

# BTI 2012 | Macedonia Country Report

<b>Status Index</b>	1-10	<b>7.35</b>	# 25 of 128	
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scale: 1 (lowest) to 10 (highest)    score    rank    trend

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**Key Indicators**

Population	mn.	2.1	HDI	0.728	GDP p.c.	\$	11159
Pop. growth <sup>1</sup>	% p.a.	0.2	HDI rank of 187	78	Gini Index		44.2
Life expectancy	years	74	UN Education Index	0.696	Poverty <sup>3</sup>	%	4.3
Urban population	%	67.9	Gender inequality <sup>2</sup>	0.151	Aid per capita	\$	94.7

Sources: The World Bank, World Development Indicators 2011 | UNDP, Human Development Report 2011. 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 Former Yugoslav Republic of Macedonia's democratic consolidation and progress toward European Union membership.

In June 2011, the coalition government of Prime Minister Nikola Gruevski's Internal Macedonian Revolutionary Organization - Democratic Party for Macedonian National Unity (VMRO-DPMNE) and its ethnic Albanian partner, Democratic Union for Integration (DUI), won early parliamentary elections, yet its parliamentary majority was weakened. The ruling VMRO-DPMNE party however decisively won the presidential and local elections in 2009.

Judicial reform and anti-corruption reforms deteriorated due to significant political interference and a selective approach to reforms by the authorities. Independent media were under constant attack by the governing party while at the same time the state interfered significantly in the commercial media market. 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 implementation of the Ohrid Framework Agreement progressed in the areas of decentralization and proportional employment of ethnic minorities in public administration. At times, relations among the government coalition have been strained. Contentious issues included the publication of the Macedonian Encyclopedia by the Macedonian Academy of Sciences and Arts and football fan skirmishes in a Skopje suburb in 2009; and an urban plan for "Skopje 2014" and the building of a church/museum at the Kale fortress in the center of Skopje in 2010. These issues raised tensions among politicians and the elites of the majority Macedonians and ethnic Albanians. A leading Macedonian Albanian politician, Ali Ahmeti, even proclaimed that the "ceasefire of 2001 has been broken." Verbally, European integration was cited as the main driving force behind governmental reforms, while factually most projects and reforms were directed to advance the financial and political party interests of governing bodies. The European

Commission recommended the opening of negotiations for Macedonian membership in the European Union, but due to Greek objections, the European Council during the period under review declined to decide on a date for opening negotiations. In 2010, the European Commission and the U.S. State Department officially warned Macedonia that the country's judicial reforms, the freedoms of the press and of political dialogue, as well as interethnic relations were stagnating and/or regressing, thus jeopardizing the further integration of Macedonia into the North Atlantic Treaty Organization (NATO) and EU structures. Schengen visa liberalization came into force in December 2009, but in 2010 came under reconsideration by the European Union due to a high number of asylum seekers. The prolongation of the drama over the "name issue" with Greece has had very negative consequences on Macedonian stability, as a rift has opened during the period under review in the perceptions of ethnic Albanians and Macedonians on this question. While ethnic Albanians, although extending a high level of political tolerance for the ethnic Macedonian stance in the dispute, do not care much about the country's name, Macedonians, despite Greek pressure, do not support a name change. Such a divergence between the two ethnic groups is dangerous for interethnic stability. Since the spring of 2009, the ethnic Albanian party in government, DUI, has urged the government to step up its efforts in finding a solution to the long-standing name row with Greece, warning that the open question causes anxiety among Macedonian Albanians.

## 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 a U.N.-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 10 (best) to 1 (worst).

## Transformation Status

### I. Political Transformation

#### 1 | Stateness

Much progress has been made since the conflict in 2001 and in principle, the state monopoly on the use of force is in place. Ethnic divisions remain but the implementation of the Ohrid Agreement has consolidated the state's monopoly of the use of force and conflicts have been subdued. Today, Macedonian society is free from excessive influence by 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. Remote villages inhabited by ethnic Albanians are in theory controlled by the state. In practice, however, local leaders control business and social life.

The country's various ethnic, religious or cultural minorities are not de jure or de facto excluded from political citizenship (membership in the political nation). By law, all citizens have the same civil rights; the nation-state is widely accepted as legitimate even if ethnic identification is still strong, especially among Macedonian Albanians. Since the Internal Macedonian Revolutionary Organization - Democratic Party for Macedonian National Unity (VMRO-DPMNE) party came into power in 2006, a process called "antiquization," strongly linking the origins of ethnic Macedonians with the legacy of Alexander the Great, has been initiated, alienating many ethnic minorities as well as Macedonians who do not subscribe to this origin myth. The VMRO-DPMNE-led government officially commenced the antiquization by renaming the Skopje airport, "Alexander the Great." After renaming the airport, the Skopje stadium was also renamed "National Arena Philip II," and the main highway, part of the pan-European Corridor X, was renamed "Alexander of Macedonia." Ancient symbols have been exploited in the campaigns of the governmental Agency for Youth and Sports, while monuments of ancient Macedonian kings have been erected or are about to be erected in the squares of several towns (most notably in Prilep and in Bitola). A monument of Alexander the

Question  
Score

Monopoly on the  
use of force

9

State identity

8

Great, at a height of 35 meters and worth close to €10 million, is being erected in the main square of Skopje.

Church and state are separated by law; the political process is generally secularized while the law on the legal status of churches, religious communities and religious groups is well-implemented. However, preferential treatment in public life is given to the main Orthodox Christian and Islamic denominations. New Christian or Islamic denominations cannot officially register under the same name and operate in the country. Smaller religious communities have had problems practicing their faith, involving long-standing denials of permission to build, extend or establish legal ownership over places of worship. Returning property of religious communities confiscated during the period of the Socialist Federal Republic of Yugoslavia is still pending. On the other hand, both the Macedonian Orthodox Church and the Islamic religious community strongly influence societal views on various issues, mainly promoting more conservative attitudes. Religious organizations are a significant part of civil society. In April 2009 the Constitutional Court ruled against the introduction of religious education in state schools. The current coalition government upholds conservative values represented by the Macedonian Orthodox Church and the Islamic religious community on a number of issues, including personal liberties such as abortion or gay marriage. For example, in December 2010 a coalition debated a change to the constitution to reserve the right to marry only for a man and a woman.

No interference of religious dogmas

9

Administrative structures provide most basic public services throughout the country, but their operation is to some extent deficient. The state apparatus suffers from widespread corruption, conflict of interest and lack of technical skills.

Basic administration

9

## 2 | Political Participation

Macedonia has universal and equal suffrage, with regular, free and fair elections conducted by secret ballot. The electoral system is free of major barriers to political organization and registration and is multiparty-based, with the public 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. Each district has about 290,000 voters and elects 20 members by proportional representation. 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. The turnout at the first parliamentary elections since independence in 1990 was extremely high at 85%, dropping to 57% in 2008, but reached 63% during the 2011 early elections.

