available.

A large part of Macedonian society functions through the use of social capital. Using connections is often necessary to complete even the simplest administrative tasks. The level of interpersonal trust is much higher among ethnic Albanians than among Macedonians. This is largely a result of the urbanization process that Macedonians have experienced since the late 1950s. Voluntary associations of citizens are rarely founded for purposes of self-help. Many civil society organizations in Macedonia are politicized and represent the agenda of the main political parties. The media raises many issues of general interest that are rarely taken up by civic organizations and citizens' groups, but a general passivity of citizens with regard to democratic processes on the local or national level is evident.

Social capital
6

Macedonian's civil sector is strong; however, civil society organizations remain heavily dependent on foreign funding. An amendment to the law on citizens' associations and foundations enabled civil society organization to be involved directly in economic activity and to obtain the status of public benefit organization. Civil society in rural areas is largely underdeveloped and no measures have been undertaken to improve the situation. At the municipal level, local government units lack sufficient capacity to ensure standardized cooperation with civil society organizations. Politicization and polarization are evident among civil society actors.

An uncharacteristically close cooperation among civil society organizations was established in two cases. In one, NGOs rallied to protest police involvement in the death of a 21-year-old-man. In another, 45 youth organizations united against a law

giving the government supervisory powers over youth councils. In the latter instance, the government was forced to withdraw the proposal.

II. Economic Transformation

6 | Level of Socioeconomic Development

Question
Score

In 2012, per capita GDP in Macedonia was \$11,666 based on purchasing power parity (PPP), some \$3,000 less than Bulgaria. According to the latest available data (2008), Macedonia's Gini coefficient is 43.2, high among Eastern European countries. According to 2009 World Bank data, Macedonia's absolute poverty rate, or the percentage of the population living on less than \$2 a day, at 2005 international prices (PPP adjusted), is 5.9%. (The data for 2012 shows a big discrepancy, with the poverty rate reaching over 30%.) Macedonia was ranked 78th among 187 countries in the Human Development Index (HDI) 2011. According to this parameter, Macedonia's score is one of the lowest in the region, second only to Turkey. In 2011, Macedonia's HDI value was 0.728, lower than the HDI values of all countries in the region: Bosnia and Herzegovina (0.733), Croatia (0.796), Montenegro (0.771), Serbia (0.766) and Slovenia (0.884). Approximately one-third of parliamentary deputies are women. The female employment rate is significantly lower than the male employment rate, and the share of women in leading positions is lower than the share of men, while they are strongly represented in some professions. The Roma minority is subject to discrimination. In 2010, Macedonia adopted a national strategy for poverty alleviation and social inclusion, but the results achieved toward this objective remain poor.

Socioeconomic
barriers

6

According to the data of Macedonia's State Statistical Office, the unemployment rate in Macedonia is 30.6%. Youth unemployment is considerably higher than the average unemployment. In 2010, out of the total number of unemployed young people, 68% are long-term unemployed (more than a year without a job) and 39.6% have been waiting for more than four years to find a job. The government has committed to increasing youth employment to 29% and to decreasing the school dropout rate from 16.2% to 14%, which indicates that youth employment has become a national priority. To strengthen its commitment, the government crafted a national action plan on youth employment, with targets set for 2015.

Economic indicators		2009	2010	2011	2012
GDP	\$ M	9313.6	9338.7	10395.2	9617.4
GDP growth	%	-0.9	2.9	2.8	-0.3
Inflation (CPI)	%	-0.7	1.6	3.9	3.3
Unemployment	%	32.2	32.0	31.4	-
Foreign direct investment	% of GDP	2.8	3.2	4.8	3.4
Export growth	%	-15.8	23.6	11.3	-
Import growth	%	-14.3	9.5	14.1	-
Current account balance	\$ M	-609.6	-197.8	-310.6	-385.2
Public debt	% of GDP	23.8	24.4	28.2	33.3
External debt	\$ M	5696.0	5986.4	6286.4	-
Total debt service	\$ M	552.3	652.5	948.5	-
Cash surplus or deficit	% of GDP	-	-	-	-
Tax revenue	% of GDP	-	-	-	-
Government consumption	% of GDP	19.1	19.1	18.3	18.3
Public expnd. on edu.	% of GDP	-	-	-	-
Public expnd. on health	% of GDP	4.2	4.1	4.0	-
R&D expenditure	% of GDP	-	-	-	-
Military expenditure	% of GDP	1.7	1.4	1.3	1.4

Sources: The World Bank, World Development Indicators 2013 | International Monetary Fund (IMF), World Economic Outlook 2013 | Stockholm International Peace Research Institute (SIPRI), Military Expenditure Database 2013.

