

# BTI 2010 | Macedonia Country Report

<b>Status Index</b>	1-10	<b>7.53</b>	# 21 of 128	
Democracy	1-10	7.95	# 24 of 128	➔
Market Economy	1-10	7.11	# 26 of 128	➔
<b>Management Index</b>	1-10	<b>6.51</b>	# 20 of 128	

scale: 1 (lowest) to 10 (highest)    score    rank    trend

This report is part of the Transformation Index (BTI) 2010. The BTI is a global ranking of transition processes in which the state of democracy and market economic systems as well as the quality of political management in 128 transformation and developing countries are evaluated.

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### Key Indicators

Population	mn.	2.0	HDI	0.82	GDP p.c.	\$	9395
Pop. growth	% p.a.	0.0	HDI rank of 182	72	Gini Index		39.0
Life expectancy	years	74	UN Education Index	0.88	Poverty <sup>2</sup>	%	3.2
Urban population	%	66.4	Gender equality <sup>1</sup>	0.40	Aid per capita	\$	104.8

Sources: UNDP, Human Development Report 2009 | The World Bank, World Development Indicators 2009.

Footnotes: (1) Gender Empowerment Measure (GEM). (2) Percentage of population living on less than \$2 a day.

## Executive Summary

Contrary to other successor states of the former Yugoslavia, Macedonia has achieved independent statehood and democratic consolidation without major warfare. Its political elites have been able to establish practices of interethnic powersharing that are now faced with the challenges of European integration.

At the snap elections held in June 2008, Internal Macedonian Revolutionary Organization-Democratic Party for Macedonian National Unity (VMRO-DPMNE) singlehandedly won over half of the seats in parliament, or 63 out of 120 deputies, whereas the main opposition party, the Social Democratic Alliance of Macedonia (SDSM), came in a distant second with 28 seats. VMRO-DPMNE formed a new coalition replacing the Democratic Party of Albanians (DPA) with the strongest ethnic Albanian party, the Democratic Union for Integration (DUI). This second coalition government was again led by Nikola Gruevski. The democratic quality of the parliamentary elections was hampered by violence and irregularities.

The presidential and municipal elections held on 22 March and 5 April 2009, respectively, met most OSCE and Council of Europe commitments and standards for democratic elections. Both election days were peaceful and reflected further improvements in the execution of voting and counting.

Macedonia was not invited to join NATO on 2 April 2008 owing to Greek objections to its name. This happened despite the fact that Greece was obliged by the Interim Agreement signed with Macedonia under the auspices of the United Nations in 1995 not to block the admission of its northern neighbor to international organizations if it applied under the temporary reference “the former Yugoslav Republic of Macedonia.” This reference had been used within the United Nations. Greece had threatened to veto Macedonia’s NATO membership application if a “mutually acceptable solution to the name dispute” was not found. Athens insists that Macedonia add a “qualifier” to its constitutional name to differentiate the country from the northern

province of Greece bearing the same name. Kosovo's independence has not negatively influenced the stability of Macedonia. Macedonian relations with Serbia have remained strong, especially in the economic domain.

In 2008, the impact of the global economic crisis on Macedonia was minimal. Although the level of remittances declined, the crisis was not felt that much because the Macedonian banking sector has been conservatively issuing loans and credits, while the property market has not significantly risen since independence, as it has in other countries in the region. However, remittances will decline further in 2009, and many export-oriented companies – especially in the metallurgical and the clothing-manufacturing sectors – will face lower production levels due to a decline in demand from Western economies.

## History and Characteristics of Transformation

Modern Macedonia emerged in 1945 as one of the 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 it is now a democratic multiparty state.

The president is elected for a term of five years by popular vote, while the unicameral Assembly (Sobranie) is composed of between 120 and 140 members elected by direct universal suffrage. All parliaments since 1990 have had 120 members. The Macedonian political system is semi-presidential, akin to the French model.

Macedonia is a multiethnic state with a population of around 2 million people. According to the 2002 census results, 64% of the total population identifies itself as Macedonian, while Albanians are the biggest minority, with 25%. As with a number of other countries in Eastern Europe, Macedonia's reforms over the last 15 years have been focused simultaneously on two issues: state building and setting up the legal base for a functioning market economy. Problems consolidating Macedonia's democracy have been related to its interethnic relations. During the 1990s, Macedonian political elites clashed with their ethnic Albanian counterparts over the basic idea behind the concept of the state. Various issues related to the constitution, conducting censuses, laws on education, local self-government, public displays of national minority symbols and the ethnic make-up of the police, army and public administration were all contested by Macedonian Albanians in this period. With a major segment of the population challenging the very foundations of the state, Macedonia was not able to consolidate its democracy before the 2001 Ohrid Framework Agreement (OFA) and the subsequent adoption of the amendments to the 1991 constitution. The main goal of the agreement has been to accommodate the grievances

of the Albanian community while, at the same time, preserving the unitary character of the state, thereby addressing the concerns of the Macedonian majority, which fears a “federalization” of the country and its eventual disintegration. The accord envisioned a series of political and constitutional reforms designed to address ethnic Albanian demands for equal standing.

The process of interethnic consolidation based on the OFA is supported by the European Union, which uses it as a condition for the 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. Following Macedonia’s application for EU membership, the European Union accepted the country as a candidate in December 2005.

Due to Greek objections, the admission of Macedonia to UN membership 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 still continued to refer to Macedonia as a “former Yugoslav republic.” Despite reaching a UN-backed interim agreement in 1995 that normalized relations between the countries, since 2008, Greece has deliberately blocked Macedonia’s admission to 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 that the name is exclusively part of its cultural and historical heritage. Macedonia has renounced territorial ambitions over Greek territory, but it cannot change the name of the country as it is part of the 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.

## Transformation Status

### I. Democracy

#### 1 | Stateness

In principle, the state monopoly on the use of force is in place. Although Macedonian society is still split along ethnic lines, conflicts have been suppressed with the implementation of the OFA. Today, Macedonian society is free of excessive influence by extremist and intolerant nongovernmental institutions and organizations. In fact, there are no visibly active organizations, private militias or vigilante groups advocating racist or xenophobic agendas or threatening 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 chiefs control the business and social life there.

Monopoly on the use of force

Ethnic, religious or cultural minorities are not de jure or de facto excluded from political citizenship (i.e., membership in the political nation). Although following the breakup of the federal Yugoslavia state there were a number of individuals who did not acquire Macedonian citizenship due to their inability to meet the requirements of the Citizenship Law of the new Macedonian republic, the problem has been solved by easing the requirements to acquire citizenship, and it is no longer on the agenda as a politically relevant issue. By law, all citizens have the same civic rights; the nation-state is widely accepted as legitimate even if ethnic identification is still strong. Since VMRO-DPMNE came into power in 2006, a process strongly linking the origins of the ethnic Macedonians with the legacy of Alexander the Great has been initiated that has alienated many ethnic minorities as well as Macedonians that do not conform to this myth of origin.

