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AMENDED STRATEGIC PLAN

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ACRONYMS AND ABBREVIATIONS

AEPS	Audit, Evaluation, and Project Support
AFO	Association of Local Financial Officers
CSHI	Community Self Help Initiative
CSO	Civil Society Organization
DEMNET	Democracy Network Program
DOL	Department of Labor
DPA	Democratic Party of Albanians
E&E	Europe and Eurasia (Bureau of USAID)
EU	European Union
FRY	Federal Republic of Yugoslavia
GDP	Gross Domestic Product
GOM	Government of the Republic of Macedonia
GTD	Global Training for Development
IAS	International Accounting Standards
IMF	International Monetary Fund
IR	Intermediate Result
ISO	Intermediate Service Organizations
MBRC	Macedonian Business Resource Center
MOF	Ministry of Finance
NGO	Non-governmental Organization
NPA	National Parent Association
OSCE	Organization for Security and Cooperation in Europe
OTI	Office of Transition Initiatives
PDP	Party for Democratic Prosperity
PMP	Performance Measurement Plan
PRO	Public Revenue Office
RF	Results Framework
SDSM	Alliance of Democratic Forces in Macedonia
SEAF	Small Enterprise Assistance Fund
SEE	Southeast Europe University
SIDA	Swedish International Development Agency
SO	Strategic Objective
SRO	Self-Regulating Organization
UNDP	United Nations Development Programme
USAID	U.S. Agency for International Development
VAT	Value-Added Tax
VMRO-DPMNE	Internal Macedonia Revolutionary Organization/Democratic Alternative
WTO	World Trade Organization
ZELS	Association of Mayors (in Macedonia)

PART I: STRATEGIC OVERVIEW

1. Introduction to the Strategy

When USAID's Strategic Plan for Macedonia was developed in the mid-1990s, the Mission did not envision that open conflict would emerge here. Even after the Kosovo crisis, the dominant view was that Macedonia would be able to side step the kind of ethnic conflict that has plagued the rest of the Balkans, despite the challenges it faced as a multi-ethnic society and one of the poorest countries in the region. After all, Macedonia had gained its independence from the Socialist Federal Republic of Yugoslavia (SFRY) through peaceful means, chosen its leaders democratically, achieved a degree of ethnic power sharing in government and weathered 10 years of economic transition. The Strategy Update that USAID/Macedonia submitted in January 2001, before the outbreak of hostilities, still reflected this view.

Both Macedonians and the members of the international community were surprised, in February 2001, when a group of armed ethnic Albanian extremists emerged in Western Macedonia. Even after the crisis began, few imagined that the violence would spread so quickly, reaching the outskirts of the capital by June. Fewer still would have predicted that the two major ethnic groups would have become so polarized or hostilities so threatening as to prompt over 100,000 people to leave their homes and bring the country to the brink of civil war. Prior to the crisis, the Mission had identified a number of political and economic conditions in the country that were exacerbating the democratic and market transition and focused its program on these problems. A Mission reassessment, described below, has reconfirmed the importance of many of those initiatives and suggested other important problems that predispose a country to conflict.

The conclusions reached through this reassessment are incorporated in the Mission's amended Strategy, which focuses directly on the current conflict and reflects the priority the United States places on maintaining stability in the Balkans. U.S. long-term foreign policy objectives for Macedonia and Southeastern Europe as a whole provide a steady focus for the future. Stability and progress in the region, from the U.S. perspective, still depend on consolidating reform within the individual states, encouraging cooperation among states, and advancing the region's integration into Europe as a whole. The Mission's Strategy, through its emphasis on reform as the basic strategy for addressing the fundamental problems that precipitated the current crisis, will help lay the groundwork for this transition.

2. Crisis Management Models and their Relevance for Macedonia

While open conflict is often precipitated by specific warning signals, these signals are not always recognized, nor are the first actions taken always the most appropriate. To guard against this problem, the Mission reassessed the Macedonian situation and its Strategic Objectives in May 2001 to ensure that they adequately address the current crisis and support a return to stability. During the reassessment process, crisis management models were analyzed in terms of their applicability to Macedonia. The results of this process helped the Mission define where modifications are needed.

a. Crisis Management Models

In order to better understand the emergence of ethnic conflict in Macedonia, two crisis models developed to provide an intellectual framework for such an analysis were introduced to Mission staff who used them to identify underlying sources of tension, or “root causes” of the current conflict. Only by understanding the cause of the conflict clearly can the Mission’s program be positioned appropriately to help reduce those tensions and help Macedonia not only shift back to a stable peace but also regain the momentum for reform and stronger economic performance it had begun to achieve in 2000. Paul Collier of the World Bank developed one of the models the Mission used for this purpose. It describes the economic factors that have been present in countries where civil wars and rebellions have emerged. The second model, developed by Michael Lund for the European Union (EU), approaches the outbreak of conflict from an institutional perspective.

The economic model of conflict advanced by Collier, outlined in Text Box A, correlates three economic factors and one social factor with rebellion or civil war. Cross-national research has shown that countries characterized by a primary commodity, slow economic growth and low average incomes show a predisposition to conflict. The vulnerability to conflict heightens when there is also a dominant ethnic group and a substantial ethnic minority; a high percentage of young males that have a low level of education; a clear set of grievances around which a segment of the population will rally, and a diaspora that is prepared to support protest actions.

Text Box A
Economic Causes of Conflict and their Implications for Policy
Paul Collier

Statistical analysis of situations in which open conflict has emerged show that some factors increase the probability that conflict will find root in a society:

- Dependence on a primary commodity
- Low average income
- Low percentage of young males in secondary school
- Large diaspora or other factors that make the rebels financially viable
- Existence of a dominant ethnic group and a substantial ethnic minority
- Rapid population growth if it assists rebel recruitment
- Protest is linked to objective grievances, such as inequality or political oppression

Conflict prevention: Invest in addressing the most important risk factors as shown by the country situation

Post-conflict policy: Where risk factors remain high, the chances that fighting will resume also remain high. Invest in addressing key risk factors.

The institutional model developed by Lund, which is shown in Text Box B, posits that imbalances in the opportunities available to different groups; doubts about the legitimacy of democratic institutions; weak civil society institutions, and the absence of venues for resolving differences peacefully are underlying causes of conflict. These root causes can be exacerbated

by any of a number of events, including, for example, election irregularities, migrations across neighboring borders, the easy flow of arms into a country, a steep or rapid decline in public services, or the emergence of negative stereotyping and media involvement in hate campaigns.

Text Box B
Why Do Violent Conflicts Occur
Michael Lund

Root Causes of Violent Conflict:

- Imbalance of political, socio-economic or cultural opportunities among different identity groups
- Lack of democratic legitimacy and effectiveness of governance
- Absence of opportunities for the peaceful conciliation of group interests and for bridging dividing lines between different identity groups
- Lack of an active and organized civil society

Aggravating factors (the presence of all or some):

- Manipulated elections
- Inflow of arms
- Excessive and increasing military spending
- Rise in political agitation, military training and criminality in refugee camps
- Migration flows into neighboring provinces or countries
- Increase in intimidation, illegal arrests and disappearances
- Exploitation of political distrust by political entrepreneurs
- Generalizations of negative stereotypes
- Sudden deterioration of the capacity of public services to provide basic needs
- Transformation of civil society organizations into mobilizing agents for violent activity
- Call for the extermination of politicians and whole segments of the population by hate media
- Large scale disinvestments and capital flight

Triggering events (single key acts that set off and escalate violent conflicts or perpetuate their continuation)

- Social unrest – demonstrated by one or more violent incident
- Armed opposition to the government
- Political assassination
- Mass demonstrations

b. The Applicability of Conflict Management Theory to Macedonia’s Situation

USAID’s review of Macedonia’s economy, democratic institutions and current circumstances, in light of the Collier and Lund models, indicates that many of the predisposing factors for conflict are present and “practically describe the Macedonian situation” and the stages the country went through as it moved toward open conflict. The Lund model uses a simple graphic to explain this process, as Figure 1 shows. The following paragraphs elaborate on what the Mission learned when it looked at Macedonia’s situation from the perspective of these models. The Mission confirmed that economic factors are inextricably linked to the current crisis and, at the same time, may well suggest ways to move beyond it.

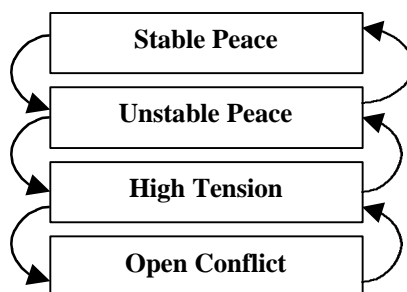


Figure 1. Lund Schematic of Stages in the Development of Conflict

While Macedonia is not dependent upon a primary economic commodity, political leaders and the parties they represent maintain control of over half of the jobs in the formal sector, including a large civil service and many jobs in state-owned enterprises the Government has not yet privatized. This control, and the way in which politicians distribute jobs acts as a precipitating factor in the current crisis. The notion that public sector employment is the equivalent of a primary commodity in Macedonia stems from the competition it fosters among different groups. Government is also the largest consumer of goods and services in the country and it exerts a good deal of economic influence by virtue of its buying power. One of the things that most clearly confirms the image of jobs as a primary commodity is the prominent position that access to government jobs has on the list of grievances put forward by the armed ethnic Albanians.

The Lund model contrasts with the Collier model in that it applies an institutional perspective when it posits a lack of democratic legitimacy, and a consequent lack of effectiveness, as a central cause of crisis. The legitimacy of democratic institutions is definitely an issue in Macedonia. According to a national opinion poll, only 37% of the population trusts the government and only 46% of those who responded said that they felt closely aligned with democratic values.¹ This disaffection stems from an array of causes, one of the most important of which is the inherent corruption in the country's political party system and the degree to which political considerations dominate decision making processes within and beyond government. The legitimacy of government is being eroded, no matter which party is in power, by patronage systems used by political leaders to dispense the spoils of victory, most noticeably government jobs – the primary commodity – to party loyalists. The power of office is used to buy loyalty rather than earn reelection. While one would expect the ethnic Albanian population to imbue a government dominated by an ethnic Macedonian party with little legitimacy, ethnic Macedonians, too, find the government unresponsive to their interests. The flawed elections of 2000 intensified the popular perception that democracy is about increasingly intense party rivalry – not good governance.

Though Macedonia had been moving toward power sharing arrangements such as coalition government, the general failure of parties to represent the interests of their constituents has left many feeling disenfranchised. Moreover, the dialogue is often cast in terms of a zero sum game.

¹ BRIMA, *Citizens Attitudes and their Perceptions about Political, Civil and Non-Governmental Institutions in Macedonia*. Skopje, Macedonia. 2000.

The dynamics of the economic transition and the close linkages between the economic and political systems reinforce the notion that the demands of one group can only be met at the expense of the other. Slow growth, which the Collier model calls an underlying cause of conflict, is a significant problem in Macedonia and a source of tension. There simply are not enough jobs to go around. Over the past decade, slow growth has resulted in rampant unemployment and a dramatic rise in percentage of the population living in poverty, i.e., from 4% to 20%. Pressures imposed by a weak economy, which are felt by all ethnic groups in Macedonia, are particularly evident in the Albanian communities, where the inactive and unemployed portions of the population are significantly higher than they are in ethnic Macedonian communities. Women in this community, especially in the rural areas, tend not to work outside the home and a large number of young ethnic Albanian men are unemployed.

Poverty in Macedonia is linked, statistically, to a low level of educational achievement and low wage rates as well as to high unemployment. Access to education is an issue that has a prominent role in the current crisis. One of the grievances about which the armed ethnic Albanian complain is the Government's failure to provide this minority with access to a university level education in the Albanian language, which is the language in which most ethnic Albanians study in both primary and secondary school. Even at the primary school level, access to education is an issue. Primary education in Macedonia is mandatory, yet 17% of school age children do not attend. Further, many of those who do complete primary school fail to continue on to secondary school. It is clear that while some of the impediments to a secondary school education are cultural, others are economic. The percentage of ethnic Albanian children who do not go on to secondary school is much higher than is the case in the ethnic Macedonian community, despite the fact that a secondary school education is provided in both of these languages.

Fundamental differences with respect to opportunities, such as education, are the kind of inequities that both the Lund and Collier models associate with conflict. A low level of educational attainment combined with unemployment among men with ethnic ties to those involved in armed hostilities represents a particularly important societal vulnerability for Macedonia. The fact that Government perceives this vulnerability was made clear when Macedonian President Boris Trajkovski stated publicly, on a recent trip to Stockholm, that "high unemployment among Macedonia's Albanian population has probably helped fuel the insurrection"². The situation may be particularly dangerous in Western Macedonia, given reports suggesting that recruits into armed ethnic Albanian groups may be receiving as much as 1000 DM per month per soldier. These payments to recruits may be indicative of ties with a diaspora of the kind the Collier model indicates can lead to open conflict elsewhere. Cross-border smuggling is also believed by some to have played a role in the financing of arms and recruitment in Macedonia's current conflict. Macedonia's porous border with Kosovo and the movement of people across it is another factor that the Lund model says may be catalytic.

Collier's image of a strong connection between the presence of a large minority and social tension when there are perceived inequities is descriptive of Macedonia today. These ethnic groups have lived side by side for generations without experiencing open conflict, but contact

² Gareth Jones, *Macedonia Leader Wins Total EU Support at Summit*, Reuters, March 23, 2001, at www.reliefweb.int.

between them has in many ways been minimal. Macedonia is routinely characterized as a country in which different ethnic groups live in parallel societies. Misperceptions and negative stereotyping, a natural consequence of such arrangements, are danger signals, according to the Lund model. Stereotypes are relatively strong in Macedonia. Historically, there was a clear perception across the two largest ethnic groups that Macedonian society consisted of the “haves” and the “have-nots,” with membership being primarily a function of ethnicity. While ethnic Albanians, traditionally excluded from public sector employment, were viewed by Macedonians and viewed themselves as “have-nots”, a shift in perceptions began to occur as a function of the country’s transition to a market economy. It is now the Macedonian community, rather than the Albanian community, that suffers job losses when state-owned enterprises are sold or closed. Ethnic Albanians who, because of a lack of other opportunities, opened their own businesses have begun to benefit from market forces. As a consequence of these changes, Macedonians have started to see themselves as the “have-nots.” Both groups now feel disadvantaged in some way vis-à-vis each other, which translates into rising tensions and mistrust.

As Lund points out, an active civil society can help counteract such tendencies and serve as a useful mechanism for voicing citizen concerns. In a crisis, civil society can sometimes bridge the distance between parties and negotiate solutions. In Macedonia, civil society is still too weak to play this role effectively. This weakness is only partly institutional. After many years of depending on the government to solve society’s problems, the impulse that propels people elsewhere to create civil society organizations is almost non-existent. An important consequence of the weakness of civil society in Macedonia is that, when combined with a tendency among ethnic groups to minimize their interactions with each other, there are few venues for the discussion of differences and their peaceful resolutions. This is the kind of institutional weakness the Lund model views as helping to set the stage for open conflict and make it difficult to resolve them. Media is also part of the problem. Rather than simply reporting on the crisis, media entities in Macedonia, many of which are linked to political parties in a patron-dependent relationship, have in some instances taken sides in the conflict and have helped to promote negative stereotypes, a development which the Lund model sees as an aggravating factor for situations that are ripe for conflict.

In sum, the four root causes of conflict outlined in Lund’s model and all of the main causes that Collier identified as being correlated with rebellions and civil wars are present in Macedonia, and have predisposed it to conflict. From USAID/Macedonia’s perspective, the Kosovo crisis must also be viewed as an aggravating cause, albeit on belated basis, of the emergence of open conflict in Macedonia. At the time the Kosovo crisis broke out and thousands of refugees walked across the border, Macedonia responded to the emergency. While the refugees have returned to Kosovo, they have not returned to a settled situation. Kosovo remains in turmoil and that turmoil affects Macedonia as well.

3. Implications for USAID/Macedonia’s Strategy

This reassessment alerted the Mission not only to the applicability of the models it examined, but also to the degree to which problems on which the Mission was already focusing are deeply intertwined with the crisis. A central message of these models, in the Mission’s view, is that helping a country solve problems depends on understanding them at a number of levels. In this sense, helping Macedonia move away from open conflict depends a great deal on the roots of

that crisis. While Mission staff are not of one mind with respect to the degree they see internal versus external factors as the immediate triggers of the current crisis, all agree that there are a number of root causes of conflict extant in Macedonia that made the situation ripe for conflict and that the Mission's program needs to be focused squarely on these problems.