7 | Organization of the Market and Competition

The foundations of a competitive market economy are, by and large, established in Macedonia. The legal system for a functioning market economy is largely in place. According to a report published by the European Commission in 2012, improvements have been made with regard to the efficiency and transparency of courts and legal procedures. As a result, the number of pending commercial court cases declined, from 5,782 at the end of 2011 to 2,152 in mid-2012. Weaknesses remain related to lengthy procedures, corruption and difficult contract enforcement. The freedom to set pricing and establish a business is assured, and the present government has actively worked on reducing the entry and exit barriers to doing business. However, mainly due to the

Market-based
competition

7

financial crisis in the international environment, the number of the newly established companies has declined to about 10% of the total number of enterprises.

According to the European Commission, the business environment continues to be impaired by weak rule of law, notably by a slow judiciary and weaknesses in contract enforcement, market regulation and supervision. In 2011, the net inflow of foreign direct investments in Macedonia was nearly doubled (4.03% of GDP) compared to the previous year (2.27%), but still remains at a low level compared with the level of FDI in the Balkans, both per capita and in absolute numbers.

The state Anti-Monopoly Commission was designed to tackle monopolistic practices. Yet certain economic sectors still remain under the control of monopolies. Laws are applied only sporadically, while bureaucratic corruption still takes its toll. Preventing monopolies and cartels by a commission that depends on the Ministry of Finance creates an ambiguous situation in an environment where public enterprises and public ownership is still significant. State aid, according to the available data, is relatively low at less than 1% of GDP. However, the figure should be taken with caution as the data collection was not in accordance with EU standards. In the period under review, the commission made eight decisions in cases mainly involving abuse of dominant position. The decision quality and reporting awareness of state aid providers remain major weaknesses in the antimonopoly policy.

Anti-monopoly
policy
7

Foreign trade has been extensively deregulated and there is no fundamental state intervention in free trade. This particularly applies to the treatment of foreign investments. Macedonia is a member of the World Trade Organization and the Central European Free Trade Agreement, and it has agreed to a liberalization of trade with the European Union in its Stabilization and Association Agreement. There are no restrictions or controls on payments, transactions, transfers or repatriation of profits. However, most of the charges to cross-border electronic payment transactions remain disproportionate to those for domestic electronic payment transactions.

Liberalization of
foreign trade
10

Macedonia has a solid capital market, characterized by a substantial foreign ownership of banks, low shares of nonperforming loans, and hard budget constraints between companies, banks and the public sector. The banking sector is small, currently consisting of 18 private banks, 9 saving houses and the state-owned Macedonian Bank for Development Promotion. The three dominant banks in Macedonia, Komercijalna Banka, Stopanska Banka Skopje and NLB Tutunska Banka, together comprise more than 60% of total market activity. Beyond these three banks, the market remains highly fragmented. During the period under review, the market underwent significant transformation. Many local banks have been acquired by foreign investors. Thus, over 60% of the shares in Export and Credit Bank AD Skopje were acquired by Demir-Halk Bank, and 100% of the shares in Investbank AD Skopje were acquired by the Austrian Steiermärkische Bank und Sparkassen AG. Liquid assets, covering 60% of total household deposits and 42% of total deposits,

Banking system
8

represent one-third of the total assets of the banking sector. In December 2012, National Bank of the Republic of Macedonia (NBRM) Council reported that, even in challenging external environment, the banking system managed to maintain its liquidity and solvency, and thus its stability and reliability. According to the EU Progress Report on Macedonia in 2011 and 2012, good progress was made in the areas of banks and financial conglomerates. The law on Supplementary Supervision of Financial Conglomerates was enacted, with the aim of aligning with the Financial Conglomerates Directive. The law regulates supplementary supervision of banks, insurance undertakings and brokerage firms that are part of a financial conglomerate. In addition, the central bank (NBRM) started addressing issues raised in complaints by performing general checks on banks, in order to improve the protection of consumers in the banking sector.

8 | Currency and Price Stability

The rate of inflation, which was in double digits in the early 1990s, has remained very low since. According to World Bank data, in the period under review, the lowest inflation rate was experienced in April 2012 (1.44%); in December 2012, the inflation rate was 4.61%. The National Bank of the Republic of Macedonia (NBRM) is an independent institution with a strong governor. Since the mid-1990s, monetary policy has been based on a de facto near-peg of the Macedonian denar to the euro. The peg has been maintained at approximately the same rate for nearly 11 years and was only affected temporarily during the recession of 2001 – 2002. Foreign reserves have been growing. According to the latest IMF data, for November 2012, foreign currency reserves (in convertible foreign currency) were \$2.3 million, and this relatively high number is a result of several steps taken by the NBRM to stop the outflow of foreign exchange reserves by tightening credit conditions.

