

BTI 2016 | Macedonia Country Report

	scale	score	rank	trend
Status Index	1-10	6.86	# 31 of 129	
Political Transformation	1-10	6.65	# 44 of 129	↘
Economic Transformation	1-10	7.07	# 28 of 129	→
Management Index	1-10	5.74	# 39 of 129	

This report is part of the Bertelsmann Stiftung’s Transformation Index (BTI) 2016. It covers the period from 1 February 2013 to 31 January 2015. The BTI assesses the transformation toward democracy and a market economy as well as the quality of political management in 129 countries. More on the BTI at <http://www.bti-project.org>.

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Key Indicators

Population	M	2.1	HDI	0.732	GDP p.c., PPP \$	13142.4
Pop. growth ¹	% p.a.	0.1	HDI rank of 187	84	Gini Index	44.1
Life expectancy	years	75.2	UN Education Index	0.642	Poverty ³	% 8.7
Urban population	%	57.0	Gender inequality ²	0.162	Aid per capita \$	121.4

Sources (as of October 2015): The World Bank, World Development Indicators 2015 | UNDP, Human Development Report 2014. Footnotes: (1) Average annual growth rate. (2) Gender Inequality Index (GII). (3) Percentage of population living on less than \$3.10 a day at 2011 international prices.

Executive Summary

Political polarization and gridlocked conflicts continue to hamper the Republic of Macedonia's democratic consolidation and progress toward European Union membership. Local elections were held on 24 March / 7 April 2013, and early parliamentary and presidential elections on 13/27 April 2014. Governing parties won large majorities in the elections, increased their share of seats in parliament and consolidated power. However, OSCE/ODIHR reports show that both elections were marred with significant irregularities. The opposition refrained from the announced boycott of the local elections, after the European Union had brokered an agreement for a group of experts, nominated by the government and opposition, to investigate the incident of 24 December 2012, when opposition members of parliament and journalists were evicted from parliament. However, government experts denounced the report and the policy recommendations were not implemented. Following the 2014 parliamentary and presidential elections, the opposition accused the government of abuses of power and decided to boycott parliament. Ignoring the boycott, the ruling majority proposed changes to the constitution. EU efforts since then to restore political dialogue have failed. There were several ethnically motivated protests in 2013 and 2014, and several anti-government social protests at the end of 2014 and beginning of 2015. At the end of January 2015, the prime minister accused the opposition's leader of espionage and for plotting a coup with a foreign secret service. In the beginning of February 2015, the leader of the opposition released wiretapped communications of himself, journalists, leaders of Albanian parties and ministers in the government, that were allegedly made by civilian intelligence, which is directed by the prime minister's cousin.

The official separation of powers is undermined by personal relations between the prime minister, his entourage, relatives and loyal supporters of the governing party holding positions in institutions formally charged with making the government accountable. The governing parties have strengthened their control over many important democratic institutions (including the NGO sector, media, universities and research institutes). Political interference and the government's selective

approach to reforms have harmed the implementation of judicial and anti-corruption reforms. In 2014, a journalist was sentenced to prison for a text he wrote in 2008. Freedom of expression has significantly deteriorated since 2006.

The lack of dialogue between the government and opposition has stalled the High-Level Accession Dialogue with the European Union. However, the European Commission gave recommendations to the European Council, in 2013 and 2014, to open accession negotiations with Macedonia. The Council refused, due to Greece's objections over the outstanding name dispute. Macedonia's NATO membership is also blocked for similar reasons.

The economy showed remarkable signs of recovery and growth compared to the Western Balkan region and Europe. Even though the government made great efforts to promote Macedonia as an investment destination, all around the world, foreign direct investment declined in 2014. Also, the informal sector is substantial and there are contradictory reports on the budget deficit and the public debt. Inequality and social exclusion remain high and so does the unemployment rate, even though it marginally decreased in 2013 and 2014.

Despite the fact that the government demonstrated some capacity to steer policy-making during the review period, its dedication to democratic transformation is highly questionable. The government consistently demonstrates a lack of political will to build consensus and to create an inclusive policy-making process. In addition, the opposition's boycott of parliament undermines the credibility of democratic institutions and exacerbates political polarization. The government remains dedicated to regional cooperation, though its international credibility is faltering.

History and Characteristics of Transformation

Modern Macedonia emerged in 1945 as one of six constitutive republics of the Socialist Federal Republic of Yugoslavia (SFRY). Macedonia declared independence on 8 September 1991, after Yugoslavia disintegrated, and today is a democratic multiparty state with a population of around 2 million. According to the 2002 census results, ethnic Macedonians make up 64% of the total population, while Albanians comprise the largest ethnic minority with 25%. Macedonia's reforms in the last 15 years have focused on three issues simultaneously: state-building, democratic development and establishing a functioning market economy. During the 1990s, although included in parliament and government, Albanians contested the nation-state approach of Macedonian political elites. Albanians refused to accept the status of an ethnic minority in a Macedonian nation-state, pushing instead for an official bi-ethnic state system. The rising grievances, in conjunction with deteriorating security after the Kosovo crisis in 1999, led to an armed conflict between Albanian rebels and government forces in 2001. An EU-U.S.-mediated agreement in August 2001 quickly brought the conflict to an end. The so-called Ohrid Framework Agreement (OFA) envisioned a series of political and constitutional reforms, fulfilling much of the demands raised by the Macedonian Albanians throughout the 1990s. The OFA introduced 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, greater usage of minority languages, equitable representation in the public administration of non-majority communities, as well as confidence-building measures designed to overcome the immediate consequences of the 2001 conflict.

In 2001, as part of the conflict-prevention efforts, 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. The EU supported the process of interethnic consolidation based on the OFA and underlined its successful implementation as a significant achievement in meeting EU criteria when it awarded Macedonia the status of official candidate for EU membership in December 2005. However, an unresolved naming dispute with Greece continues to impede EU and NATO integration.

Due to Greece's objection, the admission of Macedonia to 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 and normalizing and improving relations between the two countries, since 2008, Greece deliberately blocked Macedonia's admission to NATO and opening accession negotiations with the European Union. 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.

A largely unsuccessful privatization process in the 1990s, set the scene for a free market economy, but left many unemployed and socially excluded. Over the years, the country managed to maintain macroeconomic stability and grow reserves; however, it grappled with low growth rates up to the mid-2000s. A Euro-Atlantic perspective, solid macroeconomic data and a new technocratic government, brought higher foreign investments and growth. However, the positive development was short lived. Even though the government managed to prevent negative consequences from the financial and economic crisis, and has continued to make considerable efforts to promote Macedonia as an investment destination; faced with little in the way of Euro-Atlantic prospects, it turned to a nationalist-populist and authoritarian style of governance, which has substantially undermined democratic transformation.

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

Transformation Status

I. Political Transformation

1 | Stateness

In principle, the state has a monopoly over the use of force in Macedonia. There are no visible active organizations, private militias or vigilante groups advocating racist or xenophobic agendas or threatening the political and social stability of the country's transition to democracy. The implementation of the Ohrid Framework Agreement (OFA), which brought peaceful resolution to the civil war that almost occurred in 2001, to a large extent subdued the interethnic conflict and contributed to a consolidation of the state's monopoly of the use of force. However, there are several challenges that should be taken in consideration. For example, there is a trend of security privatization. Private security agencies have legal law enforcement powers including the right to detain and search people, and to use force and bear firearms. This raises concerns because one company, Security Group Services, has come to dominate the private security market and gets most of the public contracts for private security services. While the ownership structure of the company is unclear, media reports link the ownership to the director of civilian intelligence, who is related to the prime minister. Organized crime groups operating in northern and western Macedonia are another reason for concern. Even though the police work to combat organized crime, these clan-like groups can pose a risk in rural regions. Finally, radical fundamentalists from Macedonia who joined the Islamic State (IS) in Syria pose another threat. Even though experts estimate their numbers to be around a dozen, they might be a security hazard in the future.

By law, all citizens have the same civil rights. The country's various ethnic, religious and cultural minorities are not excluded, de jure or de facto, from citizenship. In the 2002 population census (latest available data), 64% of the population identified themselves as ethnic Macedonians. The largest minority ethnic community, ethnic Albanians, constituted 25% of the population; the shares of other ethnic groups ranged below 4% of the population. Following OFA's implementation, there are legal provisions to advance the status and position of ethnic minorities. For example, a

Question
Score

Monopoly on the
use of force

9

State identity

7

principle of “equitable representation” guarantees employment quotas for minority members in public institutions and there is a Secretariat for Implementation of OFA, a government body headed by a deputy prime minister, overseeing the implementation. However, there are strong concerns that the employment of minorities is politicized and used to create clientelistic links with the electorate. Furthermore, EU progress reports claim that there are 1,500 to 1,700 minority members who are on the government’s payroll, but are not assigned administrative or work duties.

On the other hand, ethnic identification is strong and the general impression is that politicians additionally polarize ethnic relations for political reasons. For example, Nikola Gruevski, leader of the Internal Macedonian Revolutionary Organization – Democratic Party for Macedonian National Unity (VMRO-DPMNE), and Ali Ahmeti, leader of the Democratic Union for Integration (DUI), though partners in government, both used inflaming ethno-nationalist rhetoric in their campaigns for local and parliamentary elections. Several violent protests increased interethnic tensions in 2013 and 2014. The protests were connected to the appointment of Talat Xhaferi, a former guerrilla commander in 2001, as minister of defense, as well as to the court verdict in the case of five young fishermen killed at the lake in Smilkovci in 2012 and the murder of a teenager in the municipality of Gjorche Petrov in Skopje.

In addition, the VMRO-DPMNE-led government pursued its program of “antiquization,” a nationalist policy that links the origin of present-day ethnic Macedonians with the Macedonians of antiquity and the legacy of Alexander the Great. Antiquization has been contested by many ethnic minorities and some ethnic Macedonians, who question the financial and nation-building aspects of both.