The Mission's reassessment using a conflict management optic has reaffirmed a number of conclusions reached earlier. The reassessment also helped the Mission identify several other issues for attention. In summary:

- Economic growth, to which unemployment, low average incomes, and poverty are all connected, is as, if not more, important than our previous Strategy Update indicated. All of these conditions are not only lamentable, they also contribute to the level of tension in the society, and to the sense that different ethnic groups have that they are competing in a zero sum game when it comes to the resources they need to survive.
- The resulting patterns, in ethnic, age and gender terms, of unemployment and poverty, and backward linkages from these conditions to problems with access in the education system and educational attainment, particularly secondary school completion, appear to be more important than the Mission previously recognized. Many of the elements of an economic growth strategy, by their nature, are both technical, e.g., credit system liquidity, and neutral as regards to who benefits from improvement, based on the classic presumption that growth eventually benefits everyone. From a crisis management perspective, however, which benefits or does not benefit, e.g., younger, less well-educated people, mostly in the rural areas, is significant. The need, from a conflict prevention perspective, to integrate into our Strategy a focus on those individuals and groups that are most vulnerable to being left out when economic growth is rekindled is one that has significant implications.
- Macedonia's bloated government, including the many state-owned enterprises it still controls, is as, if not more, significant a problem for Macedonia's transition to democracy and a market economy, and for a stable peace, than the Mission's January 2001 Strategy Update may have indicated. The size of government, its dominant role in the economy, and the ability of political leaders and parties to allocate government jobs and influence procurement in ways that benefit political loyalists, is contributing more directly to people's sense of alienation, their lack of trust in government, and even doubts about the legitimacy of democracy, than our previous description of this problem suggested.
- The concentration of power in the hands of a small number of national level political leaders and the parties they represent is just as important as a threat to democracy and economic growth as the Mission indicated in its earlier Strategy Update. Equally valid was the Mission's earlier analysis which defined weaknesses in other key democratic institutions, mainly Parliament and the Judiciary, as part of the problem, particularly when paired, as they are in Macedonia, with a flawed election process, a low level of development in civil society organizations, inadequacies at the local government level (i.e., skills, authority and resources), little by way of positive and collaborative interaction between ethnic groups, and an insignificant level of citizen participation in democratic decision making processes at the political and community level, aside from

voting. There is, in effect, no system of checks and balances in place to challenge the Executive branch nor are there sufficient and credible venues for peacefully resolving disputes. Further, as the Mission concluded in January, attempts to reduce the power of central government and political parties directly, and without first, or simultaneously, strengthening other aspects of the system will not only be resisted, as the slow pace of privatization and civil service reform in Macedonia reveal, they could easily lead to a total collapse.

On the economic side, what these findings imply is not simply a growth strategy, but more precisely a need to identify and concentrate on those aspects of the current growth strategy that have the highest potential for moving the economy quickly back to its 2000 level and maintaining it there. On the democracy and governance side of the Mission's program, the general implication is the same, but the programmatic consequences are somewhat different. The Mission is already invested in a number of efforts that aim to strengthen weak institutions (civil society, local government and to some extent Parliament), but it is not yet clear which of these efforts will accelerate first, i.e., develop enough momentum to effectively counterbalance the power of the Executive branch and political parties. Further, as the Mission had already recognized, earlier decisions it made to minimize work it had already begun, on political party development and with the electoral system, were premature. From a crisis management perspective, Mission programming in support of adherence to the rule of law, in the past, was also inadequate. The need to move decisively into each of these areas is clear, but doing so will not guarantee that reform in these areas will move more quickly or be more effective than the efforts the Mission is already making to strengthen democratic institutions.

USAID cannot accurately predict how fast various democratic institutions will develop in Macedonia, particularly under current conditions. What is clear, however, is that the Mission pulled back too early in some areas, e.g., political party development. This convinces us that, at least in the near term, the Mission must pursue a balanced strategy that focuses on several institutions simultaneously. A balanced strategy is the best approach for ensuring that some of these institutions will begin to play their intended roles. The consequences of trying to "pick a winner" now, i.e., focusing all or most of the Missions democracy and governance resources on one institution, and being wrong, are unacceptable. On the other hand, if a stable peace can be restored, it is the Mission's sense that by the end of this Strategy period, enough experience and information about progress in various democratic institutions will be available to allow us to identify where greater concentration is warranted.

With respect to problems that emerged from its reassessment on which the Mission has not focused heavily to date, the most important are those affecting marginalized individuals and groups. Age, low educational attainment, and a rural residence are among the primary characteristics of these groups, and ethnicity is clearly a factor as well. Gender issues exist and the Mission is addressing several of them, recognizing that their intensity may differ for different ethnic groups, but gender, while important, is not the dominant variable in this equation. Prior to its reassessment, USAID/Macedonia had already made several important investments in education and in improving the linkages between those already in the workforce. This nexus defines the space in which the Mission has determined it has a good chance of making a difference with respect to those groups in the Macedonian population who have benefited least

from the market transition and who may be among the most discouraged and disaffected politically as well.

4. Overview of the Mission Program

USAID/Macedonia's amended Strategy, which covers the short time period from the end of the current Fiscal Year to the end of Fiscal Year 2004, is premised on the assumption that the current conflict will end and a stable peace will be restored. In this amended Strategy, the Mission makes a concerted effort to be neither too optimistic nor too pessimistic. Instead it focuses on the underlying causes of the current crisis and what USAID can do through a combination of short and longer term efforts to help restore a stable peace, reenergize the economy, and build a credible commitment by all parties to make this multi-ethnic, multi-lingual nation a source of pride and progress for all of its citizens. The strategy also envisions the inauguration of new initiatives that will help to reduce the negative impacts of transition on those within the society, and across all ethnic groups, who have not benefited from the market transition and feel alienated and unrepresented politically.

The Mission's program is organized under three significant Strategic Objectives (SOs) and supporting activities that are cross-cutting in nature. The three SOs through which the Mission will work to restore stability, promote reform and address the underlying causes of the current crisis, both to advance Macedonia's development and ensure against a resurgence of conflict, and help guide the country toward closer ties within the region and with Europe, are:

- **SO 1.3 Accelerated Development and Growth of the Private Sector.** Under this SO, the Mission will continue to improve the framework of laws and policies that affect private sector growth and to strengthen the financial sector, which the IMF has identified as the main impediment to economic growth in Macedonia. Activities that directly support the development of the private sector will be consolidated. The Mission will build on the financially successful model the Mission has developed for assisting vertically integrated clusters of businesses of various sizes and across ethnic groups that are prepared to work together to accomplish common objectives in competitive markets. USAID's competitive edge in this sector is the practical experience it can bring to bear. Fragile banking systems, tax reform, commercial law and the day to day business of teaching small firms how to be highly competitive in the marketplace are all things we know well. That practical edge is exactly the right complement to policy reform programs that focus on privatization and downsizing government.
- **SO 2.0 More Legitimate Democratic Institutions.** This SO consolidates and harnesses the energy of three separate SOs the Mission had developed in the democracy and governance field to focus on the central problems of the democratic transition in Macedonia. This newly consolidated SO will sustain its focus on the redistribution of power through its decentralization initiative as well as strengthen key institutions that can potentially function to check the power of the Executive branch and political parties, i.e., civil society organizations, Parliament and the Judiciary. To this end, the Mission will reactivate its work on the electoral system and political party development and increase its investment in activities that will enhance adherence to the rule of law. It will also work with NGOs and other civil society organizations to enhance their capacity to

participate in a dialogue with Government about policies and priorities. USAID's comparative advantage in the democracy and governance sector is significant and in Macedonia that experience has put us in a leadership role and drawn other donors in behind us, to share the work on local government, and on civil society. We are also the right donor to step back in and address problems that have emerged in the electoral system, in political parties, with respect to the rule of law, and participatory legislative processes. In all four, we play to our strengths and those strengths result in solutions. These are all problems where we have great expertise. Our strength, in another sense is our capacity to conceptualize the democracy and governance sector as a whole, spot the key weaknesses, and bring to the attention of those in Macedonia who most want to see the democratic transition move forward. The choices we have made within this sector on where U.S. assistance can make a difference reflect this understanding of where our comparative advantage lies.

- **SO 3.4 Mitigation of Adverse Social Impacts of the Transition to Market-Based Democracy.** Under this new SO, the Mission will continue its efforts supporting the creation of the South East Europe University, which will provide higher education opportunities in Macedonian, Albanian and English. Through new initiatives that fall within the scope of this SO, the Mission will address impediments limiting educational attainment, particularly for children who are either not attending primary school or not continuing on through secondary school. The Mission will also help the unemployed, particularly youth, to connect with opportunities, including some which while short term in nature, that can help prepare them for employment and spark their interest in participating in efforts to solve community problems. Work with trade unions, as a partner in an effort to improve the competitiveness of Macedonia's workforce as well as conditions of work, is also planned under this SO. USAID plays to its comparative advantage by moving into this SO. This is particularly so in the two areas under the SO framework where we sense it would be wise to concentrate. Education, particularly girls' education under circumstances where tradition argues against it, is an area where we can point to our repeated success, and we are convinced that the same kinds of approaches can work through "stay in school" campaigns to keep both girls and boys in the education system. Labor force management is another area where our experience, and the fact that the U.S. Department of Labor is already on the ground, gives us an advantage. USAID will not necessarily be the "big money" in this field, particularly with new World Bank poverty program lending coming on line, but we will almost certainly be able to think outside the box and be catalytic as we do so.
- **SO 4.2 Cross Cutting Programs** On a cross-cutting basis, the Mission will also address a range of needs, including ethnic cooperation; gender based problems and disparities; problems that affect youth as a particularly problematic age segment; gaps in the country's legal framework; corruption within the society; and needs that are identified for specialized training outside of Macedonia.

To understand the strategy the Mission is proposing, it is also important to understand "the road not taken." As part of its effort to review and refine its Strategy in light of both the conflict in the country and its understanding of conflict management models, USAID/Macedonia examined other potential areas of intervention and decided not to undertake them. First, the Mission

reviewed the work the IMF, World Bank and European Union have underway to bring down the size of government, through privatization and civil service reform. This review suggested that the Mission should continue to play a supporting role, but should not initiate an independent activity to address this problem. Second, the Mission's reassessment pointed out that social services, especially for the poor are inadequate. In some parts of the country, for example, both the birth rate and the infant mortality rate are a good deal higher than the national average. These are important problems, but they are problems that the World Bank and the Government are addressing through a new national poverty alleviation strategy and large World Bank health projects. Finally, the Mission considered the fact that environmental issues, including clean water, are problems in some parts of Macedonia, particularly where municipalities do not have the resources to establish sanitary landfills and unsanitary practices persist with respect to the treatment of waste. While USAID addresses some aspects of this problem at the community level, the European Community has taken the lead in this sector, working directly with the Environment Fund that helps municipalities address environmental problems.

In sum, the Mission has reconfirmed the importance of its initiatives in pursuit of private sector-led economic growth and a more legitimate, inclusive democratic government. The Mission has also identified substantial problems affecting those who have been marginalized by the democratic transition, and it is proposing a blend of labor force preparation and education initiatives to help ensure that those who have been left out to some degree are better incorporated both economically and politically.

5. Crisis Modifier

USAID/Macedonia recognizes that the current situation is unstable. A negotiated cease-fire could prompt the need to assist with reintegration of massive numbers of refugees and internally displaced persons. Alternatively, open conflict or sporadic low-level hostilities could continue for an indefinite period, impeding access to some areas of the country where programs would normally operate. Partial or full demobilization of Mission and partner staff could prompt reprogramming. It is impossible to know exactly which way the situation in Macedonia will develop. Nor is it possible to predict the course of events in Kosovo, over which Macedonia has no control. Current arrangements do not represent a solution for Kosovo; furthermore, any solution reached there is likely to leave some unsatisfied, which could in turn have a negative impact on Macedonia.

Consistent with the uncertainty inherent in Macedonian situation, USAID has employed a conflict management framework for developing this Strategy and has already adjusted the program to respond more effectively to the conflict in the short term and the root causes of the conflict over the longer term. Nevertheless, the Mission is requesting that approval of this strategy, which runs through FY 2004, include approval for Mission reprogramming of existing pipeline as well as new obligating authority as required to address further changes in the situation or the nature of the crisis. Resolution of the current Macedonian crisis is a matter of grave concern to the United States. Higher overall budget levels for the program and the Mission's allocation of new and previously anticipated funds for FY 2000 and beyond reflect this concern. These allocations are detailed in Part III of this Strategy.

PART II

Strategic Objective 1.3 Accelerated Development and Growth of the Private Sector

1. Problem Analysis

Overview of Economic Performance

Macedonia's economy made progress in 2000, with an estimated Gross Domestic Product (GDP) growth rate of 5.1%. This is a significant increase over the past several years. Rapid growth in 2000 reflected a faster than expected recovery from the Kosovo crisis. Sectors that contributed to growth in 2000 included transportation and communications, both of which benefited from demand in Kosovo, largely from the KFOR contingent (NATO forces). Industry also returned to its pre-1999 growth level. Economic performance would have been even better, i.e., around 6%, had it not been for a drought that resulted in a 1% year-on-year fall in agricultural output.

Exports were important for growth in 2000. However, as exports rose, so did imports, which resulted in a trade deficit. Semi-finished goods dominated both exports and imports. Yugoslavia surpassed Germany as Macedonia's largest trading partner and trade with European Union (EU) countries, as a bloc, also increased. Domestically, consumer spending was strong in 2000. Spending was fueled by the payment of arrears to pensioners and conversion into bonds of frozen foreign currency accounts. A 7% growth in real wage rates also contributed to increased domestic spending. Tourism, a good portion of which continued to be R&R from Kosovo, was also strong and foreign direct investment increased dramatically during 2000, reaching \$125 million during the first nine months, as compared with \$30 million in 1999. Macedonia introduced the Value-Added Tax (VAT) in April 2000 and tax collection improved. The country also realized a budget surplus, in part as a result of the sale of the state telecommunications company. Debt and inflation both remained reasonable.

Despite positive growth in 2000, unemployment remains very high in Macedonia and poverty continues to rise. (See Annex A). According to a June 2000 International Monetary Fund (IMF) report on economic developments in Macedonia, new job creation, to the extent that it occurred, came primarily from small private firms. In contrast to other countries in the region, private sector growth is occurring here in agriculture and trade. This is important because, as noted in a 1999 study by the World Bank, these sectors are not highly demanding in terms of educational attainment or specialized skills.

Economic policy continued to move gradually in the right direction, with the passage of new banking and insurance legislation. Some progress was also made in privatizing state-owned enterprises. The Government is also roughly two-thirds of the way toward satisfying IMF requirements for reducing the size of the civil service. Integration into broader economic partnerships is also moving in the right direction. Progress was made toward Macedonia's entrance into the World Trade Organization (WTO), and it became the first country in

southeastern Europe to begin negotiations with the EU in 2000 on a stabilization and association agreement.

Limited, but open conflict, to which Macedonia has been exposed since February 2001, will not bring the economy to a complete halt, but it will substantially hinder growth, which declined rapidly during the first quarter. Estimates for GDP growth in 2001 currently range from zero to 2.0%. The internal and external displacement of over 100,000 people as a result of the crisis and heightened anxiety in the population as a whole is contributing to reduced spending and investment, particularly among foreign partners who are very sensitive to increased risk. In the areas where fighting has occurred, crops are being burned and animals abandoned. USAID's implementers in the agriculture sector report noticing that, in some agribusiness associations, relations between ethnic Macedonians and ethnic Albanian members have become strained. Association members have become cautious about working together, and in some instances, progress has slowed. Even if Macedonia is able to bring an end to the crisis in the near future, its impact on growth is significant and it may take more than a year for the economy to recover and regain the momentum it displayed in 2000.

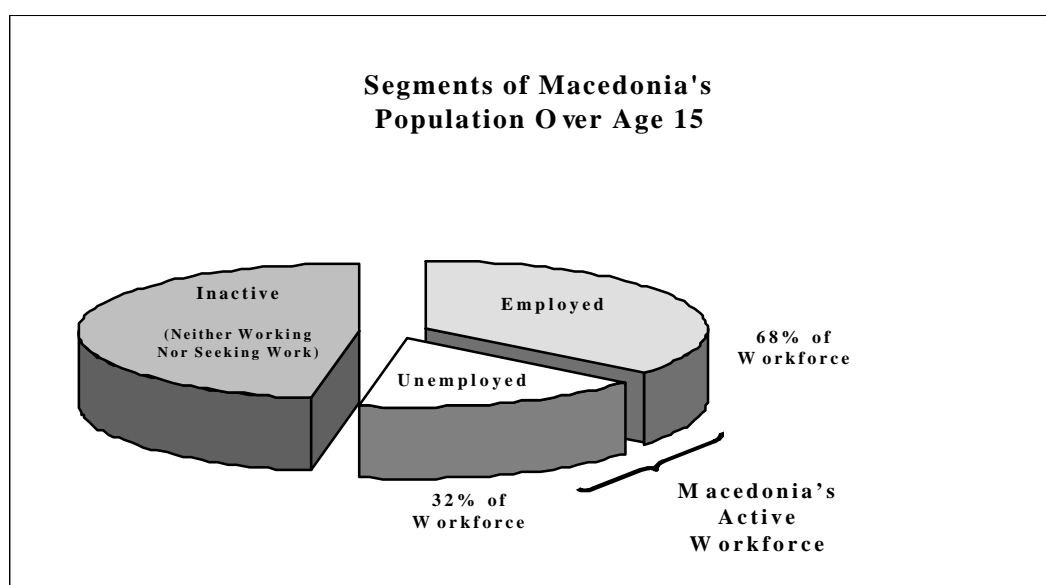
Economic Factors and the Current Political Crisis

USAID's May reassessment showed that economic factors play an important underlying role in the current political crisis. The Collier crisis management model, described in Part I, identifies dependence on a primary commodity; low average incomes; and slow economic growth as factors that are positively correlated with civil wars and rebellions. For Macedonia, public sector employment functions in much the way a dominant commodity functions, i.e., its role in the economy makes it a prize over which factions compete. As discussed below, public sector employment is but one symptom of heavy state involvement in the economy, which is one of the three main causes of slow economic growth identified by the Mission.

