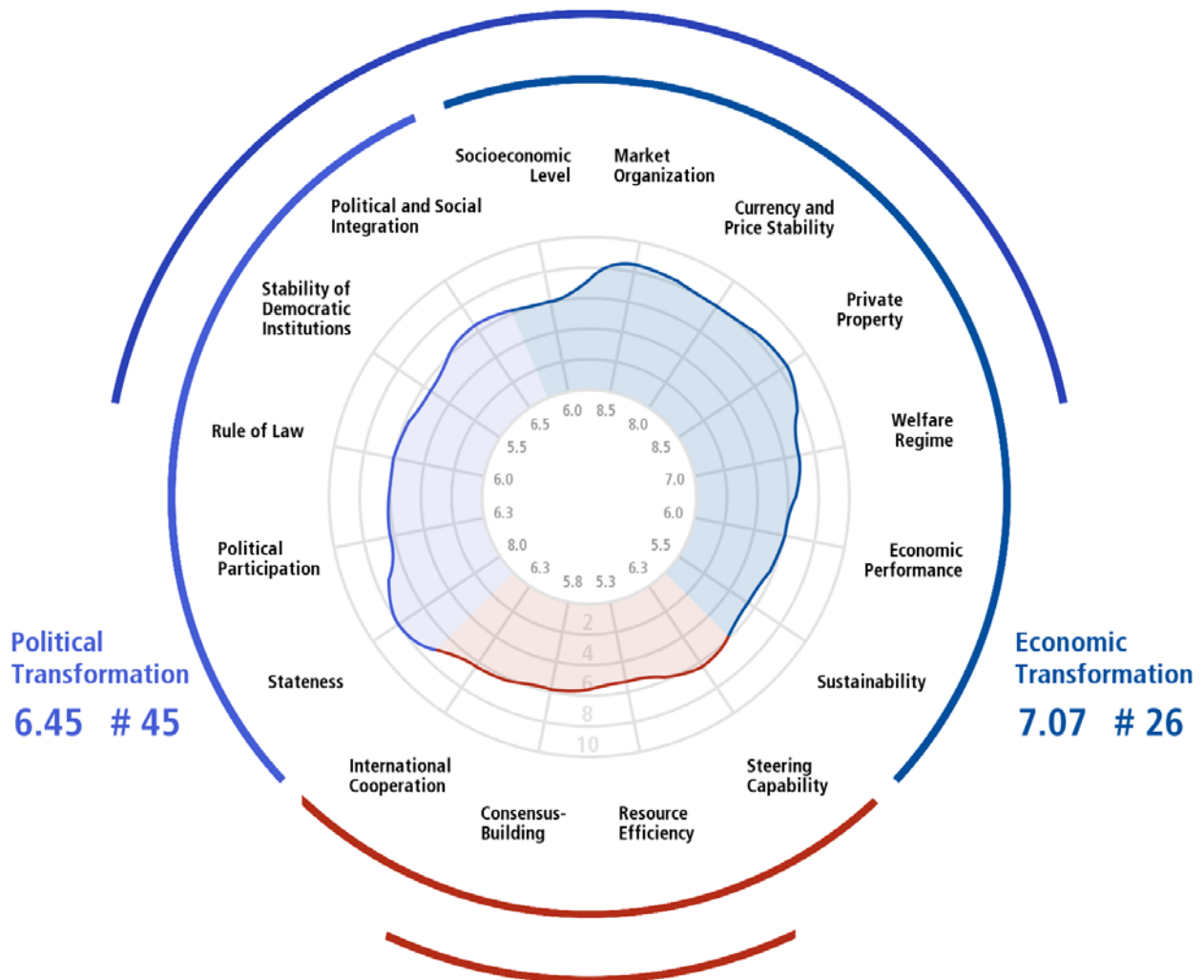


Macedonia

Status Index

6.76 # 31

on 1-10 scale out of 129



Governance Index

5.24 # 53

on 1-10 scale out of 129

This report is part of the Bertelsmann Stiftung's Transformation Index (BTI) 2018. It covers the period from February 1, 2015 to January 31, 2017. 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	0.748	GDP p.c., PPP \$	15121
Pop. growth ¹	% p.a.	0.1	HDI rank of 188	82	Gini Index	35.6
Life expectancy	years	75.5	UN Education Index	0.692	Poverty ³	% 10.0
Urban population	%	57.2	Gender inequality ²	0.160	Aid per capita \$	103.1

Sources (as of October 2017): The World Bank, World Development Indicators 2017 | UNDP, Human Development Report 2016. Footnotes: (1) Average annual growth rate. (2) Gender Inequality Index (GII). (3) Percentage of population living on less than \$3.20 a day at 2011 international prices.

Executive Summary

During the period under review (January 2015 to January 2017), Macedonia has been engulfed in a political crisis that began when the leader of the opposition released wiretapped material revealing widespread corruption and egregious abuse of power within the government. The incumbent prime minister, Nikola Gruevski, then accused opposition leader Zoran Zaev of attempting a coup d'état in cooperation with an unnamed foreign secret service. The ensuing series of protests and counter-protests organized by the opposition and government respectively further strained interethnic relations and exacerbated political polarization. An EU-commissioned expert report found that the wiretapping was most likely conducted by the Macedonian secret police and therefore indicative of a massive failure within the government to respect and uphold the rule of law. The report outlined a set of urgent reform priorities comprising the main points in the EU agenda for Macedonia. In May 2015, there was a short violent interethnic conflict between an armed group, composed mainly of Kosovo Albanians, and Macedonian security forces. The weekend-war left 18 dead and 30 individuals arrested and charged with terrorism. To prevent further escalation, the EU – in cooperation with the United States – brokered an agreement with the main political parties to create a “technical” government featuring each party in order to improve conditions for free and fair elections and to hold early elections. In addition, a special public prosecutor was appointed to investigate alleged wrongdoings that surfaced in the wiretapping content. The special public prosecutor opened investigations in 2016, only after a change of government had taken place. In April of the same year, President Gjorge Ivanov, citing dubious legal and constitutional grounds, then issued blanket pardons of 56 politicians from both ruling and opposition parties as well as their associates. This decision ignited a wave of multiethnic and multilingual protests that brought together opposition and civil society actors in what became known as the “Colorful Revolution.” The name derived in part from the fact that protesters splattered public buildings and newly erected monuments with paint and, in some cases, causing damage. At the same time, newly formed Albanian parties organized ethnic-Albanian protests demanding more rights for Albanians in a context of selective justice. Eventually, in June of 2016,

the president withdrew his pardons, allowing the public prosecutor to continue with his investigations.

The divisive rhetoric, efforts to mobilize along ethnic lines and political polarization continued throughout the run-up to parliamentary elections held in December 2016. Achieving narrow victories, the incumbent parties VMRO-DPMNE and the Democratic Union for Integration (DUI) failed to agree on a new governing coalition. The opposition Social Democratic Union (SDSM) thus formed a parliamentary majority with the DUI and two other Albanian parties. However, President Ivanov refused to give them the mandate to form a government, arguing that Albanian parties – through a process facilitated by Albania’s prime minister – have created a platform that will foster federalization and thus undermine the unitary character of Macedonia. Former ruling party VMRO-DPMNE sponsored protests against the Albanian platform and began calling for new elections. At the time of this writing (early 2017), it is unclear whether a peaceful transfer of power is possible.

Macedonia faced an unprecedented challenge in 2015 with the refugee/migrant crisis. As part of the Western Balkan route, Macedonia administered the transit of over 750,000 people, according to the UNHCR. Initially somewhat chaotic and heavy-handed, the government’s response to the migrant/refugee crisis has shifted, in cooperation with civil society actors, policymakers in neighboring countries and the EU, to involve greater coordination. During the migrant/refugee crisis, institutions in Macedonia showed a surprising operational capacity, though they have failed to address failings with regard to ensuring democratic principles and the rule of law.

The EU’s 2016 progress report regarding Macedonia raises concerns that institutions in the country are subject to state capture. Since then, there have been speculations that the EU is considering sanctions against individuals who undermine democracy and/or revoking the European Commission’s recommendation to open accession negotiations with Macedonia.

At the same time, the economy has shown remarkable signs of recovery and growth compared to other countries in southeastern Europe. However, FDI is falling and growing social transfers and ineffective public spending have increased public debt. The informal sector is substantial. Poverty and social exclusion remain high and although unemployment has steadily fallen in the last few years, it remains high.

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 September 8, 1991, after Yugoslavia disintegrated, and today is a democratic multiparty state with a population of around two million. According to 2002 census results, ethnic Macedonians make up 64% of the total population, while Albanians make the biggest non-majority community at 25% of the population. Macedonia’s reforms have been focused simultaneously on three issues: state building, democratic development and the establishment of a functioning market economy. During the 1990s, ethnic Albanians contested the nation-state approach of Macedonia’s political elites, notwithstanding

Albanians' inclusion in parliament and the government. Albanians wanted more collective rights, including the introduction of an official bi-ethnic state system in Macedonia. Increasing grievances, in conjunction with deteriorated security after the Kosovo crisis in 1999, led to an armed conflict between Albanian rebels and government forces in 2001. The conflict was quickly ended through an EU- and U.S.-mediated agreement, signed in August of that year. The 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 and introducing some power-sharing features, such as a system of double majorities requiring consent from minorities represented in the parliament for key decisions of parliament, a substantial degree of municipal decentralization, greater usage of minority languages, equitable representation in the public administration of the non-majority communities, as well as confidence-building measures to overcome the immediate consequences of the 2001 conflict.

In 2001, as part of the conflict prevention efforts, Macedonia signed a Stabilization and Association Agreement with the EU 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. The EU pointed out the successful implementation of OFA 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 outstanding name dispute with Greece impedes EU and NATO integration. Greece objected to the admission of Macedonia to the United Nations in April 1993. A U.N.-backed interim agreement was reached in 1995, which allowed relations between the countries to normalize and improve. It also allowed Macedonia to enter different international organizations of which Greece was a member, without objections from Greece, as long as Macedonia was referred to as the "former Yugoslav Republic of Macedonia." Despite the agreement, Greece objected to Macedonia's entering NATO in 2008, which the International Court of Justice found to be a breach of the interim agreement in 2011, and has blocked opening accession negotiations with the EU. The blurred Euro-Atlantic perspective lessened the external incentives for democratic reforms. Since 2008, ethno-nationalism has resurfaced significantly in Macedonia and democracy deteriorated. Rule of law has eroded and corruption became prevalent. The EU progress report in 2016 points out state capture in Macedonia and a special public prosecutor was created to investigate wrongdoings that surfaced in leaked wiretapped materials in 2015.

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 to 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 in 2006 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 in 2008, and has continued to make considerable efforts to promote Macedonia as an investment destination, rule of law failures endanger the viability of economic reforms. In addition, debt, internal and external, increased along with social transfers and unproductive public spending, which puts into question the sustainability of the economic model.