Church and state are separated in the constitution and there is a law on the legal status of churches, religious organizations and religious groups. However, in practice all religious communities are not equal. The Macedonian Orthodox Church and the Islamic Religious Communities are favored. New Christian and Islamic denominations find it difficult to officially register and function in the country. For example, the Islamic Bektashi community from Tetovo remains unregistered and their claims for restitution of property are not answered. The U.S. State Department Human Rights report considers the leader of a Christian Orthodox group who was sentenced to prison for his claim that under canon laws the Macedonian church should be under the jurisdiction of the Serbian Orthodox Church as a political prisoner. He was released in January 2015 at the request of the Russian Orthodox Church, as a means to open negotiations over the jurisdiction of churches in Serbia and Macedonia. Furthermore, church officials remain strongly involved in public affairs and give political comments in support of some of the policies of the conservative government. For example, high-level officials from the Macedonian Orthodox Church supported the ruling VMRO-DPMNE party in making legal changes to the constitution and discrimination legislation, to the detriment of the LGBT population.

No interference of religious dogmas

8

The administrative structures of the state are in place and provide most basic services throughout the country. Macedonia has 98 to 99% access to sanitation facilities and water sources. The country was first in the Balkan region to establish a special group on public administration reforms and there is a Ministry of Information Society and Public Administration which coordinates reform processes. There is a well-functioning electronic register of legislation, improved e-government services and a new legislative framework, which passed in February 2014, to improve the transparency, accountability and merit-based employment in public administration. However, the management of public finances is weak, while the politicization of public administration is high. OSCE and ODIHR election reports cite credible allegations that public administration employees were subjects of systematic political pressure. Furthermore, the state apparatus still suffers from widespread corruption, political patronage, conflict of interest and lack of technical skills.

Basic
administration
9

2 | Political Participation

There were local elections in Macedonia in March and April 2013, and parliamentary and presidential elections in April 2014. The president is elected by popular vote under a majoritarian system. Of the 123-member parliament, 120 are elected under closed party proportional system in six multimember districts with around 290,000 voters, where seats are distributed according to the d'Hondt formula. Three members of parliament are elected under majoritarian system in three out-of-country constituencies: Europe and Africa, North and South America, and Australia and Asia. There is a legal obligation for each party to have a minimum of 30% representation of both genders on their party lists. Voting is allowed only to persons who have biometric documents for personal identification.

Free and fair
elections
7

Elections were competitive and efficiently administered; however, not entirely free and fair. The start of the local elections was uncertain due to the announced boycott of the opposition, following an incident on 24 December 2012 when members of parliament and journalists were thrown out of parliament. However, after the European Union mediated an agreement for the incident to be investigated, the opposition decided to participate in elections. The turnout in the local elections was 67%. The ruling party, VMRO-DPMNE, won mayors in 55 municipalities, and the opposition led by Social Democratic Union of Macedonia (SDSM) won mayors in four municipalities. The Albanian junior coalition partner, DUI won 14 mayors and their opponent Democratic Party of Albanians (DPA) won two. The results of the parliamentary and presidential elections in April and May 2014 confirmed the dominance of the ruling parties. Turnout in the parliamentary elections was 63%. For the presidential elections, the turnout in the first round was 49% and 54% in the second round. VMRO-DPMNE won 43% and 61 Members of parliament, SDSM got 25% and 34 seats, DUI 14% and 19 seats, and DPA 6% and seven seats. However, after the voting ended, SDSM announced that it did not consider the elections and results legitimate and that it would boycott parliament.

There were no significant irregularities on election day and no significant problems with counting. However, there were serious irregularities during the campaign, and a slow and biased appeal process.

According to OSCE/ODIHR reports, the campaigns were overshadowed with ethnic tensions. For example, DUI called voters to boycott the presidential elections, arguing that its coalition partner had failed to agree on a joint presidential candidate. During the elections, state and party activities were blurred, which did not provide a level playing field. For example, the prime minister, in a rally in the municipality of Jegunovce, claimed that there would be no funding for local projects if his party, VMRO-DPMNE, did not win. Ruling party candidates repeated similar messages in several other municipalities. There were ambiguities in the voter registry. The OSCE/ODIHR has verified concerns over reports that a large number of voters were registered at the same address. There were two re-runs in the municipality of Centar, where most of the “Skopje 2014” project is based, after VMRO-DPMNE lost. Ethnic Macedonian voters from Albania, reportedly living in Centar, were transported to the polling stations in order to cast their ballots in favor of the governing party. There were numerous reports of voter intimidation, pressuring public administration and misuse of state resources for campaign purposes. OSCE/ODIHR noted that there was partisan media coverage. Public broadcasting and most private media outlets largely favored the ruling parties, likely because the government is among top advertisers in the country. The State Election Commission (SEC) is professional; however, political parties nominate the members. The SEC tends to be divided along ethnic and party lines in its work.

There are no potential veto powers – such as the military, foreign powers, totalitarian parties, regional hierarchies and/or economic oligarchies – that are able or willing to depart from democratic procedures. The military and the intelligence services, according to the constitution and laws, are under civilian control. However, there is a systematic problem with oversight mechanisms. The parliamentary committee in charge of the civilian intelligence service did not manage to establish proper oversight in 2013. The service continued to be headed by a close relative of the prime minister, and the opposition’s boycott in 2014 prevented the parliamentary supervisory committee from convening. In return, civilian intelligence has consistently increased its budget and capacities since VMRO-DPMNE came to power in 2006 and has increased its competence in legal changes announced in the beginning of 2014. Media and civil society actors cannot provide oversight because there is a systematic problem with access to information. The customs administration and financial police lack the resources needed to effectively fight organized crime.

Effective power to govern

7

Freedom of association and assembly rights are guaranteed by the constitution. The law for citizens' associations and foundations, adopted in 1998 and amended in 2007 and 2009, provides for wide practices. The government generally respected this right. However, in October 2013, the police prevented the protests of journalists and civil society activists, which were staged in front of a museum where VMRO-DPMNE leaders were hosting an event. In June 2014, several protesters in a violent ethnic protest were arrested and put on trial. In March 2013, unknown persons attacked two of the organizers of the "March of Tolerance" in support of LGBT rights. Furthermore, the VMRO-DPMNE-led government favors civil society organizations that are affiliated with the ruling political parties. Faced with protests coming from various social groups, VMRO-DPMNE has a tendency to inspire and support counter-protests.

Association /
assembly rights
7

Freedom of speech is guaranteed in the constitution and most of the legal framework protecting freedom of expression is in place. However, diversity of views in electronic and print media outlets is limited. According to Reporters Without Borders' World Press Freedom Index, media freedoms have dramatically worsened in Macedonia in the past several years. Out of 180 countries, Macedonia dropped from position 34 in 2006 to 117 in 2015. The 2013 U.S. State Department Human Rights report considered the government's pressure on the media as a growing problem. According to the report, the government has distorted the advertising market, making the media financially dependent on government advertising. Mainstream media tended to report only favorably on the government's activities. A number of journalists were pressured to adopt a pro-government viewpoint or lose their job, which resulted in an increase in self-censorship. The EU Progress Report of 2014 found freedom of expression to be highly problematic. Public broadcasting largely favored the ruling party during the elections in 2013 and 2014. The EU report claims that there is indirect state control of media through government advertising and government-favored media outlets.

Freedom of
expression
4

The dialogue between the government and the Association of Journalists of Macedonia (AJM) has been at a standstill after journalist and opposition members of parliament were thrown out of parliament on 24 December 2012. AJM submitted an appeal with the Constitutional Court; however, the court ruled it inadmissible. The ruling majority passed controversial media legislation in December 2013. After serious objections from the Council of Europe, OSCE, AJM and other domestic and international actors, the Ministry of Information Society and Public Administration agreed to make adequate changes.

Nikola Mladenov, one of the most reputable journalists in Macedonia, died in a suspicious car accident in March 2013. The authorities quickly dismissed any uncertainties in an open-and-shut investigation. However, when one journalist, Tomislav Kezharovski, investigated the accident and came up with new findings, he was arrested and taken to custody in May 2013. Kezharovski was charged for a text

message he wrote in 2008, in which he allegedly disclosed the identity of a protected witness in a murder case. In the text, he wrote only the first name of the person, who he claimed was under police pressure to become a protected witness and to support a false accusation. A couple of years later, the protected witness confessed that he was lying and thus confirmed Kezharovski's story. Nonetheless, Kezharovski was sentenced to four years in prison, which the appellate court lowered to two years in January 2015. Following strong reactions from international and domestic associations of journalists, but also from the OSCE, the European Union and a number of Western countries, Kezharovski was released from prison and spent most of his time under house arrest.

3 | Rule of Law

Power in Macedonia is divided among the three branches of government: the parliament (Sobranie), the executive (the government, with president and premier) and the judiciary (Supreme Court, Constitutional Court and the public prosecutor). Since 1991, an ethnic Albanian party is a junior coalition partner in government. The president may veto legislation once; however, he has to accept if the same bill passes for a second time. Previous presidents, Kiro Gligorov (1991-1998), Boris Trajkovski (1999-2004) and Branko Crvenkovski (2004-2009), played a more influential role during their terms. However, Gjorge Ivanov, who was re-elected in 2014, has not managed to make considerable impact on policy, which remains heavily influenced by the ruling party.

The government tends to dominate the parliament by taking more initiative to propose or amend legislation. The parliament has not provided effective checks and balances to the government. The opposition, SDSM, boycotted parliament in the first three months of 2013 and after the parliamentary elections in April 2014. Also, DPA left parliament briefly in 2014, following a squabble with members of parliament from DUI. However, this did not prevent the ruling majority from undertaking important legislative changes, for example the changes made to parliament's rules of conduct in early 2013, and proposing changes to the constitution in the second half of 2014. Personal relations between the prime minister, his associates, relatives and loyal supporters of the governing party undermine the official separation of powers, as those relationships influence the institutions responsible for holding the government accountable. Also, the absence of an opposition hampers the efficient work of parliament.