Low average income, another underlying cause of conflict, is also a problem of which the Mission is well aware. As a result of negative economic growth in the early 1990s and slow growth thereafter, real wages declined sharply and have not recovered. Average incomes are estimated to be roughly 75% of what they were prior to independence, which is relatively low for countries in the region. Unemployment and underemployment are important factors in this equation. Surveys consistently show that these are the problems that most concern average citizens. Unemployment in the active labor force, reported at 32% for 2000, is high compared to an estimated 18% in Albania and Bulgaria at 12%. Statistically, the unemployed are typically young, urban, married and male, with a secondary school education, although on a proportional basis female unemployment is higher than it is for men. The majority are new entrants into the labor force; only a quarter of the unemployed are workers who were previously employed and have been laid off. Macedonia's high unemployment rate is all the more problematic because of the large percentage of the working age population (47%) that is not active in the labor force (i.e., neither employed nor unemployed and looking for work). With nearly half of the working age population categorized as *inactive* from a labor force perspective, Macedonia is relying on the roughly one third of the working age population that is employed, whether in registered businesses, on farms or in the informal sector, to support everyone else, as Figure 1 and supplementary data in Annex A indicate. Also of concern is the fact that the number of jobs in the formal economy has shrunk substantially, with employment in registered firms falling 39%

since 1989. While these losses have been offset, at least in part, by apparent, although not formally reported, growth in the informal sector, further contraction of the job market is likely, as Government sells off remaining state-owned enterprises.

Another important consequence of slow economic growth has been a rapid rise, over the last decade, in the percentage of people living in poverty, from 4% in 1991 to 20% in 2000, according to the Government's estimate its Poverty Reduction Strategy Paper (2000). Poverty is not new in Macedonia, a country that has long been considered one of the poorest in the region. Even so, the rate of increase in poverty in Macedonia since 1990, is significant. Two-thirds of the poor live in rural areas where poverty is associated with inadequate employment, i.e., low paid, seasonal or part time employment, rather than unemployment. In rural areas, in particular, those who do not seem to fall below the poverty line are families that either own a business or receive remittance payments, according to the World Bank's Poverty Assessment (1999). This assessment also shows that a low level of educational attainment is also correlated with poverty status. Slow economic growth is the primary cause of both high unemployment and rising poverty and the Mission has also identified it as a collateral cause of the open conflict Macedonia experienced during the first half of 2001.



Source: Government of Macedonia, Labor Force Survey, 2000

Figure 1. Employment and Unemployment in Macedonia's Working Age Population

Key underlying causes of slow economic growth in Macedonia that were identified for attention in the Mission's economic assessment, carried out in 2000, and highlighted by the Mission's recent reassessment include: the dominant role of the state sector in the economy; labor market rigidities and a fragile, underdeveloped financial sector.

The Size of the State Sector and Government Involvement in the Economy

As indicated above, the state sector dwarfs the private sector in Macedonia. It accounts for 45% of GDP and public sector employment accounted for 66% of total employment in 2000. While recent progress is evident, large-scale privatization has moved very slowly on balance over the decade. A dozen or so large loss-making public enterprises remain to be privatized or liquidated along with other, smaller state-owned firms. In addition, the IMF is insisting on a reduction of 3,500 government employees during 2001. The state also constrains private sector development through excessive regulation. Business registration is a lengthy process and the taxes registered firms must pay for each of their employees are onerous. Political patronage, which finds its way into government procurement decisions, is another way in which the heavy presence of the state in the economy works to skew the “playing field” for business.

Labor Market Rigidities

The broad economic picture that emerges in Macedonia is of a very inefficient, relatively stifled – but remarkably resilient – dual economy. One part consists of the pre-market economy of large unprofitable state-owned, state-subsidized, or perhaps even poorly privatized enterprises that need to be restructured if not liquidated. The other part, the new-start firms, consists primarily of small market-oriented entrepreneurs who are either struggling in the official economy with excessive government regulations, or operate in the informal sector. Small firms that stay in the informal sector do so because the costs implied by registration, particularly the tax implications, are unmanageable. High payroll taxes; constraints on hiring and firing employees; court review of termination decisions; a high level of mandatory benefits, and other labor restrictions discourage many private sector firms that do operate in the formal sector from expanding their economic activity, particularly if it will require them to hire new workers. Those that are prepared to hire new workers, on the other hand, often have a hard time finding qualified employees. Labor markets have not been able to function as needed to sustain dynamic economic growth and restructuring. Labor mobility between jobs is low, with some workers lacking appropriate skills for work in the private sector or the means to obtain it, and others living with their families in towns where state-owned enterprises have been sold and workers have been let go. Those workers who have transferable skills and work hard to find new employment often do so, but find the task difficult because of the scarcity of information about job openings.

Fragile and Underdeveloped Financial Sector

The financial sector in Macedonia has a limited range of debt and equity products and underdeveloped risk management tools, and it serves the needs of none but the largest, well-connected customers. Banks beholden to formerly socially owned enterprises currently dominate the system. This has led to pervasive connected or non-market lending and a high percentage of bad loans (estimates range from 33% to up to 45%). It has also contributed to a cost of borrowing that is too high for small, credit-worthy firms. This problem is further compounded by National Bank’s high foreign exchange reserve requirements, which severely limit the ability of banks to loan out the funds they have available. Despite high lending rates, the banking system’s efficiency and profitability have deteriorated in recent years. Bank consolidation is badly needed. The opening of one or two highly competitive foreign banks in the market, which

has not yet happened, would speed that process. The financial system also suffers from the fact that deposits are very low as a percent of GDP, particularly compared to other transition countries. Few Macedonians use banks or have confidence in them. Some banks have been subject to a considerable degree of government intervention, and there is anecdotal evidence of outright coercion. Yet, there are few other legitimate avenues for those who want to access capital, as few non-bank financial institutions currently exist. Further, capital markets are in a nascent stage of development, and as yet few opportunities for foreign direct investment exist.

Action in these three areas would reduce impediments to economic growth, which, in turn, should result in higher average incomes. But rapid economic growth also depends upon investment and investment is extremely sensitive to political circumstances. Political instability always increases the risk associated with investments. Given a choice, today, between investing in a business in Macedonia and using money to make money in some safer way, most investors will choose the second of these options. It is risk, even perceived risk, not the fundamentals of Macedonia's economy, no matter how problematic those may be, that will make rapid economic growth particularly difficult to achieve in 2001 and for as long as the current crisis continues.

2. Strategy: The Results Framework

The Development Hypothesis

For rapid private sector-led growth to emerge and begin to ameliorate Macedonia's low average wage, unemployment, and poverty problems, the following must happen:

- Government laws, policies, regulations and procedures must favor and actively support private sector growth. In simple terms, what is required is less government involvement in the economy. Secondly, government needs to do more to establish a level playing field through the introduction of new legislation and changes in its approach to taxation.
- Enterprises must have the capacity to think and act in ways that are competitive, and they need to possess enough specific knowledge and experience to apply that capacity productively.
- They must also have adequate access to the necessary capital and labor to create and take advantage of opportunities.

Stimulating market-oriented, private sector-led growth has been the central focus of USAID's strategy under SO 1.3 since the current Strategy was approved. By 2000, the Mission had begun to achieve the objectives of this Strategy. Some of vertically integrated clusters of private sector enterprises, with which the Mission was working, especially in the area of agribusiness, had realized commercial successes beyond their own expectations. In addition, trade policy and exports sales were both moving steadily to expand Macedonia's role in export markets. The crisis, as indicated above, had an almost immediate negative impact on growth in the short term. The damage to the economy, while significant, does not necessarily represent a complete reversal. Sufficient progress has already been made in the three key areas listed above to allow the economy to recover, when the crisis ends, as it did following the Kosovo crisis. Sustaining a

momentum sufficient to support renewed growth is what warrants sustained, if not expanded, Mission attention to all of these priorities.

Critical Assumptions

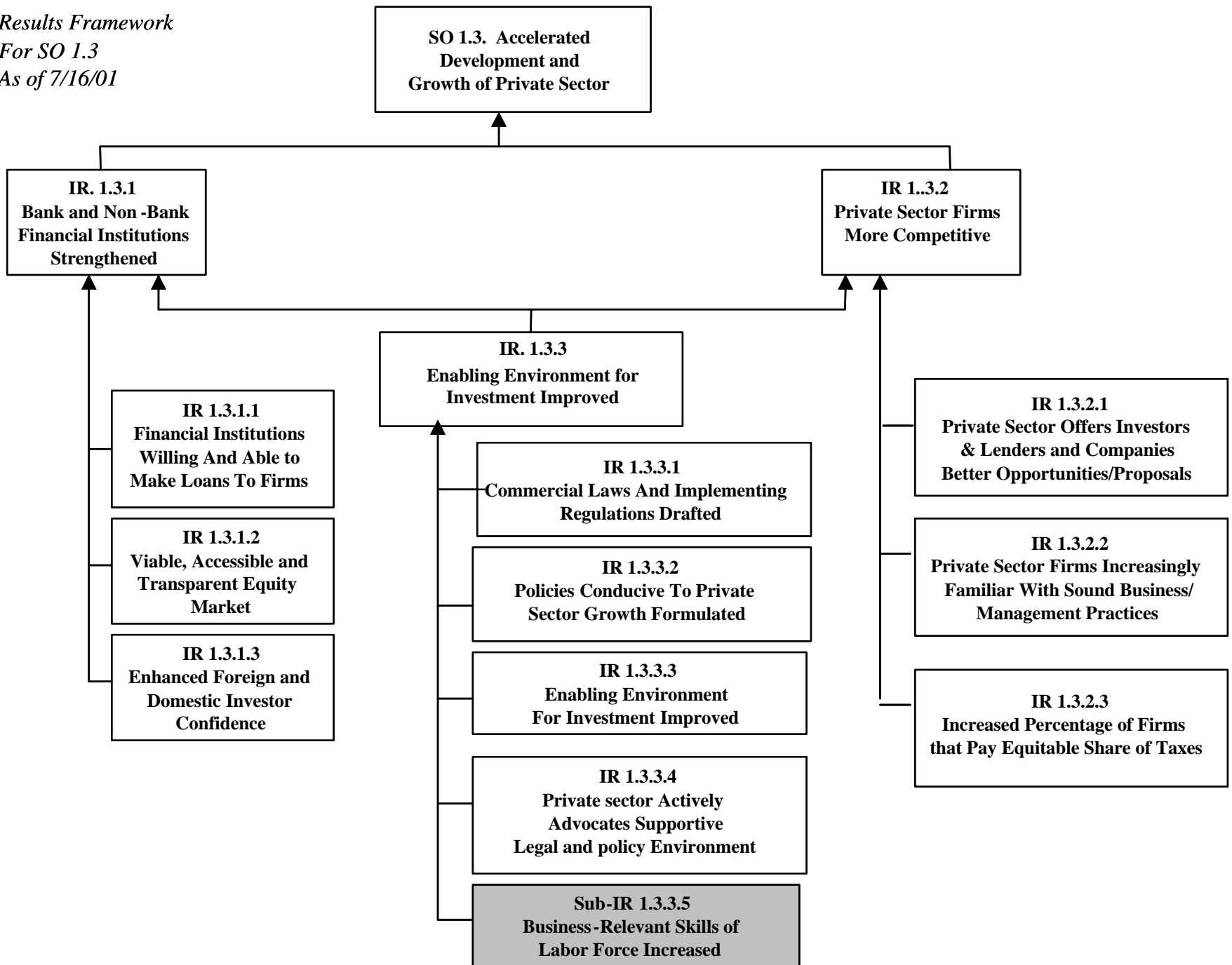
The Mission's success in stimulating private sector-led growth in Macedonia also depends upon:

- *A stable peace being reestablished.* For rapid economic growth to occur, peace is a necessity, not an option. USAID's assumption is that a sufficient number of ethnic Macedonians and ethnic Albanians will decide, at some point in the near future, that they have a large enough stake in their country and their economy to make the effort required to bring conflict to a halt and settle their differences at the negotiating table.
- *The political will needed to remove legal, policy, regulatory and procedural impediments to rapid, private sector-led growth exist.* Macedonia's large and highly centralized government is deeply involved in the economy. Political will is needed to move in a systematic way to reduce this involvement. IMF, World Bank and EU activities aimed at reforming the state sector can only succeed if political will is adequate for the task. Slow progress on both privatization and civil service reform suggest that while these kinds of commitments to change are possible, there are also forces at work that are pulling in the opposite direction.
- *Continued macroeconomic stability.* Macedonia has achieved a level of stability with respect to key economic variables that must be sustained within an acceptable range. The Mission assumes that stability can be maintained and that the current conflict will not undermine this level stability unduly.
- *Preparation of Macedonia's labor force will improve.* Businesses in Macedonia and foreign investors that are considering doing business in Macedonia consistently report that they are not satisfied with the preparation that people in the work force appear to have for the kinds of jobs they can make available. The SO 1.3 team is assuming that this problem will be addressed under the Mission's new SO 3.4 initiative.
- *Access to rapid and fair dispute resolution through the court system will improve.* Businesses report that they find it extremely difficult to settle disputes through Macedonia's court system in a timely manner. One problem, they observe, is that court proceedings drag interminably with some cases taking up to two years. They also complain about the inability of the judicial system to smoothly execute judicial rulings. The Mission is looking to the new IR 2.2 to improve access to timely and fair dispute resolution.

Causal Linkages

USAID's ability to achieve SO 1.3, *Accelerated Development and Growth of the Private Sector*, requires that significant progress be made on the three IRs on which the SO Team's energies are focused: a strengthened financial sector, more competitive private sector firms, and an improved

Results Framework
For SO 1.3
As of 7/16/01



climate for investment and business growth, as shown in the Results Framework (RF) for SO 1.3 on the following page. This diagram shows the three Intermediate Results (IRs) that anchor the Mission's strategy along with each of the key sub-IRs that support them. This RF differs from the one against which the Mission has been reporting in two important ways. First, it combines aspects of two IRs through which assistance was being provided to private sector firms into a single IR. The wording of the IRs has also been recast to enhance their focus on the results the Mission is trying to achieve: a strengthened financial sector and more competitive industry, both of which depend upon improvements in the investment or business climate in Macedonia. Second, and perhaps more importantly, the new RF shows the cause-and-effect logic that links the IRs together more clearly, and more accurately. It does so by displaying the way in which results achieved under IR 1.3.3 contribute to IRs 1.3.1 and 1.3.2. This relationship is crucial and it explains why the Mission made a concerted effort early in the Strategy period to achieve results under IR 1.3.3.

Special emphasis across this SO is placed on results that will help Macedonia achieve integration into the European Union and other multilateral structures such as the World Trade Organization. Integration into these structures is important not simply for economic reasons, but also because of the stabilizing effect that integration is expected to have politically. The Mission's emphasis on these relationships has encouraged the government to develop appropriate economic policies. We will also continue to work with the government and private businesses in support of Macedonia's regional integration into South East Europe. At this point in the Strategy period, SO 1.3 is still helping to build the basic infrastructure and institutions that Macedonia needs to be fully competitive and to be accepted as an equal partner in the region. Until these are fully in place, many regional links cannot be forged. It can be expected that during the latter part of the Strategy period economic institutions and business practices will be significantly more compatible with those of other countries in the region and in Europe.

As a result of its efforts in support of SO 1.3, USAID also expects that:

- Once peace is restored, and accession to the World Trade Organization a reality, Macedonia's economic growth rate will run at 4%-6% for several years. By 2004, Macedonia will also be well on its way to complying with the requirements of the EU Association and Stabilization Agreement.
- At that rate of growth, once it is recaptured, unemployment will decline significantly, from a current level of more than 30% into the 22%-24% range within two to five years. While still at a double-digit level, some of the slack in the system will have been taken up. Youth, in particular, will benefit from these changes and the unemployed fraction of the labor force in the under-35 age group will show a measurable decline.
- An improved legal framework for business development will be in place; a higher percentage of existing firms will enter the formal economy, and most new firms will register as well, in response to simplified regulations and a more equitable approach to taxation. Banks and businesses will both conduct their operations in a manner that complies with international standards.

- Exports from Macedonia to the region will have increased, as will the market share of Macedonian producers and processors, both domestically and in niche markets abroad. Both domestic and foreign investment in Macedonia’s private sector will be higher than they are today.

IR. 1.3.1 Bank and Non-Bank Financial Institutions Strengthened

“Land, labor and capital” has long been an economic mantra, because it points in a very simple way to the three essential inputs for business success. Constraints on private sector access to these basic resources have a direct negative impact on economic growth. The capital that businesses need in order to grow can come from any number of sources. What is important is that capital is available and that the cost of capital is reasonable for the businesses that need it. Firms of different sizes have different needs, and some are better risks than others. Recognizing this diversity of need, USAID, through IR 1.3 will continue to work to improve the access of all private sector firms to capital and to lower the costs, real and monetary, of those transactions.

USAID’s strategy in this area concentrates on the financial institutions through which capital can be accessed and the government institutions that regulate them. These include not only banks and other institutions that provide credit to firms but also the country’s equity market. A secondary element of this strategy focuses on the quality and transparency of the financial records of financial sector institutions and private sector firms. When these organizations apply accounting practices that meet international standards, they take an important step forward, enhancing not only their own credibility but also improving their ability to interface with financial institutions elsewhere. Between now and the end of the Strategy period, USAID anticipates that significant progress can be made on all aspects of its strategy for strengthening bank and non-bank financial sector institutions and increasing the velocity with which money moves through the private sector to respond to investment needs and opportunities.

More specifically, the Mission anticipates that as a result of its investments under IR 1.3.1:

- Banking institutions will be more stable, offer a wide range of competitively priced products, and loan out a higher portion of commercial bank assets. At the small-scale end of the business sector, lending demands will be met by non-governmental organizations (NGO) micro-banks such as Moznosti. Credit risk management will have improved in the financial sector, and credit rating mechanisms, if not a Credit Rating Service, will be in place.
- Macedonia’s equity market will function more effectively and transparently and it will be moving toward integration with other capital markets in the region.
- Financial sector oversight will be efficient, fair, and transparent and both banks and firms will routinely apply international accounting standards and prepare clear and auditable financial statements.