Anti-inflation /
forex policy

9

Over the past decades, Macedonia's macroeconomic stability was generally maintained by strict monetary and fiscal policies as advised by the IMF. As of 2006, the VMRO-DPMNE-led government has opted for more populist policies, which resulted in an increase of the government debt to more than 30% of GDP. Only in the last six months has the government been in a need of loans, approximately €100 million – €120 million monthly in order to finance regular operations of the state apparatus and partly to pay its outstanding domestic and foreign financial obligations. In addition, the country lacks institutional safeguards to ensure that this policy change will continue to promote macroeconomic stability. In 2009, mainly due to challenging economic environment and the spillover effects of the financial crisis, GDP growth reached a record low of .04%, according to official data. In 2012, GDP shrank by 0.3%, as compared to 2011. Hence the projections of the IMF and the government that the country's economy will increase 1% and 2%, respectively, have proven too optimistic. In addition, IMF projections for GDP growth in 2013 have

Macrostability

8

been revised from 2% to only 1%. The impact of the financial crisis on the economy was relatively limited in the period under review, partly due to the financial sector's limited exposure to toxic assets, but also due to stable private capital inflows and resilient domestic demand. However, the experts expect the crisis to hit harder in 2013. According to World Bank data, public debt was 24.6% and 28.2% of GDP for 2010 and 2011, respectively. Data from the World Bank and the EU Progress Report on Macedonia for 2011 show that the current account deficit declined from nearly 13% of GDP in 2008 to about 7% in 2009 and 2.1% in 2011. In 2012, the deficit was 2.7% of GDP. In 2011, the trade deficit narrowed from \$675 million to \$647 million. FDI inflows and other investment remained low, only 1% of GDP, compared to 2% of GDP in 2011. In 2012, the trade balance of goods and services deteriorated slightly, reaching -12% of GDP.

Budget revenues in 2011 were \$3.1 billion. According to the EU Commission progress report, Macedonia's gross external debt rose slightly, to 61.2% of GDP in the first quarter of 2012, compared to 59.7% a year before. The main reason for this increase was public external debt, which rose by 2.2% of GDP, while private debt declined by 0.7%.

9 | Private Property

In general, property rights in Macedonia are adequately defined with regard to the acquisition, use, benefits and sale of property. Yet exceptions occur, especially in cases when restituted land or buildings are acquired. In 2012, the Agency for Real Estate Cadaster reported that the land registry had been completed, so 100% of Macedonian territory is covered. According to World Bank data, Macedonia stands at 50 in the ranking of 185 economies on the ease of registering property. During the period under review, progress has been made regarding the number of procedures, which were reduced from five in 2011 to four in 2012. The time needed for registering property for starting a business was also reduced, from 66 days in 2009 to 40 in 2012, and the costs were slightly reduced, from 3.2% of the property value in 2010 to 3.1% in 2012. The EU Progress Report on Macedonia for 2011 noted considerable progress regarding the process of denationalization, which resulted in the resolution of 30,744 cases filed between May 2000 and December 2007. In 2012, the registering of property was made easier by reducing notary fees and enforcing time limits.

The World Bank Doing Business 2013 noted that it is easy to register a new firm in Macedonia, requiring only three days and three procedures. In this, Macedonia performs much better than the world average and also better than many Eastern European countries, including EU members Slovakia and the Czech Republic. In principle, the legal framework for a functional private sector exists. Although private enterprise forms the backbone of the national economy, a few public companies remain. Data from the 2012 EU Progress Report on Macedonia reveals that the role

Property rights
8

Private enterprise
9

of the private sector slightly increased, from 82% of total value added, in 2010, to 82.4% in spring 2012, mainly due to an increase in value added in construction and trade. The report also noted that the asset value of fully or partly state-controlled enterprises remains unchanged, at 13% of GDP, while the majority of state capital is concentrated in five public utilities enterprises, including electricity production and transmission, in which the state is majority owner, and telecommunications, in which the state is minority owner.

10 | Welfare Regime

Macedonia's public social safety nets exist, but are not sufficient to compensate for poverty or other risks such as old age, illness, unemployment or disability. Poverty is widespread among the unemployed, who are often also uneducated and young. Roma are particularly disadvantaged, but increasingly participants of all ethnic groups in Macedonia are becoming vulnerable to this negative social phenomenon. Quite a few Roma in Macedonia rely on social safety nets that may include the family, clan or village structures. Although health care services are in theory available to all citizens, this sector is underfunded and in serious crisis. According to World Bank data, in 2008 a Macedonian's average life expectancy was 74 years. In 2011, a national program for development of social protection 2011 – 2012 and a national strategy for alleviation of poverty and social exclusion were adopted. In 2012, a program for subsidizing electricity was added to the poverty alleviation strategy.

Social safety nets

7

Equality of opportunity exists in theory for all citizens. Yet the uneducated, the Roma and women find it more difficult to succeed in Macedonia. In 2011 and 2012, further progress was made in respecting minority rights. There was also further progress in the implementation of the principle of equitable representation, while the government undertook initial steps to foster interethnic integration in the education system. Within the reforms envisioned in the Ohrid Agreement, a special program since 2001 has aimed at tackling the low participation of ethnic minorities, especially Albanians, in public administration. The program has been quite successful in raising the number of minorities in public service. Besides the electoral requirement for party nomination lists to include at least 30% women, there are hardly any mechanisms to promote the advancement of women. Women hold 41 out of 120 parliamentary seats, or 30%. Women are well represented in certain professions, such as education and the judiciary, but are not frequently managers. Yet the female employment rate remains very low at 29.4%. Discriminatory customs, traditions and stereotypes are widespread and undermine women's basic rights. Little has been done to improve women's rights in rural areas. Persons with disabilities or the socially disadvantaged have even fewer chances for advancement.