Direct government involvement in court cases remains a serious problem. According to a U.S. State Department report, the government used political pressure and intimidation to influence the judiciary. The government also exercised budgetary authority to influence the judiciary. Furthermore, the process of appointing and dismissing judges, even though placed under the competence of an independent judicial council, seems to be heavily politicized.

Separation of
powers
6

The independence of the judiciary is formally guaranteed by the country's legal framework and has gradually been strengthened in practice. There is a Court Budget Council, an Academy for Judges and Prosecutors and a self-elected Judicial Council that appoints and dismisses judges. Despite the fact that the structural preconditions for independence are in place, the functional independence of the judiciary has not yet been achieved. EU and U.S. reports are similarly concerned with issues such as selective justice, political pressures and interference of government. Some court procedures are prolonged, while others – usually those with a high political profile – are habitually expedited in outcome and time. For example, in two different court cases, Prime Minister Nikola Gruevski sued Tito Petkovski, leader of a smaller opposition party, and Zoran Zaev, leader of SDSM, for libel and defamation. The sentence in the first case came in one week; Petkovski was ordered to pay €10,000 in compensation. The sentence in the second case was a bit slower; however, it ordered Zaev to pay €50,000 in compensation. There is a growing concern about selective justice and persecution of political opponents. For example, Miroslav Shipovic, the opposition chairperson in the local council of Centar municipality, was arrested on embezzlement charges in October 2013 and detained for several months. This was a political gain for the government, because the opposition lost its slim majority in the council. Shipovic stroke a deal and was released. When he returned to the council, he voted in support of VMRO-DPMNE's proposal and against the proposals of his own party.

Independent
judiciary
6

On the one hand, there is a perception among the population that the judiciary is corrupt. On the other hand, the judiciary suffers from a lack of funds. For example, in 2013, 80% of the judiciary budget was allocated for salaries. According to changes made to the criminal code in December 2013, the public prosecutor is in charge of investigation. However, the prosecutor's office remains understaffed and lacks other capacities.

The legal framework is in place and there is a track record of investigations, prosecutions and convictions. Also, Macedonia implemented most of the recommendations given by the Group of States against Corruption (GRECO) to improve its system to combat corruption in 2013. According to EU reports, anti-corruption bodies lack financial resources; they also need to increase their capacities and to improve their horizontal cooperation with other relevant institutions, such as courts and the public prosecutor.

Prosecution of
office abuse
5

On the other hand, corruption remains prevalent and there are little concrete results from these anti-corruption efforts. Vlado Buchkovski, former prime minister and minister of defense, was sentenced to two years in prison in 2014. He remains the only former high-level official sentenced for abuse of power. Actions against acting high-level officials are seldom taken and in cases where there are allegations of misconduct, anti-corruption authorities seem to take the official's side. For example, in October 2013, Radmila Shekerinska, vice president of opposition party SDSM,

called on the prime minister and his cousin, Sasho Mijalkov (director of civilian counterintelligence), to explain Mijalkov's increase of assets. In return, VMRO-DPMNE accused Shekerinska of failing to declare her own assets. The anti-corruption commission took action against Shekerinska and was content with additional information provided by Mijalkov. Similarly, when Zoran Zaev, leader of SDSM, accused Nikola Gruevski, the prime minister, of mediating a murky bank takeover, the court did not take his evidence into consideration, but found Zaev guilty of defamation and ordered him to pay a financial compensation to the prime minister for the insult.

The "Skopje 2014" project remains financially highly controversial. When the project was launched in 2008, the government projected the cost at around €80 million. However, at press conference in April 2013, the Ministry of Culture admitted that around €207 million were spent on buildings, monuments and sculptures. Some NGOs estimate that the government has spent twice as much and the opposition insists that the figure comes close to €1 billion. Andrej Zhernovski, the new mayor of the Centar municipality, ordered an audit of all activities in the municipality in relation to the project. The first part of an independent expert's audit, published in August 2013, found that about €8 million, transferred from the central budget account to the municipality account, are not accounted for. Neither the public prosecutor nor anti-corruption commission has taken action on the report.

Civil rights are guaranteed by the constitution, and in principle, they are respected. However, some vulnerable groups of the population are often subject to discrimination and denial of basic liberties. The authorities' selective application of established laws especially harms Roma and the poor. In 2013, the office of the ombudsman received 3,780 complaints, 27% fewer than in 2012. The violations were mostly related to the judiciary, consumer rights and property rights. An EU progress report from 2014 claims that in about 80% of the cases, state bodies accepted and followed the ombudsman's recommendations. The ombudsman investigated some violations in regard to anti-discrimination and prison treatment. However, prison officers continue to degrade incarcerated persons, while the courts and prosecutors sometimes show solidarity with the police officers. Prisons remain overfilled. For example, there were 2,500 convicted adult prisoners in December 2013, although the prisons were designed to hold only 1,820 prisoners.

The Commission for Protection of Discrimination, established in 2011, remains understaffed and lacks adequate capacities. The commission investigated 67 complaints in 2013, and found that there was discrimination in 14 cases. However, the commission can only issue recommendations and does not have the ability to punish offenders. The public at large does not seem to be aware of the existence and work of the commission.

Civil rights

8

Women are underrepresented in senior positions in the private and public sector, and they own fewer property. Women from rural regions and Romani women have limited access to health services. A U.S. State Departments Human Rights report from 2013 estimated that women earned 78% of what men earned. Members of LGBT groups and activists advocating their rights are often targets of physical violence, harassment and use of derogatory language, including from journalists and government representatives. The LGBT support center, located in the Old Bazaar in Skopje, was twice attacked and demolished. The police have failed to find the attackers and bring them to justice.

4 | Stability of Democratic Institutions

In principle, democratic institutions exist and perform their basic functions. However, constant frictions put their efficiency under question. On the one hand, the ruling VMRO-DPMNE maintains a firm grip over key democratic institutions. The government seems to control parliament, rather than to be accountable to it. The government has significant influence over the judiciary, at least in high-profile political cases, and the ever-expanding public administration is strongly politicized. The public broadcasting and mainstream media are more inclined to support the viewpoint of the government, rather than to criticize their work. Mayors from the ruling party are in power in most of municipalities and are inclined to firmly follow their party governance. However, municipalities where mayors are from opposition parties have difficulties cooperating with the central government and inspections from different line ministries (i.e., health, labor and finance) make more frequent controls in these municipalities.

On the other hand, the policy-making process remains exclusive and there is a lack of political dialogue between the government and opposition, which hampers the EU integration process. For example, the High-Level Accession Dialogue (HLAD) has been on standstill due to a lack of political dialogue between the government and opposition. An EU-facilitated expert group, led by a domestic legal expert and composed of experts from the government and opposition, investigated the incidents of 24 December 2012, when journalists and opposition members of parliament were thrown out of parliament, and developed a policy recommendation in the fall of 2013. However, the government representatives denounced the report. The report had no policy impact and did not improve political dialogue. Furthermore, the opposition boycotted parliament for the greater part of 2014.

Also, there are interethnic frictions, even between partners in government. For example, DUI demanded a joint candidate with VMRO-DPMNE for the presidential election. When VMRO-DPMNE refused, DUI called its voters to boycott the presidential elections. After the elections, DUI did not recognize the legitimacy of President Gjorge Ivanov. For example, members of parliament from DUI were not present for the president's annual addresses to the parliament in 2014.

Performance of
democratic
institutions
6

Citizens, by and large, accept the legitimacy of democratic institutions. In principle, all influential political actors accept the democratic institutions. However, the opposition boycotted the parliament in the first three months of 2013 and after the parliamentary elections in April 2014. To a large extent, the opposition regards and labels the governance of VMRO-DPMNE as an authoritarian regime. On the other hand, the prime minister accused the leader of the opposition of espionage and planning a coup d'état with a foreign security service at the end of January 2015. The Ministry of Interior arrested several persons based on these charges and raised criminal charges against the leader of the opposition. DUI, the junior coalition partner in government, does not recognize the legitimacy of President Gjorge Ivanov, who was re-elected as the candidate of their ruling partner, VMRO-DPMNE, in 2014. While there is a general commitment to democratic institutions, increasing political polarization deteriorates their function.

Commitment to democratic institutions

6

5 | Political and Social Integration

The main political parties in Macedonia – 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. They have alternated in power and there is no new significant player on the scene. In recent years, the SDSM and the VMRO-DPMNE have followed their respective ideological stance more than they did in the early 1990s. Since the electoral system was changed to a party-list proportional representation system in 2002, SDSM and VMRO-DPMNE have led block coalitions in elections. The leading political parties among Macedonia's Albanians were founded on various ideas of how best to achieve the political reforms needed to improve the status of this community. The ruling Macedonian-Albanian party was founded as a successor to the National Liberation Army, which took part in a conflict with government forces in 2001. Among the parties of the ethnic Albanians, ideological differences have not played an important role. On the other hand, political parties are the least-trusted institutions in Macedonia across generations. For example, a youth study done in 2013 showed that youth have the least trust in political parties.

Party system

7

Party fragmentation and volatility have decreased over time. Ethnic divisions are the main political cleavage; however, there is a strong polarization between political opponents in each ethnic group. Ethnic nationalism remains an important issue for political mobilization. Also, clientelism plays an important role. A poll conducted by a local think tank in 2011 showed that about 20% of the electorate admit that they would vote for a party if they have a personal interest. After coming to power, VMRO-DPMNE has sought various ways to extend public goods to targeted groups. For example, the number of employees in public administration is expanding, the

subventions for farmers are increasing and so are benefits for pensioners. In return, the party demands political and voter support. Similarly, DUI, the junior coalition partner, has used employment quotas for minority members provided with the implementation of OFA as instruments for clientelism.

After the parliamentary elections in 2014, the ruling VMRO-DPMNE and DUI consolidated power. They won most votes and increased their seats in parliament. Polls consistently show that SDSM, the main opposition party, has less support than the governing party. On the one hand, the government has used aggressive media propaganda against the opposition. On the other hand, the opposition is plagued by internal problems of credibility and leadership.