With this perspective in mind, the SO I.3 Team’s expectations for the next few years with respect to each of the Sub-IRs that support IR 1.3.1 are outlined below.

Sub-IR 1.3.1.1 Financial Institutions Willing and Able to Make Loans to Firms

In its July 2000 assessment of the Macedonian economy, the IMF declared weaknesses in the country's financial systems to be the top impediments to economic growth. This observation underscores why USAID/Macedonia considers reforming the country's fragile and undeveloped financial sector to be a high priority under SO 1.3. As noted above, larger institutions in this sector, particularly commercial banks, have a record of bad loans, partly as a function of loans that reflected political obligations rather than creditworthy investments, and partly because of the weak risk assessment capacity of these institutions. Poor management on the part of these institutions has driven up the cost of credit for firms whose needs are greater than those of small and micro-enterprises. With the help of USAID-funded activities, significant progress was made during the past year with the passage of the new Banking Law, which brings supervisory standards closer to those of the EU and allows foreign banks to establish branches and subsidiaries in Macedonia. By the time the activity is completed, in April 2002, the Macedonian banking system will have reached a "stability plateau" and public trust in the banking system will have increased.

The Mission expects it will take another six years to reach the point where Macedonia's banking system could be declared truly sound. However, by the end of the current Strategy period, USAID expects that there will be a significant decrease in the proportion of non-performing assets in the portfolios of commercial banks. The capacity of these banks to evaluate and process new loan applications, monitor loan status, and react quickly when expected payments are not received will be stronger and their overall approach to credit risk management will also have improved. Women are being employed in the banking sector in significant numbers. Overall, USAID expects that as a result of this maturation, commercial banks will be making more loans, thereby increasing the proportion of their assets in loans. As these banks increase their lending, USAID will monitor the degree to which lending is gender-neutral (see Gender Action Plan.) The best of these banks will also introduce new products during the strategy period. It is further anticipated that by 2004, consolidation in the banking sector will be evident and those banks that remain will be more competitive. This result will occur even faster if additional foreign investors enter this sector, or if a foreign bank begins to provide services in the Macedonian market. USAID efforts under this Sub-IR will also help to strengthen the Deposit Insurance System in the sense that its coverage will be more appropriate to the real risks, e.g., the current system does not take into consideration foreign exchange changes that negatively affect businesses operating in Macedonia.

By the end of the Strategy period, significant progress will also have been made at the Central Bank. The Central Bank's bank examination system will be technically stronger and the Central Bank will be better able to enforce its recommendations, as a function of improved enforcement procedures and stronger political will. The Central Bank, with USAID's help, has already developed two new units to strengthen its role as a regulator: a methodology unit to conduct forward planning vis-à-vis financial and economic risks, and a problem bank unit which in 2000 reduced the number of problem banks from eight to four, out of 22 commercial banks. The Central Bank is moving toward stronger commitment to having all banks in Macedonia make decisions on a more business-like and less politically motivated basis. To the degree that legal and regulatory reforms are needed to support this shift, these changes will have been identified

and made by 2004. Public confidence in the nation's banking system will reflect these changes, at least to some degree.

Sub-IR 1.3.1.2 Viable, Accessible and Transparent Equity Market

USAID/Macedonia's inclusion of the development of Macedonia's equity market serves a social purpose as well as a financial and economic one. Were it not for the way in which Macedonia formulated its plans for the privatization of state owned enterprises, USAID might not have entered this financial sub-sector as early as it did. Macedonia's vision of the privatization of public sector enterprises included worker ownership of enterprises. Accordingly, in 1993 Macedonia passed the Law of Transformation of Enterprises with Social Capital, which defines privatization approaches, including employee buyouts, through which employees purchase at least 51% of a publicly owned firm. Pursuant to this law, a number of privatizations resulted in employees and former employees owning stock. At that time, however, Macedonia did not have the kind of equity market in place that would allow workers to sell, or buy, shares easily. This circumstance, when considered together with the needs of enterprises for access to capital through equity investment rather than borrowing, justified USAID technical assistance in this sub-sector.

USAID's assistance has led to significant progress in the development of the Macedonian stock market. The Mission's on-going activity is scheduled for completion in 2002, but further efforts in this area will continue under the new consolidated activity for this Intermediate Result. The issuance of \$500 million in Government bonds (in exchange for frozen foreign currency deposits with banks of the former Yugoslavia) has significantly increased trading volume of the Macedonian Stock Exchange (MSE). The introduction of MSE's new trading system has substantially improved the exchange's operating capacity and market surveillance capabilities. By enabling remote trading from broker offices, the system is also expected to increase broker efficiency and productivity. The advanced trading platform will serve as a basis for business development efforts by the brokers and the exchange, through cooperative efforts to attract new domestic and foreign investment in Macedonia's capital markets. This milestone will also contribute to improving corporate governance in Macedonia. Macedonia is looking into possibilities for linking its stock market to other markets in the region. By 2004, clear progress on that front is anticipated. After 2004, USAID's assistance to this sector is expected to be much more limited and sporadic, focusing on specific problems as they arise, in much the same way that the Mission continues to provide limited assistance in the pension benefits arena.

Sub-IR 1.3.1.3 Enhanced Foreign and Domestic Investor Confidence

Investor confidence is an intangible yet discernable factor in the economic growth equation for any country. The quality and transparency of financial management practices, both in the financial services sector and in private firms, affect investor confidence just as do the institutional framework of laws, financial systems, and judicial processes of a country. Under this sub-IR, the Mission's primary focus has been on efforts to improve the financial management systems and transparency of banking institutions and private sector. In good part as a result of USAID's effort, Macedonia was the first Europe and Eurasia (E & E) country to adopt International Accounting Standards (IAS) in full. Accomplishments in this regard have been significant, e.g., firms are being audited in accordance with IAS; a new Insurance Act was

passed that requires firms to prepare IAS compliant financial statements; new university level curricula have been introduced to support this conversion; and the accounting self-regulating organization (SRO) has applied for membership to the International Federation of Accountants. On the other hand, not all of aspects of the Government's commitment to IAS have been implemented as yet. Government does not yet require audited financial statements for tax or regulatory purposes. A positive signal in this regard is the fact that the Ministry of Finance placed completion of new legislation on accounting and auditing on its priority list for 2001. The EU decision to convert to IAS by 2005 should serve as a further incentive for compliance in Macedonia.

Assuming that peaceful conditions can be reestablished in Macedonia within a short time, the Mission anticipates proceeding with activities that will ensure that, by 2004, all banks and private firms down to the mid-size level will reliably carry out their accounting functions consistent with IAS. By this time, the application of IAS will be fully supported by trained staff in local accounting firms. These firms and their staff will, in turn, be supported by professional organizations that will provide them with updated information and education. Macedonian firms that apply IAS will be viewed by financial institutions and foreign investors, particularly those in the EU, as better risks than firms whose accounting systems are less reliable and transparent.

IR. 1.3.2 Private Sector Firms More Competitive

If private sector businesses are to be the engine of Macedonia's economic growth and the primary source of new jobs in the future, these businesses must be competitive. The quality and price of products they offer must together represent a better value than alternatives available to the customer. For many products, imported goods pose a serious competitive threat for Macedonian producers. For other products, Macedonia's market may not be large enough to support competitively priced production; success in exporting will also be required. During the past several years, USAID/Macedonia provided assistance to firms that were interested in becoming more competitive on a one-to-one basis. That experience helped the Mission identify problems and needs that affect many firms. The Mission has begun to shift its approach to assisting Macedonian businesses from what might be called a "retail" strategy to a "wholesale" strategy. As a result, USAID is already working with several associations or networks of businesses, made up of a number of individual firms. The Mission intends to follow this model in the future, using it to help business sector clusters. Of particular interest are sectoral clusters that are vertically integrated, i.e., they span product chain from the production of raw material to processing to packaging to marketing to sales. USAID/Macedonia has already had a dramatic success using this approach.

Assuming that hostilities will come to an end in the near future, USAID anticipates that under this SO:

- The business community will further expand its product range and market share in domestic and foreign markets by 2004.
- Additional clusters will be operating collaboratively, as is already being done in the area of meat and dairy production and processing, and they will focus on export as well as the domestic markets.

- Professional business associations will exist and will be starting to represent the business point of view on legislation and other national public policy matters.
- Government will develop a more supportive role to economic growth.

Improvements are required in several areas to support the realization of these objectives. One impediment to greater competitiveness, to which business routinely point, is the lack of sufficiently skilled and appropriately trained manpower. Other impediments to competitiveness stem from a lack of experience in business and with modern management and financial management methods. Sub-IRs that focus on these constraints are described below.

Sub-IR 1.3.2.1 Private Sector Offers Investors/Lenders and Companies Better Opportunities/Proposals

This Sub-IR highlights the importance of actions that firms take, or fail to take, on their own behalf to obtain credit or attract investment capital. Its purpose is to help firms improve the information and approaches they use to prepare business plans and proposals and credit application. Assistance provided to firms in adopting international accounting standards (IAS), described under Sub-IR 1.3.1.3 above, supports this objective, as does USAID's work through the Macedonian Business Resource Center (MBRC), which has developed a cadre of consultants who are able to help businesses with their investment proposals. The MBRC also consolidates information on investment opportunities in Macedonia from Chambers of Commerce and Government sources and provides direct assistance linking firms to investors.

As a result of the work of MBRC, improvements in businesses' ability to prepare accurate financial statements and sound businesses plans will be visible by 2004, but those improvements will not be universal. Both USAID's accounting services activities and its work with the MBRC reach only a portion of the firms in Macedonia. Over time, however, it is expected that skills in both these fields will be learned by others and the capacity to reach large numbers of firms with these services will thereby be expanded. By 2002, the activities USAID initiated to build capacity in these areas will be concluding. Accordingly, USAID's focus during the last two years of the strategy period will be on the sustainability of these programs. Sustainability in this instance does not necessarily mean that institutions are sustained. What is more important is that an active market for business services exists and, through one mechanism or another, the delivery of various business support services will continue. The option of self-financed MBRC operations over the longer term is one the MBRC will need to examine.

Under this IR, USAID supports institutions that lend to and invest in private sector firms. Although USAID has phased out or is in the final stages of supporting those activities, both will continue their work in Macedonia on a self-sustainable basis. Their ability to provide capital to companies will be a crucial input toward accomplishing this IR.

- **Micro-Credit.** Through one of these activities, USAID is assisting Moznosti, an NGO that operates as a micro-credit institution. The activity is scheduled for completion in 2002, when Moznosti is expected to "graduate" and continue its operations on a sustainable and profitable basis as a regulated micro-bank. In 2000, Moznosti was licensed as a savings institution. Since 1999, its clients have more than doubled, from

798 to 1,763 in 2000. Projected total loans for 2001 are 3,000, which is doubled from 2000, and correlates with the previous years trend of 100% increase. The example of Moznosti is already beginning to have an impact on the financial sector. Some commercial banks have recently opened micro-lending units to increase their competitiveness in the market.

- **Venture Capital** USAID is demonstrating the role that investment capital can play in stimulating business growth. Macedonian firms tend to be somewhat naïve in their approach to their needs for capital, focusing on loans without exploring equity options that can involve giving up relatively small amounts of equity to obtain significant amounts of capital on an interest-free basis. The Mission's work with the Small Enterprise Assistance Fund (SEAF) is demonstrating how this works. By 2002, SEAF expects to have taken equity positions for 21 to 23 firms and provide them with technical assistance and training. SEAF currently fully funded and will continue its operations until 2008, by which time it expects to liquidate all of its investment positions.

Sub-IR 1.3.2.2 Private Sector Firms Increasingly Familiar with Sound Management Practices

In addition to learning when and how to use the services of firms and other institutions that provide business services, Macedonian firms need to improve their internal management practices to be competitive. Market and customer research, product improvement, human relations management and worker training, networking and market development, on time delivery, good inventory control and billing are all practices that are new for many Macedonians. In state-owned monopoly enterprises, many of these practices were unnecessary, both workers and customers were captives of the state-run system, and they got the products that system chose to deliver, when it did so. In a competitive market economy, firms have to perform better than this just to survive.

Two on-going activities, the Agribusiness Marketing Activity and Agriculture Association Support, both of which end in 2002 and 2003, are helping Macedonian sectorally-defined clusters of firms, i.e., processing firms and producers, respectively, improve their management and the competitiveness of their operations. Through the Macedonian Agribusiness Marketing Activity, USAID provided assistance to the Association of Meat and Dairy Processors that helped it increase its members' sales by 53% in 2000, a year that was generally dismal for the agricultural sector as a whole. At the time that USAID's activity helped create this association, the market share for Macedonian meat and dairy products was 20%. By 2001, Macedonian products had reclaimed a 70% market share, in good part as a function of an innovative Quality Seal program and campaign developed with USAID's assistance. During the current conflict, this program, in which enterprises owned by both ethnic Macedonians and ethnic Albanians participate, has experienced setbacks. These include problems involving reduction of milk production in areas affected by the crisis and, in some areas, consumer rejection of Association products, because of the ethnicity of some of the firms involved in this venture. As a result of its ACDI/VOCA activity in support of agricultural producers, USAID anticipates that 30 to 40 producers associations will have been strengthened by 2002, and 15 to 20 of these associations will be providing new member services as a result of initiatives started under small grants from this activity.

A follow-on comprehensive activity to promote competitiveness with other clusters of firms is in the planning stage. Research is now under way will help the Mission gain perspective on the potential for competitiveness that exists in several industry groups in Macedonia. While it might be tempting to select industry clusters based on what would seem to be an opportunity, experience elsewhere suggests that the best groups of businesses to work with are the ones that are so interested in being helped that they come looking for it. Accordingly, demand and commitment will drive decisions about which clusters receive assistance from the new competitiveness activity USAID initiates, through which four to six additional clusters will receive assistance by 2004.

Sub-IR 1.3.2.3 Increased Percentage of Firms that Pay Equitable Share of Taxes

For some firms, the decision to register as a business and pay taxes is an extremely difficult one, given the size of the tax burden imposed for each worker. Even firms that do pay taxes tend to see them as being unfairly applied across the society and view the Government's tax audit procedures as being capricious, at best. Firms that remain unregistered often find it more difficult than do registered firms to obtain credit, which may work against their chances for success and the growth that success stimulates. For these reason, USAID views enterprise attitudes toward Government, taxation, and registration as being linked to competitiveness. Accordingly, actions that aim at changing these attitudes are addressed under this IR along with more other obvious constraints to competitiveness. USAID's focus in the tax field, under IR 1.3.3, has been more directly on reform than on compliance. One of the key objectives of the reform effort has been to change attitudes toward the tax system in Macedonia by making it fairer than it is today. No single activity is directed at improving tax compliance and business registration, though several USAID funded activities touch on this IR or work with businesses that should begin to register once tax reform measures are fully in place. Despite the absence of activities that directly aim at changing the perceptions and behaviors of firms, initial evidence suggests that business registrations among informal sector firms may be increasing as a function of action on tax reform and improvements in the Public Revenue Office (PRO), under IR 1.3.3. USAID does not envision new activities in direct support of IR 1.3.2.4, but it will continue to monitor progress in this area.

IR. 1.3.3 Enabling Environment for Investment Improved

Government of Macedonia leaders articulate a positive attitude toward private sector-led growth, yet they move slowly on actions that would reduce the role of government in the economy and stimulate private sector growth. In addition to privatization and a reduction in the size of the civil service, there are other steps government can take to create a more supportive environment for business development and investment.

Tax policy and administration is one of the areas where Government has an opportunity to shift perceptions while at the same time increasing revenues. The introduction of the VAT is helping create a perception of greater fairness in the tax system, but additional work is needed in this area. Other areas where progress is needed include work on the new Companies Law, which has a degree of momentum and which will, if fully implemented, address a wide range of problems businesses now face. In addition, Macedonia is currently engaged in a process that will result in its accession to the World Trade Organization. This and steps that prepare Macedonia to join the

European Union within a reasonable period of time will help improve the climate for business development.

Within the government, there are reform-minded individuals who want to see these and other changes made that will foster market-based economic growth led by private sector firms. USAID works closely with these individuals, wherever possible. USAID is also working with business associations to help them develop the capacity to articulate member views and to advocate on their behalf. The formation of the Unity Government in Spring 2001 has affected some individuals, shifting them to other portfolios. This lack of continuity and Macedonia's current unstable situation, are deterrents to progress on policy and legislative reform. Nevertheless, assuming that hostilities end and workable solutions to political disagreements are found, the SO 1.3 Team expects that:

- A new Companies Law will be passed in 2001, that will be followed in short order by the passage of legislation that brings many other commercial laws into alignment with the new legislation;
- New tax laws will help to level the playing field for business;
- Other legislative and rule changes will foster decentralization, thereby supporting transparency in fiscal operations; and
- There will be a more strategic, goal-oriented approach in such institutions as the Public Revenue Office and the Employment Bureau.

Of necessity, aspects of the USAID's work on legislative and policy reform are opportunistic. The unifying factor, however, in all legislative and policy reform activities in which the Mission elects to involve itself is the advancement of Macedonia's market-based, private sector economy. Because USAID responds to opportunities that fit within this framework, the actually policy and legislative portfolio with which it is dealing in any one year may be quite diverse.

Sub-IR 1.3.3.1 Commercial Laws and Implementing Regulations Drafted

As noted above, basic legislation governing business formation, operation, competition, taxation and other relevant matters is essential for the growth of the private sector economy. To its credit, Macedonia has passed more legislation relevant to private sector growth in the last year than in all other years in which USAID provided assistance in this field. Key pieces of legislation this past year include a new Law on Pension and Disability Insurance, which is expected to result in freer labor markets and a new Banking Law that will bring Macedonia closer to EU standards and allow foreign banks to establish branches within the country.