State identity

Church and state are separate by law; the political process is generally secularized. However, preferential treatment in public life is given to the main Orthodox Christian and Muslim denominations. New religions of these faiths cannot officially register under the same name and operate in the country. Smaller religious communities have problems practicing their faith, including long-running denials of permission to build, extend or establish legal ownership over places of worship. On the other hand, both the Macedonian Orthodox Church and the Islamic Religious

No interference of religious dogmas

Community strongly influence societal views on various issues and mainly promote more conservative attitudes. The religious organizations are a significant part of civil society.

The government has introduced optional religious education in the public school system. This decision was reviewed by the Constitutional Court, as it was seen as violating the secular character of the Macedonian state. A new law on the legal status of religious communities and churches entered into force on 1 May 2009 after the smaller faiths complained about the issue of building new places of worship. Article 19 of the law stipulates that, before issuing a construction permit for a religious building, the local government should ask for an “opinion from the existing churches, religious communities and religious groups, though this opinion is not obligatory for the bodies’ decision,” thereby leaving established religious institutions a de facto veto right on the growth of new religions. Moreover, according to the law, religious rituals may only be performed and organized by a religious officer of a church, religious community or religious group.

A functioning administrative system and public security and order are assured – with some limitations – throughout the country. They suffer, however, from widespread corruption and a lack of technical skills. Overall, the human capacity of the public administration is poor in that it has low skills to cope with the policy processes and undertake reform.

Basic  
administration

## 2 | Political Participation

The members of the Macedonian parliament are elected for four-year terms in six electoral districts. Each district has about 290,000 voters and elects 20 members according to a proportional-representation model. Citizens vote for an electoral list, and seats are distributed on a proportional basis, according to the D’Hondt formula. The electoral system is free of significant barriers to political organization and registration, and ethnic and other minority groups have sufficient opportunities to participate in the political process. In the years since independence, the electoral system has been multiparty-based, and the public is engaged in the political life of the country. However, the lack of financial transparency in the functioning of the political parties and, particularly, the election campaigns seriously affects the democratic quality of elections.

Free and fair  
elections

Although, in general, elections in Macedonia are free and fair, there have been manipulations of the vote in certain areas of the country in the past, including during the early parliamentary elections held on 1 June 2008. Ballot stuffing, family voting, voter intimidation on the day of election and the forceful opening of ballot boxes by armed individuals have all occurred in past local and national elections, and most of the incidents have occurred in rural regions populated by ethnic

Albanians. The OSCE-ODIHR election observation mission reported that key international standards were not met.

The electoral campaign was marked by several incidents, including attacks on campaign offices, physical fights and shootings. According to reports by the State Broadcasting Council, there was a problem with equal access to various media, while several government communication campaigns continued or were launched during the official election campaign. On election day, organized violence, intimidation and the stuffing of ballot boxes in some predominantly ethnic Albanian areas prevented a number of citizens from exercising their democratic rights. One person was killed, and several others were injured. Following the irregularities on election day, the State Electoral Committee annulled the results of 197 polling stations, which accounted for 10% of the registered voters, and dismissed six chairpersons from municipal electoral boards. The make-up elections were organized on 15 June in 187 polling stations with strengthened security and extensive policing. Nevertheless, some further irregularities took place and further make-up elections had to be held on 29 June at 15 polling stations

The field of political actors is generally free from potential veto powers able and willing to defect from democratic procedures, such as the military, foreign powers, totalitarian parties, regional hierarchies and/or economic oligarchies. According to the constitution, the military and the intelligence services are under full civilian control. However, in practice, the parliamentary commission charged with overseeing the civilian intelligence service's activities did not function during the last few years, and it tolerated a dramatic increase in spending in the budget laws for 2008 and 2009. Reforms aimed at adapting the Macedonian military to NATO standards have strengthened the government's democratic control of the military. There is consolidated civilian supremacy over the military and the intelligence service. At the moment, there are no veto powers in the hands of the military.

Effective power to govern

In principle, the legal framework for the functioning of civil society is free of excessive state pressures and bureaucracy. The rights of political organizations and civic groups are respected. Macedonia's nongovernmental sector is strong, although many organizations are currently donor-dependent and are not sustainable in the long run. Besides the constitution, the Law for Citizens Associations and Foundations, which was adopted in July 1998 and amended in September 2007, and other bylaws and regulations regulate the civil-society sector. A deficiency of the law is that it is ambiguous when it comes to how to classify which organizations can be considered as organizations of public benefit. While there are no state impediments on civic organizations, the latter enjoy no tax breaks or other forms of legal assistance.

Association / assembly rights

In principle, Article 16 of the constitution guarantees freedom of speech and access to information. The Broadcasting Law and other laws meet most international

Freedom of expression

standards. There is a diverse selection of printed and electronic sources of information at both the national and local levels that represent a range of political viewpoints. While the public broadcaster is influenced by the ruling coalition, the private media are mostly free of government influence. Still, commercial electronic media do have links to political parties that often influence editorial policies. The current government has spent millions of euros – or approximately 1-2% of the annual state budget in 2007 and 2008 – for various governmental publicity campaigns that can be interpreted as advertisements for the governing VMRO-DPMNE political party. A few television stations are considered to be politically influenced since the owners of these outlets are also presidents of political parties. Ownership of the leading print media remains highly concentrated. Corporations that own print media also have alleged links to political leaders, and the editorial independence of various newspapers is doubtful.

### 3 | Rule of Law

In Macedonia, power is divided among the three branches of government: the parliament (Sobranie), the executive (the government with the president and prime minister) and the judiciary (the Supreme Court, Constitutional Court and the public prosecutor). By law, the president represents Macedonia at home and abroad and is the commander in chief of the armed forces. The president may veto legislation adopted by the parliament with a simple majority. However, this veto power is quite limited, and the parliament can vote on the same law again within 30 days. If the law in question is approved again by a two-thirds majority, the president must sign the law. Since the president is elected by universal and direct suffrage and serves for 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.

Separation of  
powers

Although Macedonia is a parliamentary democracy, in practice, the executive strongly dominates the parliament by introducing laws to be adopted or amended. The control function of the parliament is not very strong for a number of reasons, the most important of which are its lack of competence and its lack of administrative capacity to support the parliamentarians. In addition, political parties in power have often attempted to influence the judiciary. The system of checks and balances suffers from the low degree of professionalism in all the state's branches.

Still, there are strong mitigating factors preventing the concentration of power in cases where a political party or coalition gains control (after elections) of both the legislature and the executive. First of all, the strong figure of the president works to balance the prime minister's tendency to dominate. This functions especially well when the president and the prime minister do not belong to the same party, such as during the period under review. The periods of cohabitation are frequently characterized by a critical stand – and even antagonism – of the president on the



workings of the government, and vice versa. Even when this is the case, the president's authority significantly influences the politics of the party in power. Second, the Macedonian political system features an informal rule that the government must be composed of a multiethnic coalition. Governing such a coalition requires advanced interpersonal skills and accommodation, which in turn necessitates much political maneuvering and compromise, which makes the concentration of power unfeasible.