The voices of interest groups are hardly heard. Trade unions, since independence, have been subject to political influence as a bulk of their income has been allocated from the central budget. In general, unions lack autonomy, stable finances, management capacity and an active membership. Social dialogue remains weak, in particular in the private sector. Social movements are often organized to protest about ethnic issues. For example, protests occurred following the appointment of Talat Xhaferi, a former guerrilla commander, as minister of defense in 2013, and in two different cases in 2014: the first connected to a court verdict on the killing of five ethnic Macedonians at the lake in Smilkovci and the second, unrelated to the first, the murder of an ethnic Albanian teenager in Gjorche Petrov municipality in Skopje.

The government tends to prefer an exclusive policy-making process. It submits proposals to parliament, and the ruling majority rarely questions or modifies them. However, lack of inclusion of social groups to whom the legislation applies creates social unrest. For example, students and university professors organized several protests objecting to changes in the law for higher education at the end of 2014. The union of teachers went on strike objecting to changes in the law for elementary and secondary education in January 2015. Persons working on an honorarium basis, but for whom this comprises their main or additional income, protested when the government enacted changes to raise their tax base. In all of these cases, legislation was prepared and adopted without an inclusive consultation. However, at the end of January 2015, the government showed a willingness to reconsider parts of the legislative changes in reaction to the wave of protests.

Interest groups

6

A survey done by the Institute for Democracy “Societas Civilis” in 2011 shows that 73% of Macedonian citizens believe that democracy is the best form of government. A similarly high percentage believe that experts (and not politicians) should make decisions and that usage of violence for political goals is always illegitimate; however, they also believe that socialism was better than the present system. Over 60% do not agree that the military should take over, even in radical situations, and over 50% do not agree that security is more important than freedom and that society should sometimes be changed through a revolution, respectively.

Approval of
democracy

7

On the other hand, citizens’ trust in the institutional underpinnings of democracy is lower. There is strong disappointment with the way democratic norms are put into practice. Citizens understand that since Macedonian parties are very centralized structures, the voice of an individual member of parliament is not relevant.

Hence, the above-mentioned survey indicated a lower level of trust in the government (42%), president (39%), parliament (32%) and judiciary (28%) than in police (45%) and the army (56%). Trust in the international community is relatively high (41%) compared to domestic democratic institutions.

A large part of Macedonian society functions through the use of social capital. Using connections is often necessary to complete even the simplest administrative tasks. According to a 2011 survey conducted by the Institute for Democracy, “Societas Civilis,” 85% agree that who you know is more important than what you know. On the other hand, 12% report that they trust other people, while 85% say one should be careful when establishing relations. Solidarity is higher with socially excluded and people with disabilities, but much lower with ethnic or sexual minorities. A youth study done in 2013 found that 13% of the youth volunteer, compared to 10% of general population who said they often volunteer and 18% who said that they volunteered few times, according to a survey done in 2011.

Social capital

6

Membership in political parties (33%) is slightly higher than membership in unions (30%) and much higher than membership in NGOs (14%) or sport clubs (14%); even though 75% say they are willing to associate with others to achieve their own goals. Political parties dominate social relations, and it is no surprise that many civil society organizations in Macedonia are politicized and represent the agenda of the main political parties. Civil society organizations remain heavily dependent on foreign funding. An amendment to the law on citizens’ associations and foundations enabled civil society organization to be involved directly in economic activity and to obtain the status of public benefit organization. Civil society in rural areas is largely underdeveloped and no measures have been undertaken to improve the situation. At the municipal level, local government units lack sufficient capacity to ensure standardized cooperation with civil society organizations.

At the end of 2014 and beginning of 2015, there was a convergence of several social movements and groups in a growing anti-government attitude. Students and professors, workers paid on contract bases, journalists, and unions of teachers organized in formal and informal organizations, each of which demanded improvements pertinent to their situation. The cause and demands of each group was supported by the others. Also, the converging support featured a genuine cross-ethnic solidarity. For example, during various protests, signs were made and speeches were delivered in Macedonian and Albanian languages.

II. Economic Transformation

6 | Level of Socioeconomic Development

In 2013, GDP per capita was \$11,612 based on purchasing power parity (PPP), with a slight 1.3% increase compared to 2012. According to the U.N. Human Development report in 2013, the Gini coefficient was 43.6, which is the highest in the Western Balkan region and among the highest in Eastern European countries. According to the World Bank, poverty was over 27% in 2012. Many local NGOs estimate that over 30% of the population lives in poverty. Research reports find that families of minimum income earners live in poverty. For over a decade, unemployment was over 30%. However, according to the State Statistical Office, unemployment dropped to 29% in 2013 and below 28% in 2014. On the one hand, authorities increased administrative criteria for registering as unemployed, but also eased access to higher education. However, long-term unemployment remains high and youth unemployment is estimated at over 50%. The World Bank connects high unemployment in Macedonia to the structural problems of its economy, for example, a failure to reform in the transition process and to diversify industries. Remittances from the Macedonian diaspora (an estimated 550,000 persons) play a crucial role in party reduction and are mainly used to cover consumption.

Even though females make up 50% of the population, they represent about 39% of the labor market. Women are consistently paid less and assume fewer senior positions in the public and private sectors. One-third of the deputies in parliament are women, thanks to an obligatory gender quota for party lists. The U.N. Human Development Index was 0.73 in 2013 and 0.74 in 2014. Macedonia shared its ranking with Ukraine, at 78 out of 187 countries and territories.

Question
Score

Socioeconomic
barriers
6

Economic indicators		2005	2010	2013	2014
GDP	\$ M	6258.6	9407.2	10767.4	11323.8
GDP growth	%	4.7	3.4	2.7	3.8
Inflation (CPI)	%	0.2	1.5	2.8	-0.3
Unemployment	%	37.3	32.0	29.0	-
Foreign direct investment	% of GDP	2.3	3.2	3.8	1.1
Export growth	%	17.9	23.7	-2.7	17.0
Import growth	%	9.7	10.4	-10.0	14.5
Current account balance	\$ M	-159.3	-198.3	-195.0	-163.9
Public debt	% of GDP	36.7	24.1	34.2	38.2
External debt	\$ M	2981.5	5343.9	6933.8	-
Total debt service	\$ M	274.6	632.5	922.2	-
Cash surplus or deficit	% of GDP	2.3	-2.5	-	-
Tax revenue	% of GDP	18.4	16.9	-	-
Government consumption	% of GDP	16.2	18.3	17.7	16.8
Public expnd. on education	% of GDP	-	-	-	-
Public expnd. on health	% of GDP	5.0	4.3	4.4	-
R&D expenditure	% of GDP	0.24	0.22	-	-
Military expenditure	% of GDP	2.0	1.4	1.2	1.2

Sources (as of October 2015): The World Bank, World Development Indicators 2015 | International Monetary Fund (IMF), World Economic Outlook, October 2015 | Stockholm International Peace Research Institute (SIPRI), Military Expenditure Database 2015.

7 | Organization of the Market and Competition

The foundations of a competitive market economy are, by and large, established in Macedonia. The legal system for a functioning market economy is largely in place. Foreign direct investments (FDI) were reduced in the reporting period. According to the National Bank of Republic of Macedonia, FDI represented 3.3% of GDP in 2013 and were only 0.83% of GDP in the first three-quarters of 2014. The Macedonian denar (MKD), the state currency, is tied to the euro at a rate of MKD 61.5 to €1. Rating agencies point out to the stability of the denar as one of the competitive advantages of the Macedonian economy. For example, in their 2014 rating of Macedonia, Fitch pointed out that the stable currency contributed to maintaining

Market-based
competition

7

macroeconomic stability and keeping inflation lower, compared with other peer countries.

The role of the state is very moderate in price setting and in the share of productive capital; however, the weak enforcement of laws and frequent legal changes hamper market competition. On the other hand, the government introduced incentives that favor foreign investors (free economic zones, flat tax and subsidies) before doing so for domestic firms. The government enforced a “regulatory guillotine” project, which strongly facilitated market entry. For example, the World Bank’s Doing Business report ranks Macedonia among the leading countries in the world for starting a business. According to a World Bank Enterprise Survey in 2013, while it is easy to obtain import and operating licenses, it is more difficult to obtain construction-related permits. Even though shorter bankruptcy procedures and out-of-court settlements in case of insolvency were introduced in 2013, market exit remains more complicated. According to an EU Progress report, only 20% of bankruptcy procedures were concluded in 2013, which is significantly less than in 2012 (35%).

Nonetheless, 30% of firms in the World Bank 2013 Enterprise Survey identified the informal sector and practices as the main obstacle for doing business. Access to finance was the second reason (20%) and political instability was third (10%). Some local scholars estimate that the informal sector accounts for 40-45% of GDP. However, a local think tank conducted a study in 2012 and, using the Electricity Consumption Method, showed that the informal sector shrunk from 34% of GDP in 2000 to 24% in 2010. Notwithstanding the differences in estimates, the informal sector continues to contribute a considerable amount to the overall economy.

Anti-monopoly institutions and legislation are in place and operate well in Macedonia. The Commission for Protection of Competition (CPC) is in charge of anti-monopoly measures. In 2013, the criminal code was harmonized with the Law on Protection of Competition, allowing more leniency. Also, the CPC organized training for judges and court staff in cooperation with the Academy for Judges and Prosecutors. According to an EU progress report, the CPC made two decisions on anti-competitive agreements, four on abuses of dominant positions and 18 on market concentrations in 2013. Most of the cases were in the telecommunication industry, and more specifically dealt with cable operators’ concentrations and broadcasting of foreign channels. However, the CPC has yet to investigate the conduct of some oligopolies, such as the banking sector and pharmaceuticals.

State aid is low in volume (below 1% of GDP). However, the allowed threshold of €200,000 is significant for the market in Macedonia. The government’s selectivity in the enforcement of rules, payments of public contracts and tax return to companies have a greater impact on the market and constitute a more significant form of the state’s influence on competition.