USAID is closely involved in an effort to develop a new commercial law framework for Macedonia. It is examining a wide range of commercial laws that will need to be rationalized and amended once the new Companies Law is passed. With respect to the Companies Law, USAID still expects passage this year in spite of the crisis. The Mission plans to be heavily involved in its implementation, through a new Company Law activity. As a function of this new activity, USAID anticipates that by 2004, all of the related laws and regulations will have been

brought into alignment with the new Companies Law. Related results will be improvements in corporate governance, an increase in the registration of firms now operating in the informal economy, the emergence of new businesses that see opportunities in an improving business environment and increased foreign and direct investment in Macedonia's private sector. The existence of an improved body of commercial law will also simplify the administration of justice in commercial cases, thus reducing the impact of one of the current impediments to investment in Macedonian firms.

USAID is also working on tax reform with the U.S. Treasury and the Public Revenue Office, the lead government agency for tax law reform and tax administration. The effort to improve Macedonia's tax laws will continue through 2002 and it will be folded in to a follow-on activity on Fiscal Policy that will continue to improve tax administration, as described below under Sub-IR 1.3.3.3. As a function of these two efforts, the Mission expects that by 2004, the capacity of the PRO will have matured to the point where only limited assistance will be needed to sustain its continued improvement.

Sub-IR 1.3.3.2 Policies Conducive to Private Sector Growth Formulated

Sound policies and appropriate legislation are needed to support the expansion of the private sector. Nominally, Macedonia's economic policies are market based and encourage both business development and a competitive stance vis-à-vis other firms and other markets. As noted above, other donors are also working in the economic policy arena. The IMF and the World Bank have the lead on issues such as privatization and civil service downsizing. USAID activities complement these initiatives and the Mission will continue to support policy reforms that begin to limit the size and scope of the state sector by working with the Ministry of Finance on budget reform, which directly affects personnel and staffing allocations.

USAID is providing assistance to the Macedonian Government as it prepares for World Trade Organization (WTO) accession this year, and it will continue to help with that process. Absent the current crisis, USAID would have predicted that Macedonia's WTO accession would go smoothly and would occur on schedule and that most requirements associated with accession would be met on a timely basis. Macedonia's WTO accession represents an important step toward its incorporation into the EU, and the Government is well aware of this. Given the current crisis, it is almost inevitable that both of these processes will be delayed. In time, however, they are both likely to occur, which will help Macedonia move up from the bottom rung of the Balkan economic ladder to a higher position that provides improved opportunities for economic growth, reduced unemployment and improved incomes at all levels of society.

Sub-IR 1.3.3.3 Government Operations More Effective and Transparent

The need for more effective and transparent Government operations spans the entire range of Macedonian government ministries. While USAID cannot address all of these needs, it is working closely with at least one or two entities with the intent of reforming their approaches and practices. One of these is the Public Revenue Office, with which the SO 1.3 Team has worked closely on tax reform. Another is the Employment Bureau, with which the DOL is working, under USAID funding. With the DOL activity slated to move to SO 3.4, USAID's focus in this area under SO 1.3 will be primarily on the Ministry of Finance (MOF) and the PRO,

at least on a formal activity basis, under the new Fiscal Policy activity. As a result of the new activity, assistance to the MOF that helps it to formulate sound budget policy and to implement the budget in a modern and transparent way will further fiscal reform. PRO should reach the point where its audit system is of high quality and the processes it uses to select returns for audit are transparent and professional. Enforcement is only part of the PRO's mandate. By 2004, PRO should also have initiated new services for taxpayers that make it easier to understand their rights and obligations. As a result of the current tax reform effort and the new Fiscal Policy project, USAID expects to see greater compliance with Macedonia's tax laws by both firms and individuals.

As to the issue of corruption, the Mission is not moving toward a formal anti-corruption initiative at the present time, though it recognizes that central government corruption represents a deterrent to investment. Accordingly, and because corruption has significant implications from a rule of law and government legitimacy perspective, the Mission will undertake an anti-corruption assessment in 2001, most probably as a cross-cutting activity under SO 4.2.

Sub-IR 1.3.3.4 Private Sector Actively Advocates Supportive Legal and Policy Environment

Business associations that are able to identify policy impediments, formulate options, and lobby Government for change can play an important role an effort to improve the climate for business and investment. Bringing Macedonian business associations to the point where they effectively play this role is the purpose of USAID's assistance under this Sub-IR. Although SO 1.3's emphasis on the advocacy aspects of its business association work through the Agribusiness Activity and Agriculture Association Support has been limited, there have been positive developments since these activities began. In particular, the SO Team notes that advocacy was one of the explicit reasons for merging several small sheep associations into two regional groups this past year. The SO 1.3 team anticipates that its work with business association on member services, including advocacy, will continue through 2002 under existing activities and will become an element under the new Competitiveness activity to be initiated next fiscal year.

Sub-IR 1.3.3.5 Business-Relevant Skills of Labor Force Increased

Many Macedonians enter the labor force with fewer years of schooling than their counterparts in other countries in the region. Those who do continue through secondary school or study at a university often have little practical understanding of how to apply the subjects they studied, because of the theoretical bias in the education system at these levels. Prior to the Mission's decision to invest in a new initiative, i.e., SO 3.4, USAID started an activity with U.S. Department of Labor (DOL) that focuses on this problem. The activity will now be carried out under this new SO. Closely linked to this issue are labor force rigidities, as described above, many of which are a function of Government policies, i.e., the focus of IR 1.3.3.

3. Development Partners

USAID programs are coordinated with other donor activities. Several World Bank loan conditionalities are based on USAID activities, primarily in the financial sector. Also, the World Bank and the EU are funding significant work on reforming the payments system, which

augments USAID's work in banking and the capital markets. EU/PHARE activities partially complement USAID efforts in accounting and banking. The German and Dutch governments are active in providing funds for small businesses and working in community development.

4. Sustainability and Regional Integration

The primary types of changes USAID seeks under SO 1.3 are policies that will make the economy more private sector and market-oriented and practices in institutions that support these directions. In that context, the Mission expects that improvements made in commercial and tax laws will likely be sustained once they are enacted and that their positive effects will be sustained if they are fully implemented. The same is true for accession to the WTO. Similarly, USAID expects that if banks and firms actually make the effort to convert to IAS accounting standards, they will continually apply those standards in the future. The conversion process supported by USAID will develop sufficient local capacity and expertise to satisfy the later demand for utilizing IAS. The same principles apply for business consultants employed by MBRC. Some of them have already started their own practices.

Some institutional development activities are also likely to become self-sustaining. Moznosti looks to be well positioned to survive and prosper. USAID's investment in SEAF leveraged almost twice as much funding from other donors, enabling it to continue investing in Macedonian companies for many years ahead. The same cannot be said, however, for the credit unions that were set up in the absence of adequate credit union legislation. Business associations, on the other hand, are intended to become self-sustaining. If the Meat and Dairy Producers Association survives the current crisis and the effects of ethnic backlash on its sales, USAID feels that it could survive almost anything. It is likely that at least some of the clusters that the Mission will help establish during the Strategy period will survive, and their operations will serve as a model for other sub-sector and industry groups.

5. Performance Measurement and Progress Benchmarks

Performance Benchmarks

Benchmarks through which performance in terms of the primary objectives of this SO can be assessed on a year-by-year basis are presented below. Some, but not all are important targets shown in the performance Management Plan (PMP) for this SO, in Annex C and in the Performance Data Tables (PDT) shown at the end of this section. Their purpose is to provide a sense, in broad terms, of whether there is sufficient momentum in the sector on which this SO focuses.

Performance Measurement Plan

The Performance Measurement Plan (PMP) for SO 1.3, together with Performance Targets for various indicators, is presented in Annex C. The SO team has selected several indicators from this table on which to report each year in the R4. Performance Data Tables (PDTs) for these indicators are shown below. For the most part, PDTs used in previous years remain valid. There are however, some changes. An indicator on public revenue has been dropped. With the introduction of the VAT the approach and base are changing in ways that make this old indicator

less useful. Another old indicator, namely the one that monitors changes in bank loan portfolios was divided into two separate indicators, one for banks and the other for loans made by micro-lending institutions.

As to the environment for private sector development, we have shifted to a simpler system for monitoring changes in legislation, policy, etc. New indicators have also been added, primarily to capture information on competitiveness and the effectiveness of the economy. These include: private sector employment (which is also a useful indicator for SO 2.0), productivity and exports.

SO 1.3 Benchmarks by Year

2001

- Moznosti micro-bank begins taking deposits
- Tax Law reform adopted by Parliament
- Electronic recording of transactions at Macedonian stock exchange operational
- MBRC hits \$50 million mark with trade and investment

2002

- New Companies Law Passed
- WTO accession completed
- Target for sale of state-owned firms met
- New Competitiveness project under way and two vertically integrated clusters selected for attention
- Economic growth recovers to its 2000 level

2003

- Anti-corruption law promulgated and Government anti-corruption initiative underway
- New lending instruments appear on the market, e.g., car loans
- Key steps toward EU accession completed (TBD)
- Moznosti finishes a second successful year without USAID funding

2004

- New revenues realized by clusters with which USAID is working on competitiveness
- Percentage of firms and banks applying IAS achieves critical mass, most other firms will now follow.
- Key milestones for WTO compliance achieved

Strategic Objective: SO 1.3 Accelerated Growth and Development of the Private Sector		
Result Name: SO 1.3 Accelerated Growth and Development of the Private Sector		
Approved: 1998		Country/Organization: Republic of Macedonia
Indicator: Total full time employment in private sector firms		
Description: Number of respondents to annual Labor Force Survey who report that their work is in enterprises that are privately owned. (Disaggregated by gender and ethnicity)		
Source: Annual Labor Force Survey, Government Statistical Office		
Year	Planned	Actual
FY 1997 (baseline)		184,292
FY 1998		201,319
FY 1999		227,029
FY 2000	254,000	241,372
FY 2001	279,000	
FY 2002	309,000	
FY 2003		
FY 2004		

Strategic Objective: SO 1.3 Accelerated Growth and Development of the Private Sector		
Result Name: SO 1.3 Accelerated Growth and Development of the Private Sector		
Approved: 1998		Country/Organization: Republic of Macedonia
Indicator: Private Sector Employment as a Percentage of Total Employment		
Description: Survey respondents reporting that they are employed in enterprises that are privately owned divided by total employment. Note that the assumption the Mission is making about the IMF and IBRD continuing to demand privatization and downsizing affects this outcome.		
Source: Annual Labor Force Survey, Government Statistical Office		
Year	Planned	Actual
FY 1997 (baseline)		35.95%
FY 1998		37.30%
FY 1999		41.64%
FY 2000		43.90%
FY 2001	44.00%	
FY 2002	45.00%	
FY 2003	50.00%	
FY 2004	55.00%	

Strategic Objective: SO 1.3 Accelerated Growth and Development of the Private Sector		
Result Name: SO 1.3.1 Bank and Non-Bank Institutions Strengthened		
Approved: 1998		Country/Organization: Republic of Macedonia
Indicator: Percentage Increase in Bank Loan Portfolios		
Description: Percentage change (year on year increase) in the value of bank loan portfolios (loan portfolios excluding loans to public sector agencies and interbank loans) Note: Percentage increases cannot continue indefinitely, after a certain point the Mission wants to see them slow.		
Source: Government, Central Bank		
Year	Planned	Actual
FY 1997		22.8%
FY 1998	9%	9.3%
FY 1999	10%	6.4%
FY 2000	10%	
FY 2001	11%	
FY 2002	11%	
FY 2003	8%	
FY 2004	5%	

Strategic Objective: SO 1.3 Accelerated Growth and Development of the Private Sector		
Result Name: SO 1.3.1 Bank and Non-Bank Financial Institutions Strengthened		
Approved: 1998		Country/Organization: Republic of Macedonia
Indicator: Value of Loans Made by Selected Micro-Credit Institutions		
Description: Value of loans (per annum) reported to USAID by selected micro lending institutions		
Source: Micro-credit Institutions		
Year	Planned	Actual
FY 1997		1.6 million
FY 1998	1.9 million	1.9 million
FY 1999	2.9 million	2.6 million
FY 2000	4.0 million	4.7 million
FY 2001	5.5 million	
FY 2002	5.5 million	
FY 2003	5.7 million	
FY 2004	6.0 million	

Strategic Objective: SO 1.3 Accelerated Growth and Development of the Private Sector		
Result Name: IR 1.3.2 Private Sector Firms More Competitive		
Approved: 1998		Country/Organization: Republic of Macedonia
Indicator: Productivity per employee in the private sector (000 den)		
Description: Standard calculation for productivity based on employee and GDP data, i.e., private sector share of GDP divided by number of private sector employees.		
Source: Government data; USAID analysis		
Year	Planned	Actual
FY 1999 (baseline)		413
FY 2000		449
FY 2001	438	
FY 2002	450	
FY 2003	460	
FY 2004	470	

Strategic Objective: SO 1.3 Accelerated Growth and Development of the Private Sector		
Result Name: IR 1.3.2 Private Sector Firms More Competitive		
Approved: 1998		Country/Organization: Republic of Macedonia
Indicator: Total exports (USD million)		
Description: Standard calculation; Sales of Macedonian commodities and products to other countries		
Source: Government data		
Year	Planned	Actual
FY 1999 (baseline)		1,190
FY 2000		1,319
FY 2001	1,358	
FY 2002	1,425	
FY 2003	1,525	
FY 2004	1,630	

Strategic Objective: SO 1.3 Accelerated Growth and Development of the Private Sector	
Result Name: IR 1.3.3 Supportive Laws, Policies and Procedures Adopted and Implemented	
Approved: 1998	Country/Organization: Republic of Macedonia
Indicator: Key Changes Made	
Description: This indicator involved a number of one time events, e.g., Companies Law passed. The Mission will develop annual lists similar to benchmarks. Also under this indicator the Mission will track progress toward such things as WTO accession and post-accession implementation steps.	
Source: Government	

Year	Planned	Actual
FY 1999 (baseline)		
FY 2000		
FY 2001	<ul style="list-style-type: none"> ➤ Third WTO working meeting held 	
FY 2002	<ul style="list-style-type: none"> ➤ WTO Accession ➤ Companies Law Passed addressing both limited liability and joint stock companies ➤ Second Commercial Law assessment undertaken ➤ Taffies reduced to EU standards 	
FY 2003	<ul style="list-style-type: none"> ➤ Significant improvements in commercial law framework ➤ Monopoly authority and anti-corruption issues addressed 	
FY 2004	<ul style="list-style-type: none"> ➤ Removal of export and import licensing ➤ Intellectual property rights strengthened ➤ Significant improvements in commercial law framework 	

Strategic Objective 2.0 More Legitimate Democratic Institutions

1. Problem Analysis

Even before the outbreak of armed hostilities in February 2001, weaknesses in Macedonia's democratic institutions were increasingly evident. This was most dramatically apparent in the flawed local elections that occurred in the Fall of 2000, in which violence at the polling stations and stuffing of ballot boxes were among the widespread irregularities observed. In a mature democracy, key institutions – the Executive, the Legislature, and the Judiciary -- all have sufficient authority and independence to ensure that the checks and balances work effectively and prevent, or where necessary curb, excesses and abuses of power. Citizens, through civil society organizations, including the media, further stabilize the democratic form of government when they pay attention to its performance, shine spotlights on corruption and other abuses of power, and signal their approval or disapproval of government performance when they cast their votes in elections. In Macedonia, the democratic institutions, for the most part, are not mature enough to prevent abuses of power, nor has civil society developed to the point where it can exert significant control over the actions of the political players. As a result, the political landscape is dominated by a highly centralized and politicized Executive branch controlled by the parties in power, and is more focused on party loyalty and party interests than on the responsiveness and effectiveness of government to its citizens. A truer democracy will emerge in Macedonia only if civil society and key democratic institutions gain the strength they need to bring balance to this situation.

Not surprisingly, Macedonian citizens do not have a high degree of confidence in their democracy. As a USAID survey, conducted in 2000, showed, most people (60%) do not trust government institutions, and perhaps more important, most (54%) do not closely associate themselves with democratic values.³ The Mission's democracy and governance (D/G) assessment also carried out in 2000, shed light on these citizen perceptions when it highlighted the uneven development of Macedonia's democratic institutions and the way that disparities between them distort the democratic processes and erode public confidence. The outbreak of hostilities in February 2001, and the inability of Macedonia's political leaders to quickly resolve this crisis, served to make these institutional deficiencies more obvious. When USAID/Macedonia re-examined the country's situation from a conflict management perspective in May 2001, it took earlier analyses a step farther by establishing a direct link between institutional weaknesses and the emergence of open conflict.

Macedonia's democratic process is further distorted by the political patronage systems used by parties to win elections, which involve the distribution of key resources under their control, notably civil service jobs and jobs in state-owned enterprises, to party loyalists. This system is corrosive. Ordinary citizens, regardless of whether they are ethnic minorities or are in the majority, feel alienated by the country's political elite -dominated party system and threatened by the country's precarious economic status and its rampant unemployment. This context

³ Results are from USAID's Fall 2000 survey of Citizen Attitudes and the Perceptions about Political, Civil and Non-Governmental Institutions in Macedonia, which was carried out by BRIMA. The statistics on trust and on degree of association with democratic values are based on responses to several questions.

transforms a public sector job into a significant prize, or to use Collier's label, a "primary commodity" and an inherent problem. The political patronage system excludes not only ethnic minorities but also ethnic Macedonians who are either not aligned with a party or are aligned with one that is out of power. This fosters imbalances that lead to the kinds of resentment that Lund characterizes as root causes of violent conflict.