Free and fair elections

8

The two-round presidential elections were held on 22 March 2009 and 5 April 2009. Voting was peaceful, and the OSCE/ODIHR and Council of Europe observation missions concluded that the elections "...met most OSCE commitments and other international standards for democratic elections." The presidential candidate of the New Democracy party, Imer Selmani, did much better than expected, gaining almost 15% of the vote, which put him well ahead of the two other ethnic Albanian candidates. He is the first ethnic Albanian politician to attract support from Macedonian voters, focusing on economic issues rather than on a traditional appeal to ethnic Albanian nationalism. The 2009 local elections resulted in 57 of 86 mayoral posts for the Internal Macedonian Revolutionary Organization - Democratic Party for Macedonian National Unity (VMRO-DPMNE), up from 21 in 2005. The Social-Democratic Union of Macedonia (SDSM), in opposition, lost 29 municipalities and now governs seven. The two main ethnic Albanian-dominated municipalities (Tetovo and Gostivar) were won by the Democratic Party of the Albanians (DPA) and an independent candidate, Rufi Osmani, respectively. Out of the other municipalities where ethnic Albanians are the majority, Arachinovo was won by New Democracy, and the rest were won by the Democratic Union for Integration (DUI) party.

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, which 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 in practice the parliamentary commission in charge of oversight of the civilian intelligence service's activities has not functioned in the last few years, and in 2010 the oversight committee did not meet. Reforms aimed at adapting the Macedonian military to NATO standards have strengthened the democratic control of the military by the government. There is civilian democratic control over the military, but not over the intelligence services, which 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.

Among other issues, the newly adopted law on internal affairs defined more precisely the competences of the Office for Security and Counterintelligence.

In principle, the legal framework for the functioning of civil society is free from excessive state pressures and bureaucracy. Macedonia's non-governmental sector is strong; however, many organizations are donor-dependent and are not sustainable in the long-term. During the period under review and previously, the government sponsored the establishment of a number of pro-government "NGOs" in an attempt to dominate the civil sector. VMRO-DPMNE regularly attacks and intimidates NGOs and members of the civil sector who publicly disagree with government policies. In addition to the constitution, the law for citizens' associations and foundations and other bylaws and regulations regulate the civil society sector. The

Effective power to govern

9

Association / assembly rights

8

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 new version of the law introduced the possibility for civil society organizations to be involved directly in economic activities and to obtain the status of a public-benefit organization. However, a deficiency of the law is that it does not clearly explain the advantage for those organizations that want to be registered as public-benefit organizations. A number of issues related to the plan for the urban modernization of the center of the capital Skopje mobilized civil society in 2009 and 2010. Various civil society activists, including the ethnic Albanian NGO Wake Up and a number of students from the Faculty for Architecture organized in the NGO Square Freedom protested the planned building of a church on the main square. While Wake Up took the plan to the Constitutional Court for review, Square Freedom faced many bureaucratic hurdles in attempting to collect signatures to hold a referendum in the Centar municipality on the issue. More worryingly, during a Square Freedom youth rally, a counter rally was organized by various conservative and religious organizations. The demonstrators for and against the church construction clashed, with minor injuries reported. The reaction of the police to the unrest was slow and inefficient. VMRO-DPMNE and the government have been critical of different civil society organizations, such as the Helsinki Committee, Transparency Macedonia and the Open Society Institute.

In principle, Article 16 of the constitution guarantees freedom of speech and access to information. The broadcasting law and other laws meet most international standards. There is a diverse selection of printed and electronic sources of information at both national and local levels, representing a range of political viewpoints. While the public broadcaster is dominated by the ruling coalition, private media are subject to various forms of government pressure. A number of television stations are considered to be politically influenced, since the owners of these outlets are also presidents of political parties which are in coalition with the governing VMRO-DPMNE. The situation of the media has dramatically worsened during the period under review. The government and media owners have influenced various forms of censorship (through business and editorial measures) and self-censorship.

Special police forces aided financial inspectors in a raid of the influential A1 television station building, in addition to three other independent daily newspapers, on 25 November 2010, searching for proof of financial misdemeanors alleged committed by companies registered at the same addresses. The owner of A1, Velija Ramkovski, claimed that television and newspapers were under police siege and urged supporters to take to the streets. He also claimed that the ruling VMRO-DPMNE party was looking for an excuse to shut down A1 and the daily newspapers

Freedom of  
expression

6

because they criticized government policy, and that the financial inspections were a form of political pressure being used against him. During a dramatic evening, broadcast live from A1's studios, its media rivals showed little or no sympathy for the station's plight. While A1 maintained that it was under attack, other national broadcasters, including MRTV, Kanal 5 and Sitel TV, hosted government representatives on shows who denied flatly A1's claims. In December 2010, Ramkovski and 13 other employees, including the A1 television current and ex-managers, were detained and charged with involvement in organized crime. By January 2011 however prosecutors had not substantiated their charges, while those arrested were still being detained and A1 television's and newspapers' bank accounts were frozen, disrupting the companies' work.

In 2010 the collection of a viewing license fee has started to improve, but the sustainable funding of the country's public broadcaster and the Broadcasting Council still needs to be secured. Journalists have protested against political and business pressures on their work as well as against the current libel law. During the period under review, many journalists were sued for libel. During the 2009 electoral campaign, some media did not provide "equal access to all political parties, and extensive coverage of government projects during the campaign period amplified the advantage of the incumbent parties." According to data of the State Audit Office, media were in fact the biggest party donors during the electoral campaign, agreeing to discounted rates for political party advertisements. Since it took office, the government has channeled significant subsidies to pro-government media. Political pressure on the media before the elections and during the 2009 campaign has been an issue.

Despite the 2006 law on free access to public information, access for journalists and concerned citizens alike has been very problematic. Despite good intentions, the implementation of the law has been marked by numerous deficiencies, and monitoring of the process has identified a low level of awareness and knowledge on how and what information should be released, as well as a lack of consistency of applied rules across public administration units. The law on free access to public information was amended in January 2010 and was effective on 1 June 2010. Aiming to increase the openness of public institutions to requests for information, the amendments reduce exemptions to the free access to information, introduce a public interest test, shorten the deadlines for responses of public bodies to requesters, and strengthen the controlling instruments related to the Commission on Free Access to Public Information and the Administrative Court.

### 3 | Rule of Law

In Macedonia power 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 "father of the nation" from 1991 to 1999, 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 the spring of 2009, has yet to make an impact in policy-making, which is still heavily influenced by the dominant ruling party.

Separation of  
powers

7

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 Macedonian 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. There are several reasons for this, yet a lack of competence and lack of administrative capacity to support parliamentarians are the most important. Since it won an absolute majority in parliament in early elections in 2008, the government dominates the work of MPs and has no restrictions in using its political and party power to transform the parliament into a simple voting machine of the government.

In addition, political parties in power have often attempted to influence the judiciary, but the current situation of direct political influence in the work of the judiciary and its professional recruitment, and even direct involvement of the government in particular court cases, is without precedence in Macedonia's short democratic history. Open government attacks on decisions by the Constitutional Court, which overturned a dozen unconstitutional laws adopted by the majority in parliament, provoked an unpleasant public debate over government pressure on the judiciary. All relevant international actors, including the European Union, OSCE and the U.S. State Department, publicly expressed their concerns and a number of objections to the status of judiciary independence in Macedonia.

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

The only mitigating factor in the last couple of years that has prevented the total concentration of power in cases where a political party or coalition gains control (after elections) of both the legislature and the executive branch is the fact that the Macedonian political system features an informal rule that the government is composed by multiethnic coalition. Governing such a coalition requires some political maneuvering and compromise, making the total concentration of power a difficult and potentially unstable activity.