Anti-monopoly
policy
8

Foreign trade has been extensively deregulated and there is no fundamental state intervention in free trade. This particularly applies to the treatment of foreign investments. Macedonia is a member of the World Trade Organization and the Central European Free Trade Agreement, and it has agreed to a liberalization of trade with the European Union in its Stabilization and Association Agreement. There are no restrictions or controls on payments, transactions, transfers or repatriation of profits. However, most of the charges to cross-border electronic payment transactions remain disproportionate to those for domestic electronic payment transactions. The European Union is the most important trade partner with 76% in export and 64% in imports in 2014. Germany is the single most important trading partner, by far in both exports and imports, compared to other EU member states.

Liberalization of
foreign trade
10

Macedonia has a solid capital market, characterized by a substantial foreign ownership of banks (75%), low shares of non-performing loans, and hard budget constraints between companies, banks and the public sector. Fitch's Rating Report of Macedonia in 2014 puts the banking sector among the country's strengths, labeling it as sound and well supervised. The legal minimum capital adequacy ratio that banks must maintain is 8%, and the banking system is well above it. For example, according to the Banking System Risk Report of the National Bank of Republic of Macedonia, the capital adequacy ratio was 16.5% in the third quarter of 2014. The share of non-performing loans in total loans was 11-12% over the reporting period, with the highest peak of 12.4% in July 2013 and similarly, 12.2% in September 2014. However, over 80% of non-performing loans were fully covered by provisions. The National Bank of Republic of Macedonia conducts supervision, both on- and off-site, in full compliance with the Basel Accord. The Bank maintains a maximum of 5% credit risk exposure for the whole banking system. The Bank also handles a system of consumer complaints.

Banking system
9

The banking sector is relatively small, consisting of 15 private banks, four saving houses and the state-owned Macedonian Bank for Development Promotion. The three dominant banks in Macedonia, Komercijalna Banka, Stopanska Banka Skopje and NLB Tutunska Banka, together comprise more than 60% of total market activity. Beyond these three banks, the market remains highly fragmented. In 2014, Poshtenska Banka merged with Eurostandard Bank. The annual growth rate of corporate credits increased from 0.9% in 2013 to 7.3% in 2014.

8 | Currency and Price Stability

Monetary policy and anti-inflation measures are in the hands of the National Bank of the Republic of Macedonia (NBRM). NBRM is an independent institution with a formally strong governor. The rate of inflation, which was in the double digits in the early 1990s, has since then remained very low. According to the World Bank, inflation was 2.8% (CPI) in 2013. According to the National Bank of Republic of Macedonia, it was -0.3% in 2014. The Macedonian denar, the state currency, is tied to the euro, with an exchange rate of 61.5. The stability of the currency prevents high inflation. Deflation in 2014 was a consequence of the economic situation in the European Union, the main trading partner of Macedonia. Foreign reserves declined from \$2.52 billion in 2012 to \$2.48 billion in 2013. The government used the reserves to service debts and the governor allowed it to a certain extent. Reserves were in decline until July 2014. Then the government successfully issued a €500 million Eurobond to finance parts of the budget in 2014 and 2015, and to service debts.

Anti-inflation /
forex policy

9

Over the past decades, Macedonia's macroeconomic stability was generally maintained by strict monetary and fiscal policies as advised by the IMF. As of 2006, the VMRO-DPMNE-led government has opted for more populist policies, which resulted in an increase of the government debt. However, it also contributed to growth, the highest among Western Balkan countries, and it attracted some FDI. While the GDP per capita remains around 35% of the EU average, GDP growth was positive, increasing from -0.4% in 2012 to 3.31% in 2013 and was expected to reach 3.3% in 2014, according to the World Bank.

Macrostability

7

The current account balance remains negative; however, it narrowed in 2013, due to a decrease in the gap between trade and foreign transfers, FDI and remittances. The public debt was estimated to be 35.9% of GDP in 2013, an increase compared to 33.3% of GDP in 2012. However, the government changed the definition of public debt to exclude debt instruments issued by government entities other than treasury, debt issued by sub-national entities and intra-governmental debt. An EU progress report estimated the central government debt to be 40.8% of GDP in July 2014, and total public debt to be close to 50% of GDP. The rising budget deficit is behind the central government's debt increase. Even though the government targeted a 3.6%-3.9% of GDP deficit in 2013, it ended the year with 4.2%. The planned 3.5% deficit in 2014 was revised to 3.9% in the supplementary budget; however, final figures remain unclear. The government successfully issued a €500 million Eurobond in July 2014 to pay maturing debt, cover budget deficits in 2014 and 2015, and contribute to foreign reserves. The Fitch Ratings Report on Macedonia in 2014 considered that reserves are sufficient to continue the support of the long-standing informal currency link to the euro.

It is worrisome that most government spending tends to be concentrated in pre-electoral periods. For example, in 2013, 85% of the planned deficit was reached by the end of July. However, capital spending accounted for 10%-15% in 2013 and 2014. It is unclear whether such fiscal policies of the government can maintain macroeconomic stability. In August 2014, the ruling majority proposed changes in the constitution to limit the central government deficit to 3% of GDP and the public debt to 60% of GDP; however, it is unclear how the constitutional provisions will be implemented in practice. One consequence is that parliament cannot vote on budget plans outside those limits. It is very likely that the budget deficit will remain over 3% of GDP in 2015. Another proposed change to the constitution includes introducing a free “financial zone.” The government claims to follow the example of Luxembourg, with the aim to attract banks and financial organizations. While some see opportunities in establishing local business and job creation, others cautiously point out possible negative ramifications.

9 | Private Property

The constitution guarantees property rights to citizens and investors. Foreign investors can acquire property rights if they register a company in Macedonia. The Agency for Real Estate Cadaster completed the land registry, which covers 100% of Macedonian territory. Notary fees to register property were reduced and time limits are enforced. In general, property rights in Macedonia are adequately defined with regard to the acquisition, use, benefits and sale of property. Exceptions occur in cases when restituted land or buildings are acquired. The government made a public campaign and advocated for individuals and companies to register their private property in 2013 and 2014. Furthermore, deadlines for individuals were extended several times and the government offers administrative assistance, free of charge, for welfare recipients and vulnerable groups. However, the sale of public land is sometimes conducted below market price value, which may indicate corruption. At the end of 2014, the government decided to nationalize arable land in private possession (owned by private persons and the Macedonian Orthodox Church) and pay a sum substantially lower than market price to support the building of a tourist complex on the shores of Lake Ohrid.

Though privatization in Macedonia during the 1990s and early 2000s was not consistent with market principles, the legal framework for a functional private sector is in place. Private enterprises form the backbone of the national economy and accounted for approximately 85% of GDP in 2013 (according to the European Commission). Only 15 companies remained in full state ownership; however, the government decreased its participation in two of these companies. A new Public Enterprise for State Roads was established in January 2013.

Property rights
8

Private enterprise
9

In its 2014 report on Macedonia, the European Commission noted that frequent legal changes, uneven enforcement of regulatory compliance requirements and difficult contract enforcement would hamper the development of a competitive private sector. The World Bank Doing Business report ranks Macedonia among world leaders in easiness to register a new firm. The government introduced a one-stop-shop system to improve market entry. For example, all types of trade companies should be registered within four hours of submission. However, in practice, government officials admit that it may take one or two working days. The one-stop-shop system also offers variety of e-services to support potential investors.

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 public welfare regime offers monthly cash payments, subvention for personal care, one-off cash payments and in commodities, and cash payments for childcare, foster care and home care. Notwithstanding one-off donations and fundraising events, there is no systematic private welfare regime. The poverty rate is high. While the World Bank estimates it around 27%, local NGOs believe it is over 30% and researchers show that families of minimum income earners live in poverty. Surveys done in 2012 and 2013 show that about 75% of the population use their monthly budget for food, utilities and running costs.

Studies find that over 40% are at risk of being socially excluded. Roma (85%) are the most vulnerable group, as are Albanians (55%). The Roma community lives in deep poverty and suffer from poor social and economic conditions. They face impediments in the labor market due to wide spread prejudice and discriminatory practices. Roma are most likely to be socially excluded and constitute the highest percentage (55%) of families without a single employed person.

The monthly welfare payment is €35 for the first 12 months, but is cut thereafter by 50%. There was a 5% increase of social benefits in 2013. Vulnerable groups were provided additional rights and access to social benefits was simplified. In 2013, the government took action on social inclusion and employed 1,600 welfare recipients and 300 people with disabilities in state administration. The government also provides active measures for employment; however, estimates show that they target 20%-30% of welfare recipients. The government also introduced an annual increase of pensions by 5%. Pensions constitute the second most important income in family budget. In 2014, the government also provided one-off debt payments for people living in poverty, which included bank credits, utility bills and other miscellaneous debts. This was a major electoral promise of VMRO-DPMNE in the parliamentary elections in April, and they delivered before the end of the year. Private companies and banks were offered tax exemptions to forego standing debts of people living in poverty. Following their model, the governments in Serbia and Croatia initiated similar programs.

Social safety nets

7

Legal provisions providing for equal opportunities are in place. An anti-discrimination law was enacted in 2011; however, it does not fully comply with EU law because it does not explicitly prohibit discrimination on the grounds of sexual orientation. There is an inter-sectorial consultative and advisory group for equal gender opportunities. There is also a Commission for Preventing Discrimination. However, the commission is understaffed, lacks financial resources and basic capacities. For example, their offices are not accessible to the physically disabled. The commission has dealt mainly with gender equality cases. Females make up half of the population, but their representation in the labor market is lower and there are only a few women in senior positions in the private and public sector. However, there is a compulsory gender quota for political party lists in elections.

Equal opportunity
7

The government prepared an anti-discrimination plan for the 2011 to 2015 period. However, most measures up to 2014 were based on awareness-raising campaigns. Even though OFA provides for equitable representation of minority communities in public representation, Roma, Turks and other smaller ethnic groups remain underrepresented. Due to a strong political polarization, discrimination on the basis of political affiliation presents a huge impediment for employment in the public sector.