Macedonia's transition to democracy is complicated further by the fact that other systems are in flux. Economic policy decisions, intended to ensure a stable macroeconomic situation while converting the economy to a market system, have political as well as economic consequences. In almost every country in the region the transition to a market economy has proven difficult. Macedonia has already experienced both rising unemployment and declining real wages, as the Mission's problem analysis for SO 1.3 explains, even though its transition is not yet complete. Living standards are not bouncing back as rapidly as they are in other parts of Eastern and Southern Europe, and unemployment remains higher than elsewhere in the region. As a consequence, a majority of citizens (64%) view themselves as being worse off than they were prior to Independence and the adoption of a democratic system of government.

Corruption also undermines confidence in Macedonia's democratic transition. As suggested in the Mission's description of problems affecting the private sector (SO 1.3), businesses are subject to a good deal of "petty" corruption, i.e., they need to pay small amounts of money to ensure that their business papers are processed in a timely fashion, rather than at the bureaucracy's leisure. Individual citizens have similar experiences when they deal with government. At higher levels of government, there have been instances that involved the use of the state apparatus for financial gain and to shield those involved in such schemes from liability. Corruption in Macedonia is also being fed by an increase in black market economic activity linked, at least in part, to the situation in Kosovo. The extensive political patronage system run by political parties and their leaders is another type of corruption. At all levels, corruption has major costs, both economically and in terms of democracy and good governance. In Macedonia it is yet another symptom of the weaknesses in the country's democratic institutions that raise questions about their legitimacy in the eyes of the country's citizens.

The current crisis cannot be separated from these facts. A clear consequence of the incomplete development of democratic institutions has been the lack of adequate mechanisms through which to peacefully express discontent and resolve differences. This has contributed directly to the venting of public frustration by less peaceful means, ranging from street demonstrations to the type of armed assaults on government that Macedonia has experienced over the past four months. Ironically, many Macedonians still look to Government to solve their problems, even though, at both the national and the local level, Government is increasingly less able to resolve them. Nevertheless, and even in the face of the current crisis, most citizens, according to a U.S. Department of State survey carried out this past May, are committed to a united Macedonia and expect that they all will still be citizens of a single country ten years hence.

2. Strategy: The Results Framework

The Development Hypothesis

To improve the legitimacy of Macedonia's democratic institutions and citizen approval of their policies and performance, as called for by both the Collier and Lund models, several things must change:

- Power concentrated in the hands of a few politicians and their political parties and used in ways that erode the legitimacy of the democratic process must be more evenly dispersed;
- Ethnic tolerance and cooperation must increase;
- Immature institutions, including those of civil society and local government, must grow into their roles, i.e., become better able to represent and respond to citizen views, and carry out their oversight responsibilities;
- The rule of law must be established;
- The credibility of the country's electoral system must be restored; and
- Citizens must begin to see themselves as active rather than passive participants in the processes through which public policy and community action decisions that affect their lives are made and carried out.

A resolution of the current crisis that includes a conversion to a stable peace, accompanied by a dispersal of political power, increased willingness to invest in multi-ethnic solutions to common problems, greater maturity in democratic institutions, problem-free elections, and increased citizen participation in the decision making process, would clearly demonstrate the success of the Mission's strategy. In addition, it would put Macedonia on a clear path for EU accession. While the degree of improvement realized between now and the end of the Strategy period is likely to be modest, if it is real and headed in the right direction, the Mission's program will more than meet its expectations.

USAID's strategy under SO 2.0 engages the objective of increased legitimacy of Macedonia's democratic institutions across the range of changes outlined above. Problems with the country's legal framework and corruption also need attention, but relative to the changes listed above, they have a somewhat lower priority. Positive momentum on all six of the dimensions listed above will result in important improvement at the SO 2.0 level. It may be that changes at the SO level can be achieved if there is significant movement on most, but not all, of these dimensions. However, since there is no guarantee that all six will show improvement by the end of this strategy period, a narrower focus would not be prudent. A narrower approach could fail to produce enough change to improve balance of authority among the institutions of democracy. It is almost impossible to predict, at this point in time, which institutions will mature rapidly enough to serve as counterweights to the country's strong political parties and Executive branch. The Mission anticipates, however, that periodic assessments of the effectiveness of its investments in democratic institutions will provide a sound basis for determining where

additional investments are likely to yield a high return and where, as a function of either success or failure, it makes sense to reduce the Mission's level of investment as it moves into a new strategy period in FY 2005.

Critical Assumptions

Significant progress on SO 2.0 depends on the following assumptions:

- *A stable peace will be reestablished.* The primary assumptions for this and every other SO in USAID/Macedonia's portfolio is that stability can and will be restored before the damage the current crisis has done becomes irreparable.
- *There will be substantial progress in reducing the size of government.* SO 2.0 shares with SO 1.3 the assumption that sufficient political will exists within the Government to allow IMF, World Bank and EU activities aimed at reforming the state sector to succeed.

Causal Linkages

USAID's strategy for SO 2.0 depends upon four Intermediate Results, each of which is important for increasing the legitimacy of democratic institutions in Macedonia. These IRs are shown in the Results Framework (RF) on the following page. In this RF, IR 2.1, *Increased Citizen Participation in Political and Social Decision Making*, focuses on the changes in the level of citizen participation in a wide array of activities. Increased citizen participation is needed to ensure that elected officials at all levels, and the political parties they represent, become more responsive and accountable to the electorate. It is also necessary for citizens to realize that they have an important role to play in a democracy. Activities aimed at improving citizen participation under this IR are complemented by efforts under IR 2.3 to improve the linkages between local governments and their citizens and under IR 2.4 to improve the linkages between national government and political institutions and citizens. This IR also focuses on improving ethnic tolerance and fostering multi-ethnic cooperation. It is anticipated that activities developed in support of SO 3.4 will also complement these efforts.

IR 2.2, *Adherence to Rule of Law Enhanced* aims to improve the degree to which citizens and businesses can depend upon the rule of law as a fundamental tenet of democratic society. Activities under this Intermediate Result will increase the professionalism of judges and lawyers and improve the efficiency of the judicial system. Activities under other Strategic Objectives that improve the body of law (i.e., tax law and laws affecting the private sector) also support this IR, as do activities that the U.S. Embassy is undertaking to increase the professionalism of prosecutors and the police.

IR 2.3, *More Effective, Responsive and Accountable Local Government*, addresses the need to draw power away from the central government and to make government more responsive to citizens. It also focuses on the need to strengthen the institutional capacity of local government. As more responsibility moves to municipalities, people and systems at that level will need to be prepared to absorb these responsibilities. Other donor activities that are attempting to reduce the size of the State sector complement this IR.

IR 2.4, *Increased Confidence In Government Institutions and Political Processes*, focuses directly on the confidence that citizens have in government institutions in Macedonia. This is one of the main Intermediate Results through which USAID is fostering the maturation of democratic institutions and helping them to reach parity with the Executive branch. As this occurs, the functioning of the system of checks and balances required by a democracy will improve. USAID will also invest in activities that lead to improvements in the electoral system, and it will work with political parties to provide them with better models for fulfilling their intended role in a democracy.

The Results Framework (RF) for SO 2 differs from the RFs on which the Mission has previously reported in the democracy and governance sector. First, it combines into a single framework several key results on which the Mission has been working under separate Strategic Objectives. This consolidation covers the former SO 2.1 (which re-appears as IR 2.1 and IR 2.4, and the former SO 2.3, and the new SO 2.2 discussed in the Mission's January 2001 Strategy Update. This consolidation will help the Mission to focus and integrate all aspects of its democracy and governance program.

IR 2.1 Increased Citizen Participation in Political and Social Decision Making

Democracy presumes the active involvement of citizens in the government decision making processes at both the local and national level. In a mature democracy, citizens communicate their views to government through direct contact with elected officials and involvement in grass-roots, issue oriented organizations. Civil society organizations, whether formally registered as non-governmental organizations or not, play an important role in a democracy when they facilitate a dialogue between citizens and government. Media also fosters democratic dialogue when it accurately and objectively presents information about positions and performance of government or the views of grass-roots organizations.

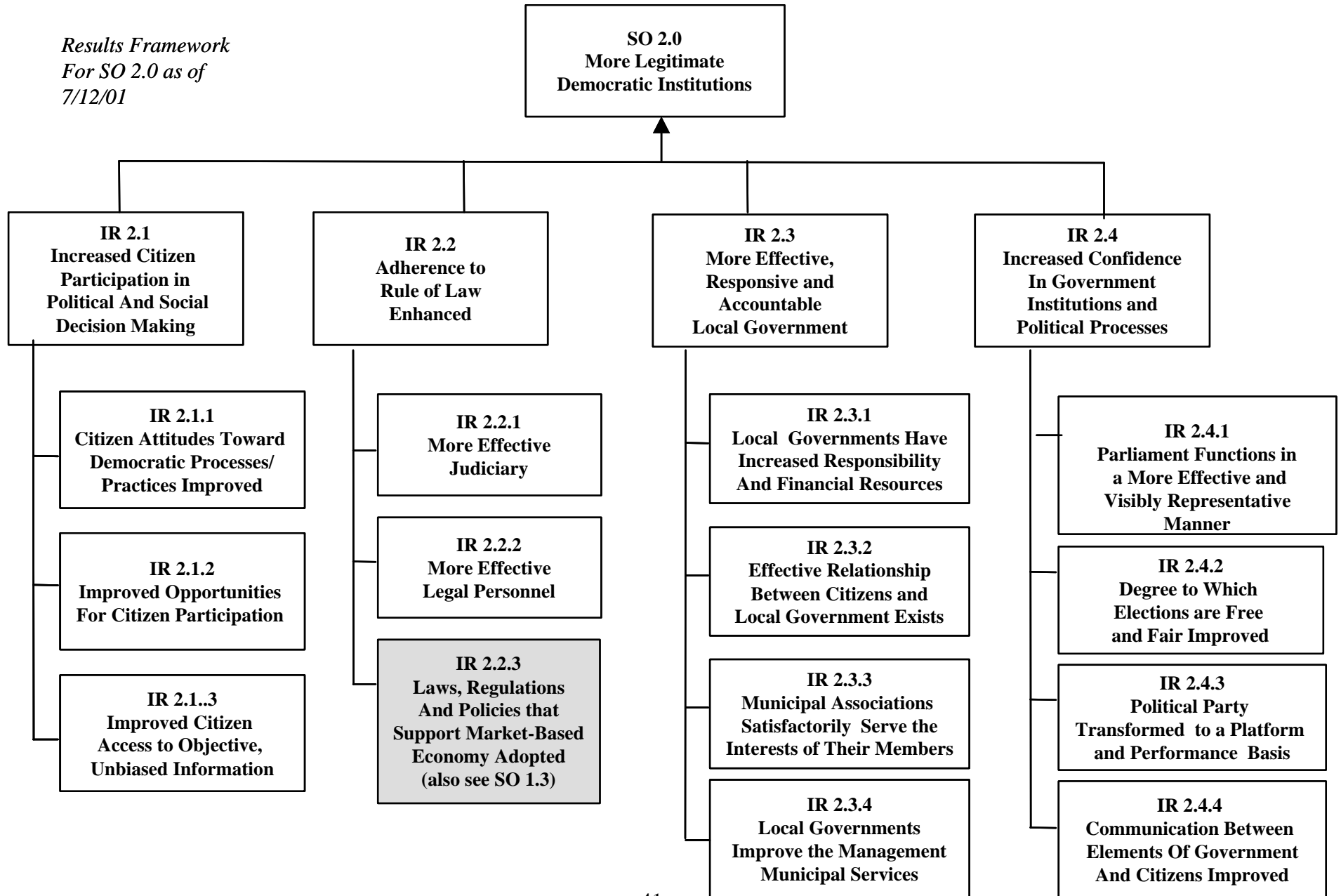
In Macedonia, where democracy is still in its infancy, people did not grow up anticipating a participatory role in government. To the extent that they were members of organizations, they tended to be State-sanctioned entities put in place to serve State purposes. When people listened to the news, they expected it to be presented from the State perspective. Near-total reliance on the State for many years has left most adults unprepared to participate in processes that are both normal and necessary in a democracy. IR 2.1 aims to change the level of citizen participation by improving citizen attitudes as well as the opportunities and the information available to them.

Sub-IR 2.1.1 Citizen Attitudes Toward Democratic Processes/Practices Improved

USAID's strategy for inculcating positive attitudes about democracy, and the role that citizen participation plays in ensuring good governance, focuses on both children and adults. Under Sub-IR 2.1.1., USAID also promotes ethnic tolerance and multi-ethnic cooperation, which the current crisis demonstrates is imperative for Macedonia's survival as a nation.

Under an existing activity, USAID is helping to introduce civic education in all primary school classrooms. Children in all kindergarten and grade two classrooms received civic education classes during the 2000-2001 school year with the help of teachers trained through this program. This USAID effort will continue through 2005, by which time civic education will be provided

Results Framework
For SO 2.0 as of
7/12/01



through the fourth grade on the basis of USAID financing and through all student grades (kindergarten through 8th) with combined CRS and USAID financing. Macedonian children also benefit from USAID-funded television programming, including an award winning weekly TV series, *Nashe Maalo* (Our Neighborhood), teaching conflict resolution to children aged 7-12 in multi-ethnic communities, which is produced in collaboration with local television stations. By 2004, additional episodes will have been produced, curricula linked to the series will have been made available for schools, and a local production company will be fully capable of sustaining this effort. Through a related activity, USAID is supporting increased awareness of legal rights among youth through its Street Law Program.

Attitude change among adults is being promoted through a Community Self Help Initiative (CSHI) that provides community-based organizations with seed money for community projects that will provide sustainable benefits. The “demonstration effect” of these projects will encourage citizen initiative and participation in additional community efforts. CSHI’s selection process emphasizes projects that promote multi-ethnic collaboration, and has targets to encourage projects that are led by or involve women. This project cooperates with OTI (Office of Transition Initiatives) to respond quickly to requests from communities that sustained physical damage during the current crisis.

Sub-IR 2.1.2 Improved Opportunities for Citizen Participation

Citizen participation in a democracy can take a variety of forms. Individuals participate when they go to the polls and when they make direct contact with elected officials and other government representatives. They also participate when they join together, on an ad hoc basis or in organizations and associations they create to address issues they feel are important, either through direct action or through advocacy efforts that seek to change policies, laws or practices.

USAID’s existing activity under this Sub-IR focuses on NGOs, of which there are currently an estimated 4,000. Of the total registered NGOs, however, only 200 to 300 are considered active. Most of the NGOs that USAID has worked with to date need help in improving their management skills; and virtually all of them need assistance in developing advocacy skills and expanding their constituent and member base.

Through its Democracy Network (DemNet) program, USAID is providing assistance for the general development of NGOs through training, technical assistance, and sub-grants. Fifty-four core NGOs now serve their communities as models of good management and some of these NGOs are being groomed as mentors to help less mature organizations and communities get started. DemNet is currently working with NGOs to improve their advocacy skills, broaden their constituencies and begin to inform public opinion on a range of policy issues. Such NGOs will potentially be good partners for members of Parliament and local government who share their positions on issues and are trying to develop a more independent political base.

In the future, the Mission intends to broaden its civil society focus to include trade unions. Organized labor may be one of the strongest civil society actors in Macedonia and therefore holds the potential to be a vital avenue for increasing representation, accountability and competition within the political system. Unions are not currently playing the role they should in educating their members about policy decisions that affect them or in negotiating favorable terms

for workers in the privatization process. USAID is initiating in 2001 a new labor education program to help labor unions assume their role in a market oriented democracy by strengthening their ability to participate more effectively in economic restructuring and privatization and to better represent their members in the transition. As the Mission's new SO 3.4 becomes active, it is envisioned that this activity will shift to that SO. In the meantime, the effort will be continued under IR 2.1.2. Across the board, the Mission would like to see CSOs begin to play a larger role in promoting stability, democratic processes, and multi-ethnic cooperation. Given the weak condition of this sector, USAID expects that real improvements in civil society will take a number of years, likely extending beyond the current Strategy period.

Sub-IR 2.1.3. Increased Access to Objective, Unbiased Information

In principle, media is unregulated and uncensored in Macedonia. In practice, the government controls the media through a variety of economic and political means. Even so-called independent media is tied to political parties, and both news articles and editorials reflect the views of media sponsors. Reaching the point where citizens have improved access to objective, unbiased information depends not only on training journalists and improving the legal framework, but also on steps that will help media find ways to increase its financial independence. Under a buy-in to the Regional Professional Media Program, the Mission is working on a media assistance program that is focused, initially, on improving the viability of independent media, the professional skills of journalists, and the development of media associations. Under this activity, USAID has already helped the media to respond to a proposed law on public information that would have made the situation for independent media more restrictive than it is today. As a result of pressure from this group and support from the Council of Europe, this draft law was withdrawn.

USAID's assistance to media is scheduled to continue through 2004. This complements activities for media strengthening the U.S. Embassy has underway. By the end of the current Strategy period, USAID anticipates that there will be more professional and more objective news coverage generally as a result of U.S. assistance in this field. In addition, there will be an emphasis on increasing exposure to domestic Macedonian news among the Albanian population, as presently most Albanian language stations report predominantly on events in Kosovo and Albania, not in Macedonia. Media associations will also have the capacity for self-policing on issues such as objectivity and ethics. Given the extensive involvement of the U.S. Embassy (Office of Public Diplomacy) and the donor community in this field, and improvements the Mission expects to see by the end of the Strategy period, it will reassess for the 2005 Strategy the priority of its involvement in this aspect of civil society development.