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

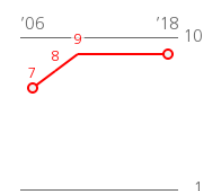
1 | Stateness

In principle, the state has monopoly over the use of force in Macedonia. The implementation of the Ohrid Framework Agreement (OFA), which brought peaceful resolution to the almost civil war in 2001, to a large extent subdued the interethnic conflict and contributed to consolidation of the state's monopoly of use of force. However, in May 2015 there was a "weekend war" in Kumanovo, a 2001 conflict-affected municipality in the northeast of the country. An armed group of ethnic Albanians, most coming from Kosovo, clashed with police forces leaving eight police officers and 14 combatants dead. Thirty people were arrested and charged with terrorism-related offenses; however, their motives remain unclear. Some media reports in Macedonia and Kosovo suggest that then-ruling officials wanted to have controlled instability. Hence, they lured in "guns-for-hire" from Kosovo to avert attention from a wiretapping scandal that revealed the government's gross abuse of power. Authorities have resisted calls for an international investigation of the case and trials were ongoing in January 2017. If ethnic tensions escalate, then new ethnic conflicts may emerge. The politically precarious situation may further strain fragile ethnic relations in Macedonia in future. Other challenges come from private security agencies that have the legal right to bear firearms, use force, and search and detain search people. One company (Security Group Services) dominates the market and is widely believed to be controlled by Sasho Mijalkov, a relative of the former prime minister, Nikola Gruevski, who resigned as head of the secret police after the Kumanovo incident. In addition, organized crime groups operating in north and west Macedonia are another cause for concern. These clan-like groups can pose a risk in rural regions. Last but not least, radical fundamentalists from Macedonia who joined the Islamic State group in Syria are another threat. Even though experts estimate their numbers to be small and in decline, they might pose a security hazard in future.

Question
Score

Monopoly on the
use of force

9

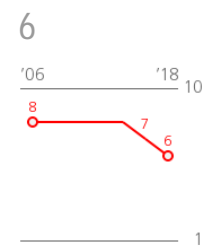


By law, all citizens have the same civil rights. The country's various ethnic, religious and cultural minorities are not excluded, de jure or de facto, from citizenship. Following OFA's implementation, there are legal provisions to advance the status and position of ethnic minorities. For example, there 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 linkages with the electorate. The principle of "equitable representation," guaranteeing employment quotas for minority members in public institutions, has been used to put the clientele of the minority parties in government on the government's payroll, without giving them administrative or work duties.

At the same time, the legitimacy of the nation-state is increasingly challenged. Ethnic identification is strong and used for political mobilization. Throughout 2015 and 2016 newly formed ethnic Albanian parties organized protests against the government, made claims that Albanians are discriminated against and demanded more rights. Increased ethnic demands were also reflected in the electoral manifestos of Albanian parties in the parliamentary elections held in December 2016. Following the elections, the Albanian parties that secured parliamentary representation developed a common platform to advance Albanian rights. The platform demanded, inter alia, constitutional changes to make Albanian language Macedonia's second official language and the opening of debate to change Macedonia's national symbols (e.g., flag, anthem and coat of arms).

The incumbent VMRO-DPMNE used ethno-nationalistic rhetoric throughout the political crisis in 2015 and 2016 and in the run-up to the parliamentary elections in December 2016. The narrative that the VMRO-DPMNE sponsors portrays the Albanians, the most significant ethnic non-majority community, as internal enemies and a threat to the country. In the understanding of the VMRO-DPMNE, Albanians are one of several actors (along with the opposition, independent media, critical NGOs and the international community) that created the political crisis in order to topple the government headed by Nikola Gruevski. Furthermore, throughout the electoral campaign the VMRO-DPMNE played the Albanian-fear card, claiming that if the opposition wins, it will federalize Macedonia to cater to Albanian demands. Following the elections, and after the VMRO-DPMNE failed to form a government with the DUI, their Albanian junior partner in government from 2008 to 2016, the party instigated protests against the Albanian platform, claiming that the opposition accepted all points in the platform and that this is detrimental to the unitary character of Macedonia. This increased ethno-national mobilization has made the challenge to forming a common state identity greater.

State identity



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, especially ones that are challenging the entrenched domination of the previously mentioned religious organizations, find it difficult to register and to function in the country. Furthermore, church officials remain strongly involved in public affairs and give political comments in support of the VMRO-DPMNE's positions. For example, high-level officials from the Macedonian Orthodox Church supported the protests that the VMRO-DPMNE instigated in the beginning of 2017. They called on the people to join the protests and in several cities priests from the Macedonian Orthodox Church took part in them.

No interference of religious dogmas

8

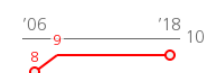


1

The administrative structures of the state are in place and provide most basic services throughout the country. Macedonia has 98-99% access to sanitation facilities and water sources. The country formerly made efforts to reform public administration (i.e., enacted several new laws and created new strategies to reform) and to improve delivery of public services, including putting in place the necessary infrastructure for e-government and e-services. However, there are significant challenges in the implementation of the reforms. The management of public finances is weak and the politicization of public administration is high. OSCE/ODIHR election reports cite credible allegations that public administration employees were subject to systematic political pressures. Furthermore, the state apparatus suffers from widespread corruption, political patronage, conflict of interest and lack of technical skills. A technical government was formed, with the participation of the opposition, in 2015. The task of the government was to improve conditions for free and fair elections. However, most of the time the representatives of different parties that participated in the government were hostile to each other, obstructing each other's work and placing the government in a political deadlock. This decreased the quality of public service provisions in crucial areas like law enforcement and social security services.

Basic administration

9



1

2 | Political Participation

One hundred twenty members of parliament are elected under closed party proportional system, in six multimember districts with around 290,000 voters, where seats are distributed according to 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 turnout threshold for the voting of out-of-country constituencies to be valid. 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



1

There were early parliamentary elections in December 2016. The elections were envisaged as a means to overcome the political crisis that started in 2015 and unfolded throughout 2016. In January, the leader of the opposition SDSM released leaked wiretapped conversations of some 20,000 people. The material revealed gross abuse of power and massive rule of law failures. It provided evidence of alleged corruption, pressure on the judiciary and media and electoral fraud. As political polarization was mounting, the EU brokered an agreement between the government and the opposition to form a special public prosecutor to investigate the wiretapped materials, to improve conditions for free and fair elections, and to form a technical government to administer the elections. The elections were first scheduled for June 2016; however, in May 2016, all parties, except the incumbent VMRO-DPMNE, refused to participate, claiming that the conditions for free and fair elections had not been met. The EU brokered an extension of the agreement that allowed for the elections to be held in December 2016.

The accuracy of the voter registry is disputed. The released wiretapped materials point out to possible voter registrations using fake ID cards. In addition, the leaked conversations raised concerns about the division of party and state in the electoral cycle, intimidation of voters and tampering with vote counts in previous elections. The elections in December 2016 were competitive and efficiently administered, however, not entirely free and fair. There were numerous reports of voter intimidation and pressuring of the public administration, and there was partisan media coverage. Ethno-nationalistic rhetoric was present in the campaign of the VMRO-DPMNE and various Albanian parties. The campaign of the opposition focused on socioeconomic issues and fighting corruption.

The turnout was 66.82%, and the result was only a 1.5% difference between the incumbent party and the opposition. The VMRO-DPMNE won 38.1% of the votes and the SDSM 36.6%. The VMRO-DPMNE won 51 seats (out of total of 120) and the SDSM got 49. The DUI, the Albanian party and junior coalition partner in government, received 7.29% of the votes and ten seats. The Albanian opposition party DPA received 2.6% of the vote and two seats. The newly formed Albanian parties enjoyed good results. For example, Besa got 4.86% and five seats, making it the second strongest Albanian party in parliament. The Alliance for Albanians (a coalition of splinter parties from the DUI and the DPA) received 2.95% and three seats. Other parties that ran did not make it into parliament.

The opposition SDSM and Besa parties made several appeals to the State Election Commission (SEC). The SEC is professional; however, political parties nominate the members. The SEC tends to be divided in its work along ethnic and party lines. The SEC rejected Besa's appeals, accepted one from the SDSM and called for a re-run in one municipality. The VMRO-DPMNE organized a protest in front of the SEC's offices during deliberations, claiming that the appeal process was an attempt to diminish their mandates. Accusing the international community of interference in the

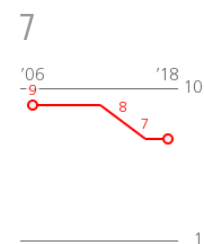
electoral process, the VMRO-DPMNE announced that they would not take part in the re-run. The re-run took place, but had no impact on the final result. The seats were verified and the parliament was constituted before the end of 2016.

In the past, there were no potential veto powers – such as the military, foreign powers, totalitarian parties, regional hierarchies and/or economic oligarchies – with the capacity or will to undermine democratic procedures. Although the constitution places the military and intelligence services under civilian control, recent EU reports have raised concerns about state capture of institutions in Macedonia. During its ten years in power, the VMRO-DPMNE established full political control over all public institutions. After the December 2016 elections, the party failed to form a ruling majority with its previous partner and thus returned the mandate to President Ivanov. The president, elected on VMRO-DPMNE's ticket in 2009 and re-elected in 2014, refused to hand power to the leader of the opposition, even though he was presented with clear evidence that the opposition had the support of 67 out of 120 members of parliament. According to President Ivanov, the stated platform of the coalition formed by the SDSM and the three of the country's four ethnic Albanian parties drew upon unconstitutional demands. However, many experts have viewed the president's actions as being in breach of the constitution. The VMRO-DPMNE organized a protest against a possible ruling majority and new government that would be formed by the SDSM and Albanian parties.

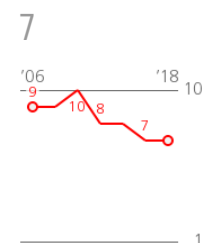
Freedom of association and assembly rights are guaranteed by the constitution. The law for citizens' associations and foundations, adopted in 1998 and amended in 2007 and 2009, enables citizens to form and join independent political or civic groups. During the review period, the government generally respected this right.

However, civil society activists and critical NGOs have been put under increasing pressure. In 2015, a wave of protests, dubbed the Colorful Revolution took to the streets to object a decision by the president to give blanket pardons to 56 politicians and individuals who had been investigated by the special public prosecutor in relation to the wiretapped materials. Their actions and demands were aligned with the opposition SDSM party. The protesters threw paint on newly built baroque buildings and monuments that were part of the controversial Skopje 2014 Project. Hence, the name. Some of the activists were arrested and detained, and some were fined or put on trial for destroying public property or causing damage to public property. Critical NGOs and prominent civil society figures were accused by the VMRO-DPMNE's official representatives and pro-government media of being a "fifth column" working under the orders of George Soros and his foundation to topple the government. Their personal data was compromised and the revenue service and financial police placed them under increased extraordinary scrutiny. In addition, the VMRO-DPMNE has sponsored counter protests and counter movements. For example, when the opposition set up a tent camp in front of the government administration building, the VMRO-DPMNE set up a tent camp in front of the parliament in the summer of 2015.