The independence of the judiciary is formally guaranteed by the legal framework. Recent judiciary reforms have aimed at reducing instances of political influence on judges and of political appointments. Ever since the reforms were initiated in 2005, the independence and efficiency of the judiciary have been gradually strengthened. However, politicians from the governing coalition have not refrained from influencing judges and ongoing court proceedings. To a certain extent, these practices were noted by the EU Commission, which stated in its 2008 Progress Report on Macedonia that "the Minister of Justice has made a number of public statements concerning the decisions of appointment of judges which could be perceived as an attempt to unduly influence the Judicial Council." In 2008, the Judicial Council assumed full responsibility for recruiting judges and presidents of the courts and appointed 115 judges, including 12 presidents of courts, as well as the president of the Supreme Court. The problem with the inefficiency of the judiciary remained in 2008. Although the basic courts managed to reduce the very big backlog of enforcement and misdemeanor cases as well as administrative cases dealt with by the new Administrative Court, there are hundreds of thousands of unresolved cases. The courts are overburdened with administrative work and are also expected to deal with a high number of misdemeanor trials. While the number of judges and prosecutors has increased (632 and 187, respectively, compared to 597 and 186 in 2007), the number of employees in the judicial administration has dropped by 6%. Some lower courts still lack basic IT equipment, as do most of the public prosecutor's offices.

Independent  
judiciary

In general, the efficiency of the judicial system – especially in the area of contract enforcement – influences the business environment and the country's attractiveness to foreign investors. The budgets of the courts are a problem. Some courts that were unable to cover their running costs and debts to utility companies needed additional funding from the state budget. Finally, a problem remains that the laws on the public prosecutor's office and the Council of Public Prosecutors are not yet being implemented owing to pending amendments to the law on criminal procedure and certain practical issues with the law enforcement agencies.

Citizens have experienced various corruptive practices since Macedonia's independence. Since 2002, the issue also ranks high on the political agenda. The government led by VMRO-DPMNE has claimed that fighting corruption is one of its priorities. Although there are a number of legal mechanisms that should prevent

Prosecution of  
office abuse

officeholders from abusing their positions, various domestic and international reports and surveys indicate that corruption in Macedonia is a serious and widespread problem that affects many aspects of the social, political and economic life. The State Anti-Corruption Commission is widely perceived as being inefficient and too tolerant to the state administration's abuses and misconducts, especially when it comes to the sphere of public procurement, a number of irregularities concerning the Law on Fight Against Corruption and widespread practices of violating the Conflict of Interest Law.

Zoran Zaev, the current leader of the opposition SDSM party and mayor of Strumica, was detained for alleged misuse of public funds in the municipality before being pardoned by President Branko Crvenkovski. The high-profile court case involving former SDSM Prime Minister Vlado Buchkovski is pending resolution. As was the case in 2007, in 2008, the government was once again accused of selectively arresting and charging individuals in the opposition while turning a blind eye to corruption scandals involving their own cadres.

Courts convicted several senior public officials, including the former governor of the National Bank and the former director of the Public Revenue Office. As was the case in 2007, in 2008, there were also several high-profile arrests involving the misappropriation of public funds and bribery, including that of the mayor of Aerodrom, the former director of the public enterprise managing sport halls, employees in the Bitola regional office of the Pension Fund and the former general manager of the Electric Supply Company. In an investigative action labeled "Zmisko Oko" ("Snakes Eye"), the police and public prosecutors charged dozens of employees responsible for collecting highway toll fees with embezzling public funds. The Anti-corruption Commission was very active in 2008 and investigated a number of issues, including corruption during the electoral campaign, the privatization of the Veles smelting plant, the membership of civil servants in managing boards of public companies, the work of the mayor of Kisela Voda and the work of former ministers of defense Laze Elenovski and Jovan Manasijevski. It initiated 41 cases of conflict of interest and a number of misdemeanor procedures against officials who failed to submit asset declarations. Various civic organizations, such as the Transparency International office in Macedonia, also scrutinize the work of public officials.

Civil liberties are respected in principle, but especially volatile segments of the population are often denied their basic civil liberties. The authorities' selective application of established law especially harms Roma and the poor. There have been complaints by individuals and NGOs of instances of torture and abuse at the hands of the state security forces. Women have often been victims of crimes, such as domestic violence, sexual trafficking and rape. The predominant culture in the society is unfortunately male-dominated. Police officers are mostly men and have not been sensitive to the abuses suffered by spouses or victims of sexual trafficking.

Civil rights

An ombudsman institution is collecting complaints and publishes reports about breaches of civil and human rights. The Macedonian Helsinki Committee is the leading civil society organization monitoring these issues.

#### 4 | Stability of Democratic Institutions

Democratic state institutions perform their functions without major interinstitutional conflict. The financing of local government units and, consequently, their independence in relation to the central authorities has been deemed inadequate by ZELS, the association of local governments. The relations between the VMRO-DPMNE-led central government and President Crvenkovski have again been characterized by a complicated cohabitation. The dominant ruling party has asserted that Crvenkovski's electoral victory in 2004 was due to electoral fraud. The main opposition party, the Social Democratic Alliance of Macedonia (SDSM), and its coalition partners boycotted the new parliament from 17 July to 4 August 2008 to protest the detention of Zoran Zaev, the party's president. In 2008, the DPA also boycotted the new parliament from its opening day until October.

Performance of  
democratic  
institutions

The parliament adopted 172 laws between 17 July and 4 August by applying emergency procedures and virtually without any participation on the part of deputies from opposition parties. Since the emergency procedures are meant to be used in exceptional circumstances (e.g., in the interest of the security or defense of the country, major natural disasters or epidemics) or to prevent or eliminate major disturbances in the economy, the quality of the newly enacted laws is doubtful, and a democratic process (e.g., parliamentary debates and consultations with stakeholders and civil society) was entirely lacking. As a result, many of these rashly enacted new laws and regulations ended up before the Constitutional Court, which overruled the lawmakers and still-pending legal proceedings. For example, the parliament amended the Child Protection Law at an emergency session on 4 August 2008, but the Constitutional Court annulled Article 30, Paragraph 1 of the law after deeming that it violated the principle of equality before the law.

Institutions that monitor, evaluate and audit the work of the government have not been very effective. The parliamentary committees are especially weak on this point. For example, following the OFA, the Parliamentary Committee on Interethnic Relations and the municipal commissions on interethnic relations were established. These bodies have not yet adequately monitored, discussed or acted to improve the interethnic situation.

In principle, all influential political actors accept the democratic institutions and regard them as legitimate. Since the implementation of the OFA, a series of political and constitutional reforms have been designed to address ethnic Albanian demands for equal representation and status. Leaders of ethnic Albanian political parties,

Commitment to  
democratic  
institutions

such as DUI or DPA, have questioned the constitutional order and territorial integrity of the country. To protest specific police actions, veterans of the National Liberation Army have threatened to re-establish their military force.