Equal opportunity

7

11 | Economic Performance

As a result of the economic crisis in the EU, the recovery of the Macedonian economy faltered in the period under review. In 2011 and 2010, real GDP growth was 3% and 1.8%, respectively. Moreover, as economists are expecting the crisis to hit harder in 2013 in the EU, the country will be additionally exposed to the negative trends of the crisis, since the EU is Macedonia's most important trade partner. Unemployment in 2011 was 31.4%, while the employment rate was 38.5%. In the first quarter of 2012, the unemployment rate was reduced mainly by expanding employment in state administration and by tightening the eligibility and reporting requirements of unemployed persons. The inflation rate in December 2011 was recorded at 4.2%; in November 2012 it was 4.61%. The budget deficit in 2011 was 2.7% of GDP, and in 2012 it was 2.5%. In 2012, external imbalances declined, but their financing deteriorated. The account deficit was -2.8% of GDP, compared to -3.5% of GDP the year before. Gross external debt in the first quarter of 2012 rose slightly to 61.2% of GDP, compared to 59.7% in 2011. At the end of 2012, the government proposed the budget for 2013, but the opposition contested it, claiming that the \$3.2 billion budget, which forecast a deficit of 3.5% of GDP and 2% growth, would be bad for economic development.

Output strength
6

12 | Sustainability

Waste management, deforestation and air and water pollution are Macedonia's primary environmental problems. The country's only regional waste management facility (JP Drisla) is located near the capital Skopje. In 2012, a Law on Electrical and Electronic Equipment Waste Management was adopted, and the government has begun establishing an integrated waste management system. In January 2013, a contract for private-public partnership was signed between the city of Skopje and the consortium FCL AMBIENTE SRL and UNESCO SCC COOP from Italy for more effective disposal management.

Environmental
policy
6

In 2012, 21 new concessions for small hydropower plants were granted, which increased the total number to 68, contributing to the progress that was made in the field of renewable energy. Environmental awareness in society at large and among lawmakers has grown in recent years but is still low. Environmental concerns tend to take a back seat to growth consideration. Macedonian environmental civic organizations are few and have little impact on policy formulation. Sustainable growth possibilities receive only scant attention and are not reflected in the country's institutional framework. Wastewater treatment plants do not exist; while a network of sewers is maintained in towns and cities, wastewater is simply collected and

released in rivers. Rare examples, such as the unfinished Lake Ohrid environmental protection project, are supported by the donor community.

Education and training facilities are of very poor quality. Government spending on research and development has been low for years, if not decades. Yet education is a priority of the new government. In attempting to attract foreign investors to Macedonia, the government has realized that it needs an educated labor force. To increase citizens' education levels, the government has made capital investments in education, equipping all schools with computers. A number of reforms have been made, including the introduction of nine-year primary education; compulsory secondary education; and revised curriculums that promote outcome-oriented and interactive teaching and learning, early English language training and information technology skills; religious education has been introduced at the elementary school level. According to 2010 World Bank data, the Macedonian gross enrollment ratio for primary schools was 90.1%, for secondary schools 84.4%, and for tertiary education 38.4%. In 2012, the parliament enacted amendments to the laws on primary and secondary education. University rankings of Macedonian Higher Education Institutions, conducted by the Shanghai Jiao Tong University, included 19 accredited institutions to cover aspects such as teaching, research and social services. As part of the Bologna Process in higher education, third-cycle (doctoral) studies underwent a reform process to comply with European standards. A number of changes to the Law on High Education were adopted, allowing direct involvement of the Ministry for Education in scientific criteria, curriculum, and content in the educational processes, including financial and organizational operations of the public and private universities.

Although an external performance assessment (Matura exam) of high school pupils was established, quality assurance mechanisms are lacking. New subjects, such as ethics, entrepreneurship, media and the environment, were introduced in schools. Enrollment in higher education institutions is increasing, and Macedonian universities have been participating in the Bologna Process of higher education reform. The council for adult education adopted an adult education strategy in the context of lifelong learning, and efforts have been made to develop a national qualification framework (NQF). Macedonia has become part of the centralized action of the Lifelong Learning program.

In 2012, a program for scientific research activities, technological development and technical culture was adopted, but the budget for these programs has continued to decrease since 2010.

Education policy /
R&D
6

Transformation Management

I. Level of Difficulty

Governance in Macedonia is constrained by severe structural difficulties. Today, those structural difficulties are mainly a result of two intertwined issues: the inherited structural problems from the previous regime, such as poor infrastructure, lack of technology and general skills for a rapid economic transformation; and the poor management of the transition process in the aftermath of Yugoslavia's dissolution, including societal, economic and political aspects of the process, which contributed to the painful adjustments that Macedonia underwent on its way to a market-based economy. The very high rate of unemployment (higher than 30%) in the early 1990s was, by and large, a result of the loss of Macedonia's role in the division of labor among former Yugoslav republics and its traditional intra-Yugoslav trade links, and the inability of the young state governance to establish trade links with other countries, especially those of the European Community (now the EU). The government's recent efforts have been directed toward addressing the problem of the lack of an educated and skilled labor force in hopes of improving the competitiveness of both the labor force and Macedonian companies in international markets. In addition, Macedonia is situated in a region characterized by political instability and violent ethno-political conflict.