Effective power to govern



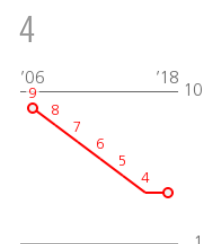
Association / assembly rights



After the elections in 2016, supporters of the VMRO-DPMNE started a Stop Operation Soros (SOS) initiative, arguing that the Soros Foundation was in collusion with a USAID-sponsored leftist group and the opposition to change the government in Macedonia. Also, Nikola Gruevski, leader of the VMRO-DPMNE, called upon people to protest against the formation of a government of the SDSM and Albanian parties, claiming it would jeopardize the unitary character of the country, and a wave of protests started the next day.

Freedom of speech is guaranteed in the constitution and most of the legal framework protecting freedom of expression 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. According to the U.S. Department of State's Human Rights report, the government has distorted the advertising market, making media financially dependent on government advertising. Mainstream media tended to report only favorably on government's activities. A number of journalists was pressured to adopt a pro-government viewpoint or to lose their jobs, which increased self-censorship. Hate speech against independent journalists and critical media mounted. In 2017, some of these journalists were verbally and physically attacked, either in orchestrated attacks that targeted them individually or when they were covering VMRO-DPMNE-sponsored protests. According to a report published by the Association of Journalists of Macedonia in June 2016, in more than 30 cases representatives from public institutions intimidated journalists with physical assaults, death threats and the confiscation or destruction of media equipment. At the same time, verbal attacks against patriotic or conservative journalists and media outlets abounded in media outlets with close ties to the opposition. The media landscape became increasingly polarized.

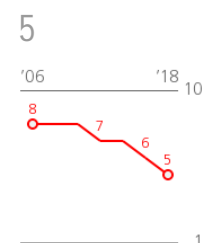
Freedom of expression



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 it if the same bill passes for a second time. Previous presidents played a more influential role during their term. However, Gjorge Ivanov, the acting president, has mainly supported the VMRO-DPMNE to the point of jeopardizing democracy. For example, the series of pardons he issued in 2015 have undermined the rule of law, and by refusing to allow the opposition to form a government in 2017, he impeded the peaceful transfer of power.

Separation of powers

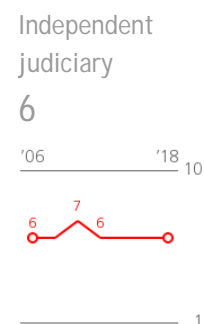


The government dominates the parliament. The parliament has not served effectively as control for government. The opposition SDSM boycotted parliament until September 2015. It returned to parliament after the EU brokered an agreement to overcome the political crisis and hold early parliamentary elections. Due to strong political party polarization, there was no constructive cross-party cooperation in parliament and in the technical – all party – government. Nikola Gruevski and his closest party affiliates have excessive control over government. For example, even though Nikola Gruevski stepped down as a prime minister in January 2016, he still had effective control over government at the beginning of 2017. Several members of government violated the separation of powers because they were elected members of parliament in December 2016, but continued to serve in their government posts in 2017 (e.g., the prime minister, the minister of foreign affairs and the ministers of culture and health).

Political control of the judiciary remains a serious problem. According to U.S. State Department and EU reports, political pressure and intimidation are used to influence the judiciary. The courts obstruct the work of the special public prosecutor, the newly established judicial institution, that holds the highest trust among the population compared to all other judicial institutions. For example, some judges ruled evidence inadmissible (e.g., evidence of wiretapping collected from secret police premises) with the argument that it is classified information and the secret police first needs to declassify it before it becomes admissible, and refused to issue detention orders, even though in previous cases judges issued detention in 95% of the cases for which the prosecutor requested it.

The independence of the judiciary is formally guaranteed by the country's legal framework and has gradually been strengthened in practice. There are a Court Budget Council, Academy for Judges and Prosecutors and self-elected Judicial and Public Prosecutors Councils that appoint and dismiss judges and prosecutors. Despite the fact that the structural preconditions for independence are in place, the functional independence of the judiciary has degraded. EU and U.S. reports are similarly concerned with issues like selective justice, as well as political pressures and interference in the work of the judiciary. A special public prosecutor office was set up as the result of a political agreement because the public prosecutor's office failed to investigate the wiretapped materials. When the wiretapped materials first surfaced, the public prosecutor tried to bar publication of information about them in the media.

The special public prosecutor was impeded in its work. The secret police did not want to obey a court order and allow the public prosecutor to investigate their premises for wiretapping evidence. The special public prosecutor has submitted several charges; however, the court has been very slow to process them. As most of the charges point to wrongdoings by VMRO-DPMNE high party officials, the party has accused the special public prosecutor of being an instrument of the opposition and international community to engage in political persecution and harassment of the party. This cast



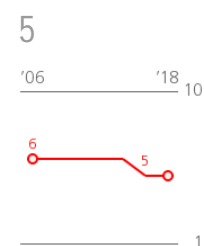
a shadow over the objectivity of the special public prosecutor. In addition, the regular public prosecutor has opened investigations and raised charges against the opposition.

Beyond this, there is a strong perception among the population that the judiciary is corrupt. And among ethnic Albanians, there is a widespread perception that the delivery of justice is selective.

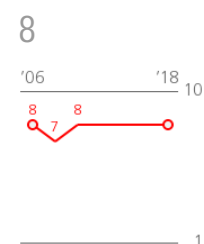
The legal framework for prosecution of office abuse is largely in place; however, the relevant institutions lack resources. They need to increase capacities and improve their horizontal cooperation, for example, the anti-corruption agency with the public prosecutor. At the same time, corruption remains prevalent and there are little concrete results in practice. Vlado Buchkovski, former prime minister and minister of defense, is the only former high-level official sentenced to two years in prison for abuse of power in 2014; however, the sentence was not served. Over the period of one year (January 2016–January 2017), the special public prosecutor opened investigations against 112 suspects for 160 criminal offenses, but none had reached a legal resolution by mid-March 2017. The president tried to prevent the investigations and issued blanket pardons in 2016, which he later retracted under pressure from civil society and the international community. Under mysterious circumstances, one person, Kosta Krpac, who was among those pardoned and believed to be a protected witness for the special public prosecutor, lost his life. The VMRO-DPMNE and the DUI, former ruling parties, prevented a law to implement witness protection to pass in parliament and did not agree to extending the mandate of the special public prosecutor.

Civil rights are guaranteed by the constitution, and in principle, there are institutions to protect them like the Ombudsman, the Commission for Protection of Discrimination and the Directorate for Personal Data Protection. However, in practice civil rights are not properly respected and protected. The wiretapping scandal revealed massive civil rights infringements. The Ombudsman tried to investigate the case and faced serious obstructions. The EU commissioned a high-level senior expert group to produce a report, which among other things concluded that it is very likely that the wiretapping was done by the secret police in Macedonia. In addition, the report shows that the Directorate for Personal Data Protection failed to do its job. The directorate has been staffed by party loyalists who are not willing and/or able to protect personal data and to respect and protect civil rights. It is a similar case with the Commission for Protection of Discrimination. Even though it is professional body, the parliamentary majority elects its members. The public at large does not seem to be aware of the existence and work of the commission. Some members of this commission make public statements and write columns that are offensive to and derogatory of wide segments of the population and their public reactions are always in support of the government and the VMRO-DPMNE.

Prosecution of office abuse



Civil rights



In addition, some vulnerable groups of the population are often subject to discrimination and the denial of basic liberties. The authorities' selective application of established laws especially harm Roma and the poor.

Women have the same legal status as men; however, in practice they do not enjoy the same rights. For example, they are underrepresented in senior positions in the private and public sector and they own less property. Women from rural regions and Romani women have limited access to health services. For example, there is not a single gynecologist in Suto Orizari, a district in the capital city of Skopje, where Roma are the majority. Members of LGBT groups and activists advocating for their rights are often targets of physical violence, harassment, and derogatory language, including from journalists and official political representatives.

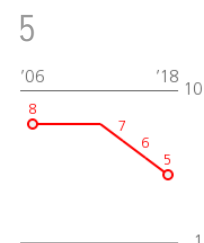
Lastly, prison officers continue to abuse incarcerated persons, while the courts and prosecutors sometimes show solidarity with the police officers. Prisons have poor infrastructure and remain crowded. The numbers of incarcerated are higher than the prisons' capacities.

4 | Stability of Democratic Institutions

In principle, democratic institutions exist, but they are unstable and ineffective. Macedonia was in deep political crisis in 2015 and 2016. The release of wiretapped conversations at the beginning of 2015 that showed gross abuse of power did not lead to any consequences, other than to increase political polarization. The then-prime minister accused the leader of the opposition of conspiring with foreign secret services and trying to stage a coup d'état. Investigation and court processes were initiated against the leader of the opposition and his associates. Ethnic protests increased in 2015 and 2016. Mass protests in May 2015 were forcefully dispersed. In the summer of 2015, the opposition organized a tent camp in front of the government as a sign of protest, and the ruling party organized a tent camp in front of parliament, as a counter-protest. The unstable situation was overcome with concerted action by the international community led by the EU. A political agreement was concluded to have early elections in 2016 as a possible way out of the crisis. However, the political polarization remained an insurmountable obstacle for parliamentary deliberations and for constructive cooperation in government. The president issued blanket pardons in 2016, which triggered a mass protest movement dubbed the Colorful Revolution. The end-of-the-year election ended in a narrow difference in votes won by the top two parties, which signals a greater balance of power in parliament; however, it is unclear whether or not a peaceful transfer of power is possible.

On one hand, the former ruling VMRO-DPMNE maintains a firm grip over key democratic institutions. A EU report called it a state capture. The party is obstructing

Performance of democratic institutions

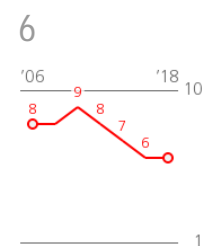


attempts to restore the rule of law and started mass protests against the formation of a new government of the SDSM and Albanian parties.

On the other hand, interethnic relations are fragile. Newly formed Albanian parties organized protests in 2015 and 2016. Ethno-nationalist rhetoric was strong during the campaign. After the elections, Albanian parties developed a common platform demanding more rights (e.g., increased usage of Albanian language), and the VMRO-DPMNE supported protests that were strongly against the Albanian platform, claiming that it will be detrimental for the unitary character and territorial sovereignty of the country. The opposition SDSM managed to attract some Albanian votes with the message that it wants to build one society and one state. However, it is not clear whether in future the potential for multiethnic cooperation can overcome the increased ethno-nationalistic mobilization.

Citizens by and large accept the legitimacy of democratic institutions. In principle, all influential political actors accepted democratic institutions in the past. However, the opposition boycotted the parliament until September 2015. The opposition to a large extent regarded and labeled the governance of the VMRO-DPMNE as an authoritarian regime. At the same time, the prime minister accused the leader of the opposition of espionage and planning a coup d'état with a foreign security service in January 2015. While there is still a general commitment to democratic institutions, increasing political polarization degrades their functioning. For example, the opposition returned to parliament and entered government in 2016; however, both institutions were in a political deadlock. In addition, all parties participated in the elections in December 2016 and have accepted the results; however, the VMRO-DPMNE and the president prevented a newly created parliamentary majority between the SDSM and Albanian parties from forming a government.