## 5 | Political and Social Integration

The Macedonian party system reflects historical tendencies, as the main political parties – SDSM and VMRO-DPMNE – were founded on the traditions of the former League of Communists, and a historic organization linked with the Macedonian revolutionary/liberation/nationalist movement of the early 20th century. On the other hand, the leading political parties among Macedonia's Albanians have been founded upon the various ideas of how best to achieve the political reforms needed to improve the status of this community. The ruling Macedonian-Albanian party was founded as a successor to the National Liberation Army created by radical Macedonian Albanians in the context of the Kosovo conflict. In 2008, a new, influential ethnic Albanian political party called New Democracy emerged. Among the parties of the ethnic Albanians, ideological differences have not played an important role. On the other hand, in recent years, SDSM and VMRO-DPMNE have followed their respective ideological stance more than they did in the early 1990s. Since 1990, the party system has been relatively stable, as the two main parties switched between government and opposition twice with no new main players appearing on the scene. Polarization has been high among the parties representing the ethnic Albanian population, although relations between 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 to the contrary, the perception among ordinary citizens is that the main political parties represent narrow cliquish interests and hardly reflect on the welfare of the societal groups they supposedly represent.

Party system

The voices of interest groups are hardly heard. For a long period of time since independence, trade unions have been under political influence since the majority of their funding has been allocated from the central budget. The unions, which were once the major player and partner in the tripartite social dialogue, have lost much of their influence, and their recent fragmentation has not really helped their cause. From 24 November to 2 December 2008, a strike by SONK (Trade Union for Education, Science and Culture) disrupted the functioning of primary and secondary schools around Macedonia. The leadership of SONK made demands on several issues, including collective agreements with the government, an increase in salaries and food reimbursements, and fixed-term contracts for a number of staff employed on a temporary basis. After much wrangling with the government, an agreement was reached that met most of the trade union's demands. Associations of

Interest groups

businessmen are often consulted by the government; new policy measures are presented to them and comments are welcomed. Nevertheless, much of the government's policy-making process is unaffected by this policy dialogue. Since certain business interest associations are considered close to the opposition parties, they are often avoided or ignored.

Surveys of public opinion rarely evaluate the support for democracy in Macedonia and assume that it is high. Nevertheless, citizens' trust in the institutional underpinnings of democracy has been very low. There is a strong sense of disappointment with the way democratic norms have been put into practice, and there is a low level of trust in the government, the president and the parliament. Compared to the 1990s, citizens have become somewhat alienated by the political process, and their participation in the 2008 parliamentary elections decreased to 57%.

Consent to  
democratic norms

Macedonia's civil society is weak, relatively well-differentiated and highly fragmented. Over the last 18 years, the number and scope of NGOs in Macedonia have risen dramatically. Some have estimated that roughly 5,500 NGOs are currently operating in the country, many of which are concerned with significant societal, political and economic issues. In the last two years, a number of pro-government NGOs have been established.

Associational  
activities

Although many Macedonian civil society organizations have the technical resources as well as motivated, well-educated and young staff members, few civil society groups are financially viable in the long term. The law on sponsorship and donations, which provides tax incentives for donations and sponsorship by a local or foreign legal or physical entity, has not been used much.

In general, the degree to which Macedonian citizens are involved in the country's political life is rather low. NGOs and concerned citizens have not been engaged in budget oversight, and local governance is a largely unchecked endeavor in Macedonian political life. The media raises many issues of general interest rarely addressed by civic organizations and citizens groups, and a general passivity on the part of the citizens in the democratic processes is visible on the national and local levels.

A big part of Macedonian society functions through the use of social capital. Networking or using "connections" (vrski) is often necessary in order for one to complete even the simplest administrative tasks. The level of interpersonal trust is much higher among ethnic Albanians than it is among Macedonians. This has largely resulted from the urbanization process that Macedonians went through beginning in the late 1950s. Voluntary associations of citizens for purposes of self-help – rather than primarily to further political objectives – are rare in Macedonia.

## II. Market Economy

### 6 | Level of Socioeconomic Development

Macedonia's Human Development Index value is 0.808, which puts it in 68th place, or six places below Romania. This indicator shows a high level of development for Macedonia. Nevertheless, segments of the population still have a miserable life and are socially excluded and marginalized. This particularly applies to Roma and inhabitants of rural areas. According to the latest data, from the World Bank's 2008 World Development Indicators, less than 2% of Macedonians live below the international poverty line of \$2 per day. The GDI value for Macedonia, 0.803, is 99.4% of its HDI value. Social disparities are high between regions, and the capital, Skopje, exceeds the rest of the country by far.

Socioeconomic  
barriers

Economic indicators		2004	2005	2006	2007
GDP	\$ mn.	5368.4	5814.7	6373.1	<b>7926.7</b>
Growth of GDP	%	4.1	4.1	4.0	<b>5.9</b>
Inflation (CPI)	%	0.8	0.3	3.3	<b>3.5</b>
Unemployment	%	37.2	37.3	36.0	<b>34.9</b>
Foreign direct investment	% of GDP	2.9	1.7	5.5	<b>4.0</b>
Export growth	%	12.9	13.6	9.2	<b>11.8</b>
Import growth	%	16.7	8.7	10.9	<b>15.2</b>
Current account balance	\$ mn.	-452.8	-157.8	-56.4	<b>-246.7</b>
Public debt	\$ mn.	1573.2	1653.7	1575.6	<b>1520.0</b>
External debt	\$ mn.	2551.4	2852.6	3176.8	<b>3759.9</b>
Total debt service	% of GNI	4.6	4.5	8.8	<b>8.9</b>

		2004	2005	2006	2007
Cash surplus or deficit	% of GDP	-	-	-	-
Tax Revenue	% of GDP	-	-	-	-
Government consumption	% of GDP	20.0	18.8	18.5	<b>17.9</b>
Public expnd. on edu.	% of GDP	-	-	-	-
Public expnd. on health	% of GDP	5.7	5.5	5.6	-
R&D expenditure	% of GDP	0.2	0.2	0.2	-
Military expenditure	% of GDP	2.5	2.2	2.0	<b>2.1</b>

Sources: The World Bank, World Development Indicators 2009 | UNESCO Institute for Statistics | International Labour Organization, Key Indicators of the Labour Market Database | Stockholm International Peace Research Institute (SIPRI), Yearbook: Armaments, Disarmament and International Security.

## 7 | Organization of the Market and Competition

The foundations of a competitive market economy are by and large present in Macedonia. The freedoms of pricing, of participating in the market and, especially, of setting up a business are assured, and the present government has actively worked on reducing entry and exit barriers to doing business. Despite legislative reforms and the lowering of social contributions and personal income tax rates, the size of the informal sector is still high. Reforms of the judiciary are aimed at filling the gap between the regulations and their implementation. The government has also undertaken a “regulatory guillotine” program that aims to streamline official bureaucracy, especially as it applies to opening a new business. Public institutions suffer from a number of deficiencies, including widespread corruption and deficits in the rule of law. Macedonia is a WTO member, and its very liberal trade environment has helped it become a member of CEFTA. Macedonia has been an EU candidate country since 2005.