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. Budget management has been improved. A new Automated Court Cases Management Information system was established and became operational in 2010. This system enables the registering and processing of court cases and the linking external documents to specific court cases. Furthermore, all courts (the 27 basic courts, two of which specialized in criminal and civil matters, the four appellate courts or second instance courts, the Administrative Court and the Supreme Court) have introduced fully functional websites where citizens can find information about the judicial system and contact information. All courts are now connected to the Official Gazette server, and have access to the online database of the Official Gazette, with laws and bylaws from 1945 until the present. A new law on the academy for training of judges and prosecutors was enacted in July 2010, aiming inter alia to further define the criteria on selection of judges.

Independent  
judiciary  
6

Yet there are other outstanding issues. In 2009 there were allegations that the government would draft "black lists" of judges and meddle politically in the work of the judiciary. In an OSCE Survey from 2009, 43% of judges asked complained about external interference that influence the way justice is administered. About two-thirds of Macedonian judges participated in the survey. The executive and political parties were perceived as the main sources of pressure. The Judicial Council was seen by a majority of judges as a biased institution that is susceptible to external/political influence.

The Judicial Council consists of 15 members, eight elected by judges from their own ranks and three elected by parliament; two are elected by parliament upon the suggestion of the president, while the justice minister and president of the Supreme Court are ex-officio members of the Judicial Council. The opposition party has criticized the position of the justice minister within the Judicial Council and the Council of Public Prosecutors, raising serious concerns over the work of the current minister in particular. In the 2009 OSCE survey, a strong majority of judges (74%) stated that the justice minister should not be a member of the Judicial Council.

In 2009 and 2010 the Constitutional Court was the target of intense political pressure for declaring dozens of laws unconstitutional. Politicians from the ruling

party accused the court of being partisan-influenced and of obstructing many of the government's reforms. In March 2010 the government announced a legislative initiative to amend the constitutional provisions guiding the composition of the Judicial Council and the selection of its members.

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 with European standards. However, it also seems that the government is mostly interested in fighting public perception over its fight against corruption, rather than real corruption practices. A main problem regarding the fight against corruption is the selective and weak implementation of existing legislation, which is undermined by widespread conflicts of interests by government representatives. The country's past history has created a situation where in Macedonia the importance of accepting the principle of legality among citizens is generally very low. Another problem in tackling corruption is the low human capacity in the public sector, weakened by recruitment that is politically influenced. Merit-based recruitment is weak in Macedonian policy-making, compensated by a strong party affiliation principle.

Reports by the State Audit Office in 2009 and 2010 showed a number of instances of misuse of public funds and procedures in various state agencies and ministries. Many scandals reported by the media concerning the alleged abuse of funds by officeholders have not been investigated.

The State Anti-Corruption Commission, elected by parliament in February 2009, is widely perceived as being inefficient and too tolerant of state administration abuses and misconduct, especially regarding public procurement, the number of irregularities concerning the anti-corruption law and widespread violations of a law over conflict of interest. It is often that the media exposure of scandals and the pressure of public opinion have led the commission to initiate a procedure, followed by no or little activity by prosecutors or investigative authorities.

During the period under review, Commission President Mirjana Dimovska won a third mandate to lead the Anti-Corruption Commission. Opposition parties, in particular the SDSM, objected to her appointment and commented that the re-election of the president for another one-year mandate violated an unwritten rule that no incumbent should be reelected for new term. Dimovska continues to perform her other two public functions as mediator and director/editor-in-chief of Macedonian Public Television. She was replaced in 2010 by Ilmi Selami, who undertook more vigorous actions during his term, which was followed by criticism both by the government and opposition party representatives. Among the major actions of the Anti-Corruption Commission in 2009 was the revelation that the

Prosecution of  
office abuse

6

justice minister was illegally receiving a salary and pension at the same time. As a positive development, it should be pointed out that the amendments to the law on financing of political parties were adopted in July, enhancing the transparency of political donations, strengthening the provisions against illegal donations, tightening reporting obligations of the political parties and introducing more rigorous sanctions. No real effects since the adoption of this law were extended by the political parties or authorities in charge of financial control. In 2009, amendments to the Criminal Code, including new provisions on the extended confiscation of criminal proceeds, illicit enrichment and criminal liability of legal persons for trading influence, were enacted. An issue that should be addressed is the lack of research into corruption in the private sector. The Criminal Code covers only corruptible behavior of state and public institutions. In April 2010 the government adopted a Code of Ethics that applies to the prime minister, his deputies, ministers, deputy ministers and other officeholders appointed by the government, but no visible effects have resulted from the adoption of the code.

Civil liberties are respected in principle, but especially volatile segments of the population are often denied basic liberties. The authorities' selective application of established laws especially harms Roma and the poor. There have been complaints by individuals and nongovernmental organizations of instances of torture and abuse at the hands of the state security forces. Amendments to the law on the ombudsman, adopted in September 2009, have strengthened the ombudsman's budgetary independence and competences vis-à-vis administrative bodies. The EU Commission noted in its 2010 Progress Report on Macedonia that conditions in some mental hospitals are poor and that patients in psychiatric institutions are treated inhumanely. Reports by various domestic civil society organizations working on gender issues state that many women are victims of domestic violence. There is still a problem of sexual trafficking and forced labor, especially in restaurants and night clubs in rural areas of northwest Macedonia. A majority of police officers is male and the force in general has not been sensitive to abuses suffered by spouses or victims of sexual trafficking. People with disabilities remain on the fringes of society, their access to health and special care and social integration being very limited.

A framework law on anti-discrimination was adopted in April 2010. However, the law omits sexual orientation as grounds for discrimination, and opposition parties and civil society organizations have called for amendments to the law. European commentators and main opposition parties have also criticized the law. The Commission for Protection against Discrimination is composed of only seven individuals and does not have a secretariat. According to the annual report by the ombudsman in 2009 this office worked on 4,456 citizen complaints, the most common type of complaints being the noncompliance of administrative bodies with legally prescribed procedural requirements. Another shortcoming noted in the report

Civil rights  
8

was the long duration of court proceedings, in particular administrative court proceedings. Quite a number of negative rulings by the European Court of Human Rights indicate that the right to due process is problematic. A more problematic area is the exceptionally large number of preliminary detention sentences decided on by investigative judges, which are related to the increasing practice of disregarding the presumption of innocence of those accused of crimes. There are indications that investigative judges are under strong pressure to deliver immediate detention sentences, and thus the accused (even for minor charges) are incarcerated for weeks and months before official charges are brought. In many cases, after months of detention, prosecutors are not able to prove the guilt of the detained, or simply swap heavier charges for less serious charges during court procedures.

#### 4 | Stability of Democratic Institutions

Democratic state institutions perform their functions without major inter-institutional conflict. Institutions that perform monitoring, evaluation and audits of government work have not been very effective. Parliamentary committees are especially weak on this point. For that reason in 2009 and 2010 a number of measures were taken to strengthen the institutional capacity of parliament. A law on parliament was passed in 2009. The concept of public oversight hearings on government actions was introduced by three parliamentary committees. The 2010 EU Commission Progress Report on Macedonia reported that “budgetary resources of parliament were increased by 24%, despite austerity measures, in order to allow new recruitment and a major refurbishment of the parliament building.” To increase its research capacity, parliament recruited assistants for political party groups and established a Parliamentary Institute so that all parties have greater access to information and analysis.