Structural constraints

5

Civil society in Macedonia, during the communist regime, was underdeveloped and in many aspects even suppressed by the political leaders. The existence of certain forms of citizens' organizations, such as the Association of Women of Macedonia and the Association of Youth of Macedonia, cannot be considered as genuine civil society organizations since they were controlled by the state. In the 1980s, during the period of liberalization of the communist rule, civil society strengthened considerably and Macedonia witnessed a rise in the number of civic groups, movements and associations. Since the electoral victory of the VMRO-DPMNE in 2006, and its consecutive governments in the last seven years, civil society in Macedonia has come under severe pressure to follow the government's policies or to face various pressures and inconveniences by the state and by the political party in power.

Civil society traditions

5

Society and the political elite in Macedonia are polarized along ethnic and party lines. Interethnic tensions escalated into an armed conflict when militant Macedonian Albanians attacked Macedonian security forces in 2001. The conflict lasted six

Conflict intensity

5

months but caused relatively few casualties (officially some 160 on both sides, almost evenly divided). The conflict was brought to an end with the signing of the Ohrid Framework Agreement, which provided a framework for the development of a multicultural society, based on the principles of equitable representation of ethnic communities, decentralization, and respect for minority rights. The implementation of these principles has been associated with numerous political conflicts, and the ethnic division of society continues to be reflected in Macedonia's party system.

II. Management Performance

14 | Steering Capability

The coalition government has increased its political capability to take a longer-term perspective and has maintained its strategic priorities amid periods of crisis and stalemate. However, the government's strategic capacity to prioritize and organize policy measures (gaining and organizing expertise, evidence-based policymaking, regulatory impact assessments and strategic planning units) declined in the period under review.

The main priorities of Macedonia's political leadership, accession to the EU and NATO, have been maintained, reaffirming its commitment to the reform process. However, evidence indicates that the ruling government coalition sometimes postpones these strategic priorities in favor of short-term political benefit. For example, despite calls by the European Commission and experts for substantial public administration reforms, the government opts for cosmetic changes in this sector, thus trading off structural reforms for short-term benefits such as employment of ruling party members. The country engaged in the High-Level Accession Dialogue (HLAD) with EU institutions, and, in April 2012, adopted an ambitious reform road map, whose implementation is regularly reviewed at the ministerial level. In December 2012, the revised National Programme for Adoption of Acquis Communautaire, which is expected to improve the process in terms of clearer deadlines, staffing requirements and budgetary implications, was adopted. The mutual commitment to the EU and NATO accession process between the government coalition partners has been maintained on the political agenda.

The cooperation between the governing coalition partners was interrupted when the VMRO-DPMNE proposed to the parliament a law to regulate the special and social rights of those who defended the country's sovereignty in 2001. The legislation prompted the coalition partner DUI to threaten to leave the governing coalition if the law didn't include victims of the National Liberation Army. As of 2012, the

Question

Score

Prioritization

8

regulatory impact assessment (RIAs), adopted in 2009 to support draft laws presented to the government, and the Single Electronic Register of Legislation (ENER) were managed by the Ministry of Information Society and Administration (MISA), instead of the Secretariat General.

As with a number of other countries in Eastern Europe, Macedonia's reforms in the last 15 years have been focused simultaneously on two issues: state building and setting up the legal foundation for a functioning market economy. Under VMRO-DPMNE rule, the government has picked up the pace of economic reform at the expense of transparent governance, especially in the fields of policy development, changes in legislation and the spending of state funds. It has continued working on strategic priorities, mainly the EU reform process, implementation of the Ohrid Agreement, and improvement of the business climate. As in previous years, the government adopted its annual revision of the National Programme for Adoption of *Acquis Communautaire*.

Implementation
7

There has been improvement in policymaking innovations through introducing effective monitoring and evaluation, observation and knowledge exchange (good practices and international cooperation) and consultancy services by academic experts and practitioners. An example is the gradual strengthening of parliamentary capacity. However, the Parliamentary Institute, established in 2010, has not yet become functional, as it faces staff recruitment delays.

Policy learning
7

The government has adopted a proposal by the OSCE/ODIHR for improvement of the elections framework; parliament is now considering it. However, further efforts will be needed to fully address the proposal's recommendations, and political dialogue needs to be strengthened in order to develop the capacity of the parliament. Yet the involvement of nongovernmental organizations in public hearings and other consultations is occasional. The lack of political dialogue between government and the opposition is still criticized by the United States and the European Union. Criticism has intensified in view of recent developments, in which the opposition left the parliament.