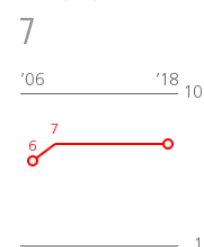
Commitment to democratic institutions



5 | Political and Social Integration

The main political parties in Macedonia are the SDSM, a Communist successor party, and the VMRO-DPMNE, built on the legacy of a Macedonian revolutionary movement in the early 20th century. They have alternated holding power and there is no new significant player on the scene. Since the electoral system was changed to list proportion in 2002, the SDSM and the VMRO-DPMNE lead block coalitions in elections. Macedonia's Albanian parties sought political reforms to improve the status of their community and ideological differences have not played an important role. The DUI, a ruling Macedonian-Albanian party between 2002 and 2006 and 2008 to 2017 was founded as a successor to the National Liberation Army, which took part in conflict with government forces in 2001.

Party system



Clientelism plays an important role in party support. The VMRO-DPMNE, after coming to power, sought various ways to extend public goods to targeted groups. For example, the number of employees in public administration increased, and

subventions for farmers and pensions increased. In return, the party demanded political and voter support. Similarly, the DUI, the junior coalition partner, used employment quotas for minority members, provided with the implementation of OFA, as instruments for clientelism.

Party fragmentation and volatility decreased over time. Ethnic divisions are the main political cleavage and ethnic nationalism remains an important issue for political mobilization. However, there is a strong polarization between political opponents within ethnic groups. At the same time, the SDSM managed for the first time to attract a substantial number of Albanian voters in the December 2016, elections. Also, Besa, a newly formed Albanian party, appealed to the Muslim community. It is not clear whether cross-ethnic support or the relevance of religion will be one-off incidents or signal a new trend in the party system.

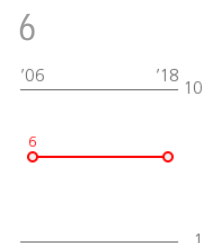
The voices of interest groups are hardly heard. Trade unions, since independence, have been under political influence as a bulk of their income has been allocated from the central budget. In general, unions lack autonomy, stable finances, management capacity and an active membership. Social dialog remains weak, in particular in the private sector. The policy-making process was not inclusive. Government proposals often ignored the interests of different stakeholders. This lack of inclusion led to series of protests by the end of 2014 and at the beginning of 2015.

Surveys show that citizens support democracy as the most preferred regime type and support the values associated with it. For example, an IRI poll conducted prior to the elections in December 2016, showed that 71% valued individual expression, 67% respected minority rights and 69% opposed government control of media. However, people were very concerned about the quality of their democracy. The Eurobarometer surveys, conducted between 2014 and 2016 by the Macedonian Center for European Training, show that 51% to 53% of the total population considered that citizens are not free to express their opinion. Almost 80% of those surveyed said that the main reason is fear of consequences for them personally and for their families. The IRI poll, conducted in 2016, corroborated these findings. The IRI poll showed that 50% do not believe that free expression exists in Macedonia, while 40% thought otherwise, and that 30% thought that their votes are not secret. In addition, the IRI poll found that 48% considered equal treatment before the law to be most violated democratic right and 39% thought that the right to employment was regularly breached.

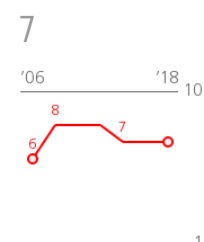
IRI-commissioned polls show that between June 2015 and December 2016, 50% to 61% of the population considered the situation in Macedonia to be intense and uncertain. The same poll shows that in April 2016, when the president issued the blanket pardons and protests started, 38% of the population considered that the situation in Macedonia to be critical and unstable.

According to the IRI polls, political parties and the State Commission for Prevention of Corruption are the least trusted institutions. The poll showed that 48% believed

Interest groups



Approval of democracy



that there is no rule of law in Macedonia, while 46% thought there is rule of law. Of those polled 42% to 46% believed that the government did not want to combat corruption. Only 20% trusted the judiciary. Another poll conducted in October 2016 showed that over 50% trust the special public prosecutor, while only 35% trusted the general public prosecutor and slightly more than 31% trusted the courts.

Political parties dominate social relations. Many civil society organizations in Macedonia are politicized and represent the agenda of the main political parties. The media are similarly divided. The country is facing a risk that information channels are closing to impede crosscutting communication. Divided and polarized social and political groups are caught in a halo effect.

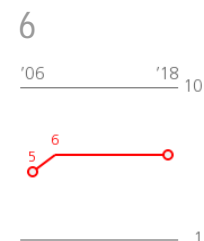
Civil society organizations remain heavily dependent on foreign funding. An amendment to the law on citizens' associations and foundations enabled civil society organization to be involved directly in economic activity and to obtain the status of public benefit organization. Civil society in rural areas 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.

An IRI poll conducted in December 2016 found that 42% of people think that the government treats NGOs as adversaries, while 45% believed that NGOs are included in policy-making. At the same time, 29% of the population considered that civil society organizations better represent their interests, while 46% disagreed.

According to a representative cross-national survey conducted on behalf of the European Bank for Reconstruction and Development in 2016, 23% of Macedonians declared that most people could be trusted. The level of interpersonal trust is similar to that in Bulgaria and ranks as the third lowest in Southeast Europe.

In 2015, mass protests, organized by the civil society movement I Protest (Protestiram/Protestoj), followed the release of wiretapped conversations. In May 2015, the opposition and civil society representatives organized mass protests, after which they set up a tent camp in front of the government administration building. The governing party organized a counter protest and set up a tent camp in front of the parliament. In 2016, the Colorful Revolution was a fierce civil society reaction to support the work of the special public prosecutor and the rule of law. Civil society combined forces with opposition parties, and the movement was intentionally multiethnic and multilingual. At the same time, all-Albanian protests were also organized to present increased ethnic demands. The efforts to cross the ethnic divide won new votes for the opposition; however, after the elections, the VMRO-DPMNE started a new wave of ethno-nationalist protests at the beginning of 2017.

Social capital



II. Economic Transformation

6 | Level of Socioeconomic Development

In 2015, GDP per capita was \$13,908 based on purchasing power parity (PPP), which is an increase of 3% compared to 2014. According to the Human Development Index 2015, Macedonia ranked 82nd out of 187 countries and territories (0.748). This puts the country below Albania and all the other Yugoslav successor states, with the exception of Kosovo. The last available data for the Gini coefficient and poverty are from 2008. They show that the Gini coefficient (44.1) was the highest in the Western Balkans and among the highest in Eastern Europe. The poverty rate was 8.7%, again the highest in the Western Balkan country. However, the present situation is unclear. According to the World Bank and local NGOs, close to one third of the population lives in poverty, including people who are employed and earn the minimum income. According to the State Statistical Office, the official unemployment rate is declining. It was over 30% in 2006 and it decreased to around 23% in the first quarter of 2017. Unemployment registration became more stringent and access to higher education has improved. In addition, emigration has eased social pressures. The IMF and World Bank estimate that about 25% of the 2.1 million population (last census data from 2002) of Macedonia has left the country in the past 20 years. Long-term unemployment remains high and youth unemployment is estimated to be over 50%. The World Bank connects high unemployment in Macedonia to structural problems in the economy, for example, the failure to reform during the transition process and diversify industries.

The government between 2006 and 2016 made strong efforts to attract FDI and create new jobs. For example, the government opened free economic zones, offered a 10% flat tax and state aid for foreign investors. The government's policies were promoted in foreign media, and high-level officials, including the prime ministers, presented the opportunities for investment at various promotional campaigns all around the world. One of the strategies was to target labor-intensive cluster industries, for example, the automotive industry. Several U.S. and German automotive parts producers opened production facilities; however, they offer relatively low salaries, even by local standards (approximately €200-300 per month). Even though the new investments helped in job creation, they were not sufficient to prevent high emigration and brain drain. According to the National Bank of Macedonia, FDI in 2015 was \$230.3 million and in 2016 it was estimated at \$390 million. At the same time, according to the World Bank, remittances were \$306 million in 2015 and \$315 million in 2016.

Question
Score

Socioeconomic
barriers

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Even though females make up 50% in the population, they are about 43% in the labor market. Women are consistently paid less and assume fewer senior positions in the public and private sectors. Pregnancy and maternity leaves are serious challenges to woman's careers in Macedonia. One third of deputies in parliament are women, thanks to an obligatory gender quota for party lists. At the same time, the gender inequality index was 0.164 in 2014, which among the lowest in the Western Balkan region and comparable to Slovakia and Lithuania.

Economic indicators		2013	2014	2015	2016
GDP	\$ M	10817.7	11362.3	10051.7	10899.6
GDP growth	%	2.9	3.6	3.8	2.4
Inflation (CPI)	%	2.8	-0.3	-0.3	-0.2
Unemployment	%	29.0	28.0	26.1	26.7
Foreign direct investment	% of GDP	3.7	0.5	3.0	5.3
Export growth	%	6.1	16.5	6.7	11.5
Import growth	%	2.2	14.1	5.2	7.6
Current account balance	\$ M	-177.2	-71.6	-203.6	-341.2
Public debt	% of GDP	34.0	38.0	38.2	39.0
External debt	\$ M	6736.8	7232.9	6766.7	7382.8
Total debt service	\$ M	912.5	972.9	1041.1	870.6
Net lending/borrowing	% of GDP	-	-	-	-
Tax revenue	% of GDP	-	-	-	-
Government consumption	% of GDP	17.5	17.1	16.7	15.7
Public education spending	% of GDP	-	-	-	-
Public health spending	% of GDP	4.2	4.1	-	-
R&D expenditure	% of GDP	0.4	0.5	0.4	-
Military expenditure	% of GDP	1.2	1.1	1.0	1.0

Sources (as of October 2017): The World Bank, World Development Indicators | International Monetary Fund (IMF), World Economic Outlook | Stockholm International Peace Research Institute (SIPRI), Military Expenditure Database.

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. The Macedonian denar, the state currency, is practically pegged to the euro at a rate of 61.5 denars to the euro, which provides macroeconomic stability and gives the Macedonian economy a competitive advantage, according to international rating agencies. However, FDI contracted during the period under review and Fitch downgraded Macedonia's rating from BB+ to BB with a negative outlook. The political crisis that started in the beginning of 2015, with the leaked wiretapped materials, was the main reason. According to Fitch, the crisis "underlined shortcomings in standards of governance" and had an adverse effect for the economy.

The role of the state is very moderate in price setting and in the share of productive capital; however, massive rule of law failures and widespread corruption hamper market competition. Administrative reforms to cut red tape and shorten the length of time bankruptcy procedures take were put in place. However, political control of the judiciary and public administration were used to favor some private companies. Wiretapped materials indicate that there was a widespread and regular practice of fixing public spending and public investment to favor business enterprises close to the ruling parties.