However, many independent state bodies, including the Constitutional Court and its president, the National Bank and its governor, the State Anti-Corruption Commission and its president, and the Broadcasting Council, were under political pressure in 2010 because of their independent actions. The head of the independent Agency for Electronic Communications resigned citing “private reasons,” and the head of the independent Energy Regulatory Body was replaced with a governing party official.

All influential political actors in principle accept democratic institutions and regard them as legitimate. Leaders of ethnic Albanian political parties, such as Democratic Union for Integration (DUI) or Democratic Party of the Albanians (DPA), have made problems for the political organization and territorial integrity of the country. In protesting specific police actions, veterans of the National Liberation Army have threatened to reestablish their army. Interethnic relations in 2009 were strained by two events: the publication of the Macedonian Encyclopedia by the Macedonian

Performance of  
democratic  
institutions

8

Commitment to  
democratic  
institutions

8

Academy of Sciences and Arts, and a fight involving football fans in a Skopje suburb. While the encyclopedia included many poorly written articles, it had also controversially described the role of the National Liberation Army, led by the current DUI president Ali Ahmeti, in the 2001 crisis, and negatively described ethnic Albanians. The football scuffle involved Macedonian fans and ethnic Albanian residents of Skopje's Nerezi district. Both events raised tensions among Macedonian and Albanian politicians and elites, with Ahmeti proclaiming at one point that the "ceasefire of 2001 has been broken." Since the spring of 2009, DUI has urged the government to step up its efforts to finding a solution to the country's long-standing name row with Greece, warning that the open question causes anxiety among Macedonian Albanians. These demands were reiterated in the fall of 2009 with harsher rhetoric. On 2 November high-ranking DUI official and parliament member Rafiz Aliti told the media that if there is no solution to the name issue by December, "Albanians will enter NATO and the European Union without Macedonians."

## 5 | Political and Social Integration

The Macedonian party system reflects historical tendencies, as the main political parties, the Social Democratic Alliance of Macedonia (SDSM) and the Internal Macedonian Revolutionary Organization - Democratic Party for Macedonian National Unity (VMRO-DPMNE), were founded on the traditions of the former League of Communists as well as a historic organization linked with the Macedonian revolutionary/liberation/nationalist movement of the early 20th century. On the other hand, the leading political parties among Macedonian Albanians were founded on different grounds, focusing on how to best to achieve political reforms to improve the status of the community. The ruling Macedonian Albanian party was founded as a successor of 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 emerged, called New Democracy. Among the parties of ethnic Albanians, ideological differences have not played an important role. On the other hand, SDSM and VMRO-DPMNE have in recent years followed their respective ideological stances closer than they did in the early 1990s. VMRO-DPMNE focuses on the affirmation of values related to patriotism, defense of the country's national interest, family, religion (by introducing religious education in schools), social order and safety, thus enacting severe punishments for law violators; in essence, the party profile is of a conservative party. SDSM in contrast has promoted secularism (by opposing the introduction of religious education in schools), internationalism, following the European Union agenda, and so on. The ideological profiling of the political parties in the Albanian political block is even more specific. Even though the two most important parties, DUI and DPA, have positioned themselves as left (DUI) and right

Party system

7

(DPA) of the ideological spectrum, it is very hard to find evidence in policies that would justify their decision to take up said positions. The policies of both parties regardless focus on the so-called Albanian national issue, which was rationalized with the Ohrid Framework Agreement; the only differences in the parties' policies lie in how radical the party standpoint is with regard to this issue.

Since 1990, the party system has been relatively stable, as the two main parties switched roles between government and opposition twice, with no new entrants in the political scene. Polarization has been high among the parties representing the ethnic Albanian population, although relations between SDSM and 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 the contrary, the perception among ordinary citizens is that the main political parties represent narrow, cliquish interests with little reflection over the welfare of the social groups supposedly represented by these parties.

The Macedonian political system remains a “zero-sum game” in which the winner takes all (resources, corruption opportunities, career development opportunities, etc.) and the loser is left with nothing. This produces deep sociopolitical divisions in broader society, not only along interethnic, but also along intraethnic lines. The culture of political dialogue and compromised solutions is low to non-existent.

The voices of interest groups are hardly heard. Trade unions have, for a long period of time since independence, been under political influence as a bulk of their income has been allocated from the central budget. There are 35 trade unions listed in the register of the Ministry of Labor and Social Policy and six employers' associations. The unions, once the major player and partner in the tripartite social dialogue, have lost much of their influence, their recent fragmentation not really helping the cause. They lack stable finances, management capacity and an active membership. Bipartite social dialogue remains weak, in particular in the private sector.

Interest groups  
6

Associations of businessmen are often consulted by the government. New policy measures are presented to them and comments welcomed. Yet, much of the policy-making process of the government is unaffected by this policy dialogue. Certain business interest associations are considered being 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 a strong disappointment with the way democratic norms are put into practice and there is a low level of trust in the government, the president and parliament. Compared to the 1990s, citizens have

Approval of  
democracy  
8

become somewhat alienated by the political process and their participation in the 2009 elections, as an example of the citizenry's disillusionment, further decreased.

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 en block and dissident voting is a rarity. Some parliamentarians even dare 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 president 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. Networking or using "connections" (in Macedonian, *vrski*) is often necessary in order for a person to complete even the simplest administrative tasks. The level of interpersonal trust is much higher among ethnic Albanians than among Macedonians. This has been largely a result of the urbanization process that Macedonians 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 however 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

## II. Economic Transformation

### 6 | Level of Socioeconomic Development

In 2009, per capita income in Macedonia was \$10,822 based on purchasing power parity (PPP), some \$2,000 less than in neighboring Bulgaria. According to latest available data (2006), Macedonia's Gini coefficient is 42.8, high among Eastern European countries. According to World Bank data from 2006, Macedonia's poverty rate, or the percentage of the population living below \$2 a day, at 2005 international prices (PPP adjusted), is 5.3%. Macedonia was ranked 72 among 158 countries in the Human Development Index 2009 (HDI). According to this parameter and compared to other countries in the region, Macedonia's score is better than the scores of Bosnia and Herzegovina and Turkey on a number of indicators (for example: average life expectancy, adult literacy rate, gross enrolments in school and GDP per capita). Macedonia's HDI score in 2009 was 0.817, identical to the scores of Russia and Albania, but significantly lower than

Question  
ScoreSocioeconomic  
barriers

6

Slovenia (0.917), Croatia (0.850), and even Montenegro (0.822). In 2009, the country's poverty rate increased again (31.1%) which was reflected in the poverty gap index (10.1 in 2009). In 2010, Macedonia's government adopted a national strategy for poverty alleviation and social inclusion.

According to the 2010 National Human Development Report, Macedonian citizens express a feeling of being left out of society (72% of all people surveyed), which indicates a huge gap between citizens and the state. Among those who feel left out, the highest percentages were women (55%), youth (80%) and people with higher levels of education.

Youth unemployment is considerably higher than average unemployment. 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 country's overall unemployment rate in 2009 was 32.2%.