15 | Resource Efficiency

The government has attempted to make use of available economic, cultural and human resources in pursuing its democratic transformation. The government's efficiency suffers from a huge public administration that is poorly paid and often lacks skills to properly conduct government reforms. The practice of politically motivated dismissal and appointments continued during the period under review. A merit-based system is not in place, as patronage practices are widespread in public administration. Laws on civil and public servants have been amended, and new staff appraisal protocols are expected to go into effect in 2013. In 2012, the government, in

Efficient use of
assets
6

cooperation with the United States Agency for International Development (USAID), promoted a program aimed at attracting young highly educated and skilled professionals from abroad to work in Macedonia. However, the implementation of the project is still pending. Within local government, a serious issue is administration's lack of knowledge and skills to cope with reform processes and new responsibilities.

There is formal political commitment to fiscal sustainability, but Macedonia has increasing difficulties managing state debt. However, Macedonia has moderately effective auditing and moderately transparent budget planning and implementation. Even though transparency alone is not sufficient to improve governance, together with public participation it can contribute toward open budgeting. The biggest deviation of actual budget expenditures from planned expenditures is related to capital investments, due to a perpetual and inflated increase of public administration employment at both the state and local level. Some rural local government units and public institutions lack essential equipment, such as computers and printers. The debt of a small number of local government units remains a problem.

The government coalition is comprised of political forces that have similar ideological standpoints and populist targets. While the VMRO-DPMNE is a right-wing Christian Democrat party with observer status in the European People's Party (EPP), the DUI caters to the interests of the Albanian electorate in Macedonia and is not very interested in left- or right-wing ideologies. The government ministries in charge of development and the economy are mainly held by VMRO-DPMNE members. Coordination between central and local government is often very poor.

Policy
coordination
7

By contrast, coordination between the president and the government regarding foreign affairs is very effective. Concerning Macedonia's main priority, EU integration, it should be noted that the Secretariat for European Affairs convened monthly meetings of EU integration structures within the administration. Nonetheless, the government needs to further strengthen the coordination of the country's EU integration agenda.

Although there has been general progress in the process of decentralization, the transparency and coordination of central funding for municipal projects has been not up to European standards. Funding policies rarely consider balanced regional development a priority.

In the period under review, the parliament amended the laws on financing political parties and on the prevention of conflicts of interest to improve the verification and enforcement powers of the relevant authorities. The State Commission for the Prevention of Corruption launched several anticorruption programs. In September 2012, the government also established a new modern and sophisticated financial intelligence system to prevent money laundering and financing of terrorism. The

Anti-corruption
policy
6

system, expected to be operational as early as 2013, may also fight other types of financial crime. However, low human capacity in the public sector, weakened by politically influenced recruitment, as well as low public awareness of corruption, both remain serious problems in tackling corruption.

Reports of the State Audit Office for the period under review showed a rising number of instances of misuse of public funds and procedures in various state agencies and ministries. Many scandals reported by the media concerning alleged abuse of funds and public procurement procedures, especially those related to the controversial project Skopje 2014, have not been investigated. Corruption in public procurements is considered to be a serious problem, as the institutional framework and the measures taken to effectively address this problem remain insufficient.

Corruption is a persistent and fundamental problem in public procurement. The current legislative framework remains ill-equipped to effectively address the problem, and few criminal prosecutions for abuse of public procurement have been brought before the court.

Despite the 2006 law on free access to information, access to information by journalists and concerned citizens alike has been problematic. Despite good intentions, the implementation of the law is marked by a number of deficiencies. Monitoring efforts over the implementation of the law have identified a low level of awareness and knowledge on how and what information should be released as well as no consistency of applied rules across public administration.

Business people and their two major associations in the country were specially targeted by the government's strategy of redistribution of public wealth and resources. There is a clear policy of awarding public investments and paying debts to specific business groups; the government is paying its debts selectively, with delays of six to 18 months.

16 | Consensus-Building

Major political and social actors agree on a stable, market-based democracy as a strategic long-term aim. All parties at least verbally agree that Macedonia should become a member of the European Union and NATO, although ideas over how to reach this goal vary considerably. During the period under review, due to Greek pressure and the country's lack of progress with EU and NATO integration, there were calls to realign Macedonia's interests with Russia, China or other countries, with some coming from high government circles.

Consensus on goals
9

In Macedonia, antidemocratic veto powers do not exist. There have been reports of more radical Islamic activities in some Muslim religious circles in Skopje. In April 2012, speculation that the killings of five ethnic Macedonian men were ethnically or

Anti-democratic actors
8

religiously motivated heightened the country's interethnic and inter-religious tensions. Five men were charged for the gruesome murders, and three of them, all ethnic Albanians, were arrested. The prosecutions are in progress. However, observers have raised doubts about the "Islamic extremist" backgrounds of the accused, suspecting that the government was using the incident to mobilize nationalist support.