Market-based competition

There is a state-mandated anti-monopoly commission especially designed to tackle this issue. Nevertheless, in practice, certain sectors have been left under the power of the monopolies for a long time. The laws are applied only sporadically, and bureaucratic corruption still takes its toll. Preventing monopolies and cartels with an anti-monopoly commission that is subordinate to the Ministry of Finance appears to be ambiguous in an environment that is still marked by major public enterprises and public ownership.

Anti-monopoly policy

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. There are no restrictions or controls on payments, transactions, transfers or the repatriation of profits.

Liberalization of foreign trade

Macedonia has a solid capital market characterized by substantial foreign ownership of banks, low shares of nonperforming loans and hard budget constraints between companies, banks and the public sector. A main problem for Macedonia's economic development remains the high cost of credit for SMEs. The government has tried to ease access to capital for SMEs, which make up 99% of the economy, by setting up a State Guarantee Fund.

Banking system

## 8 | Currency and Price Stability

The rate of inflation, which was in double figures in the early 1990s, has remained very low ever since. The National Bank of the Republic of Macedonia (NBRM), the country's central bank, 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 denar to the euro. The peg has been maintained at approximately the same rate for nearly 11 years, and it was only temporarily shaken during the 2001 – 2002 recession. Foreign reserves have been growing. From 2005 to 2007, the central bank's gross reserves increased by €400 million (almost 7% of GDP).

Anti-inflation /  
forex policy

Over the past decade, as advised by the IMF, different governments have generally adhered to strict monetary and fiscal policies. Macedonia's debt is regularly serviced, and the debt to the Paris and London Clubs of Loaners has already been paid back in full. It is not clear how the new fiscal policies and the new budget will affect macro stability. The government intends to raise the fiscal deficit in the coming years.

Macrostability

By January 2009, the international financial crisis had exerted only a very limited impact on the economy and its financial sector. However, the current account deficit has widened sharply and has become the main risk to continued growth and macroeconomic stability. This deterioration has three main components: a rising trade deficit, falling private transfers and lower net factor income due to a large telecom dividend payment. Indicators of external vulnerability (e.g., international reserve cover of imports) and of short-term foreign debt have also weakened. The increasing current account deficit, which in the past has been mainly financed by workers' remittances, creates an important external financing need requiring significant capital inflows.

## 9 | Private Property

In general, property rights and property acquisition in Macedonia are adequately defined with regard to the acquisition, use, benefits and sale of property. Nevertheless, exceptions do occur, especially in cases where a restituted land or buildings are being acquired. Huge chunks of cities (e.g., Chair in Skopje) and

Property rights



towns that have no urban plans have yet to define land titles. Property rights are not adequately protected in practice because the judicial and administrative systems are still weak, and cooperation and coordination between various institutions (e.g., the notary, the central register, the courts and the cadastre) is lacking. A reform of the cadastre is currently underway.

In 2008, the government decided to legally allow foreign persons and companies to own land in Macedonia. The interest association of Macedonia's municipalities (ZELS) has criticized this decision, arguing that the municipalities – rather than the state – should manage and sell land for construction to foreign or domestic companies.

The legal framework for a functional private sector exists in Macedonia. However, in order to make laws fully effective, a further strengthening of the court system is necessary. The present government has worked on this issue to a considerable degree; one can register a company in just three days. The government has also proposed legislation that would establish a private credit bureau to simplify the loan procedure and to encourage credit growth. This bureau is also seen as a means of providing greater assurance to potential foreign investors on the issue of credit risk. Although private enterprises form the backbone of the national economy, several public companies remain. Liberalization of certain sectors (e.g., telecommunications) has led to a lowering of prices for consumers. The public enterprises for the heating and water supplies are monopolies. After being privatized by the previous VMRO-DPMNE government, the electrical distribution company EVN is also monopolistic.

Private enterprise

## 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. The persistence of the informal sector has further eroded the effectiveness of the social insurance system. Poverty is widespread among the unemployed, who are often also unskilled and young. Roma are particularly disadvantaged. Many people in Macedonia rely on social safety nets provided by family, clan or village structures. Although health care services are theoretically available to all citizens, this sector is underfunded and in a serious crisis. The crisis reflects the level of services offered, and patients are often even asked to pay for most basic medications or procedures themselves. Macedonia is about to introduce a third, funded pillar of the pension system in 2009.

Social safety nets

In theory, equality of opportunity exists for all citizens. Nevertheless, unskilled persons, Roma and women find it more difficult to succeed in life. Among the reforms envisioned in the OFA, a special program has been envisioned since 2001

Equal opportunity

for tackling the low participation of ethnic minorities – and, in particular, Albanian Macedonians – in public administration. The program has been quite successful at raising the number of minority members in public service. Besides the electoral requirement to have party nomination lists include at least 30% women, there are hardly any mechanisms for promoting the advancement of women. Women hold just 37 out of 120 parliamentary seats, or 31%. There are numerous women in certain professions, such as teaching and the judiciary, but they are rarely managers. Persons with disabilities or the socially disadvantaged have even fewer advancement opportunities. Nepotism is a widespread phenomenon that undermines equality of opportunity.

## 11 | Economic Performance

Following the war-like crisis in 2001, Macedonia's economy has slowly but surely picked up in pace. GDP grew 0.9% in 2002, 3.2% in 2003, 4.1% in 2004, 4% in 2005 and 4.3% in 2006. In 2007, improved terms of trade and remittances boosted incomes and domestic demand, thereby raising growth to 5%. Growth increased in the first half of 2008, and industrial production grew at double digit rates. At the same time, exports have more than doubled – from \$1.1 billion in 2002 to \$2.949 billion – in 2008. The introduction of a flat rate for personal and corporate income taxes and a reduction in the bureaucratic obstacles associated with running a business under the current government also seem to have given a spur to economic development. There is a growing trade and current account imbalance. Attracting foreign direct investment (FDI) is a key to create new jobs since the local private sector is unable to do so on its own. The government has realized this and put it high on the agenda, and the public administration has been reorganized for this purpose, with two government ministers and the rebranded Invest in Macedonia agency being engaged in an aggressive campaign to attract foreign capital to the country. Parliament has approved a law allowing the creation of Technological Industrial Development Zones (TIDZs), which offer generous tax incentives and promise simplified bureaucracy to investors. FDI has grown from \$82 million in 2002 to \$321 million in 2007.

Output strength

By January 2009, levels of employment in the state administration had increased and the labor market situation had slightly improved, but unemployment was still at a very high level.

## 12 | Sustainability

Waste management, deforestation and air and water pollution are Macedonia's primary environmental problems. Only one regional waste-management facility exist (JP Drisla), which is located near the capital. In the rest of the country,

Environmental policy

garbage is not properly collected or processed. For example, the garbage in Prilep, Tetovo and Ohrid is being burned. Environmental awareness in society at large and among lawmakers has grown in recent years, but it is still slight. Environmental concerns tend to take a back seat to growth considerations. Macedonian environmental civic organizations are few, and they do not have much impact. In 2008, an environmental NGO in Veles protested against the selling and reopening of the local smelting plant. Ecologically sustainable growth gets only scant attention and is not reflected in the institutional framework. Waste-water treatment plants do not exist. Although sewage networks do exist in the cities, waste waters are only collected and released into rivers. There are rare examples of environment-protection projects, such as that in Lake Ohrid, which is supported by the donor community, but even this project has not been fully implemented.