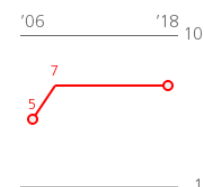
According to a business enterprise survey by the World Bank, the main obstacles to doing business are political instability, the informal sector and access to financing. The informal sector is in decline, but still considerable. The informal sector declined from 40% to 45% of GDP to around 24% over a ten-year period.

Anti-monopoly institutions and legislation are in place in Macedonia; however, they lack expertise, stable funding sources and awareness among stakeholders regarding rules and procedures. The Commission for Protection of Competition (CPC) is in charge of antimonopoly measures. Legislative changes, including aligning the Criminal Code with the Law on Protection of Competition, allow for leniency procedures. The CPC has adequate staff, but lacks expertise and a stable source of funding. According to an EU progress report, the CPC issued 18 decisions on cartels and the abuse of dominant positions amounting to €4.5 million in fines. This is similar to previous reporting period and shows that the CPC's decisions are stable and significant. The CPC also issues opinions; however, it rarely follows up on their implementation.

The CPC does not have capacities to deal with the growing number of state aid cases. In addition, there is low awareness of state aid rules among stakeholders. A EU progress report note that the CPC received no complaints on state aid between 2013 and 2015 and that the state is granted air transport without any notification submitted to the CPC.

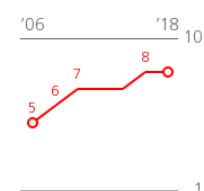
Market-based competition

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Anti-monopoly policy

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Foreign trade has been extensively deregulated and there is no fundamental state intervention in free trade. Macedonia is member of the World Trade Organization and the Central European Free Trade Agreement (CEFTA) and has liberalized trade with the EU, according to the Stabilization and Association Agreement signed in 2001, which entered in full force in 2014. There are no restrictions or controls on payments, transactions, transfers or repatriation of profits. However, most charges for cross-border electronic payment transactions remain disproportionate to those for domestic electronic payment transactions. The EU is the most important trading partner with 77% in export and 62% in imports in 2015, a slight increase compared to 2014 for both export and imports. Germany, by far, is the single most important trading partner, both for exports and imports, compared to other EU member states. Other relevant trading partners for exports are Bulgaria, Italy and Serbia, and for imports the UK, Greece and Serbia.

Macedonia has a solid capital market, characterized by a substantial foreign ownership of banks (75%).

The banking sector is relatively small, consisting of 15 private banks, four saving banks and the state-owned Macedonian Bank for Development Promotion. The three dominant banks in Macedonia, Komercijalna Banka (22%), Stopanska Banka Skopje (19%) and NLB Tutunska Banka (16%), together had 57% of the market in 2016. Two other banks, Halk Bank and Ohridska Banka (a subsidiary of Société Générale), held a significant market share, around 8% each; the rest of the market is fragmented. In 2016, Alpha Bank, a small non-performing Greek subsidiary bank, was bought off by a Swiss investment fund for €2 million and renamed the Silk Road Bank.

International rating agencies label the banking sector as sound and well supervised, and list it among the country's strengths. According to World Bank Development Indicators in 2016, the bank capital to asset ratio was 10.8 in 2015, and has been stable at between 10.8 and 11.5 for the past several years. The share of bank non-performing loans was 10.3% in 2015, a slight decrease from 10.8% in 2014. The share of bank non-performing loans has also been stable at around 10% over the past five years.

The legal minimum for the capital adequacy ratio is 8% and the banking system is well above it. The National Bank of Republic of Macedonia conducts supervision, both on and off site, in full compliance with the Basel Accords. The national bank maintains a maximum of 5% credit risk exposure for the whole banking system. The national bank also handles consumer complaints.

Liberalization of foreign trade

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Banking system

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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 double digits in the early 1990s, has remained very low since. Inflation (CPI) was -0.3% in 2014 and 2015. In 2014, deflation was consequence of the economic situation in the EU, Macedonia's main trading partner. Low fuel and transport prices, along with lower prices for food products, continued in 2015.

The stability of the Macedonian denar, the state currency, prevents high inflation. The denar is de facto pegged to the euro at an exchange rate of 61.5. The real effective exchange rate index was 100.8 in 2015, a substantial decrease from 103.2 in 2014 and the lowest in the past five years. The NBRM intervened to defend currency stability and prices in 2016. In May 2016, the NBRM raised key interest rates from 3.25% to 4% in response to depressed prices and speculations that put pressure on bank deposits.

However, a lack of fiscal prudence and fiscal consolidation may strain the stability of the currency and prices. Increase in governing spending was based on borrowing and reserves. The government issued euro bonds in 2015 (€370 million) and in 2016 (€450 million). The legality of the latter was put under question. The funds were aimed at covering budgetary needs (i.e., social transfers) and servicing debt.

Over the past decades, Macedonia's macroeconomic stability was generally maintained by strict monetary and fiscal policies. However, the VMRO-DPMNE-led government, since 2006, opted for more populist policies (more spending), which supported higher growth; however, it also contributed to increased debt. GDP per capita was around 37% of the EU average in 2015. GDP growth has been stable and positive. It was 3.7% in 2015, which is a slight increase compared to 3.5% in 2014. Macedonia has highest growth compared to other South East European countries. The current account balance increased to -\$137 million in 2015 from -\$104.1 million in 2014; however, it remains at the lowest level in the past five years.

At the same time, according to the World Bank, public debt was 38% of GDP in 2015, which is similar to 2014 (38.3%). However, public debt increased rapidly over the last five years (it was 24.1% of GDP in 2010). External debt also rose substantially in the last five years. It increased to \$7.2 billion in 2015 from \$6.7 billion in 2014. The EU progress report estimated that external debt was 70% of GDP in 2015. In addition, total debt service shows a concerning upward trend in last five years, amounting to \$977.5 million in 2015, an increase from \$912.5 million in 2014. Even so, government consumption remained at the same level in 2015 (16.7% of GDP) as it was in 2014 (16.9%). However, the political crisis that unfolded in 2015 and 2016 to a large extent made the government inefficient and will have adverse effects on

Anti-inflation /
forex policy

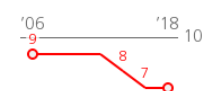
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Macrostability

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government consumption. Meanwhile, revenues are in decline because of over-optimistic growth assumptions, underperforming collections and spending pressure, which creates a need for a supplementary budget and higher deficit targets.

The World Bank does not have clear data on cash surplus or deficit in recent years. However, an EU report estimates a moderate current account deficit, at an average of 1.5% of GDP in last five years. However, the current account deficit stood at 2.5% at the end of 2015 and first half of 2016. According to the EU report, the general government deficit was 3.6% of GDP in 2015. Future plans to reduce it to 2.8% in 2018 were based on growth expectations and not on savings measures.

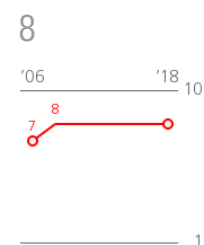
Total reserves decreased to \$2.2 billion in 2015 from \$2.7 billion in 2014, and are at lowest point in past five years. Government spending puts pressure on reserves, debt and overall macroeconomic stability. The frequent issuing of euro bonds shows the gap between economy's capacities and spending needs. The government declared that the assets from euro bonds will be used for budget needs in 2016 and 2017. The EU report shows that between 2009 and 2015, 62% of total expenditures were devoted to transfers, especially pensions and at the same time 84% of capital expenditures was implemented.

9 | Private Property

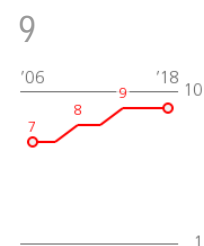
The constitution guarantees property rights to citizens and investors. Foreign investors can acquire property rights if they register a company in Macedonia. In general, property rights in Macedonia are adequately defined with regard to the acquisition, use, benefits and sale of property. Exceptions occur in cases when restituted land or buildings are acquired. According to the World Bank Doing Business report, it takes 30 days to register property in Macedonia. The government developed a public campaign that advocated for individuals and companies to register their private property, and even extended the deadline several times. The Agency for Real Estate Cadastre completed the land registry, which now covers 100% of Macedonian territory. At the same time, practices of sale and usage of public land, especially arable land, raise concerns of possible corruption.

Notwithstanding faulty privatization during the 1990s and early 2000s, the legal framework for a functional private sector is in place. According to the World Bank Doing Business Report, it takes only two days to register a private enterprise in Macedonia, which makes it a world leader. The share of state assets has been decreasing over time, and an EU progress report estimated it to be around 13% of GDP in 2015. However, the uneven application of rules and regulations hampered domestic private enterprises. Government interference in private business has increased. Joint ventures, acquisitions and the rise of private companies, especially in the construction industry show that there are close and strong links between high-level politicians and leading private companies.

Property rights



Private enterprise



10 | Welfare Regime

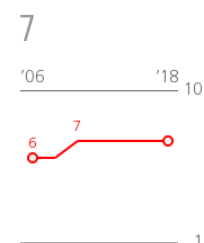
Macedonia's public social safety nets exist, but are not sufficient to compensate for poverty or other risks such as old age, illness, unemployment or disability. The public welfare regime offers monthly cash payments, subvention for personal care, one-off cash payments and in commodities, and cash payments for childcare, foster care and home care. The monthly welfare payment is €35 Euros for first 12 months, but after the first year it is cut by 50%. Public expenditures on health have marginally decreased from 4.4% of GDP in 2013 to 4.1% in 2015. Notwithstanding one-off donations and fundraising events, there is no systematic private welfare regime. Poverty rates remain high, and a large part of the population uses its monthly income for food and utilities. Research shows that 40% of the total population is in risk of social exclusion. Roma are a particularly vulnerable group. In addition, they face wide spread prejudice and discrimination practices in the labor market.

Vulnerable groups were provided additional rights and access to social benefits was simplified. The government also implemented active measures for employment; however, estimates are that they target 20-30% of welfare recipients. The government also introduced an annual increase in pensions of 5%. Pensions constitute the second most important source of income in family budgets. The weakness of the social safety net was revealed during the migrant/refugee crisis in 2015. Macedonian institutions were not able to provide social protection and assistance to the large waves of refugees. Most humanitarian assistance and support came from international organizations, implemented with the support of local civil society organizations. No attempts were made to integrate any of the migrants/refugees, but only to efficiently administer their transit. The refugees/migrants who remained in Macedonia after the Western Balkan route was closed are sheltered in temporary centers on the borders with Greece and Serbia.

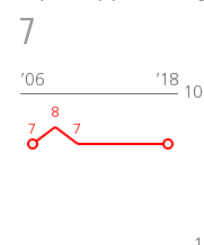
The literacy rate in Macedonia is very high (97%-98%), and the ratio of female to male enrollment shows that girls and boys have equal learning opportunities. According to the World Bank, the enrollment ratio in primary education is 85.8%; in secondary education it is 82%; and in tertiary education it is 39.4%. Secondary education was made compulsory, which increased the enrollment rates. In addition, the government supported the opening of new universities to ease access to higher education; however, this came at the expense of quality in higher education.