Despite Ohrid Agreement reforms, ethnic Albanian politicians, including DUI and DPA leaders, on occasion have caused problems within the political organization and with the territorial integrity of the country. Veterans of the National Liberation Army have threatened to regroup in protest against specific police actions. Although such statements have been taken out of context, they indicate possible dangers for the democratic system.

The record of Macedonia's political leadership in managing the country's main political cleavage since the Ohrid Framework Agreement is improving. The VMRO-DPMNE-led government formed after the June 2011 elections has again involved an ethnic Albanian political party, continuing a practice of consociational democracy. In addition to affirmative action principles, it becomes clear how Macedonia is striving to integrate the interests of different population segments into the mainstream. Decentralization has helped the process, as ethnic minorities now have a stronger say in local matters. However, the winner-takes-all attitude of newly elected governments has provoked conflicts between parties. This is not necessarily based on political cleavages but simply on the exercise of power. In general, competition in ethnic party systems such as Macedonia's compels all parties to take up ethnic causes, as a party of one ethnic group can rarely win votes from other ethnic groups and must instead compete for votes almost solely within its own ethnic group. Parties vying for the vote of one ethnic group often can distinguish themselves only by resorting to radical rhetoric. This dynamic encourages parties to argue that they are, for instance, better able to protect vital Albanian interests than other parties competing for Albanian votes. Despite the occasional interethnic tensions, conflicts have been subdued with the implementation of the Ohrid Agreement.

Political conflicts are not exclusive to interethnic dynamics but also figure in intra-ethnic domestic politics. The most recent political crisis, triggered by the forced eviction from parliament of opposition MPs and called by the opposition "Black Monday," has raised concerns as to whether Macedonia's democratic institutions have the capacity to resolve current crises without mediation by international actors. Concerns flared with the unexpected visit of EU Enlargement Commissioner Stefan Fule, which some analysts interpreted as subtle pressure for early resolution of the crisis. In hopes of resolving the conflict over "Black Monday," President Ivanov initiated the formation of an independent commission. However, the proposal was refuted by opposition leader Branko Crvenkovski.

Cleavage /
conflict
management

7

In Macedonia there is a lack of capacity to design, adopt and implement public policies, irrespective of their nature. Poor institutional arrangements and the lack of political will and implementation skills have affected the country's processes of democratization and modernization. Yet the government is not interested in reaching out to think tanks for expert policy advice. In fact, often the government views local policy institutes as competitors or even as political enemies. Sound policy analyses from think tanks, especially those that are critical of the government, are often ignored or questioned for a variety of reasons.

Civil society
participation
6

In 2009, the government introduced mechanisms for consulting civil society organizations, changing its rulebook so that draft legislation "should be accessible on the relevant ministry's web page for public consultation and that civil society can participate in working groups for drafting laws." A government decision also improved selection procedures and evaluation criteria for public financing of civil society organizations. At the committee meetings of parliament, according to Article 121-2 of the procedural rules, an authorized representative of an initiator of a law, supported by at least 10,000 electors, can be present.

Recently, the citizen's initiative Aman raised more the 10,000 electors in order to initiate a parliamentary debate on an energy statute with the goal of restoring the former electricity tariff system.

A new Strategy for Cooperation with Civil Society (2012 – 2017) and action plan (2012-2014) were adopted in June 2012. Under the strategy, a legally binding framework will standardize rules for state financing of civil society organizations in order to improve the state financing system, which remains partial.

The government and the main governing party are very aggressive in attacking those who publicly disagree with their stances. Predominant parts of the intellectual and academic elite are silent, as well as most independent journalists. Most people fear consequences for their jobs if they disagree with the government. Opposition parties are also very sensitive on criticism directed to their activities.

In 2010, lustration was an issue in Macedonia, as a commission was investigating whether public officeholders were members of the secret service from the communist era. There were problems, however, including that various files on individuals, including DUI leaders who were supposedly being implicated in spying for the security apparatus, were publicly circulated. The validity of the files has been questioned by the public and the commission. Another problem is that this process of reconciliation was conducted in Central Europe immediately or shortly after the collapse of the former regime; this process, by contrast, is just starting in Macedonia.

Reconciliation
6

The armed conflict of 2001 is invoked controversially by ethnic Albanian and ethnic Macedonian political actors, and its memory is used for political mobilization. For example, Minister of Defense Fatmir Besimi, an ethnic Albanian and DUI party

member, honored an ethnic Albanian guerilla who died during the conflict. Later, the VMRO-DPMNE proposed a law affecting members of the security forces and their families, which the DUI blocked in committee.

The recent promotion to defense minister, on 19 February 2013, of Mr. Talat Xhaferi, an ex-guerrilla commander of UCK ethnic Albanian rebellion movement during the 2001 conflict, provoked wide political condemnation from all sectors of ethnic Macedonian society.

Several crimes committed during the 2001 crisis have been investigated by the Hague Tribunal and continue to be controversial in Macedonia. It is difficult to imagine a reconciliation between perpetrators and victims of past injustices beyond the Macedonian amnesty law, which pardoned all members of the National Liberation Army for all deeds except those that fall under the jurisdiction of the Hague Tribunal.