Education and training facilities are of very poor quality, and government spending on R&D is only minimal. Education is a priority of the new government. In its efforts to lure foreign investors to do business in Macedonia, the government has realized that it needs an educated labor force. To increase the educational levels of its citizens, the government has opened a new public university, made secondary education mandatory for all citizens and plans to equip all schools with computers. Nevertheless, the Macedonian educational sector is still underdeveloped. The sector is a significant obstacle to Macedonia's further development in all areas considered here. Quantitatively and qualitatively, investment in education, training and R&D is rather low. Although growing with the new government, the state's expenditures for education are remarkably low.

Education policy /  
R&D

## Transformation Management

### I. Level of Difficulty

Governance in Macedonia is constrained by severe structural difficulties. Macedonia numbered among the less-developed parts of the former Yugoslavia, and its infrastructure still bears the mark of being underdeveloped and requires massive investment so as to catch up with neighboring countries, such as Croatia and Greece. The country lacks the infrastructure, technologies and skills it needs for a rapid economic transformation. The collapse of Yugoslavia also implied that the country lost its role in the division of labor among the former Yugoslav republics and its traditional intra-Yugoslav trade links. As a consequence, Macedonia went through particularly painful adjustments on its way to becoming 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 ethno-political conflict. Macedonian society is divided into distinct ethnic groups that force political leaders to accommodate the concerns of different communities and to bridge ethnic cleavages.

Structural  
constraints

During Yugoslav communism, Macedonia's civil society was suppressed. Established citizens' institutions (e.g., the Association of Women of Macedonia or the Association of Youth of Macedonia) cannot be characterized as genuine nongovernmental institutions. During the period of liberalization from communist rule in the 1980s, Macedonia witnessed the rise of a plethora of civic groups, movements and associations. Following independence, opportunities for the development of civil society became real. Now, the state by law confirms the rights of the independent civic sector, but most NGOs depend on foreign donors. Local philanthropy and volunteerism are almost nonexistent, while the participation of religious groups in charitable activities is minimal.

Civil society  
traditions

Society and the political elite are polarized along ethnic lines. Interethnic tensions escalated into armed conflict when militant Macedonian Albanians attacked Macedonian security forces in 2001. The conflict lasted six months but caused relatively few casualties (several dozen according to different sources.) As part of the OFA, political representatives of Macedonian Albanians and the Macedonian government agreed on reforms addressing the concerns of both communities.

Conflict intensity

Promotion of multi-ethnicity, political moderation and tolerance are widely understood as being important characteristics of Macedonian politics. The national political system is currently free from threats to stability, such as insurgency or war. Nevertheless, religious conflicts have occurred, although only within – rather than between – denominations. The Muslim and Orthodox communities have both witnessed internal conflicts in recent times that reflect the occasional political, intraethnic quarrels and party bickering. Although social groups most hit by the economic transition have occasionally protested against government policies, these protests have been peaceful.

## II. Management Performance

### 14 | Steering Capability

During the period under review, Macedonia was governed by two different coalitions. The first coalition government (2006 – 2008) was led by VMRO-DPMNE and included the Democratic Party of Albanians as the main coalition partner together with a number of smaller parties. Under the leadership of Prime Minister and VMRO-DPMNE Chairman Nikola Gruevski, this coalition held 65 seats in the 120-seat national parliament. At the snap elections held in June 2008, VMRO-DPMNE singlehandedly won over half of the seats in parliament (i.e., 63 out of 120 deputies), whereas the main opposition party, the Social Democratic Alliance of Macedonia (SDSM), came in a distant second with 28 seats. VMRO-DPMNE formed a new, oversized coalition by replacing the Democratic Party of Albanians (DPA) with the strongest ethnic Albanian party, the Democratic Union of Integration (DUI). This second coalition government was again led by Gruevski and set the same priorities.

Prioritization

Although the new government was reform-oriented, few experts praised it for tact and diplomatic maneuvering in relations with the opposition parties, especially the DUI. The main transformation goals of this government were NATO and EU integration, tackling the issues of unemployment, creating new jobs, increasing foreign direct investments, eliminating corruption and strengthening the rule of law and the state. Nevertheless, the main priorities of Macedonia's political leadership – that is, gaining membership in the European Union and NATO – were blocked in 2008. At a summit in Bucharest in April 2008, NATO leaders refused to extend an invitation to Macedonia to join the alliance after Greece vetoed the decision in a dispute over the former Yugoslav republic's name. Prime Minister Gruevski made

it his priority to reach a satisfactory settlement of the name issue, but he refused to grant concessions to the Greek side in order to facilitate NATO and EU membership negotiations. The European Union did not grant Macedonia a date for the beginning of membership negotiations due to the slow pace of reform and its electoral irregularities. Tensions between the largest ethnic Albanian party, the opposition DUI, and the main ethnic Albanian party in the governing coalition, the DPA, were a significant constraint on progress in this regard.

Although the coalition has a two-thirds majority in parliament, there are strong mitigating factors that prevent an excessive concentration of power. First of all, the strong figure of the president works to balance the prime minister's tendency to dominate. Second, Macedonia's political system features an informal rule of having the government composed of a multiethnic coalition. Governing such a coalition requires advanced interpersonal skills and accommodation, which in turn necessitates much political maneuvering and compromise and makes the concentration of power unfeasible. In 2008, relations between the government and the president varied. Although they met regularly to discuss the country's troubled NATO accession owing to Greek objections to Macedonia's name, they often did not have a joint stance on foreign policy. As a result, while the president pleaded against the dissolution of parliament, the government strongly favored it.

As with a number of other countries in Eastern Europe, Macedonia's reforms in the last 15 years have been focused simultaneously on two issues: state building and setting up the legal foundation for a functioning market economy. During the rule of VMRO-DPMNE, the government has picked up the pace of economic reforms at the expense of transparent governance, especially in the fields of policy development, changes in legislation and the spending of state funds. The government has drafted legislative amendments aimed at improving the business environment whereby companies are now able to register in Macedonia more quickly, as various aspects of the registration process have been simplified. The law on the real estate cadastre has been amended, resulting in a strengthening of the institutional set-up and requiring a formal decision on a registration request within 15 working days. As the registration of property rights had made good progress, the authorities have been planning to finalize full registration by 2009. In 2008, the Macedonian government offered concessions for the operation of the country's two existing international airports, in Skopje and Ohrid, as well as for the construction and operation of a new cargo airport near Stip.

Implementation

The law on regional development entered into force on 1 January 2008. In accordance with the law on regional development, specific administrative structures for the implementation of the regional development law with a clear distribution of responsibilities began to be created. Regional development councils were set up for all eight regions, and chairpersons were elected from among their mayors.