Economic indicators		2007	2008	2009	2010
GDP	\$ mn.	8159.8	9834.0	9313.6	<b>9189.5</b>
GDP growth	%	6.1	5.0	-0.9	<b>1.8</b>
Inflation (CPI)	%	3.6	7.2	-0.3	<b>2.1</b>
Unemployment	%	35.0	33.7	32.2	-
Foreign direct investment	% of GDP	8.6	6.0	2.1	<b>3.2</b>
Export growth	%	11.8	-6.3	-16.2	<b>23.4</b>
Import growth	%	16.1	0.8	-15.0	<b>10.9</b>
Current account balance	\$ mn.	-605.7	-1235.8	-598.8	<b>-261.8</b>
Public debt	% of GDP	24.0	20.6	23.9	<b>24.8</b>
External debt	\$ mn.	4160.8	4681.1	5593.2	<b>5804.1</b>
Total debt service	\$ mn.	705.5	474.1	552.1	<b>669.1</b>

Economic indicators		2007	2008	2009	2010
Cash surplus or deficit	% of GDP	0.3	-0.8	-	-
Tax revenue	% of GDP	19.5	19.1	-	-
Government consumption	% of GDP	17.1	18.2	19.1	<b>18.3</b>
Public expnd. on edu.	% of GDP	-	-	-	-
Public expnd. on health	% of GDP	6.9	6.8	6.9	-
R&D expenditure	% of GDP	-	-	-	-
Military expenditure	% of GDP	2.1	1.8	1.7	-

Sources: The World Bank, World Development Indicators 2011 | International Monetary Fund (IMF), World Economic Outlook 2011 | Stockholm International Peace Research Institute (SIPRI), Military Expenditure Database 2011.

## 7 | Organization of the Market and Competition

The foundations of a competitive market economy are by and large provided in Macedonia. The legal system for a functioning market economy is too largely in place. The freedom of pricing, of market participation and of establishing a business is assured and the present government has actively worked on reducing the entry and exit barriers to doing business. Despite legislative reforms and the reduction of social contributions and personal income tax rates, the size of the informal economic sector is still high. Reforms of the judiciary are aimed at filling the gap between regulations and their implementation. The Internal Macedonian Revolutionary Organization - Democratic Party for Macedonian National Unity (VMRO-DPMNE) government has focused on market entry reforms to improve market competition and economic development, and has undertaken major reforms, supported by the World Bank and other donors. A law on business registration was adopted reducing the time, procedural steps and financial costs required to start a business. In 2010 the second phase of the “one-stop shop” system was initiated, consisting of three components: an online application for the registration of companies; an electronic system for the classification and listing of companies under the court procedures for insolvency; and an electronic system for the registration of collateral and leasing.

The business environment continues to be impaired by the weak rule of law, notably by a slow judiciary and weaknesses in contract enforcement, market regulation and supervision. In the last four years Macedonia has had the lowest level of foreign direct investment in the Balkans, both per capita and in absolute numbers.

Market-based  
competition  
7

The state Anti-Monopoly Commission was especially designed to tackle monopolistic practices. Yet certain economic sectors still remain under the power of the 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. In 2010 the commission made three decisions in cases involving the abuse of a dominant market position.

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 and stockholding. Macedonia is a member of the World Trade Organization, the Central European Free Trade Agreement and has agreed 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. According to World Bank data in 2009, some 6% of companies in Macedonia were owned by private foreign individuals, companies or organizations.

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, consisting of 27 banks and microcredit associations with assets amounting to 62% of GDP. According to the World Bank, the sector's small size, substantial liquidity and high capital adequacy (16.5% of GDP in mid-2010) have allowed it to absorb the effects of the global economic crisis well. Another buffer during the financial crisis was the conservative business model adopted by Macedonian banks. Bank assets are primarily loans (62% of total), central bank bills, accounts with foreign banks and short-term Treasury bills (15% of total). Very few banks hold assets that are riskier, such as trading securities. According to the EU Progress Report on Macedonia in 2009 and 2010, regulation and supervision of the banking and financial sector has improved, with closer supervision of the stock exchange through the Securities and Exchange Commission and the establishment of an Insurance Supervisory Agency. Most of the Basel Core Principles for banking supervision and further elements of the Basel II framework are being implemented.

Banking system  
7

In 2010 the first private credit bureau, which helps credit institutions to assess credit risks, became operational, while the Ministry of Finance and the National Bank of the Republic of Macedonia (NBRM) signed a Memorandum of Understanding for maintaining financial stability and managing financial crises. According to an IMF Country Report, the central bank conducts quarterly stress tests (with solvency proven even under extreme adverse scenarios) and on-site examinations of asset quality and lending practices at the three largest banks, which account for 66% of

assets. The Ministry of Finance and the central bank established a committee on financial stability in 2010.

## 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 2009 Macedonia experienced deflation, with a -0.9% inflation rate. The real effective exchange rate, the nominal effective exchange rate divided by a price deflator or index of costs, for 2009 was 104.2. 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 IMF data, during the financial crisis in 2009, reserves fell 30% to mid-year, before subsequently recovering most of the losses, so that by the end of October reserves had risen to above €1.5 billion, mainly as 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 decade, the country's successive governments have generally adhered to strict monetary and fiscal policies as advised by the IMF. In 2009, economic output declined by 0.8%. The impact of the financial crisis on the economy has remained relatively limited, partly due to the financial sector's limited exposure to toxic assets, but also due to stable private capital inflows and resilient domestic demand. According to World Bank data, public debt in 2008 was \$1.54 billion. Data from the World Bank and the EU Progress Report on Macedonia for 2010 show that the current account deficit declined from nearly 13% of GDP in 2008 to about 7% in 2009 and 3.8% of GDP on an annualized basis in mid-2010. In the first half of 2010, the trade deficit narrowed from 24.5% to 22% of GDP. FDI inflows remained low, at around €15 million or 3.7% of GDP on an annualized basis.

Macrostability

9

According to World Bank data, during the crisis budget revenues fell from 33.1% of GDP in 2008 to 31% in 2009. In fact, in 2009 the government cut total spending by 0.5% instead of boosting it by 10% as envisaged in the original 2009 budget. Macedonia's public debt increased by 3 percentage points in 2009, from 21.4% to 24.6% at the end of 2009.

In 2010 the government turned to short-term domestic borrowing, issuing up to €460 million in short-term state bonds with a six-month expiration. At the end of 2010, the government agreed on a two-year loan with the IMF totaling €480 million. The credit line is based on the government's economic program and on a projected fiscal deficit of 2.5% of GDP for 2011; if the deficit remains lower than

2.5% of GDP, then the government will not need to withdraw funds from the IMF's approved credit line.

## 9 | Private Property

In general, in Macedonia property rights 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 being acquired. In 2009 and 2010, the land register improved coverage to over 97.5% of Macedonian territory. Aiming to reduce final decision delays, the law on denationalization was amended so that the appeals procedure was transferred from second instance committees to the administrative court. According to World Bank data, the average duration of land registry procedures was shortened from 45 to 10 days. The EU Progress Report on Macedonia noted that in 2010 "the Ombudsman's Office found unjustified delays in several procedures for restitution of property." The changes to the law on denationalization, in force since June 2010, foresee compensation instead of the returning of property in cases where the procedure has lasted longer and legal and factual problems have occurred. The amended law foresees an appeal procedure with the administrative court.

Property rights  
8

The World Bank Doing Business 2010 report noted that it is easy to register a new firm in Macedonia, requiring only seven days and two procedures. In this, Macedonia performs much better than the world average and also better than in many Eastern European countries, including EU members Slovakia and the Czech Republic. In principle, the legal framework for a functional private sector exists. One can register a company in just three days. Although private enterprise forms the backbone of the national economy, a few public companies still remain. Data from the 2010 EU Progress Report on Macedonia reveal that the private sector accounts for 81% of total output and 78% of total employment. The report also noted that while the value of state capital in local businesses amounts to 13% of GDP, the majority of state capital is concentrated in five public utility enterprises, including electricity production and transmission, where the state is majority owner, and telecommunications, where the state is a minority owner.