IR 2.2 Adherence to Rule of Law Enhanced

The concept of rule of law plays a central role in a democracy. In democratic societies there is a presumption that the laws of the land are consistent with a Constitution, which provides for human rights and basic freedoms, reflects widely accepted social values, and has been ratified by the citizenry. Citizens further presume that their laws apply to all citizens, including elected officials and the state itself. Further, that cases will be adjudicated in a fair, consistent, transparent and timely manner by an independent and neutral judiciary and judgments rendered by the legal system will be duly enforced. When a legal system operates in this manner it not

only protects the rights of individual citizens, it also serves as a mechanism for resolving social disputes. Thus, rule of law goes beyond the existence of a body of law and the presence of trained professionals to embrace the operating principles of democracy. This is where it differs significantly from the legal systems in force in Southeast Europe prior to the 1990s.

In Macedonia, as in other new democracies, the processes and institutions necessary to uphold the rule of law are incompletely evolved and ineffective. The myriad problems that impede the effective functioning of the country's legal system include the lack of an adequate and consistent body of law, particularly with regard to the private sector; a cadre of judges, many of whom were only appointed in 1996; prosecutors and lawyers who are neither steeped in democratic traditions nor well versed in Macedonia's evolving body of law or its application; a Judiciary that is not independent of the Executive branch of government nor unquestionably removed from political influence; slow court management procedures; a police force inadequately disciplined with regard to respect for human rights; and inadequate procedures for ensuring enforcement of judgments rendered by the legal system.

As a result of these limitations, distrust, or lack of confidence in the Judiciary, which serves as a proxy for the legal system as a whole, is nearly as high as it is for other aspects of Government and Parliament (56% as compared to 60% and 61%, respectively). People in Macedonia believe that laws are not being consistently applied in a fair and impartial manner. Findings from USAID's D/G assessment concur. This is not to suggest that Macedonia is a lawless society, for it is not. Rather, this situation allows for a range of practices to persist, under the banner of politics, which might elsewhere be successfully challenged through the legal system. Tolerance or disrespect for the law encourages a wider disregard for the law.

USAID has been providing assistance for strengthening the rule of law in Macedonia since 1993, albeit not as a central focus of its program. Efforts to date have been focused on support for associations and educational institutions. Attention has been given to strengthening the judiciary, legal education, and commercial law. USAID's decision to step up its efforts to improve Macedonia's development of rule of law during the remainder of this Strategy period was triggered, initially, by both its D/G assessment and by requests from the Mission's SO 1.3 team to address problems in the judicial system that are impeding private sector development and economic growth. The current crisis is also highlighting the importance of improvements in adherence to rule of law in Macedonia. These conclusions, when combined with the Mission's familiarity with the intent of initiatives the U.S. Embassy is undertaking to improve the democratic orientation and skills of prosecutors and the police, make it clear that a broad and coordinated effort to improve the legal system and the adherence to rule of law is warranted at this time.

While the Mission has just begun to develop its rule of law strategy, it is already apparent from the Mission's analyses and the conclusions of the project design team that came out to assist the Mission in April 2001 that the focus should be on both the judiciary and on non-judicial aspects of the legal system. The descriptions of Sub-Intermediate Results for IR 2.2 presented below draw upon the product of this design effort, but must be considered tentative since the Mission will also consider input from the intended beneficiaries of these efforts and other donors working in this area as it finalizes plans and activity designs.

Sub-IR 2.2.1 More Effective Judiciary

Macedonia's Judiciary lacks adequate resources, both human and technical, is under-trained in many new laws which have been enacted since independence, and largely unsupported by modern equipment and management systems. This is true for court personnel as well as judges. Civil cases take up to two years to reach judgment, partly as a function of the large number of responsibilities of the Judiciary, some of which do not need to reside there (e.g., registration of trade companies). Even when court cases are decided, the chances of appeal are high, and the chances that judgments will be reversed at the next level are higher than the Mission would like them to be, i.e., one appellate court recently reported a reversal rate of about 32%, which is high compared to a more generally expected rate of 10 – 15%. Low judicial salaries have caused more experienced and competent judges to leave the court. Many of those who are likely to remain have limited experience, i.e., 88% of the new judges appointed after comprehensive court reforms were enacted in 1996 had never served on the bench before. The Judiciary does not have an independent budget, but instead receives its funds from the Ministry of Finance, which is seen as chronically under-funding this function. Concerns about the ability of judges to resist political pressures are exacerbated by the fact that selection and removal of judges is under the control of Parliament and the Republic Judicial Council, which is itself selected by Parliament. Some of the problems facing the judiciary are technical in nature and others stem from insufficient investments in human resources.

Under this Sub-IR, USAID intends to help the Judiciary cut case processing time in half by improving court administration. The Mission expects to focus on court administration and management at all levels of the court system. This will likely include starting up an Administrative Office for the court system and, in selected lower courts, upgrading the capacity of judges and administrative staff to manage court resources effectively. In addition, as indicated under Sub-IR 2.2.3, below, the Mission will help the court system to put forward legislative changes that will make it easier for judges to carry out their duties, including not only laws that empower judges but also amendments to the Law on Civil Procedure and the Law on Misdemeanors that will simplify procedures for processing these types of cases. USAID will also provide needed training for judges and court personnel. These training efforts, which overlap with the training the Mission will provide for lawyers, are described in more detail under Sub-IR 2.2.2 below.

USAID should not underestimate the importance and potential impact of improving the judicial system in the near term. The appropriateness of judicial decisions, the consistency with which they are rendered and the extent to which they are upheld on appeal, have a direct bearing on citizen confidence in the legal system. Macedonians need to be able to believe that their courts are capable enough and independent enough to impartially adjudicate not only routine civil cases but also citizen challenges to government policies and practices. The open conflict that Macedonia has experienced in recent months speaks directly to this need.

Sub-IR 2.2.2 More Effective Legal Personnel

Three important professional groups that comprise the non-judicial human resources of the legal system are lawyers, the prosecutors, and the police. Outside of the legal system, but also important for its functioning, are citizens' groups that focus on rule of law issues and monitor the

performance of the Judiciary and of these non-judicial system actors. For all of these groups, professionalism is an issue. These are often the first people that citizens see when a matter of law arises. How they do their jobs, and how well they convey their respect for the rule of law directly affect citizens' trust in the legal system. As noted above, the U.S. Embassy has already initiated activities, partly financed by USAID, to help improve the professionalism and concern for human rights among prosecutors and in the police force. Accordingly, USAID's immediate focus under this Sub-IR includes the various professional associations, such as the Bar and the Judges Associations, as well as the legal education system. Assistance will also be provided to the various NGOs working to increase people's awareness of their legal rights and to advocate for legal reforms.

The quality of services that lawyers deliver on behalf of their clients is closely linked to the quality of their training and their understanding and adherence to a code of ethics that is appropriate to their profession. Under this Sub-IR, USAID expects to help improve the professionalism of lawyers in both of these regards. Training activities that will reach lawyers and sitting judges as well as efforts that would enhance the capacity of existing institutions, such as the Macedonian Center for Continuing Education, are being considered. The Mission is also considering pilot activities that would test the feasibility of on-site training for some individuals, such as court personnel, in order to increase their ability to directly apply skills learned in their work. USAID also supports activities aimed at self-policing within the legal profession on ethical matters. The promulgation of a code of ethics within the Bar Association is one element of such an effort. USAID is also assisting the legal profession in addressing the continuing education needs of its members through the establishment of a continuing education capacity within the Association. They are also exploring how best to ensure the adequacy of legal services for the disenfranchised by establishing legal aid clinics in the Bar Association's regional offices. USAID will also be helping the Association explore strategies to become more financially sustainable.

Sub-IR 2.2.3 Laws, Regulations and Policies that Support Democratic Practices and Market based Economy Adopted

As indicated above, on-going efforts to improve aspects of Macedonia's legal framework under other Intermediate Results feed into this Sub-IR as well, but have been left as part of the frameworks that they directly support. Under this Sub-IR, the Mission intends to specifically focus on the laws that affect the independence of the judiciary and the ability of courts to perform their duties more efficiently. USAID anticipates working on such priority legislation as would empower judges to enforce subpoenas and decisions, and legislation establishing a separate, independent budget for the Judiciary. Two other packages of laws on which the Mission also expects to focus are: a) amendments to the criminal code, criminal procedures code, and a new law on prosecutors, and b) amendments to or a new law on court administrative procedures, a law on misdemeanors, and a law on the execution of judgments. Changes in these laws have the potential for making enormous differences in the operations and effectiveness of the courts by 2004.

IR 2.3 More Effective, Responsive And Accountable Local Government

Decentralization is a central element of USAID’s strategy for devolving power and authority and changing the relationship between government and citizens in Macedonia. Decentralization automatically reduces the distance between government and the people it serves. When it is tied to a democratic political system, decentralization almost inevitably leads to greater government transparency and accountability. When citizens are not satisfied, they begin to use the electoral process, as well as other mechanisms, to send that message. This increases the pressure on local politicians to perform. As election results become linked in the minds of both citizens and politicians, political parties must respond or lose their standing. This is precisely what needs to happen in Macedonia. Many of the problems at the pinnacle of the political system trace directly back to a lack of accountability. Decentralization is particularly important in a multi-ethnic society because it moves government away from a “one size fits all” approach and facilitates processes that enable each community to address problems and opportunities in the best possible way, given their specific characteristics and traditions, while remaining true to the intent of national policies and priorities.

Despite Macedonia’s having embraced decentralization in its Constitution, and the commitments it has made as a signatory to the Charter on Local Self-Government of the Council of Europe, the country remains highly centralized, particularly as compared to countries in Europe where 22% of government expenditures are made at the local level, on average, in contrast to Macedonia’s 1.8%. IR 2.3 focuses on the steps required to bring about a more complete decentralization of government responsibilities and on the capacity of municipal governments to absorb those responsibilities and implement them effectively. The changes this Intermediate Result seeks to bring about will put Macedonia in compliance with its international commitments and will ease the country’s accession into the EU.

Sub-IR 2.3.1 Municipal Governments Have More Responsibility

The focus of the Sub-Intermediate Result is on the transfer of authority and financial resources from the central government to municipalities. Completion of this process not only requires the passage of new legislation, but also the drafting and adoption of implementing regulations, the creation of appropriate new systems and procedures at both the national and municipal level, and the mobilization of the resources required to carry out local government responsibilities. Only when all of these steps have been taken will a local government actually have increased responsibility. As indicated above, very little by way of authority or resources has been transferred to municipalities in the past ten years, despite the 1995 passage of a Law on Local Self Government. USAID’s analysis of the difference between intent and accomplishment in this field shows that while a few competencies have been fully transferred to municipal governments, along with resources to carry out these responsibilities, (e.g., garbage collection, parks, local transportation and parking, public lighting, etc.), other responsibilities which the Constitution envisioned as being decentralized (e.g., primary school education and health care) have not yet been transferred to municipalities.

Additional legislation is needed to accelerate this process. The purpose of new legislation is to a) eliminate conflicts between the delegations of authority called for by the 1995 Law on Local Self Government and other existing laws and the Constitution and b) put into law requirements

that will either transfer sufficient resources to municipalities to implement their decentralized responsibilities or empower these municipalities to raise and retain sufficient revenue locally to carry out these functions. This rationalization process will require not only legislation that focuses directly on these issues but also changes in other laws that are in conflict with them. Under on-going activities, USAID has already helped the Ministry of Local Government to develop the draft version of the revised Law on Local Self Government that was sent to Parliament in April 2001. The Mission is also assisting Government efforts to develop and send to Parliament later this year a new Law on Local Public Finance. These two laws constitute the minimum package required for the decentralization of government in Macedonia. Once passed, however, implementing regulations will be needed, at both the national and municipal levels, as will practical actions that yield (through transfers and/or taxes and fees) resources to municipal budgets that are commensurate with new responsibilities.

Prospects for the passage of the new Law on Local Government remain somewhat unclear. Pressures created by the current crisis could result in passage this year, despite the difficulty Parliament is experiencing with respect to the scheduling of its regular business. On the other hand, a change at the head of the Ministry of Local Government, which occurred when the Unity Government was formed in May 2001, may slow down the process. Either way, USAID anticipates that this new law will be passed by 2002 and that a Law on Local Public Finance will be passed within 12-18 months after the first law is passed, since there is a growing recognition in Government, Parliament, and municipalities that the first law, in the absence of the second, is meaningless. Equally important as a benchmark for the decentralization process will be the effective dates set for these two laws, and whether Government is able to stay on track with the development of implementing regulations, new policies and the like, so that these effective dates are met. Effective dates, which USAID expects will be set for late 2003 or early 2004 in order to give the Government time to prepare implementing regulations, are what determine when authority and resources actually shift to the municipal level. USAID anticipates that under its on-going activity it will be able to assist both the Ministry and municipalities as they complete preparatory steps necessary to make decentralization effective on the dates set by new legislation.

Sub-IR 2.3.2 Citizens Involved in Local Government Decision Making

Citizen involvement in local government decision-making, beyond showing up to vote, is generally insignificant, although some long-standing practices do provide opportunities for face-to-face interaction between officials and citizens. To address this situation, even in advance of further decentralization, USAID is making efforts, under its existing local government activity, to significantly increase citizen participation in government decision-making processes at the municipal level. The Mission is assisting 17 target municipalities with a range of experimental approaches for increasing citizen participation, the most effective of which will be disseminated more broadly, through municipal associations and other mechanisms. Experiments already under way focus on the two-way dialogue between citizens and municipal government. Some of these, such as efforts to help Mayors do a better job of communicating with the press will improve what citizens know about local government. Others, including the establishment of customer service operations within municipal enterprises, especially water and electricity, focus on the citizen-to-government aspects of this dialogue. Still others, most notably the Citizen Information Centers that USAID has helped some municipalities to establish, have a two-way

focus, in that they not only make information available to citizens, but also serve as intake points for citizen feedback and ideas. These efforts interface well with activities under IR 2.1 that focus on encouraging citizens to interact with their government.

While it is not yet certain which citizen participation mechanisms will prove most effective and popular in Macedonia, the Mission expects that by the end of the Strategy period, all target municipalities will have introduced a sufficient array of new mechanisms to make significant changes in the level of citizen participation and input into municipal government decision making. USAID further expects that women’s participation (which an existing USAID survey suggests is about half that of men) will be measurably changed. Further, USAID expects that the degree of dissemination and adoption of new approaches beyond the initial group of target municipalities will be sufficient to indicate that USAID’s efforts have a substantial multiplier effect.

Sub-IR 2.3.3 Municipal Associations Satisfactorily Serve the Interests of their Members

Under this Sub-IR, USAID is working with existing municipal associations to strengthen linkages between municipalities and help Mayors and other municipal officials recognize the power they have when they work together to solve common problems. This Sub-IR will encourage municipalities to work through their associations, not only to share “best practices” but also to define their common needs, articulate these needs as recommendations for legislation and government policy, and advocate their proposals to Parliament and Government. When municipalities start to work together in this manner, they will start to shift the balance of power away from Government. As the Mission indicated above, strengthening alternative democratic institutions is the only viable way to reduce the power of Government and the parties. Rebalancing power within the Macedonian society will enhance, not reduce, the legitimacy of democratic government in the eyes of citizens. This is, in fact, precisely the type of change the Lund model suggests will help to correct imbalances that, left unattended, can result in open conflict.

The two organizations with which USAID is working closely to enhance the capacity of association networks to facilitate these kinds of processes and in other ways meet the needs of their members are the Association of Mayors (ZELS) and the Association of Local Financial Officers (AFO), many of whose members are women. USAID intends the link between the ZELS and AFO and the overall decentralization effort to be a strong one. These organizations are being encouraged to play leadership roles with mayors and other municipal officials, first by familiarizing them with the new legislature, and then by leading and/or sponsoring discussions about these laws. This leadership role will subsume a “watchdog” role with respect to the actual, as opposed to nominal, transfer of authority and responsibility to local governments. USAID’s work with these associations is also aimed at ensuring their financial sustainability by the end of the Strategy period.

Work under this SO to strengthen municipal associations and help association members develop new skills will be particularly beneficial for women, who are well represented in the AFO, but less frequently hold the title of Mayor. In municipal government, it is not uncommon to find women holding a senior post on the financial side. Training provided under USAID’s

program can help strengthen the skills of women who are already active in the field of local government, and encourage them to follow the lead of one of their colleagues who leveraged her financial management position in local government into a place on the party list from which she was elected Mayor of her town.

Sub-IR 2.3.4 Local Governments Improve the Management of Municipal Services

Municipal governments already carry out those responsibilities that have been fully decentralized to the municipal level. For the most part, officials at this level feel that the resources transferred to them by the Ministry of Finance each year are insufficient. While some might be inclined to raise taxes locally to supplement the resources transferred to them, provisions in current law make such efforts self-defeating by requiring that any tax revenues raised in excess of the budget level set for a municipality by the Ministry of Finance must be turned over to the central government. Given this situation, some Mayors and municipal government staff are becoming interested in improving the way they manage municipal resources as a way to realize savings and stretch them farther. For this same reason, they are interested in identifying and instituting fee structures for some of the services they provide. With the assistance of USAID's on-going local government activity, two municipalities have already achieved cost savings, and two others have instituted fee programs (public parking and taxi license fees) to expand their budgets. It is anticipated that a significant proportion of the 17 target cities will achieve similar results by the end of the Strategy period. Based on financial management and revenue enhancement experiences in target municipalities, USAID will distribute practical tools to other municipalities as well. These could include applicable systems for tracking budget expenditures and forecasting future budget needs.

Improved management of municipal services also implies improved service delivery. While USAID's activity will not engage in service delivery directly, it will help municipalities introduce management systems and gather information to help them monitor service quality. National data collected by USAID indicates that most Macedonians judge the quality of municipal services to be poor. The Mission's local government activity is collecting additional data of this sort for the 17 target municipalities, and USAID will help them use these baselines and annual survey data over the rest of the Strategy period to set and achieve performance improvement goals. As applicable, such systems will also incorporate technical data and objectives that affect both service quality and service costs (e.g., water loss rate in water delivery systems).