11 | Economic Performance

Macedonia had an economic recovery in 2013 and 2014. According to the World Bank, GDP grew by 3.1% (to \$10.2 billion) in 2013, and growth for 2014 is expected to be 3.3%, or \$10.6 billion. GDP per capita reached \$11,612 in 2013. A modest growth of over 3% is expected to continue in 2015. However, it is quite impressive when compared to other economies in the Western Balkan region and throughout Europe. The current account deficit was 1.8% in 2013 and is expected to rise to 2.2% in 2014. Inflation was modest in 2013 (2.8%) and the National Bank of Republic of Macedonia (NBRM) expects a slight deflation in 2014 (-0.3%), which is mainly the result of the economic situation of the European Union, Macedonia's main trade partner with over 75% of trade volume. FDI amounted to \$350 million in 2013 (3.3% of GDP), and according to NBRM, FDI is likely to reach \$150-175 million in 2014. Growth is fueled less by FDI and more by private consumption, and growth in construction and manufacturing. In 2014, the prime minister announced an investment program in public infrastructure. Road infrastructure projects in Corridor X are the flagship of the program, jointly co-financed with EBRD, EIB and funds from European Union's Instrument for Pre-Accession Assistance (IPA) program.

Output strength
6

Unemployment remains high, even though it slightly decreased from 2013 (29%) to 2014 (28%). The budget deficit rose to 4.2% in 2013. The deficit was planned at 3.5% deficit in 2014, then it was revised to 3.9% in the supplementary budget; however,

final figures remained unclear at the time of writing. The gross external debt in 2013 rose to \$6.9 billion and total debt services increased to \$0.9 billion.

To attract more FDI, the government, among other actors, has opened free economic zones, offering a 10% flat tax and various subsidies for foreign investors. Government policies were promoted in foreign media and high-level officials including the prime minister presented the investment opportunities in various road shows all around the world. One of the strategies of the government is to target labor-intensive cluster industries, for example, the automotive industry. Several U.S. and German automotive part producers were attracted to open production facilities; however, they offer relatively low salaries, even by local standards (approximately €200-300). Even though the new investments help in job creation, they are not sufficient to prevent high emigration or a brain drain.

12 | Sustainability

Environmental awareness in society at large and among lawmakers has grown in recent years but is still low. Environmental concerns tend to take a back seat to growth consideration. Wastewater treatment plants do not exist; while a network of sewers is maintained in towns and cities, wastewater is simply collected and released in rivers. Rare examples, such as the unfinished Lake Ohrid environmental protection project, are supported by the donor community. However, the project is in jeopardy due to announced plans to build a big tourist resort on the lake's shores. The government provides incentives for renewable energy through guaranteed buy out; however, it limits production licenses. The government offers subventions to households for solar panels; however, they are given out in a lottery. On the other hand, all new buildings are required to be energy efficient.

Air pollution in major cities, such as Skopje, Tetovo and Bitola, is a severe problem. According to the World Health Organization, Skopje and Tetovo are among the most polluted cities in Europe. They have the highest air pollution in Eastern Europe. Only Sarajevo was found to be more polluted. Several factors account for air pollution: using wood for heating (68% of households, according to a survey done in 2011), traffic and outdated metal industry production facilities. On several occasions, the government postponed the enforcement of environmental measures requiring metal industry to modernize production. There were protests against the air pollution in Tetovo and Skopje in 2014; however, they did not create a wider social movement and had little impact on policy-making. The World Bank estimates that air pollution cost the economy 3.2% of GDP, or \$253 million per year.

Environmental
policy

5

The literacy rate in Macedonia is very high (97-98%), and so are enrollment rates in primary (89%), secondary (82%) and higher education (38%) in 2013. The VMRO-DPMNE-led government introduced obligatory secondary education and eased access to higher education. The government also made substantial investments in the technical capacities of secondary schools, university laboratories and in translating major publications for higher education in Macedonian language. New universities and higher education institution have opened in different cities around the country. However, due to the lack of adequate human and other capacities, this policy significantly decreased the quality of higher education. Education and training facilities are of very poor quality. It is believed that public expenditure on education is 3% of GDP; however, the data is uncertain. However, it is quite certain that R&D expenditures are at 0.2% of GDP.

Frequent changes in the Law for Higher Education allowed direct involvement of the Ministry for Education in scientific criteria, curriculum, and content in the educational processes, including financial and organizational operations of public and private universities. Several professors initiated a process in front of the Constitutional Court for breach of university autonomy; however, the court decided otherwise. Wanting to improve the quality of higher education, the government proposed legal changes ordering professors to publish in impact factor journals and demanding students to pass two state exams (one in their second and another in their final year) to get a university diploma. Students and professors organized massive protests against the proposals at the end of 2014 and beginning of 2015. Nonetheless, the ruling majority enacted the changes in January 2015.

Education policy /
R&D

6

Transformation Management

I. Level of Difficulty

The structural constraints on governance are fairly high in Macedonia. It is a landlocked country with high unemployment rates (over 30% between 2000 and 2012, which declined by 1-2% in 2013 and 2014), high poverty rates (around 30%) and a high proportion of the population at risk of social exclusion (over 40%). Gross national income (GNI) per capita was \$4,870 in 2013. The country does not have strategically important natural resources. The natural gas network is underdeveloped and the transport infrastructure is in dire condition. The country inherited structural problems from the previous regime, such as poor infrastructure, high unemployment, lack of technology and general skills for a rapid economic transformation; and the poor management of the transition process in the aftermath of Yugoslavia's dissolution, including societal, economic and political aspects of the process, contributed to the painful adjustments that Macedonia underwent on its way to a market-based economy. In addition, Macedonia is situated in a region characterized by political instability and violent ethno-political conflict.

Structural
constraints

5

There are some civil society traditions in Macedonia. In the previous regime, certain forms of civic organizations, like the Association of Women and the Association of Youth of Macedonia, were largely under state control; however, others, like voluntary fire brigades and sports clubs, were not. At the end of the 1980s, before Yugoslavia collapsed, civil society strengthened considerably and Macedonia witnessed a rise in the number of civic groups, movements and associations. The number of NGOs progressively increased after democracy was introduced, and reached 5,000 to 6,000 registered organizations in the late 2000s. They have been mostly donor-driven and most of them lack significant capacities. The law for citizens' associations and foundations allows civil organization to assume certain public competences. Since the electoral victory of VMRO-DPMNE in 2006 and its consecutive governments in the last nine years, civil society in Macedonia has come under severe pressure to follow the government's policies or to face various pressures and inconveniences by the state and by the political party in power. However, certain interest groups (e.g., chambers of commerce and professional chambers, organizations of employers, and various health groups) have come to play a stronger public role and are more engaged in policy-making.

Civil society
traditions

5

Society and the political elite in Macedonia are polarized along ethnic and party lines. Interethnic tensions escalated into an armed conflict in 2001. The short-lived conflict caused relatively few casualties (officially some 160 on both sides, almost evenly divided). The conflict was brought to an end with the signing of the OFA, which provided a framework for the development of a multicultural society, based on the principles of equitable representation of ethnic communities, decentralization, and respect for minority rights. The implementation of these principles has been associated with numerous political conflicts, and the ethnic division of society continues to be reflected in Macedonia's party system.

Conflict intensity
5

Politics is very confrontational. For example, there was electoral violence between competing Albanian parties in 2006 and 2008, and high frictions in 2013 and 2014. Also, there is deep mistrust and lack of political dialogue between competing parties of ethnic Macedonians. For example, the opposition boycotted parliament after parliamentary elections in 2014, blaming the ruling party for abuse of power. The prime minister accused the leader of opposition for espionage and planning a coup d'état with foreign security service at the end of January 2015.

There were ethnically motivated protests with low levels of violence in 2013 and 2014, and social protests at the end of 2014 and beginning of 2015.

II. Management Performance

14 | Steering Capability

Question
Score

The coalition government consolidated power after the parliamentary elections in 2014. The ruling VMRO-DPMNE has absolute majority, and together with DUI, their junior coalition partner, they hold a two-thirds majority in parliament. The mutual commitment to the European Union and NATO accession process between the government coalition partners has been maintained on the political agenda. The government was successful in steering the country out of the economic crisis and has achieved growth; however, their commitment to a democratic normative framework is questionable.

Prioritization
7

The government lacks strategic capacity to prioritize and organize policy measures, for example, gaining and organizing expertise, evidence-based policy-making, and implementing regulatory impact assessments and strategic planning units. The policy-making process is to a large extent not inclusive. For example, without discussing it with relevant stakeholders, the government made substantial investments in technical equipment in education and health, and introduced legal changes that worsened work conditions in both sectors in terms of creating a work

overload and introducing many sanctions. Hence, the teachers' union went on strike, and students and professors organized social protests in 2013 and 2014. Additionally, after their strike was suppressed in 2012, doctors have been fleeing the public health sector, mainly to emigrate or to work in the private sector. Long-term reforms, such as a EU-requested public administration reform, fall prey to electoral consideration, for example, the employment of party cadres. The ruling VMRO-DPMNE was more willing to invest in the "Skopje 2014" project, which symbolically burdens relations with Greece, than to work on finding a common solution to the name dispute. The budget of the Ministry of Interior is constantly increasing and the bulk goes to civilian intelligence, while the defense budget has decreased to a point that the army can no longer maintain NATO interoperability standards.

Public administration is politicized and employment is a source of party clientelism. The Ministry of Information Society and Public Administration (MISPA) is in charge of public administration reform, while main decisions remain with the prime minister. A common regulatory framework for state and public administration passed in February 2014, and will be implemented in 2015. It implies that the administrative staff in important independent regulators (e.g., National Bank) will be under control of MISPA, which put it at risk of future political control.