Private enterprise  
8

## 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. 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

Social safety nets  
7

and in serious crisis. In 2007, public expenditure on health care was 4.7% of GDP. According to World Bank data, in 2008 a Macedonian's average life expectancy was 74 years. In 2010 the national program for the development of social protection 2010–2021 and the national strategy on equality of rights of people with disabilities 2010–2018 were adopted. Development of the national strategy for alleviation of poverty and social exclusion has commenced. Reforms in the pension and health care systems are ongoing.

Since mid-2009 the government has initiated the Conditional Cash Transfer program (with the technical and financial support of the World Bank) targeting socially excluded children in households that receive social assistance. These households receive an additional sum of money if they regularly send their children to school. The program is intended to be mostly beneficial for Roma families, whose children often do not attend school. In general, social exclusion is dependent on where a person lives, their ethnicity, their level of education and their employment status. Particular groups that are often excluded from social security schemes are the Roma, the young, the homeless as well as drug users and victims of family violence. In 2010, as a result of worsening economic conditions, many social transfers from the state to socially vulnerable cases were delayed or remained unpaid for several months.

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 2009 and 2010, 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 30% of parliamentary seats, with 41 out of 120 MPs. 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

In 2009 economic output declined by 0.8%; in 2010, GDP recovered by about 1%. The trade deficit narrowed from 24.5% of GDP in the first half of 2009 on an annualized basis to 22% of GDP in the first half of 2010. Unemployment in 2009 remained very high at 32.2% and continued to rise in 2010. Inflation in 2009 was negative at -0.8 %, increasing to about 1% in 2010. In the first half of 2010, fiscal balances have remained on track with an end-year deficit target of 2.5% of GDP. Foreign investments in 2009 totaled €181 million. Export promotion activities have been transferred to the Agency for Foreign Investments, and its 2010 budget was about €5.7 million. Gross foreign debt relative to GDP was 57.9% in 2009. The government budget balance projection by the end of 2010 was -2.5% of GDP. At the end of 2010, parliament adopted a 2011 state budget, confirming the government's proposed deficit target of 2.5% of GDP. According to World Bank data, Macedonia's tax revenue was 19.7% of GDP. Macedonia had a cash deficit of 0.8% in 2008. Macedonia's foreign direct investment in 2009 totaled 2.7% of GDP, a significant drop from 6.2% in 2008 and 8.8% in 2007. It is expected that in 2010 and 2011, this negative tendency will continue.

Output strength  
6

## 12 | Sustainability

The 2010 Environmental Performance Index (EPI) for Macedonia in 2009 was 60.6, or ranked 73 out of 163 countries. 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. According to the EU Progress Report on Macedonia in 2010, preparations to establish an integrated municipal waste management system began in several regions.

Environmental  
policy  
6

In September 2010, the government adopted its Renewable Energy Strategy for 2010–2020, outlining a vision that around 20% of the country's total energy production by 2020 will be provided from renewable energy sources. Further investments in large and small hydropower plants, photovoltaic panels and windmills, as well as biomass power plants are envisioned by the Ministry of Economy. In July 2010, the government and EVN, an Austrian power utility company, agreed to seek a solution to their international dispute within the framework of the Macedonian legal system. 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 considerations. Macedonian environmental civic organizations are few and have little impact in policy formation. 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. There are rare examples, such as the Lake Ohrid environmental protection project which is not yet finished, which are supported by the donor community. In 2010 the government adopted a national strategy for sustainable development and established an advisory body for sustainable development policy.

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 which promote outcome-oriented and interactive teaching and learning, early English language training and information technology skills. The number of teachers in primary and secondary schools has been further increased, in particular in the area of secondary education and foreign languages. According to World Bank data in 2009, the Macedonian gross enrollment ratio for primary schools was 92.8%, for secondary schools 83.7%, and for tertiary education 40.4%. Budgetary allocations for education were around 5% of GDP in 2009, but were slightly reduced in the 2010 supplementary budget. In October 2010 the government adopted a strategy on integrated education, aiming to improve the integration of various ethnic groups in the country through language learning and increasing interethnic interaction between pupils.

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 qualifications framework (NQF).

The education reform process has continued in line with the national education strategy for 2006–2015, but faces many problems. The education sector presents a significant obstacle to Macedonia's further development in all areas. Quantitatively and qualitatively, investment in education, training, research and development is rather low. Although the new government has increased expenditures on education, the quality level of institutions is still remarkably low. Many public schools and even universities lack basic infrastructure and appropriately trained personnel. Very

Education policy /  
R&D  
6

high drop-out and time-to-graduation rates burden the higher education system. Reforms of the tertiary education have only started.

# Transformation Management

## I. Level of Difficulty

Following a liberation struggle in World War II, Macedonia became a federated unit of the Socialist Federal Republic of Yugoslavia. As an agricultural society with a high level of illiteracy, socialist Macedonia was plunged into a process of industrialization on a large scale, where many villagers were forced to move to rapidly industrialized towns. Today, governance in landlocked Macedonia is constrained by severe structural difficulties. Macedonia belonged to the less-developed parts of the former Yugoslavia, and its infrastructure is still poor, requiring massive investment to reach a similar development level as neighboring countries such as Croatia or Greece. The country lacked infrastructure, technology and general skills for a rapid economic transformation. The collapse of Yugoslavia also meant that Macedonia lost its role in the division of labor among former Yugoslav republics and its traditional intra-Yugoslav trade links. As a consequence, Macedonia went through particularly painful adjustments on its way to a market-based economy. Lacking high-quality education, many Macedonians with jobs in companies and branches sustained by the old system suddenly faced a loss of status and growing uncertainty. In addition, Macedonia is situated in a region characterized by political instability and violent ethnopolitical conflict. Macedonian society is divided into distinct ethnic groups, which require political leaders to accommodate the concerns of different communities and to bridge ethnic cleavages. The lack of an educated labor force has been noted as a problem by the current government, which has tried through various policies to remedy the situation.

Structural  
constraints

6

Macedonia's civil society was not free during communist times. Although the system allowed for the functioning of a number of citizens' organizations, such as the Association of Women of Macedonia or the Association of Youth of Macedonia, these were very controlled and cannot be characterized as true nongovernmental institutions. In the 1980s, during the period of liberalization from communist rule, Macedonia witnessed the rise of a number of civic groups, movements and associations.

Civil society  
traditions

5

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

Conflict intensity

4

resulted in relatively few casualties (officially some 160 on both sides, almost evenly divided). As part of the Ohrid Agreement, political representatives of Macedonian Albanians and of the Macedonian government agreed on reforms to address the concerns of both communities. Promotion of multiethnicity, political moderation and tolerance are widely understood as important characteristics of Macedonian politics. The national political system is currently free from such threats to stability as insurgency or war. Religious conflicts have occurred, but mostly within denominations, and only sporadically. The Islamic and Orthodox communities have both witnessed internal conflicts, reflecting occasional political intraethnic quarrels and party infighting. Although social groups most hit by the economic transition have occasionally protested against government policies, these protests have been peaceful.