Women are half of the population, but comprise only 39.4% of the total labor force. In addition, there are only few women in senior positions in the private and public sectors. However, there is a compulsory gender quota for political party lists in elections. The existing anti-discrimination legislation is not in line with the EU acquis because it does not protect sexual minorities. The Commission for Preventing Discrimination is filled with ruling party loyalists, who often make derogatory

Social safety nets



Equal opportunity

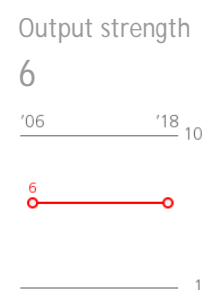


comments about different minority groups. In addition, the commission is understaffed, and lacks financial resources and basic capacities. For example, its offices are not accessible to the physically disabled. The Ohrid Framework Agreement (OFA) introduced instruments to improve the positions and rights of members of ethnic minority, but these have mainly benefited ethnic Albanians. Smaller ethnic groups (e.g., Turks, Roma, Bosnians) remain underrepresented. In addition, due to high political polarization, public institutions controlled by ruling parties often discriminate against activists and members of opposition parties.

11 | Economic Performance

The GDP of Macedonia was \$10,086 million in 2015, which is a slight decrease from \$11,319 in 2014. Over a five-year period, GDP has grown, although it has experienced some dips. Similarly, GDP per capita at PPP has grown over the last five years. It was \$13,908 in 2015, an increase from \$13,517 in 2014. The GDP growth rate was 3.7% in 2015 and 3.5% in 2014. Macedonia is a leading economy in Southeastern Europe. FDI was 1.9% of GDP in 2015, which is an increase from 0.5% in 2014. FDI was over 3% of GDP for the past five years. In addition, gross capital formation was 31.9% of GDP in 2015, an increase from 30.5% in 2014, with a growing trend over the past five years. At the same time, inflation was negative in 2015 and 2014. The CPI index was -0.3. The deflation was a consequence of the contraction of the economy in the EU, Macedonia's main trading partner; and low prices for gas, transport and food further contributed to it. Unemployment has been decreasing, even though it remains among highest registered unemployment rates in the world. According to the World Bank, unemployment decreased from 32% to 27.9% from 2009 to 2014. According to the State Statistical Office, unemployment decreased to below 26% in 2016.

Increase of FDI to a lesser extent contributed to the positive momentum. High government spending was more important. The public debt stood at 38% in 2015 and 38.3% in 2014; however, it grew rapidly from 24.1% in 2010. External debt also increased. According to an EU progress report, it is 70% of GDP. The government has frequently borrowed money on international capital markets (it issued euro bonds in 2015 and 2016) and the domestic financial market. Most of the funds were spent for budgetary needs (social transfers) and some were invested in infrastructure, including the bulk of the funds going for the controversial Skopje 2014 project (erecting monuments and building new baroque buildings in the center of the capital). The World Bank has no available data on cash surplus or deficit after 2012. However, the EU report argues that there were large fiscal deficits in last five years, and that the government deficit was 3.6% in 2015. It is unclear to what extent this economic model is viable and sustainable. Tax revenues are declining. The main reasons are over-optimistic growth assumptions, underperforming collections and spending pressures. The EU report estimates that tax revenues have been overestimated by an



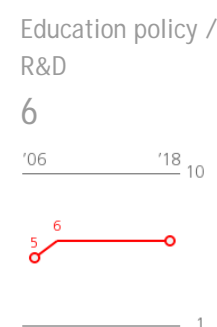
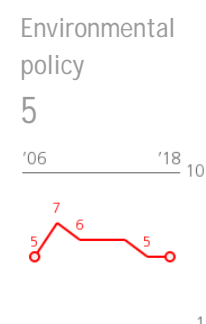
average of 6% in the last five years. This caused a need to have supplementary budgets and higher deficit targets. However, at the same time, the current account balance has modestly decreased in the last five years, even though it increased from -\$104.1 in 2014 to -\$137.1 in 2015.

12 | Sustainability

Environmental awareness has grown; however, policy responses have been inadequate. Environmental concerns tend to take a back seat to growth considerations. There is a lack of wastewater treatment plants. The parliament adopted a new law on the prices of water services in January 2016. According to a 2016 report by the European Commission, new infrastructure is being constructed to implement EU directives for wastewater treatment. Major environment protection projects, such as the Lake Ohrid environmental protection project, are supported by the donor community. However, this project is in jeopardy due to announced plans to build a big tourist resort on the lakeshore. 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 and more often than not to party clientele. At the same time, all new buildings are required to be energy efficient.

Air pollution in major cities, like 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 conducted in 2011), traffic and outdated metal industry production facilities. The government several times postponed the enforcement of environmental measures requiring metal industry to modernize production. There were protests against the air pollution in Tetovo and Skopje on several occasions in 2014; however, they did not create a wider social movement and had little impact on policy-making. World Bank estimates that air pollution cost the economy 3.2% of GDP, or 253 million per year.

According to the U.N. education index, Macedonia with a score of 0.682 is at the low end of Southeastern Europe. It ranks better than Bosnia and Herzegovina and Albania, but worse than Croatia and Slovenia. However, the index shows a trend towards modest improvement. Literacy is quite high (97%-98%), and enrollment rates have improved, mainly due to policies of compulsory secondary education and the ease of access to higher education. The World Bank has no data on public expenditure on education in Macedonia. However, according to the EU progress report, the country spends about 4% of GDP, which is comparable to EU standards. There has been marginal improvement in enrollment and attainments rates (the gross enrollment ratios were 86%, 82% and 39% for primary, secondary and tertiary



education, respectively, according to the World Development Indicators 2016). Modernization of vocational education training is on the way. At the same time, about 12% of students drop out of school or university, and this rate has been constant over the last five years.

However, the quality of education has not substantially improved. Education infrastructure, resources and capacities need substantial improvement and investments. According to the World Bank, R&D expenditure was 0.3% from the GDP in 2014. According to the EU, R&D expenditure was 0.5% in 2015, and it has been at this level since 2010. The government created an Innovation Fund in 2015 to funnel support to SMEs; however, their absorption capacities are weak. The functioning and management of public education institutions, including universities, is very politicized and under the control of the ruling parties. Party control even extends to the self-organization and management of student representation. For example, party activists rigged the election for student representatives in 2016, and special police units were called to disperse the student groups that protested against the blatant violation.

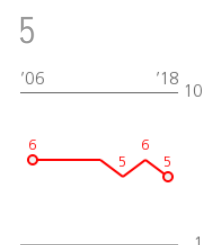
Governance

I. Level of Difficulty

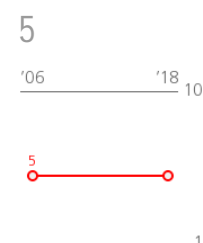
The structural constraints on governance are fairly high in Macedonia. Unemployment remains among the highest registered in the world, even though there has been a decline from about 30% to below 26% in last five years. A high proportion of the population is at risk of social exclusion (over 40%). GDP per capita (PPP), with an upward trend, was \$13,908 in 2015, which is 37% of the EU average. The country does not have strategically important natural resources. The natural gas network is underdeveloped. Projects to improve transport infrastructure were initiated in 2015 and 2016. The mean of the stateness and rule of law scores, from BTI 2016, is 7.3. The country inherited structural problems from the previous regime, such as poor infrastructure, high unemployment, and a lack of technology and general skills for a rapid economic transformation; and poor management of the transition process in the 1990s 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. The country had a brief interethnic conflict in 2001, which was peacefully resolved thanks to international community intervention. However, ethnic divisions remain strong and ethnic tensions flare occasionally, notwithstanding that, after the conflict, a wide set of policies was put in place to improve the position and rights of minority communities. In 2015 and 2016, political instability increased and strained fragile interethnic relations.

During the time of Yugoslavia's existence as a state, certain civic organizations, like the Association of Women and the Association of Youth, were largely under state control; however, others, like voluntary fire brigades and sports clubs, were not. With the collapse of Yugoslavia, 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 5,000-6,000 registered organizations in the late 2000s. However, they have been mainly donor driven and most lack significant capacities. The law for citizens' associations and foundations allows civil organization to assume certain public competences. Over time, certain interest groups (e.g., chambers of commerce, professional organizations, and various health groups) have come to play a stronger public role and to be more engaged in policy-making. At the same time, the VMRO-DPMNE (the ruling party between 2006 and 2016) has consistently antagonized relations with critical NGOs and watchdog organizations,

Structural
constraints



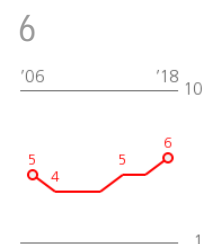
Civil society
traditions



accusing them of working against state interests. The VMRO-DPMNE supported counter protests, a party-affiliated organization and various initiatives to defuse civil society criticism. A wave of civil society protests dubbed the Colorful Revolution challenged their governance in 2016.

Society and the political elite in Macedonia are polarized along ethnic and party lines. This polarization and consequent hostilities increased over the review period. 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. At the same time, the opposition leaked wiretapped materials revealing gross abuse of power and widespread corruption. As political polarization increased and protests mounted, the opposition set up a tent camp in front of the government administration building to demand for the administration's resignation and the government organized a tent camp in front of the parliament to support its rule. A weekend war in Macedonia's second largest municipality, Kumanovo, in the region affected by conflict in 2001, between armed Albanian combatants, mainly from Kosovo, and Macedonian security forces left 18 dead in May 2015. The EU brokered a multi-party agreement in June-July 2015 to reshuffle in government and to improve conditions for free and fair elections. A special public prosecutor was also set up to investigate the wiretapped materials. The opposition returned to parliament in September 2015 and a new government was voted on in January 2016. However, most of the time, the government was in a political deadlock. In April 2016 the president issued blanket pardons to 56 individuals, whom the special public prosecutor might investigate, and in response a wave of protests started in support of the work of the special public prosecutor. The president withdrew the pardons in June 2016. Political polarization and ethnic mobilization continued up until the elections in December 2016, and the results did not contribute to ending the political crisis. Even though all parties accepted them, the former ruling VMRO-DPMNE initiated nationalist protests against a possible new ruling coalition of the former opposition SDSM and Albanian parties, and the president refused to bestow the mandate upon the leader of the opposition.