In 2008, there was further progress toward implementing the strategy for equitable representation of ethnic communities in the public sector, in particular as regards the ethnic Albanian community. In a number of ministries, the percentage of ethnic Albanian employees corresponds to the share of this population in the country in the census figures. Six of the 15 members of the Judicial Council and one of the six elected members of the Council of Public Prosecutors belong to non-majority communities. In 2008, the governmental department in charge of implementing the OFA was upgraded to a secretariat. In addition, a law on the use of languages spoken by at least 20% of the population was adopted in August 2008 that clarifies and extends the scope for the use of non-majority languages at all levels of state and local self-government.

Macedonian policymakers rarely recognize that their previous policies have failed. Since VMRO-DPMNE has led the government, some innovative policies have been implemented. Based on pro-market solutions, the government has chosen the tools and strategies as well as how it organizes and sequences reforms. Reforms promoting pro-market solutions have been enacted in various sectors, but there have been many failures. For example, the parliament that came about after the early June elections enacted 172 laws by 4 August, all by emergency procedure and mainly in the complete absence of opposition members of parliament. Thus, the governing coalition chose to ignore potentially helpful feedback and constructive suggestions that could have emerged from broader consultation on the legislation. The lack of political dialogue between the government and opposition is constantly criticized by the United States and the European Union.

Policy learning

## 15 | Resource Efficiency

The VMRO-DPMNE government has made attempts to make use of available economic, cultural and human resources to pursue its transformation policy. The government's efficiency suffers from a huge public administration that is poorly paid and often lacking the skills to carry out the reforms. Oftentimes, the best and brightest students do not even apply for jobs in public administration. One serious issue is the lack of knowledge and skills to cope with the reform processes and the new responsibilities within the units of local self-government. The government relies on a number of young, successful Macedonians living in the United States to promote Macedonia among foreign investors and to carry out economic reforms. Salaries of civil servants were increased by 10% in October 2007 and by another 10% in September 2008. Additional "career supplements" were introduced in August 2008 in recognition of sustained and effective service, as provided for by the law on the civil service. Amendments to the organic budget law introduced a new method of financing that is meant to link strategic planning more closely with its financial implications.

Efficient use of assets

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. The administration as a whole is moderately efficient, while the local self-government units complain about their financial autonomy. In 2008, through their association ZELS, the municipalities once again asked the central government for additional sources of funding through, for example, increasing the share of the personal income tax or VAT paid to the local government units as well as to deal with the debt accumulated by municipalities before the start of the intensive decentralization process beginning in 2001. Indeed, among those municipalities that were not allowed to enter the second phase, some still have sizeable debts and have had their accounts blocked by legal proceedings. The administrative capacities of some municipalities are very low, and the transparency and accountability of the 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. Human capacity is weak as there is a lack of knowledge and skills to cope with the policy processes and the reforms being undertaken.

In some cases, slow legal procedures and the fragmentation of responsibilities between the central and local governments impede FDI. The fact that program budgeting has not been introduced in the local government units yet remains a problem. Citizens and investors complain that the procedures for issuing construction permits are overly protracted and subject to excessive discretion on the part of municipal authorities. Such a practice leads to problems of construction without proper permits. The municipalities, on the other hand, are reluctant to demolish illegal property as this is costly and politically problematic. For example, the construction-inspection authorities of the city of Skopje have an annual budget of €50,000. Taking into consideration the large number of illegally built houses and even buildings, the inspection authorities lack sufficient resources and the political will to effectively enforce municipal regulations.

The government coalition is comprised of political forces that do not have very different ideological standpoints. While the leading VMRO-DPMNE is a center-right Christian Democratic party with observer status in the European Peoples Party, DUI caters to the interests of the Albanian electorate in Macedonia, which is not very interested in left- and right-wing ideologies. Government ministries in charge of development and the economy are held by VMRO-DPMNE. On the other hand, coordination between the central and local governments is often poor.

Policy  
coordination

Finally, coordination between the president and the government regarding foreign affairs has varied. In principle VMRO-DPMNE maintains that the presidential elections of 2004 were marred by fraud and that Branko Crvenkovski is, therefore, not a legitimate president. In 2008, the prime minister and the president met



regularly to discuss a joint stance on foreign policy. However, there has been disagreement about how to reach an agreement in the UN talks on the name issue. Furthermore, the president pleaded against the dissolution of parliament, which the government strongly favored. The EU Commission 2008 Progress Report on Macedonia notes that a “consolidated rulebook of the procedures of the government was adopted, which included provisions introducing, from 2009, mechanisms to enhance the preparatory phase, including stakeholder consultation, of legislation.” The government adopted a methodology of Regulatory Impact Assessment (RIA) in March 2008 that requires line ministries to provide RIAs with draft bills.

One of the main policies of the government has been to successfully tackle corruption. Following the early elections, the new government continued fighting corruption. Nevertheless, different domestic and international reports and surveys indicate that the government often uses various methods to fight public perceptions instead of corruption itself. The criminal procedure code and the law on the monitoring of communications were amended to enable the police to take special investigative measures for a wider range of cases in which corruption is suspected. The various law-enforcement agencies demonstrated a clear determination to cooperate and coordinate. The EU Commission 2008 Progress Report on Macedonia noted that the Judicial Council continued efforts to combat corruption and ensure impartiality. In 2008, it dismissed seven judges and initiated procedures against 12 others; five disciplinary procedures are ongoing. The State Public Prosecutor demoted two experienced prosecutors from the unit specializing in fighting organized crime and corruption.

Anti-corruption  
policy

The customs administration has continued to combat corruption, and the toll-free anti-corruption hotline has been very successful. A total of 77 disciplinary procedures against customs officers have been completed, of which 40 resulted in dismissals, 14 in suspensions and 23 in fines. The law on the prevention of corruption was strengthened, in particular, to allow the State Anti-Corruption Commission to publish asset declarations without prior approval. In 2008, the commission started to implement the new state program for the prevention and suppression of corruption. It initiated 41 cases of conflict of interest and a number of misdemeanor procedures against officials who failed to submit asset declarations. Transparency International has reported some improvement in the perception about the extent of corruption. The EU Commission has called for the government to continue with reforms, especially in implementing anti-corruption legislation and reforms of the judiciary. The auditing of state spending is done regularly, although irregularities are not quickly resolved. On the other hand, the regulation of party financing – especially during election campaigns – is not precise and allows widespread abuses and criminal practices. Despite the 2006 Law on Free Access to Information, in 2008, journalists and concerned citizens alike had problems gaining access to information. Thanks to the work of the State Anti-

Corruption Commission, as far as asset declarations are concerned, the accountability of officeholders has risen. Macedonia has a code of conduct for the administration as well as formally transparent public procurement systems.

## 16 | Consensus-Building

In Macedonia, all the significant political and social actors agree on a stable market-based democracy as a strategic long-term aim. All parties agree that Macedonia should become a member of the European Union and NATO, although their ideas of how to attain those goals vary considerably.