Today, Macedonian society is mostly free of excessive influence from extremist and intolerant nongovernmental institutions and organizations. In fact, there are no visibly active organizations, private militias, or vigilante groups that publicly advocate racist or xenophobic agendas or threaten political or social stability or the country's transition to democracy. There have been reports of more radical Islamic activities in some Muslim religious circles in Skopje. In mid-February 2011, a more serious, violent incident occurred between two larger groups of Orthodox and Muslim protesters over the issue of building a church/museum at the Kale fortress in the center of Skopje. Paradoxically, both groups were inspired and supported by the main respective ethnic coalition partners in the current government (Internal Macedonian Revolutionary Organization - Democratic Party for Macedonian National Unity (VMRO-DPMNE) and Democratic Union for Integration (DUI)) most probably in an effort to strengthen their nationalistic positions before early elections in mid-2011.

## 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. Especially improved is the strategic capacity of the government to prioritize and organize policy measures (gaining and organizing expertise, evidence-based policy-making, regulatory impact assessments and strategic planning units). The requirement for regulatory impact assessments (RIAs) to support draft laws presented to the government came into force in January 2009, while units for strategic planning have been established in all ministries directly

Question  
Score

Prioritization

8

under the state secretary. A number of methodologies and instructions for policy coordination have been adopted, including various rules of procedure, such as over inter-ministerial consultations.

The strategic planning process links government strategic priorities to the budget. These are reflected in the strategic plans of separate ministries and presented as concrete proposals in the government's Annual Work Program. The General Secretariat is responsible for process coordination and for supporting ministries in the development of their own strategic plans. All ministries have prepared their 2009–2011 Strategic Plans.

Amendments to the law on civil servants were passed in September 2009, with further amendments adopted in March 2010. The changes of the law concern various issues, including the competencies of the Civil Servants Agency, entry requirements and recruitment procedures, level of salaries and horizontal career advancement. The government is dedicated to working on creating a unified civil service system. In preparing for future EU accession negotiations, working groups matching the chapters of the *acquis* were established by government decision in November 2009.

As with a number of other countries in Eastern Europe, Macedonia's reforms in the last 15 years have focused simultaneously on two issues—state-building and setting up the legal base for a functioning market economy. During the reign of the Internal Macedonian Revolutionary Organization - Democratic Party for Macedonian National Unity (VMRO-DPMNE) party, the government has picked up the pace of economic reforms at the expense of transparent and good governance, especially in the fields of policy development, legislation changes and state funds spending. In 2010, increases in transfers and subsidies were mainly financed by cutting capital spending, which had a negative impact on the quality of public spending. The government coalition continues to be stable. Despite occasional tensions, the coalition resolves differences through mutual agreements. It has continued work on strategic priorities, mainly the EU reform process, the implementation of the Ohrid Agreement and the improvement of the business climate. As in previous years, the government in 2009 and 2010 adopted its annual revision of the National Program for the adoption of the *acquis* (NPAA).

There has been improvement in policy-making 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. In September 2010 parliament amended its rules of procedure to clarify the opposition's right to propose issues to the parliamentary agenda. Parliamentary

Implementation  
7

Policy learning  
7

committees have started public hearings, and a Parliamentary Institute was established in 2010.

Furthermore, in 2010 the government accepted ODIHR/OSCE recommendations made following the 2008 parliamentary and 2009 presidential and local elections. Yet the involvement of non-governmental 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. Regulatory impact assessments are not applied systematically.

## 15 | Resource Efficiency

The government has attempted to make use of the 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 lacking skills to properly conduct government reforms. The practice of politically motivated dismissals is widespread and new public servant appointments are often based purely on political party links rather than on merit. Although the legal background for competitive recruiting procedures exists, in practice political influences in recruitment procedures often prevail. Patronage practices are widespread in public administration. Within local self-government, a serious issue is a lack of knowledge and skills on behalf of administrators to cope with the reform processes and new responsibilities.

Efficient use of  
assets

6

There is political commitment to fiscal sustainability. However, the quality of the government's budget proposals submitted to parliament is low. Macedonia has a manageable level of state debt, moderately effective auditing and moderately transparent budget planning and implementation. The biggest deviation of actual budget expenditures from the associated planned expenditures is related to capital investments, due to a perpetual increase of public administration employment on both the state and local level. Administration as a whole is moderately efficient. The administrative capacities of some municipalities are very low and the transparency and accountability of local administration remains insufficient, in particular the system of financial control. Some rural local government units and public institutions lack essential equipment such as computers or printers. The debt of a small number of local government units remains a problem.

In 2009 and 2010 more municipalities participated in a fiscal decentralization process. Municipalities were granted an increasing share of VAT revenues, and the government adopted a strategy to transfer the management of state-owned land to municipalities. Municipalities also established internal audit and financial management units.

In 2010 Macedonia adopted a law on public servants that was expected to enter into force in April 2011. This law complements the law on civil servants and regulates a number of areas, such as the scope of public service, recruitment procedures and employment relations of public servants. The law provides the Civil Servants Agency (CSA) with new functions to train public servants and keep a public servants' registry. The law was heavily criticized by the opposition, as a government attempt to solidify party influence in public administration.

The government coalition is comprised of political forces that have similar ideological standpoints. While the leading Internal Macedonian Revolutionary Organization - Democratic Party for Macedonian National Unity (VMRO-DPMNE) party is a right-wing Christian Democrat party with observer status in the European Peoples' Party, the Democratic Union for Integration (DUI) party caters to the interests of the Albanian electorate in Macedonia and is not very interested in left- and 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 poor.

Coordination between the president and the government however 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 as a priority. The implementation of the Roma Strategy has been slow due to a lack of policy coordination. According to the EU Commission's 2010 Progress Report on Macedonia, the interministerial coordination working group on the implementation of the Roma strategy met only twice in 2010, while a new advisory body consisting of deputy ministers of four relevant ministries and a representative of the Secretariat for European Affairs was not operational.

Varying domestic and international reports and surveys have indicated that corruption in Macedonia is a serious and widespread problem that affects many aspects of the country's social, political and economic life. The fight against corruption remains a government priority and curbing it a highly important condition for growth, development and adjustment within European standards.

The law on conflict of interest was amended in September 2009 so that in addition to elected or appointed officials, it also deals with professional civil servants to regulate the incompatibility of official work with other jobs or private activities as

Policy  
coordination  
7

Anti-corruption  
policy  
6

well as outlines procedures in cases of conflict of interest and employment limitations after a termination of duties.

The law on financing of political parties was amended in July 2009, reducing the amount allowed as political donations. With the amendments, political parties' annual financial accounts are to be sent to the Ministry of Finance, the Public Revenue Office, the Central Register and the State Audit Office, and are also to be published on the political parties' websites and in at least one daily newspaper. In its report, the State Audit Office criticized the fact that discounts on mass media services are not counted as donations to political parties. Since the media, controlled by owners with vested interests in the government, have been among the largest donors to election campaigns, the current regulations could also be abused to support political parties beyond permitted limits.

A law on the State Audit Office and the Audit Institution law, which will establish the Audit Institution as an independent and external audit organization, were adopted and came into force in May 2010. There has been some progress in the work of the State Audit Office in terms of transparency. In 2009 the office submitted its annual report for 2008 not in September (as was required by the old law) but in June, while redesigning the format of the report to make it more user-friendly. The new law on the State Audit Office aims to strengthen the financial independence of this institution, with its budget to be approved directly by parliament.