Conflict intensity



II. Governance Performance

14 | Steering Capability

A political crisis engulfed the country during the review period, creating serious impediments to good governance. In 2015, a wave of opposition protests challenged the government. Leaked wiretapped materials that revealed gross abuse of power and widespread corruption fueled the protests. The government's response was to disperse the protests and to suppress the opposition. In the middle of things, there was a short-lived violent interethnic conflict that left a number of people dead. The motivations of the armed Albanian group, mainly from Kosovo, for engaging in violence are unclear. However, days after the conflict, under strong international pressure, the minister of interior and the head of the secret police resigned. The minister for transport and infrastructure resigned at the same time. They were among the closest associates of former Prime Minister Nikola Gruevski, since he came to power in 2006. In 2015, the government, at that time led by the VMRO-DPMNE, became more authoritarian and diverged from EU and NATO integration, the country's key long-term strategic interests. As envisaged by the EU-brokered agreement, members of the opposition entered government in 2016, and a "technical" government featuring all major parties was formed. In addition, the ministers of finance and of public administration resigned in 2016. For most of the year, the government was in a political deadlock. Members of different parties obstructed the work of others, instead of cooperating. In this period the government barely managed to perform basic public services, and its main task was to create conditions for free and fair elections in December 2016.

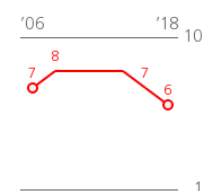
Policy-making and long-term strategic reforms suffered during the review period. No substantial policy reforms were initiated and the policy-making process become even more exclusive. The government became more hostile towards critical and independent civil society organizations, and blamed them for working against the state. EU accession was stalled to the point that EU officials threatened to revoke the recommendation for open association negotiations and/or to introduce targeted sanctions against high-level officials and party representatives for threatening democracy in Macedonia.

During the review period, the government managed to maintain a stable growth rate, to decrease unemployment, to invest in education, science and information and communications technology, and to initiate infrastructure projects. The government also managed to efficiently administer transit of 750,000 migrants/refugees, according to UNHCR, in 2015. At the same time, democratic reforms were stymied

Question
Score

Prioritization

6



1

Implementation

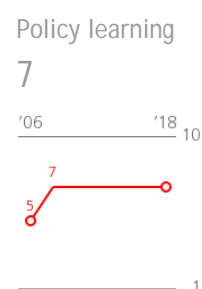
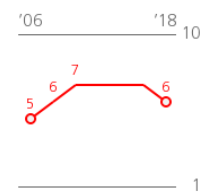
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and there was a massive rule of law failure. A special public prosecutor was set up to investigate alleged wrongdoings; however, it faced obstructions from various public institutions, the prosecutors' office and the judiciary. Because of this, EU integration, as a strategic priority, is blocked; while the name dispute with Greece created an additional impediment. In the past, the government managed to attract competent young people, some western-educated, with advanced technocratic skills, which in turn significantly supported the policy implementation process. Now, however, human capital in some line ministries has deteriorated. For example, the Ministry of Foreign Affairs chose ambassadors using open calls, and while some newly appointed ambassadors enjoy political support, they have questionable capacities. Furthermore, interethnic relations and implementation of the OFA have significantly deteriorated. There was a renewed armed interethnic conflict with casualties in May 2015 and increased ethno-nationalistic mobilization and protests. This negative trend raises concerns for maintaining peace and stability in the country.

There were several reshuffling of government, which further obstructed the policy implementation process. Some of the closest associates of Nikola Gruevski, the former prime minister, resigned and he himself stepped down in January 2016. The opposition SDSM had members in government from January to May 2016, and then again from September to December 2016. In addition, the DUI, the Albanian junior coalition partner, replaced its senior ministers in government with younger faces, mostly from the youth branch of the party. The frequent replacements and quality of personnel choices raises serious concerns about the capacity of the government. In addition, the government formation process was obstructed after the elections in December 2016. Several members of the government were elected as members of parliament and continued to perform their executive functions in a blatant breach of the division of power.

The government displayed some limited ability in policy learning. On the one hand, it was very open to suggestions and using best practices for managing the migrant/refugee crisis. The government had an initial repressive response to the challenge, but then in cooperation with civil society organizations and international actors, managed to change its approach to offer humanitarian assistance. Civil society organization suggested, and the government accepted, changes in legislation to allow migrants 72 hours of legal transit. In cooperation with the UNHCR, the EU, regional governments and the governments of EU member states, the Macedonian government improved border cooperation, shelter capacities and the administration of transit. Some actors (i.e., the Visegrad countries) offered policy advice and instruments for repressing migrants/refugees and others (i.e., the EU and UNHCR) for suggested providing support and assistance.

At the same time, there was very limited policy learning in improving the rule of law. Throughout the review period, the need to improve the rule of law was paramount. An EU-commissioned High-Level Expert Group drafted a report following the



wiretapping scandal. The report detects massive abuse of institutions and outlines a set of urgent reform priorities that aim to improve the rule of law. These priorities came to be the main points of the EU agenda in Macedonia. In addition, a group of civil society organizations and experts drafted a blue print for democratic reforms, outlining the changes necessary to restore democracy in the country. The government has for the most part has ignored both documents, indicating its limited flexibility.

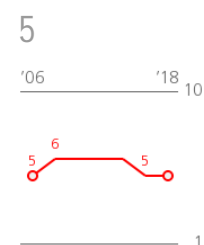
15 | Resource Efficiency

The government does not use resources efficiently. A merit-based system is not in place, as patronage practices are widespread, and there is a facade of competitive recruiting procedures. Also, the practice of politically motivated dismissal and appointments continued during the period under review. The debt seems manageable, even though external and public debts are growing. However, the state of public finances is not completely clear. In addition, planning and implementation lack transparency, and there is deviation from planned to actual expenditures. Usually, capital investments tend to suffer on account of social transfers. The state auditor lacks funding and capacities to fully exercise its competences. Fiscal decentralization is lagging behind and transfer of competences from national to local level is politicized. For example, municipalities where the opposition is in power receive no support from central government.

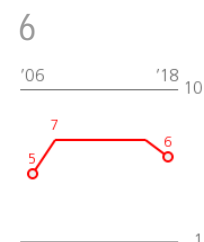
The wiretapped materials revealed allegations of widespread corruption and increased politicization of the public sector, including the judiciary. There was a high-level, frequent practice of asking for and accepting bribes for international and national procurements. In addition, the spending of public finances and state aid was selectively used to favor the politicians in power and their associates. Moreover, the election and promotion of judges and prosecutors, along with career promotions in public administration, seemed to have been controlled by the political parties in power.

In 2015, a government coalition was created, consisting of the VMRO-DPMNE, a nationalist conservative party and observer member of European People's Party (EPP) and the DUI, a minority Albanian party. The coalition lacked ideological congruence and often politicized and deepened ethnic divisions. After the crisis escalated, their level of cooperation diminished. The DUI was more willing to consider democratic means to ending the crisis and the VMRO-DPMNE opted for a more rigid approach. For example, the VMRO-DPMNE wanted to hold elections in June 2016, even though the opposition was very clear that it would not participate because it considered that the necessary conditions for free and fair elections had not been met. After the DUI confirmed that it would also not participate, the elections were postponed until December. The "technical" government was marked by several internal conflicts and political deadlock. Representatives of the VMRO-DPMNE and

Efficient use of assets



Policy coordination

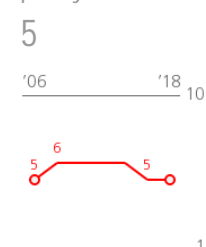


the SDSM were not willing to cooperate with one another within the same line ministry, let alone commit to broader policy coordination. Members of the DUI in government tried to act as a facilitator. The only notable exception to the lack of cooperation was the management of the migrant/refugee crisis. Even though several different people were appointed to the post of minister of interior, and at times the minister of interior was from a different party from that of the minister of defense, there was solid policy coordination in response to the unprecedented challenge. Internal threat perceptions and international pressures to implement a coordinated policy were helpful in overcoming the internal political bickering and in managing efficient policy coordination. Administrative mechanisms for coordinating between ministries exist, but have been weakened due to the political crisis.

Macedonia has well elaborated institutional arrangements and regulations in place to contain corruption. For example, there is a State Commission for the Prevention of Corruption (SCPC) and a State Audit Office; however, an EU progress report finds that there was no progress on the fight against corruption. The main reason is “political interference, in the work of relevant bodies, hampering their ability to act proactively and non-selectively, especially in high-level cases.” The newly founded special public prosecutor is the only public institution making efforts to investigate allegations deriving from the wiretapped materials. The SCPC has both failed to act and acted in favor of high-level politicians. For example, when Nikola Gruevski resigned as prime minister, the SCPC refused to make his assets declaration publicly available. After strong media pressure, the head of the SCPC presented the declaration at a press conference, claiming that there was nothing amiss and asking for the issue to be closed. The declaration of the former prime minister’s assets remains publicly unavailable. This underlines the serious impediments that exist when it comes to fighting high-level corruption cases. The EU progress report points out that there is no track record of such cases. The special public prosecutor has brought charges in several cases; however, the courts and public institutions are more willing to obstruct than to expedite the process.

According to OSCE/ODIHR reports, there are shortcomings in the legislation for party financing and the implementation thereof. State Audit Office is not able to fully control 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 EU report, corruption in public procurement is a serious concern.

Anti-corruption
policy



16 | Consensus-Building

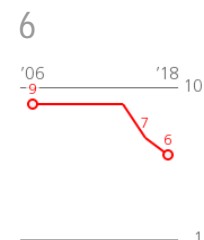
Major political and social actors agree on a stable, market-based democracy as a strategic long-term aim. All parties at least verbally agree that Macedonia should become a member of the European Union and NATO, although ideas over how to reach this goal vary considerably. In the past several years, 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-based economy.

However, the democratic consensus significantly eroded in the review period. A wave of protests, and sometimes counter-protests, marked a volatile political crisis that spanned the review period. Key democratic institutions were dysfunctional, like the Assembly of the Republic of Macedonia, or were, like the presidency, misused to erode democratic and rule of law standards. The former ruling VMRO-DPMNE pursued an ongoing smear campaign against the opposition, ethnic Albanians, critical civil society organizations and major international actors under the pretext that they all conspire against the state. After the elections in December 2016, the peaceful transfer of power was impeded and the prospects for peaceful transfer were not clear as of the end of March 2017.

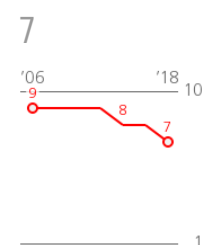
None of the relevant actors rejects basic principles of a market economy. However, widespread corruption and manipulation of public finances distort the development of open and free markets. The government's practice of borrowing money on domestic capital markets diminishes access to finances for business enterprises. In addition, the wiretapping scandal revealed that political power and control of public institutions have been used to favor some business enterprises that are affiliated with ruling political parties.