17 | International Cooperation

The government has promoted Macedonia as a location for investment and as a reliable international partner in the Balkan region. It works closely with international donors and agencies, such as the IMF and the World Bank, and generally uses international support to improve its policies. Expert help is provided by various EU agencies and programs and by partner countries such as Slovenia. However, no foreign advice is implemented if it does not suit the government's populist agenda.

Effective use of support

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Despite occasional gaffes, such as the focus on the Skopje 2014 urban development plan, the government has been able to earn relatively high confidence within the international community over its democratic and market reform policies. However, the European Union's reluctance to start accession negotiations was not only due to Greece's resistance against the country's official name, but was also motivated by doubts on the full stability of Macedonian democracy and serious concerns over the credibility of Macedonian reform policies.

Credibility

7

In general, Macedonian political actors strive to build and expand cooperative international relationships. Regional cooperation and good neighborly relations form an essential part of the country's process of moving toward the European Union. During the period under review, Macedonia actively participated in regional initiatives, including the South-East European Cooperation Process (SEECP), the Regional Cooperation Council (RCC) and the Central European Free Trade Agreement (CEFTA).

Regional cooperation

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Macedonia's willingness to cooperate with neighboring countries is hindered by outstanding bilateral issues. The name dispute with Greece has to a large extent affected the country's accession into the EU and NATO. Macedonia has received five positive reports from the EU Commission to start the negotiation process and has

fulfilled the criteria for NATO membership, but, due to Greek objection, the Euro-Atlantic prospect still seems distant. However, the obstacles from Macedonia's southern neighbor do not prevent leadership from pursuing cooperation with Greece in other spheres, in particular the economic sphere. Relations between Macedonia and Bulgaria were recently constrained as a result of the Macedonian movie "The Third Half," in which Bulgarian soldiers during World War II were negatively portrayed. The movie raised many unresolved issues between the two countries regarding history, ethnic minorities and Bulgarian support of Macedonia's accession into the EU. Relations with Serbia are mainly close, despite differing policies between Skopje and Belgrade toward Kosovo and Serbia's refusal to recognize the border demarcation between Macedonia and Kosovo. The issue of the Macedonian Orthodox Church's independence is still unresolved, despite a political initiative by the Serbian president. Recently, the prime minister of Serbia paid an official visit to Macedonia, during which officials committed to even closer cooperation between the two countries. Kosovo remains a main trading partner, and close cooperation is established in many fields.

Strategic Outlook

The consolidation of Macedonia's multiethnic political system is under pressure due to increased intra-ethnic and interethnic tensions. In 2012, due to the impossibility of opening an official negotiation process with the EU, the High Level Accession Dialogue (HLAD) between the EU and Macedonia was launched to give new dynamism to the accession process. Even though HLAD is not foreseen as a substitute to the negotiation process, which is blocked by Greece's de facto veto due to the name issue, the dialogue was hailed by the political leadership as a new impetus that will contribute to cutting down the time needed for membership negotiations. The evident pressure on the Greek side to soften its hard position is expected to boost optimism on the Macedonian side that the name issue could be resolved without major concessions. Conversely, failure could additionally exacerbate the fragile interethnic and intra-ethnic relations in the country, and could affect relations between the government coalition partners, as the country's accession toward NATO and the EU would be stalled. Nationalism could again become a dominant force, echoing the conflict from 2001, when Macedonian armed forces battled ethnic Albanian guerillas. Full implementation of the provision of the Ohrid Agreement that set up a framework for building a multiethnic society will continue under the pressure of ethnic Albanian parties and the international community. In addition, the government will face increased pressure to improve socioeconomic aspects and to tackle the high unemployment rate and poverty level. Further harmonizing of Macedonian legislation with EU law is expected, while demands by the international community will continue for improvements in Macedonia's judiciary system, in the fight against organized crime and corruption, in the independence of the media, and in the country's political dialogue.

A proactive role by the European Commission is expected with regard to the restoration of political dialogue between the government coalition and the opposition parties in view of the events of 24 December 2012, when the opposition initiated a boycott after SDSM MPs were thrown out of parliament. Regarding the political crisis, EU Enlargement Commissioner Stefan Fule called on political leaders to put aside narrow party interests and to embrace the opportunity that the positive climate in the enlargement process will offer in 2013.

While substantial contributions to NATO-led operations and the successful reform process were recognized by NATO in the last year, the accession of the country is still conditioned by the resolution of the name dispute with Greece. Macedonia will continue the NATO-driven reform process, and it will further use the ruling of the International Court of Justice as an argument against Greece's veto in Bucharest, 2008. Moreover, the international arbitration and "soft" imposition of the solution could be a possible exit strategy for both Athens and Skopje. Both governments could inform the public that the decisions were made by forces outside of the individual countries and that the best possible outcome was reached.

However, considering the country's current economic and political difficulties, political crisis management in Macedonia will be in high demand in 2013 in order to prevent possible spillovers of the crisis into large-scale civil disobedience, and interethnic and internal security destabilization.