In 2009 and 2010 three large-scale police operations were carried out, leading to the arrest of a number of border police officers, doctors and officials from the Pension and Disability Insurance Fund. Prison sentences were imposed on some of the defendants in first-instance court decisions. For other defendants, investigations or court proceedings are ongoing.

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.

## 16 | Consensus-Building

All significant 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 the North Atlantic Treaty Organization (NATO), although ideas over how to reach this goal vary

Consensus on goals

9

considerably. During the period under review, due to Greek pressure and the country's lack of progress with EU and NATO integration, voices to realign Macedonia's interests with Russia, China or other countries have been articulated, with some hailing from high government circles.

In Macedonia, anti-democratic veto powers do not exist. Despite Ohrid Agreement reforms, on occasion ethnic Albanian politicians, including leaders of the main political parties such as Democratic Union for Integration (DUI) or Democratic Party of the Albanians (DPA), 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 of specific police actions. Although such statements have been taken out of context, they indicate possible dangers for the democratic system.

Anti-democratic  
actors

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The record of Macedonia's political leadership in managing the country's main political cleavage since the Ohrid Framework Agreement is improving. Slowly but surely, key Macedonian political actors are learning the benefits of consociational democracy and how to mitigate ethnic divisions. For example, the Internal Macedonian Revolutionary Organization - Democratic Party for Macedonian National Unity (VMRO-DPMNE) party decided to co-opt an ethnic Albanian party in its government, even after the party had won an absolute majority in the 2008 elections. 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 attitude of "the winner takes all" of newly elected governments has provoked conflicts between democratic parties. This is not necessarily based on political cleavages but simply on the conduct 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 the same Albanian vote. Thus for example since the late summer 2010 the Democratic Party of the Albanians (DPA) has boycotted parliamentary sessions, citing "government arrogance" and neglect of the "political will of Albanians." Despite the occasional interethnic tensions, conflicts have been subdued with the implementation of the Ohrid Agreement.

Cleavage /  
conflict  
management

7

Political conflicts are not only exclusive to society's interethnic dimension but also increasingly in the intraethnic field of domestic politics. The current government, having obtained an absolute majority on the state and local level in the elections of 2008 and 2009, do not feel the need to consult or discuss issues neither with the

opposition nor with experts or the general public. High representatives of the governing VMRO-DPMNE party have openly stated in a number of occasions that they have full electoral legitimacy to fulfill whatever policy they find suitable for the country, with no need for debate or compromise on any issue. This style of governance, coupled with many mistakes, misguided reform planning and other major policy shortcomings, have created much deeper mistrust and conflicts in society.

In Macedonia there is a lack of capacity to design, adopt and implement public policies, irrespective of their nature. Poor institutional arrangements, 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.

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 rules of procedure of parliament, an authorized representative of an initiator of a law, supported by at least 10,000 electors, can be present. In addition, the committees might invite experts, scientists, academics and other public figures, as well as representatives of municipalities or of the capital Skopje, public enterprises, trade unions and other organizations, that can provide opinions on the matters discussed at the meeting. There is also an office for contact between NGOs and parliament.

Some NGO activists and organizations such as the Open Society Institute - Macedonia, Square Freedom, and the Global Entrepreneurship Monitor (GEM) that are linked with opposition parties have been the target of government criticism and smear campaigns.

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 leaders of the Democratic Union for Integration (DUI) party that were supposedly being implicated in spying for the security apparatus, were publically circulated. The validity of the files has been questioned by the public and the commission. Another problem is that this process of reconciliation was

Civil society  
participation  
6

Reconciliation  
7

conducted in Central Europe immediately or shortly after the collapse of the former regime; this process in contrast is just starting in Macedonia.

On the other hand, a number of crimes were committed during the 2001 crisis that merits the attention of the public. At least three out of four cases that the Hague Tribunal has investigated from Macedonia fall in this category. 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 new and popular 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.

Effective use of  
support  
9

Despite occasional gaffes, such as the focus on the Skopje 2014 urban development plan, and despite international concerns, the level of confidence the government has been able to earn within the international community over its democratic and market reform policies is high. Aside from Greek objections, the European Union's reluctance to start accession negotiations was motivated by doubts in the full stability of Macedonian democracy and some concerns over the credibility of Macedonian reform policies.

Credibility  
8

In general Macedonian political actors actively 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 has 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  
8

Macedonia's willingness to cooperate with neighboring countries in regional and international organizations is hindered by persistent and nationalistic Greek objections to the name of the country used in international forums. Macedonia has fulfilled the criteria for NATO membership, but was not invited to join the alliance due to Greek objections to its name. These obstacles do not prevent the Macedonian leadership from pursuing cooperation with Greece in various spheres, in particular economic spheres. Similarly, despite Bulgaria's illiberal treatment of its

Macedonian minority, leaders of the two countries have developed cordial relations. Macedonian political leaders cooperated well with Albania amid common strife to join NATO. Relations with the Serbian government are close, despite differing policies between Skopje and Belgrade toward Kosovo and Serbia's refusal to recognize the border demarcation agreement between Macedonia and Kosovo. The issue of the independence of the Macedonian Orthodox Church in relation to the Serbian Orthodox Church is still unresolved. Also in 2010, the demarcation of Macedonia's border with Kosovo was completed and full diplomatic relations with Kosovo were established. Agreements on economic, defense and police cooperation were signed between Skopje and Pristina. As of 2006, Macedonia, together with its Western Balkan neighbors, is officially a member of CEFTA.

## Strategic Outlook

The consolidation of Macedonia as a multiethnic political system with a population of approximately 2 million citizens, is under pressure due to increased interethnic and intraethnic tensions. In 2008, Macedonia was not invited to join the North Atlantic Treaty Organization (NATO) because of Greek objections to its name. During the period under review, NATO's de facto policy was that the country's admission will be possible once Greece and Macedonia reach an agreement on the "name issue." Similarly, although the European Commission recommended opening negotiations for EU membership of Macedonia, Greece's de facto veto at the EU Council summit has frozen Macedonia's accession to the European Union for the foreseeable future. This blockade in the EU and NATO integration processes has further exacerbated interethnic and intraethnic relations in the country. Nationalism could again become a dominant force, echoing the conflict of 2001 when government forces battled ethnic Albanian guerrillas. In 2011 Macedonia will face increasing tensions in the functioning of its government coalition, as the socioeconomic crises deepens and the ethnic Albanian coalition partner will be under pressure to leave the government on its failure to further Macedonia's integration into NATO and the European Union. Macedonia will continue to formally implement the Ohrid Framework Agreement agenda, and the affirmative action program aimed at increasing the number of ethnic group members in public administration. The government will also be under pressure to continue economic reforms and achieve higher foreign direct investment levels and stronger growth levels. Further harmonizing of Macedonian legislation with EU law is expected, while demands by the international community for improvements in Macedonia's judiciary system, the fight against organized crime and corruption, the independence of the media and in the country's political dialogue will continue.

Following the Greek de facto veto at the NATO Summit in Bucharest, Macedonia appealed to the International Court of Justice to rule if Greece has violated the terms of the 1995 Interim Agreement, which stipulates that Athens would not block the admission of Skopje to international organizations if it was to apply with the temporary reference, "the former Yugoslav Republic of Macedonia," used within the United Nations. In December 2011 the court confirmed Macedonia's position which is likely to support Macedonia's admission into NATO under this temporary name. International arbitration 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.