The High-Level Accession Dialogue (HLAD) with the European Union has been in a stalemate because there is a lack of political dialogue between the main parties in Macedonia. However, even though the opposition is boycotting parliament, the ruling majority did not refrain from proposing important legislative changes, for example, amendments to the constitution.

The government has had moderate success in reaching some of its strategic priorities, such as increasing growth, decreasing unemployment and investing in education, science, and information and communications technology. However, the lack of political will to push for democratic reforms, to a great extent hinders the implementation of other strategic priorities. For example, EU integration is blocked as a strategic priority due to the name dispute with Greece; however, there is a lack of political will to continue with necessary EU reforms. Also, improvement of rule of law was not met as strategic priority because, for the ruling elite, political control is paramount. Improving interethnic relations and implementation of OFA are other strategic priorities that were not fully met because the ruling elite used ethno-nationalistic mobilization in elections.

Under VMRO-DPMNE rule, the government has picked up the pace of economic reform at the expense of transparent and democratic governance, especially in the fields of policy development, changes in legislation and the spending of state funds. The government managed to attract many competent young people, some Western educated with high technocratic skills, which in turn significantly supported the policy implementation process. On the one hand, human capital in some line

Implementation

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ministries has deteriorated. For example, the Ministry of Finance built strong institutional capacities. On the other hand, the Ministry of Foreign Affairs got a new building, but the quality of diplomats is declining. Ambassadors are elected in open calls. Some newly appointed ambassadors enjoy political support, but have questionable capacities.

The authoritarian style of the prime minister provides short-term policy efficiency with long-term negative consequences. The Minister of Interior is his faithful follower, however, she is overshadowed by the director of civilian intelligence and prime minister's cousin. The minister of health emulates the prime minister's governance in all aspects and the minister of transport often suffers media attacks for corruption. Fatmir Besimi, deputy prime minister in charge of EU integration from DUI, is a moderate voice in support of consensual politics and EU reforms. However, Musa Djaferi, another deputy prime minister from DUI in charge of OFA implementation, has seriously politicized the employment quotas for minority members. The government's economic tandem, Zoran Stavrevski and Vladimir Peshevski, both deputy prime ministers, the former also minister of finance, have shown significant technocratic skills and capacities for creative policy-making; however, the sustainability of their policies is uncertain. Vele Samak, a self-described guru for attracting FDI and the cabinet member in charge of FDI since 2006, has been a quiet, yet leading force behind policies and practices to attract FDI in Macedonia.

The government displays a general ability for policy learning to improve its technocratic capacities and practices. The government is open to good practices and established international standards. For example, the Ministry of Health reached out to international cooperation and experts to improve delivery of services and establish a program for continued training of doctors. The government subsidized translation and publication of relevant literature across different scientific disciplines to be used in higher education. The government also received a World Bank project in 2013, the Public Expenditure Policy Based Guarantee (\$201.5 million), to improve public finance management (e.g., strategic planning and budgeting), to improve the efficiency of service provisions in the health sector, and to strengthen social protection and inclusion.

However, the government shows little flexibility to change policies and to have an inclusive policy-making process. For example, the government is willing to reconsider policies when faced with protests. However, political dialogue remains weak. In 2013, a EU-facilitated expert group, chaired by a domestic expert and with the participation of government and opposition experts, investigated an incident from 24 December 2012 when journalists and opposition members of parliament were thrown out of parliament. The final report offered policy recommendations; however, the government's experts refused to sign the report and labeled it as "toilet paper" to the media.

Policy learning

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15 | Resource Efficiency

The government has attempted to make use of available economic, cultural and human resources. Salaries were increased in the public administration, although efficiency did not improve. A merit-based system is not in place, as patronage practices are widespread, but there is a façade of competitive recruiting procedures. The practice of politically motivated dismissal and appointments continued during the period under review. The budget is not balanced and the government missed even the revised targeted budget deficit. The debt is manageable, even though external and public debts are growing. The latter is unclear because the government changed the definition of public debt. In addition, budget planning and implementation lack transparency, and planned deviate from actual expenditures. Capital investments usually suffer due to social transfers. According to an EU progress report, the state auditor lacked funding and capacities to fully exercise its competences. The high-level of financial resources spent on the “Skopje 2014” project for sculptures and buildings is worrisome. In 2013, the Ministry of Culture admitted that the cost had already exceeded \$200 million and was not yet complete. Local NGOs and the opposition believe that the real costs are much higher. The government claims that such spending supports the growth of the construction sector. However, many believe that costs are high due to corruption. Fiscal decentralization is lagging behind and the transfer of competences from the national to the local level is politicized. For example, municipalities where the opposition is in power receive no support from the central government. Centar municipality in Skopje is the only municipality in Macedonia that did not own construction property in 2014.

Efficient use of assets

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The government coalition is made of VMRO-DPMNE, a nationalist conservative party and observer member of the European People’s Party (EPP), and DUI, a minority Albanian party. While they lack ideological congruence, and often politicize and deepen ethnic divisions, both parties want to cater to their electorate and have assumed a similar rigid and populist governance style. The prime minister maintains a very personalized and centralized policy coordination process, which matches his populist and authoritarian outlook. For example, some government sessions are broadcast live, and one can see the prime minister single-handedly coordinating the work of the government. The majority of economic and social portfolios (e.g., finance, labor and social policy, health) are in the hands of VMRO-DPMNE. DUI is in charge of education, EU integration and implementation of OFA. The partners in government sometimes have friction over interethnic issues. However, there is very close coordination between the president and government on foreign affairs issues. The policy coordination is effective to the extent that many question the integrity and independence of the directly elected president. Funding policies rarely consider balanced regional development a priority.

Policy coordination

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Macedonia has well elaborated institutional arrangements and regulations in place to contain corruption; however, the government is only partially willing to address the issue. For example, there is a State Commission for the Prevention of Corruption (SCPC) and a State Audit Office; however, they lack capacities, public visibility and take little action to prevent corruption. According to an EU report, 40% of the posts in the SCPC remain vacant. In 2013, the SCPC submitted nine requests to the public prosecutor to initiate criminal proceedings and there was a 50% drop in corruption-related convictions. The SCPC did not seem willing or able to tackle cases on reported high-level corruption, especially if they were against high-level officials from the government or governing party. For example, the SCPC did not take measures to investigate an increase of assets of the director of civil intelligence and some members of parliament. Also, the SCPC remained silent on independent audit reports showing that €8 million transferred from the central budget account to the account of Centar municipality for the “Skopje 2014” project were not accounted for.

According to OSCE/ODIHR reports, there are shortcomings in the legislation for party financing and the implementation thereof. The State Audit Office is not able to fully control the origin of donations. The closure of campaign bank accounts and treatment of debts is not regulated. Transparency and accountability of political party financing remains a concern. According to an EU report, corruption in public procurement is a serious concern. There were six convictions under the criminal code for abuse of public procurement procedures in 2013. In January 2014, legislative changes required all documents to be public in procurement procedures. However, a monitoring report showed that all documents were not published in 40% percent of the cases, and that in 60% the criteria for companies were very high. A survey of 267 companies carried out in June to July 2014 showed that companies give a score of 2.86 (on scale of 1 to 5) to the public procurement system (compared with 2.84 in 2013). Significant problems remain, even though public procurement goes through electronic bidding and the main criteria is the lowest price. Companies point out that problems include the amount of documentation requested to participate in bidding, extremely detailed procurement calls to fit a certain supplier and unrealistic prices on expenses of quality or price increases after winning the bid with an annex to the contract. Some 93% of companies said that they would not appeal because of high costs and lack of trust in institutions.

Anti-corruption
policy

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16 | Consensus-Building

There is a weak consensus on a democratic normative framework. The government maintains a rigid, strong hand and to a great extent an authoritarian-like style of governance. The policy process is not inclusive and there is little room for the opposition to play a constructive role. Government-leaning media promote ongoing propaganda labeling the opposition as the enemy of the state. Following the early parliamentary elections in April 2014, the opposition boycotted parliament. The European Union tried to improve the political dialogue between government and opposition, but with little success. At the end of January 2015, the prime minister accused the leader of the opposition of espionage and plotting a coup d'état with a foreign secret service. In the beginning of February 2015, the leader of the opposition released a wiretapped communication between himself, journalists, leaders of Albanian parties and government ministers, and accused the prime minister for the scandal.

Consensus on goals

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Major political and social actors agree on a stable, market-based democracy as a strategic long-term aim. All parties at least verbally agree that Macedonia should become a member of the European Union and NATO, although ideas over how to reach this goal vary considerably. Due to the inability to solve the name dispute with Greece and to make progress in NATO and EU integration, the government has tried to diversify international cooperation by reaching out to Russia, China and India. Their efforts are underlined with the aim to diversify and increase FDI. None of the significant actors object to a free market economy.

There are no powerful anti-democratic actors in Macedonia. The military and police are largely under civilian control; however, it is unclear to what extent and to whom the civilian intelligence is accountable. The National Liberation Army (NLA), the guerrilla group that challenged the state in 2001, was demobilized following the conflict and most of the organizational structure was transformed into the Democratic Union for Integration (DUI). DUI remained a junior coalition partner in government after the elections in 2014, as it had been since 2002. Some NLA veterans, not satisfied with the state of interethnic relations and with their personal position, have made verbal threats to regroup; however, their capacity to act is highly questionable. One radical Albanian group proclaimed a "Republic of Ilirida" in Macedonia in 2014; however, with no apparent significance. However, rising economic oligarchs who have offshore investment partners have questioned the strategic orientation of the country toward the West and advocated turning toward the East.

Anti-democratic actors

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Macedonia is an ethnically divided society. The ethnic cleavage is important and salient for political mobilization. Almost all political parties appeal to their own ethnic constituency. This creates stability in the party system; however, it also keeps ethnic relations fragile. There are institutional instruments to remedy the situation. For example, coalition governments have been multiethnic since 1992, which is an important power-sharing mechanism. On the other hand, the implementation of OFA brought significant institutional instruments (e.g., equitable representation, minority veto, language rights and decentralization) to improve the status of minority communities. However, the political leadership often uses ethno-nationalistic rhetoric for political mobilization. For example, in the early parliamentary and presidential elections in 2014, the incumbent prime minister asked for absolute majority, mainly from ethnic Macedonians voters, in order not to be blackmailed by his Albanian coalition partner. The leader of DUI similarly used ethno-nationalism in the campaign. Conversely, Stevo Pendarovski, the presidential candidate from the SDSM opposition party, appealed to voters from different ethnic groups. However, he lost the election.