The military and police are largely under civilian control; however, it was unclear to what extent and to whom the civilian intelligence was accountable. The National Liberation Army, 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). The DUI remained a junior coalition partner in government after the elections in 2014, as it has been for most of the time since 2002. The political crisis strained interethnic relations, and following couple of smaller security incidents, there was a weekend war between an armed Albanian group, the members of which were mainly from Kosovo, and Macedonian security forces in May 2015. Altogether 18 people from both sides died and 30 were arrested and charged with terrorism. However, the motives of the group remained unclear. On the one hand, it seemed that they might be fighting to increase ethnic Albanians' rights and, on the other hand, it seemed plausible that they were hired to deflect attention from the wiretapping scandal. As of the beginning of 2017,

Consensus on goals



Anti-democratic actors



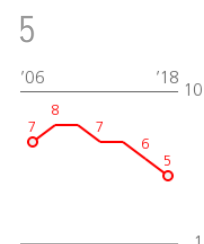
it was not clear whether a peaceful, democratic transfer of power would occur in Macedonia. The VMRO-DPMNE, the former ruling party between 2006 and 2016, objected to a new parliamentary majority of the SDSM and Albanian parties forming a government. The president refused to bestow the mandate upon the leader of the opposition, who represented the new parliamentary majority.

Macedonia is an ethnically divided society. The ethnic cleavage is important and salient for political mobilization. Almost all political parties appeal primarily to their own ethnic constituency. This creates a certain 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. At the same time, the implementation of the OFA introduced significant institutional instruments (e.g., equitable representation, minority veto, language rights and decentralization) for improving the status of minority communities. However, political leadership often uses ethno-nationalist rhetoric for political mobilization. Political polarization and ethno-national mobilization were on the rise during the review period. Waves of protests and counter-protests deepened existing cleavages. There was even a short outburst of armed interethnic violence. This negative trend continued during the electoral campaign and into the post-election period. However, there were also some positive developments. The Colorful Revolution was intentionally multi-ethnic, and during this protest civil society actors established closer cooperation with opposition parties. As a consequence, the opposition SDSM had couple of ethnic Albanian candidates on their list and managed to attract substantial support from Albanian voters for the first time.

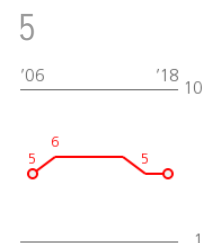
Other cleavages (urban vs. rural, labor vs. capital) partially coincide with ethnic cleavages.

Macedonia's legal framework and institutional mechanisms are adequate to have civil society participate in policy-making. For example, the government has a Strategy for Cooperation with Civil Society (2012–2017) and an action plan. There have also been good practices in the past, when parliamentary committees organized public hearings with the participation of civil society. However, the practice diverges from the legal framework. According to EU report, public financing of civil society organizations remains inadequate and is not transparent. The EU finds that civil society played a crucial role in supporting democratic processes and ensuring greater checks and balances. However, the climate in which civil society operates has significantly deteriorated. There is limited dialog, and most of the time high government officials attack civil society actors. After the elections in December 2016, Nikola Gruevski, former prime minister and president of the VMRO-DPMNE, called for the "desorosozation" of Macedonia – accusing critical civil society actors of acting as a fifth column instructed by the Soros Foundation to topple his government, and calling for new, "independent" civil society organizations to be formed. VMRO-DPMNE-

Cleavage /
conflict
management



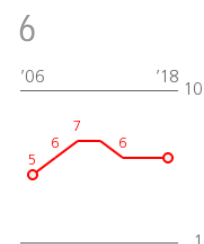
Civil society
participation



leaning public figures started Operation Stop Soros (SOS) to continue the smear campaign and requested greater financial scrutiny of and consequences for critical civil society actors. The revenue service and the financial policy office put the Soros Foundation branch in Skopje and several other critical civil society organizations under increased surveillance. At the same time, new civil society organizations were registered in several cities claiming to be patriotic organizations with aims, goals and rhetoric congruent with the public discourse of the VMRO-DPMNE.

Macedonia experienced a brief interethnic conflict in 2001. However, during the review period the process of reconciliation remained incomplete, which hampered interethnic relations. Even though the number of civilian casualties was very low in 2001, compared to other interethnic conflicts in the Balkans, not all the cases of alleged civil war crimes were investigated. Members of Macedonian security forces were put on trial by The Hague Tribunal, and one was found guilty. However, after serving his prison sentence, he returned to Macedonia and was greeted as a hero, appointed organizational secretary of the ruling VMRO-DPMNE Party and elected as a member of parliament in December 2016. At the same time, in 2011, parliament gave amnesty to war crimes cases allegedly done by members of the NLA, the Albanian guerrillas, which were not processed by The Hague Tribunal. In addition, the DUI, the political party which emerged from the NLA, organizes annual commemoration events dedicated to the battles and fallen fighters of 2001. The commemoration starts on the day when the first battle was waged and ends on the day when the OFA was signed. The DUI also sponsored the opening of a museum dedicated to the NLA in one municipality in the conflict-affected region. The security incident in Kumanovo in May 2015, the all-Albanian ethnic protests in 2015, and the VMRO-DPMNE-organized protests against the platform of all-Albanian parties further strain interethnic relations and make reconciliation even more necessary.

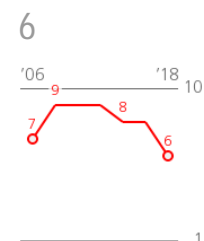
Reconciliation



17 | International Cooperation

During the review period, the government made very limited use of international support. The EU was substantially involved in helping political actors to find a way out of the political crisis. Some EU member states, for example, Germany, also provided diplomatic services to overcome the crisis. The ambassadors of the United States and five biggest EU member states represented in Skopje acted in a concerted way to provide sustained support to all of these activities. However, the government failed to take their advice and some political actors, namely the VMRO-DPMNE, objected the involvement of the international community, calling it foreign intrusion. The EU has produced a report that sets out the urgent reform priorities that the country needs to undertake, but the government was not willing to implement the EU agenda. Russia consistently supported the government and the ruling style of the VMRO-DPMNE throughout the crisis.

Effective use of support



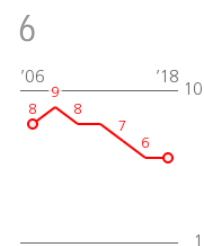
However, the management of the migrants/refugee crisis was a notable exception. The government accepted policy advice from the EU and EU member states, notably Austria, to improve border management and the efficient transit of migrants/refugees. The government also accepted policy advice and technical material supplied by Visegrad countries to erect a barbed wire fence and more generally follow the policies that lead to a new Fortress Europe.

The government's credibility as a partner in international cooperation faltered during the review period. Greece's resistance to the country's official name prevents NATO membership and the opening of accession negotiations with the EU. However, there are serious doubts about the government's commitment to democracy and rule of law reforms in Macedonia. Throughout the review period, EU and U.S. representatives were engaged in finding a way out of the political crisis. Their engagement was also perceived as conflict prevention activities at certain times. The government has ignored the urgent reform priorities outlined by the EU in order to restore democracy and rule of law. Concerted pressure from the international community was placed on the president to withdraw the blanket pardons issued in 2015. In addition, similar pressure was exerted in 2017 to convince the president to give the mandate to form a government to a newly formed parliamentary majority. At the same time, Russia has consistently supported the political governance of the VMRO-DPMNE and the actions of the president, arguing that Western international actors are interfering in the internal affairs in Macedonia. Another example of the deterioration in international cooperation is a statement that EU High Representative for Foreign and Security Policy Federica Mogherini made in Skopje in early March 2017, speaking also on behalf of the general secretary of NATO. She stated that the situation in Macedonia is serious and warned that the country could become the location for another geopolitical conflict. In addition, unnamed sources from the EU, cited in various media, claim that EU officials are discussing a set of actions (e.g., revoking the recommendation to open accession negotiations, targeted sanctions against high-level officials) to implement if the political crisis continues.

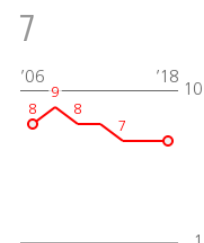
In general, Macedonian political actors strive to build and expand regional cooperation; however, some bilateral relations with neighboring countries remain problematic. In the past, Macedonia presided over regional cooperation initiatives and signed an agreement to reduce roaming charges with several countries in the region.

The unresolved name dispute with Greece remains an outstanding bilateral issue which impedes NATO and EU integration. 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 strained. On one hand, they depend on interethnic relations in Macedonia. On the other, Prime Minister Edi Rama facilitated a meeting among the leaders of Albanian parties from

Credibility



Regional cooperation



Macedonia to help them reach an understanding on a common platform. President Ivanov cited the creation of the Albanian platform as the main argument for refusing to hand over the mandate to the newly formed government coalition. Implicitly, Ivanov blamed Albania for meddling in the internal affairs of Macedonia. The pretext that Ivanov and the VMRO-DPMNE used is that the Albanian platform would ultimately lead to federalization and undermine the unitary character of the country. Relations and cooperation with Serbia were solid, notwithstanding problems between the Orthodox churches in both countries that have significant political implications. Relations with Kosovo remained generally good.

Strategic Outlook

State capture by former ruling parties and fragile interethnic relations threaten democracy in 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 to a market economy.

It is of vital importance for the state of democracy in Macedonia to complete the peaceful transfer of power. All parties recognized the results of the elections in December 2016. The parliamentary majority has to be given a chance to form a new government. This is a crucial test for democracy in Macedonia. If the transfer of power is not completed, then it will have negative ramifications for the country and for the wider region. In addition to this, and as a consequence of increased ethno-nationalism, interethnic relations may worsen in future. If interethnic relations become hostile, then this will endanger the stability of the country and it will have adverse effects on the stability of the region.

Rule of law failures underline the major problems that put the existence of democracy into jeopardy. It is very likely that former high-level officials, faced with serious charges for abuse of power, organized crime and corruption, will take extreme measures to avoid accountability. Therefore, it is essential to give the utmost support to the work of the special public prosecutor. In addition, the urgent reform priorities outlined by the EU need to be implemented as soon as possible. Their aim is to deconstruct the captured state and to allow for the greater independence of institutions. International actors, principally the EU, can play a crucial role to support the restoration of democracy and the rule of law.

The new government will have to increase inclusionary practices in the policy-making process. Dialog among stakeholders and their contributions to policy-making can assure the sustainability of the reform process. Another important task of the new government will be to decrease political polarization and improve interethnic relations. Internal and external advocates of reform can jointly support exercises to build trust, to restore instruments for dialog and to create new ones.

To improve the market economy, the government should introduce greater incentives for domestic investors and for informal economic actors to register their activities. Public procurement needs to be more transparent and occur in full compliance with existing legal procedures. 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 needs to improve social policies, especially for excluded and marginalized groups, and to make contingency plans in the event of another wave of migrants and refugees. The crisis in 2015 showed that there is a serious need to revise and develop specific policies and to build capacities for administering transit through Macedonia, as well as the integration of migrants/refugees.

It is high time for the name dispute between Greece and Macedonia to be resolved. Reinvigorated U.N. mediation, with stronger U.S. and EU involvement, could bring the process toward closure. International arbitration and “soft” imposition of a solution could provide a possible exit strategy for both Athens and Skopje. However, such a strategy would rely on the willingness of the international community to act, and on having a supportive political and economic climate and the political will to resolve the matter in both countries.

In conclusion, international support and facilitation to restore democracy in Macedonia will be in high demand in 2017.