Consensus on goals

In Macedonia, clearly antidemocratic veto powers do not exist. Despite the reforms introduced by the OFA, on occasion, ethnic Albanian politicians – including leaders of the main political parties, such as DUI or DPA – have questioned the legitimacy of the political order and the territorial integrity of the country. As a protest against police actions, veterans of the National Liberation Army have threatened to reactivate. Although such statements have been taken out of context, they indicate possible dangers to the democratic system.

Anti-democratic  
veto actors

Since the OFA came into force, the record of Macedonia's political leadership in managing the main political cleavage is improving. Slowly but surely, the key Macedonian political actors are learning the blessings of consociational democracy and how to mitigate divisions related to ethnicity. For example, the VMRO-DPMNE decided to co-opt an ethnic Albanian party in its government even after the former had won an absolute majority in the 2008 elections.

Cleavage /  
conflict  
management

On the other hand, some view the collapse of the first VMRO-DPMNE-led coalition government as a consequence of a VMRO-DPA conflict over the recognition of Kosovo, the introduction of Albanian as an official second language, public sector employment of Albanians and the status of NLA veterans. The DPA's temporary departure from the government in March 2008 and the DUI's four-month boycott of parliament in early 2007 have highlighted the threats to stability posed by poor relations between the VMRO-DPMNE and the ethnic Albanian parties. Political decentralization has helped the process, as ethnic minorities now have a stronger say in local matters. However, the "winner-takes-all" attitude of newly elected governments provokes conflicts between democratic parties. This is not necessarily based on political cleavages but, rather, on the conduct of power.

Macedonia's political leadership generally ignores civil society actors. The rise of the think tank sector has proven difficult to ignore, as numerous analyses, surveys and commentaries are produced by experts in these civic organizations. In principle, the legal framework for the functioning of civil society is free of excessive state pressures and bureaucracy. In 2008, the active involvement of NGOs in public policy-making and reforms grew. The think tank sector has also developed in terms

Civil society  
participation

of the quality of its products. The members of the think tank network established in December 2006 provide reports and training sessions founded on solid, evidence-based research and analyses. Nevertheless, although the government respects the right to form and join civil society organizations, including free trade unions, it is hardly receptive to policy advocacy by interest groups, policy research centers and other nonprofit organizations. Government officials rarely engage civil society groups by inviting them to comment on and influence pending policies or legislation. The media, on the other hand, are more accessible to civil society groups and serve as independent sources of information and commentary, thus contributing positively to the country's civic life. Think tank experts are now regular guests on news programs and talk shows, where they voice their opinions and provide policy analysis. The Macedonian Institute for Media (MIM), Radio Free Europe and TV Alsat-M report on various topics of public interest. Although it had been a serious problem in recent years, in 2008, the transparency of the criteria for allocating grants from the state budget to NGOs was improved by introducing public announcements related to calls for proposals, the selection criteria and the results.

In 2008, lustration was on the agenda in Macedonia. A commission has been formed to investigate whether public officeholders were members of the Communist-era secret services. One problem is that, in Central Europe, this process of lustration was carried out immediately or not very long after the fall of communism, while the process has only recently begun in Macedonia. Moreover, at this stage, it is not clear whether there will be sufficient data to pinpoint perpetrators of past injustices in the communist system. On the other hand, a number of crimes were committed during the war-like crisis in 2001 that merit public attention. At least three of four cases from Macedonia that the Hague Tribunal investigated fall into this category. It is difficult to imagine a reconciliation between the perpetrators and victims of past injustices given that the Macedonian Amnesty Law pardoned all members of the National Liberation Army for all deeds except those that fall under the jurisdiction of the Hague Tribunal.

Reconciliation

## 17 | International Cooperation

The new government promotes Macedonia as a hot place to invest and as a reliable international partner in the Balkan region. It works closely with international donors and generally uses international support to improve its policies. However, in the past, cooperation with international agencies (e.g., the World Bank) has not always facilitated significant policy learning and improvement. World Bank aid for reforming the health care sector is a pivotal example of failures to transfer policy knowledge to local institutions. Expert help is provided by various EU agencies and programs as well as partner countries, such as Slovenia.

Effective use of support

The EU accession process provides a strong impetus for reforming the public administration in Macedonia. Macedonia's political leadership works with bilateral and multilateral international donors and makes use of international assistance. In addition to Greece's objections, the European Union's reluctance to start accession negotiations was motivated by doubts about the full stability of Macedonia's democracy and some concerns over the credibility of Macedonian reform policies.

Credibility

On the whole, political actors actively strive to build and expand cooperative international relationships. Macedonia's willingness to cooperate with neighboring countries in regional and international organizations is hindered by the persistent Greek objections to the name the country uses in international forums. Macedonia has fulfilled the criteria for NATO membership, but it was not invited to join the alliance due to Greek objections to its name. These obstacles do not prevent Macedonia's leadership from pursuing cooperation with Greece in various spheres, in particular, the economy. Likewise, despite Bulgaria's illiberal treatment of its Macedonian minority, the leaders of the two countries have developed cordial relations. Macedonia's political leaders have cooperated well with Albania in their common efforts to join NATO. Since 2006, Macedonia has been an official member of CEFTA together with its Western Balkan neighbors.

Regional  
cooperation

## Strategic Outlook

In 2009, Macedonia will face increasing tensions in the functioning of the government coalition as the ethnic Albanian coalition partner will be under pressure to leave the government, which is not able to further pursue Macedonia's integration into NATO and the European Union. Macedonia will continue to implement the Ohrid Framework Agreement (OFA) agenda and the affirmative action program aimed at increasing the number of members of ethnic minorities in public administration. Developments in Kosovo might negatively affect the interethnic relations in the country. The government will also be under pressure to continue economic reforms and achieve stronger growth levels. Likewise, the state of the economy will be affected by the global financial crisis. Democratic presidential and local elections were held at the end of March and early April 2009, respectively, which confirms the country's European leanings. A peaceful vote was seen as crucial for Macedonia's drive to join the European Union and NATO after irregularities had marred last year's parliamentary election. Further harmonizing of Macedonian legislation with EU law is expected. Full EU visa liberalization is expected for Macedonia in 2009. This measure will boost the mood among the population and the elites who travel frequently. The European Union and other Western states and organizations should continue to provide political support and financial assistance to Macedonia until economic recovery picks up in pace.

Despite Greek objections, giving Macedonia a date for the start of EU ascension negotiations or NATO membership will not only help the reformist agenda of the government, but will also be a stabilizing factor for the region itself. Following the Greek de facto veto at the NATO summit in Bucharest, Macedonia appealed to the International Court of Justice to make a ruling as to whether Greece had violated the terms of the 1995 Interim Agreement, which stipulates that Greece should not block the admission of Macedonia to international organizations if it uses the temporary reference "the former Yugoslav Republic of Macedonia" within the United Nations. The longer the Euro-Atlantic integration drive of Macedonia is put on hold, the larger the rift between the Macedonians and ethnic Albanians will be. Given the world's difficult and uncertain economic future, Macedonia's economic recovery will also be an issue of concern. Considering these two factors, there are serious reasons to worry about the consolidation of the country. The potential destabilization of Macedonia would have dire consequences on the whole western Balkan region.