Cleavage /
conflict
management
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Political polarization within the ethnic groups is also on the rise. The opposition overturned its decision to boycott local elections in 2013, after the European Union mediated an agreement that the incident of 24 December 2012, when opposition members of parliament and journalists were evicted from parliament, will be investigated. In 2013, an EU-facilitated expert group, involving experts nominated by the government and opposition, developed a report about the incident and made policy recommendations. However, government representatives in the expert group did not sign the report and labeled it as “toilet paper.” After the elections in 2014, the opposition accused the government of abuse of power and decided to boycott parliament. The opposition made five demands to return to parliament: to form a technical government before next elections, to separate the party and the state, to improve media regulation, to improve electoral legislation and to conduct a census to check the electoral lists. The demands, apart from the request to form a technical government, were noted in the last OSCE/ODIHR electoral monitoring report. EU efforts to improve political dialogue have failed. On 31 January 2015, Prime Minister Gruevski accused Zoran Zaev, the leader of the opposition, of espionage and plotting coup d'état with a foreign security service.

There are sufficient institutional mechanisms and adequate legal framework for consulting civil society organizations in policy-making. For example, the government has a Strategy for Cooperation with Civil Society (2012 – 2017) and an action plan (2012 – 2014). The parliamentary committees organize public hearings with the participation of civil society, and legislative changes are available through an e-register. There are also public financing criteria for the selection and evaluation of civil society organizations. However, the practice diverges from the legal framework.

Civil society
participation
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According to an EU report, public financing of civil society organizations remains inadequate and is not transparent. 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. The government and the main governing party are very aggressive in attacking those who publicly disagree with their stance. Predominant parts of the intellectual and academic elite are silent, as are most independent journalists. Most people fear for their jobs if they disagree with the government. Opposition parties are also very sensitive on criticism directed at their activities.

The political leadership formulates policies autonomously. As a result, the union of teachers went on strike, and students and professors, journalists, and contract workers organized protests against the government's policies at the end of 2014 and beginning of 2015.

Macedonia experienced a brief interethnic conflict in 2001. In 2014, the process of reconciliation remains incomplete, which hampers improvement of interethnic relations. Even though the number of civilian casualties was very low compared to other interethnic conflicts in the Balkans, none of the alleged civil war crimes was investigated. Members of Macedonian security forces were put on trial by the Hague Tribunal, and one was found guilty. However, in 2013, after serving his prison sentence, he returned to Macedonia and was greeted as a hero in a big public celebration, accompanied by the prime minister and high-level officials. He was appointed organizational secretary of the ruling VMRO-DPMNE party, a position he still had at the end of the review period. Parliament gave amnesty to war crimes cases allegedly committed by members of NLA, the Albanian guerrillas, which were not processed by the Hague tribunal. DUI, the party that emerged from NLA, organizes annual commemoration events dedicated to the battles and fallen fighters from 2001. The program starts on the day when the first battle was waged and ends on the day when OFA was signed. DUI also sponsored a museum dedicated to NLA in one municipality in the conflict-affected region.

The process of lustration started relatively late in Macedonia, compared with other post-communist countries. There are fears that it was done to serve a political agenda. For example, the Venice Commission of the Council of Europe questioned its impartiality, because, *inter alia*, Macedonia introduced democracy in 1991 and the mandate of the commission extends to 2006, the year when VMRO-DPMNE came to power. Also, several vocal critics of the government were lustrated on shaky evidence, which raises concerns that lustration is used as an instrument to suppress dissent.

17 | International Cooperation

The government, led by Prime Minister Nikola Gruevski, made substantial efforts to promote Macedonia as an investment destination in Europe, the United States, China, Russia, India and Latin America. 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 Croatia and Slovenia. However, no foreign advice is implemented if it does not suit the government's populist agenda.

Effective use of
support
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The government is committed to join the European Union and has sought to align Macedonia's legislation with EU law. As an EU accession candidate, Macedonia receives significant EU funds under the Instrument for Pre-Accession Assistance (IPA). Up to 2013, national authorities had €470 million to manage; however, due to limited capacities and delays in procurement, they lost over €21 million by the end of the year. The European Union has assigned €40 million of indicative funding for the period from 2014 to 2020.

For the most part, the government acts as a credible and reliable partner; however, it is increasingly losing credibility due to deteriorating democratic standards in the country. EU and U.S. reports cite problems with corruption and range of rule of law issues, such as selective justice, blurring the boundary between the state and party, and interfering in the work of the judiciary and free media. Greece continues to reject the use of "Macedonia" as the official name of Macedonia because it perceives this name to imply a territorial claim against Greece. Greece's obstinacy prevented Macedonia's NATO membership and the opening of accession negotiations with the European Union. However, there are serious doubts about the full stability of democracy and concerns over the credibility of reform policies in Macedonia. At the beginning of 2015, the prime minister accused the leader of the opposition of espionage and planning a coup with a foreign security service. In response, the leader of opposition released wiretapped conversations between governing and opposition politicians, and a journalist, allegedly made by civilian intelligence, which is controlled by the prime minister's cousin. Both politicians raised criminal charges against one another. Even if there is an impartial investigation and an institutional resolution to bring the responsible parties to justice, it is likely that the scandal will affect the credibility of the government.

Credibility
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In general, Macedonian political actors strive to build and expand regional cooperation; however, some bilateral relations with neighboring countries remain problematic. In 2014, Macedonia chaired the South-East European Cooperation Process (SEECP) and actively participated in the Regional Cooperation Council (RCC), the Central European Free Trade Agreement (CEFTA), the European Union's Energy Community Treaty and the European Common Aviation Area Agreement. In September 2014, together with Bosnia and Herzegovina and Serbia and Montenegro, Macedonia signed an agreement to reduce telephony roaming charges.

The unresolved name dispute with Greece remains an outstanding bilateral issue, which impedes NATO and EU integration. Macedonia fulfilled criteria for NATO membership and has a recommendation from the European Commission to open accession negotiations with the European Union. However, due to Greece's objection the Euro-Atlantic prospect still seems distant. Relations with Bulgaria are constrained, due to diverging interpretations of history, national identity and national minorities. Bulgaria demands a good neighborly relations agreement to be signed for Macedonia to receive greater support in EU integration. Relations with Albania are generally good, but are also dependent on interethnic relations in Macedonia. The government has its closest relations and cooperation with Serbia, notwithstanding that there are problems between the Orthodox churches in both countries that carry significant political implications. Relations with Kosovo remain good and there are plans to open a new border crossing. Macedonia improved cooperation with Turkey and had an increase of foreign investments from Turkey in 2013.

Regional
cooperation

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Strategic Outlook

Fragile interethnic relations and heightened political polarization constrain the transformation of democracy Macedonia. In addition, the outstanding name dispute with Greece blocks EU and NATO integration. A substantial informal sector and practices, along with high unemployment and social exclusion hamper the transformation of the market economy.

Full implementation of the Ohrid Framework Agreement (OFA) is needed to strengthen interethnic relations in future. Most of OFA's provisions have been implemented; however, the enforcement needs to improve in practice. Equitable representation and employment quotas for minority members should be done on merit bases, instead of being used for the clientelistic practices of minority parties in power. Along with Albanians, smaller minority groups should take advantage of the provisions to improve their status. Further, politicians from different ethnic communities need to show greater tolerance for ethnic diversity and support multiculturalism. The political elite should take into consideration the possibility to introduce pecuniary sanctions for usage of inflaming ethno-nationalistic rhetoric in election campaigns. Also, the political leadership should give more attention to unfinished reconciliation issues. Political leaders from different ethnic groups should work together to find a common approach to understanding and interpreting the conflict in 2001 and have joint commemorations.

The political dialogue between the government and opposition needs to be restored. However, it will be difficult to overcome the divisions. Considering the serious accusations on both sides in January and February 2015, it would seem that first, an impartial and independent investigation is needed, and then, at a minimum, an appropriate institutional resolution is necessary. The opposition needs to return to parliament and the government needs to manifest greater respect for the division of powers, independence of judiciary and free media. Horizontal accountability needs to be strengthened. Fewer political pressures and more investment in the capacities of the judiciary and independent regulators are needed. The government needs to support and maintain an inclusive policy process.

To improve the market economy, the government should introduce incentives for domestic investors and for informal economic actors to register their activities. Currently, the government predominantly supports foreign investors and mainly relies on sanctions to decrease the informal economy. Public procurement needs to be more transparent and done in full compliance with existing legal procedures. Greater usage of EU funds from the Instrument for Pre-Accession Assistance would be beneficial for the country's transformation. In that respect, the government should increase administrative capacities for decentralized management of EU funds and rely more on expert know-how to support local stakeholders in their efforts to utilize the funds. Educational reforms need to be aligned with labor market demands and greater focus should be given to increasing technical skills and expanding vocational training. The government should introduce

specific poverty alleviation programs such as opening thrift stores, and introducing wage reform and a minimum income for decent living.

The name dispute between Greece and Macedonia must be overcome. A reinvigorated U.N. mediation with stronger involvement of the United States and European Union could bring the process toward a closure. International arbitration and “soft” imposition of the solution could be a possible exit strategy for both Athens and Skopje. Both governments could inform the public that decisions were made by forces outside of the individual countries and that the best possible outcome was reached. However, such a strategy would rely on the willingness of the international community to act, as well as on a supportive political and economic climate and sufficient political will in both countries.

Nevertheless, considering the current economic and political challenges, it would seem that political crisis management will be in high demand in Macedonia in 2015.