IR 2.4 Increased Confidence in Government Institutions and the Political Process

Confidence in government institutions and the political process, as the Lund model makes clear, is an issue for democracies at two different levels. The first level focuses on the confidence that people have in the particular government they have elected. At the second and more fundamental level is the confidence that people have in democracy as a system. In countries like Macedonia, where democracy is relatively new and dependence on government remains almost as high as it was under a more authoritarian regime, questions about the democratic system itself can arise, especially when other aspects of the political system appear to be weak or unstable.

Competition among political parties and citizen participation in government decision-making processes, both through their electoral votes and, as described above, through contact with their directly elected representatives and their participation in issue-oriented civil society organizations are expected elements of a democracy. When these characteristics are absent, a regime may be democratic in name only. In Macedonia, it is only between the two leading ethnic Macedonian political parties that a high degree of competition is evident, but as suggested above, this competition is based on the personalities of their leaders and the ability of those leaders to command loyalty, rather than on issues. On the second characteristic, participation, Macedonia would score quite low, despite evidence of a consistently high electoral turnout. The resulting state is then closer to being what might be called a semi-competitive partyist oligarchy, rather than a true participatory democracy. This difference is important, because the latter is what Macedonians are experiencing as democracy. In this context, their uncertainty about the system itself is not only more understandable, it also more clearly points the way to the kinds of institutional improvements that must be made to rectify the situation and increase popular confidence in democracy.

Under IR 2.4, the Mission is focusing on activities that will strengthen key governmental institutions and thereby enhance the checks and balances in the democratic system. Parliament is a central focus under this Intermediate Result. USAID will also invest in activities aimed at restoring the credibility of the country's electoral system and helping transform Macedonia's political parties into organizations that compete more on the basis of their platforms, their performance and their responsiveness to citizen issues and concerns, and less on the basis of loyalty, a candidate's charisma, and the lure of patronage. These efforts to strengthen Macedonia's democracy and improve public confidence in democratic institutions are complemented by efforts being made under IR 2.2 to strengthen the Judiciary and under IR 2.3 to increase the capacity and responsiveness of municipal governments. To a limited extent, under this Intermediate Result, USAID will also provide assistance that supports increased transparency and communication with the citizenry within the Executive branch of government.

Sub-IR 2.4.1 Parliament Functions in a More Effective and Visibly Representative Manner

Parliament is intended to be the primary channel through which citizen issues and views are brought to bear on political decision-making processes of government. Macedonia's Parliament is not yet fulfilling its potential in this regard. One of the problems is that, until now, Parliament has operated as a part-time institution. More troublesome, however, is the fact that when it does meet, it serves as a rubber stamp for the political parties and the Executive branch. Members of Parliament (MPs) view their political loyalty and connections as being more important than their responsibility to represent the voters who elected them because they know that the party decides whether a candidate's name will show up on the party list in the next elections, and how high on that list an MP's name will be placed. This is equally true for the 85 MPs elected on the basis of a majority vote in a single district as it is for the 35 MPs elected on a proportional basis, which is to say, by party leadership, through party central committees. Parliament's shift from a part-time to a full-time basis after the 2002 elections represents an opportunity for improving the quality of its legislative review, introducing new government oversight activities, and improving the communication between MPs and the electorate in ways that increase the credibility of this institution as the people's representative body.

On-going USAID assistance to Parliament includes assistance to MPs and their staff, particularly those from single member districts, that aims at improving their ability to play a more proactive and constituent-oriented role. Measurable changes in constituent outreach practices have already been noted for the first groups of members assisted. While some momentum will be lost with the turnover in the parliament expected in the 2002 elections, it is evident that the party leadership is starting to see the benefit to these outreach techniques. So it is expected that these results will multiply by 2004 as other members of parliament are assisted. Particular attention is being paid to MPs from single member districts. To improve research and analysis on parliamentary issues, USAID also supports efforts to institute a parliamentary internship program. Interns are filling the staffing needs of MPs and providing them with increased capacity to analyze and propose changes to legislation that comes before them. Furthermore, it has initiated efforts that are improving communications within party caucuses and between the Parliament and the Cabinet. Future assistance to Parliament will continue to focus on increasing its capacity to serve as a more independent, representative, democratic institution. The Mission anticipates that a six to ten year timeframe will be needed to achieve its objectives in this area.

Sub-IR 2.4.2 Degree to which Elections are Free and Fair Improved

The legitimacy of any elected government is closely tied to the validity of its election process. Several rounds of elections in the 1990s monitored by international observers were deemed to have been reasonably “free and fair.” In 1999, Macedonia’s electoral system took a step backward. The Presidential election that year, while held mostly in accordance with OSCE commitments and national legislation, was marred by violations in certain parts of the country in the second round. As a result, the Supreme Court invalidated the vote in 230 precincts, where polling had to be repeated. The repeat vote in many instances was marked by the same problems as in the second round, which included fraud and intimidation. These problems, and problems that appeared during the course of local elections in 2000, made it clear that Macedonia was not as far along in its democratic transition as previously thought and that the bitter fight for political control observed during those elections is perceived to be a symptom, rather than the cause of the problems, inherent in the Macedonia’s nascent democracy.

To reduce the likelihood of electoral problems in the 2002 election and beyond, and to restore public confidence in Macedonia’s election system, USAID is providing assistance to improve the electoral system. The focus of its election support efforts is the reform of the election law, improvement of the voter registration list, strengthening of the State Election Commission, and a public information campaign to garner wide participation in the reform process. The Mission plans to fund its election-system strengthening program for the next two years. By 2002, USAID expects that Macedonia will have a new election law that improves upon existing laws in this area. New legislation will better define the role of election bodies, rules for competition and penalties for misconduct, and will outline where the power lies to enforce these penalties.

Sub-IR 2.4.3 Political Party Transformation to a Platform and Performance Basis Achieved

USAID’s plans for working with political parties during the remainder of the Strategy period represent a renewal of a program of assistance the Mission initiated just as it entered this strategic planning period (i.e., in 1997, in anticipation of the 1998 Parliamentary election).

Following that election, USAID activities shifted away from party development and focused on the role of parties in Parliament (caucuses, constituent outreach, etc.) This shift made sense at the time, given the strong performance of the political parties during the elections in terms of utilizing the techniques they had been taught under the party development program. It also reflected a clear need for improvements in the way Parliament operates.

It has become clear, however, from the 1999 and 2000 elections and from the Mission's observation of the way political parties are evolving, that it was premature for USAID to abandon its political party development efforts. As the Mission's democracy and governance assessment points out: true parties organize, aggregate, institutionalize and represent interests. In Macedonia, however, parties are the personal instruments of their leadership. They are the ways in which leaders organize their interests rather than the way in which leaders represent the interests of others. With but a few exceptions, parties in Macedonia have no ideology, no platform of principles and priorities on which they run, and virtually no organization. Rather they are collections of leaders and dependents whose influence radiates outward from the center, leaving the entire country feeling unempowered and at their mercy. The major parties, of which there are two that vie for the ethnic Macedonian vote and two that seek to represent the Albanian community⁴, are intensively competitive, highly demanding with respect to loyalty, largely unresponsive to voter issues and concerns, and deeply involved in what the Mission considers a corrosive patronage system. Parties today are one of the central problems for Macedonia's democratic transition.

Based on its analysis of the current structure and focus of political parties, USAID/Macedonia plans to re-engage in party development activities. The purpose of this renewed effort will be to help strengthen the internal democratic practices of the parties, to encourage meaningful dialogue between the leadership of the parties and its members and constituencies, and to help the parties prepare for parliamentary elections in 2002 basing their platforms on principles and issues rather than ethnic rhetoric and personalities. This will not only begin to provide some internal checks on the powers of the political leaders, but it will also contribute to a reduction in ethnic tensions by increasing the range of ideas that can find expression within each party, particularly ideas upon which individuals of different ethnic backgrounds agree and are willing to work collaboratively. This will help reduce the current tendency of political parties to focus, almost exclusively, on divisive ethnic issues.

Important targets of the Mission's work will be the local branch leaders and those who have a genuine interest in reform of the parties. During the course of the D/G assessment, the team found a growing discontent among mid-level party activists who were often frustrated by their party's centralized decision-making and by the tight control those at the top held, preventing a plurality of opinions and more democratic practices within the party. Included in this category

⁴ Macedonia has a fairly large number of political parties, including more than one party that represents constituents within the ethnic-Macedonian majority, i.e., VMRO-DPMNE (Internal Macedonian Revolutionary Organization/Democratic Alternative) which took over Government after the 1998 election, and the SDSM (Alliance of Democratic Forces in Macedonia), which led the previous government. On the Albanian side are the DPA (Democratic Party of Albanians), which joined the VMRO-DPMNE to form a government after the 1998, and the Party for Democratic Prosperity (PDP). On May 13, 2001, all four of these major parties joined together to form a new Unity Government in response to the growing crisis.

are many MPs who are frustrated by the lack of respect shown them by the leaders of their own parties. Many mayors and local elected officials are also frustrated by their lack of authority and resources and their inability to solve the problems of their municipalities which citizens are demanding. USAID's approach will be to identify and work with reformers within the parties. In addition, activities will seek to strengthen the party structures at the local level as a means for increasing demand for reform from within the party. USAID will also focus on the youth branches of the political parties as a means to foster in the next generation of political leaders a vision of how political parties should function in a democracy.

The development of more democratic political parties in Macedonia will nonetheless be difficult and slow, and it is entirely possible that real change will not be sustainable until the next generation of political leaders comes to power. The Mission anticipates continuing its efforts with political parties through 2006. It expects that there will be improvements in how the political parties conduct themselves during elections by the time of the next parliamentary elections in 2002. Other areas where the Mission expects to see improvement by the end of the Strategy period include political parties taking local input into consideration, including citizen views on how well their MPs have reached out to and represented them, when making decisions on candidates for office. Other changes that parties should at least be actively considering by 2004 include creating issue-based platforms and the use of an inclusive process to develop such platforms, targeted efforts to increase the number of female candidates for office as well as the number of women in decision-making roles within party hierarchies, and greater efforts to involve youth in specific activities, e.g., election campaigns, thus fostering their participation in democratic processes and positive, participatory links to political parties.

Sub-IR 2.4.4 Communication Between Elements Of Government And Citizens Improved

This Sub-IR reflects USAID's interest in being responsive to Office of the President of Macedonia, asking for USAID's help in building its organizational capacity, with a special emphasis on enhanced external communications. The Office of the Prime Minister has requested similar assistance. The goal of USAID's limited intervention in this area will be to increase the openness and transparency of government institutions by developing and regularizing their mechanisms for communicating with citizens and the media, to explain its policies and programs in a manner people can understand and which responds to people's wants and needs.

3. Development Partners

USAID currently collaborates with a wide range of donors to achieve the objectives of SO 2.0. The work that the IMF, the World Bank, British Know-How Fund and the EU are engaged in, with the aim of reducing the role of the state in the economy, has direct bearing on efforts under SO 2.0 to de-concentrate political power in Macedonia by strengthening other democratic institutions and through the effective decentralization of both authority and resources for a wide range of government functions. Under several Intermediate Results that support SO 2.0, a number of other donors fund specific activities. Several of these donors work across more than one of USAID's Intermediate Results.

Other donors are carrying out work that complements USAID's efforts under IR 2.1. For example, donors are working on programs that complement USAID's civic education initiative with National Parents Association and the Ministry of Education. These include the EU, through its TEMPUS program, Soros Foundation and its local partners (Macedonian Forum of Political Science and Minority Rights Group International). Similarly, USAID's NGO strengthening investments are complemented by other donor activities, including the EU Phare, the Dutch, Swiss, and Norwegian Embassies, the British Know-How Fund, the World Bank, UNDP, GTZ, the Soros Foundation and the Mott Foundation. Other partners include The Center for Gender Studies and a number of women's advocacy groups who are working closely with the Soros Foundation on efforts to strengthen the involvement of women in the NGO sector.

Other activities that complement efforts in support of decentralization and stronger municipal government under IR 2.3 include USAID's close collaboration with the EU Phare and UNDP in local government. Donors working with municipal governments include the Soros Foundation, the Swedish International Development Agency (SIDA), and UNDP. Donors with plans to become involved in local government include GTZ (which supports management strengthening of municipal public utilities companies), and the Polish Fund for Local Democracy. USAID/Macedonia took the lead in creating a donor coordination committee to provide all donors with an overview of foreign assistance to local government development and to help ensure complementarity of donor efforts. This committee has generated a number of subcommittees that are active in the sub-fields of association strengthening and municipal management.

Other donor involvement is less intensive in other areas under SO 2.0. The EU, for example, is working with the judicial system to carry out activities that will complement USAID efforts under IR 2.2. USAID's other main partner for IR 2.2 is the U.S. Embassy, through activities aimed at upgrading the skills of prosecutors and the police, working with ICITAP and Department of Justice, with funding that comes in part from USAID. Under IR 2.4, the Canadian Embassy, EU and OSCE are actively engaged in supporting the electoral reform. Other donor efforts to support party development are minimal.

4. Sustainability and Regional Integration

The likelihood that any democracy will be sustained is a function of the maturity of its democratic institutions and the involvement of its citizens in democratic decision-making processes that extend well beyond their participation in elections. Experience in Latin America, Africa, and Asia has shown that where democracy is not firmly rooted, authoritarian regimes can secure the upper hand. Democracy, as a form of government, is newer and less mature in the Balkans than in other regions. Where ethnic conflicts of the type Macedonia is experiencing and civil wars that begin for other reasons have provided the openings, they have at times led to the collapse of a democracy.

Even though Macedonia has gained experience with democracy over the past decade, problems with the 1999 and 2000 elections show how superficial these gains were and how easy it is for systems in a new democracy to slip backwards. Even more troublesome in this regard is the apparent inability of Government and Parliament to make even initial breakthroughs at the political level that will lead to a true end of the crisis, rather than simply a cease-fire. These

weaknesses demonstrate the tenuous hold Macedonia's government institutions have on legitimacy and why each aspect of USAID's SO 2.0 strategy represents an effort to strengthen and deepen Macedonia's democratic roots.

Taken together, the elements of USAID's SO 2 strategy will help to move Macedonia's democratic institutions from where they are today to a more balanced situation, where basic elements of government are relatively independent of each others, equal in authority, and able to apply the "checks and balances" on which democracy depends. Reaching this more mature point depends on a significant increase in citizen participation and on the development of civil society organizations that support and facilitate such participation and on drawing power and resources away from the center. Equally important will be progress realized on decentralization and the increased citizen participation in decision-making at this level. Innovative efforts to improve the quality and efficiency of local government, and a stronger collaboration among Mayors and other municipal officials will help considerably to balance power that is today overly centralized, politicized and not linked to performance. The imperative to move Macedonia's democratic institutions to a new, more mature, and sustainable balance point explains why the Mission's strategy is itself balanced across a range of institutions, rather than focused on only one or two of them.

Encouragement from allies can also help a young democracy continue to move in appropriate directions, though external influences alone are never sufficient to achieve that end. Macedonia's invitation to join the EU, as well as the World Trade Organization, represents the very best kind of external support. These potential relationships are making Macedonia cognizant of the actions that it must take to join Europe in a formal way, all of which will move the country closer in economic and political terms to Western democracies.

From the sustainability point of view, the improvements in the legitimacy of Macedonia's democratic institutions, accession to the WTO and admission to the EU cannot come soon enough. Both of these relationships will reinforce the importance of progress that Macedonia makes on political and economic fronts. This is also true for decentralization, where Macedonia's commitments to the Council of Europe will serve a similar function.

5. Progress Benchmarks and Performance Measurement

Performance Benchmarks

Benchmarks for this SO are shown below. As was the case for SO 1.3, some of these benchmarks are drawn from the PMP while others focus more on the assumptions we have made about what Government and other entities will do that is important for the success of this SO.

SO 2.0 Benchmarks by Year

2001

- Participating MPs are actively conducting constituent relations activities, such as holding office hours, conducting public meetings, or constituent casework.
- At least 24 episodes of the multi-cultural children's television program *Nashe Maalo* are being aired several times weekly on multiple stations and in multiple languages.
- At least 2 NGOs will carry out a national level advocacy campaign.
- All students in kindergarten through grade 2 are receiving civic education instruction.
- Establishment of Macedonian Institute for the Media (MIM) for training of mid-career journalists.
- Infrastructure in 10 towns affected by the crisis restored under CSHI

2002

- At least 10 municipality groups employ youth in community based activities
- Political party platforms are issue based and include a range of economic, social and political priorities.
- NGO Law textbook prepared and incorporated into the university curriculum.
- Law on Independent Court Budget passed and new national Administrative Office for the management and administration of the budget is established.
- 54 issued based indigenous NGOs have the capacity to advocate for issues on behalf of their members.
- New election laws in place that improve upon election administration and clarify previous inconsistencies in the laws.
- Amendments to the Broadcast Law are passed.
- Government begins writing implementing regulations for Law on Local Self-Government.

2003

- At least 10 municipality groups develop plans for improvements in their water and wastewater treatment infrastructure
- An electronic repository of parliamentary information exists increasing staff efficiency in research and other services.
- Political parties develop systems of regular contact with voters.
- A pilot curriculum based on the *Nashe Maalo* series has been developed and is being tested.
- On-site pilot program for court administration and management being implemented in at least six trial courts around the country.
- Changes to the laws on presidential elections and local elections are passed.
- A reliable independent ratings systems is developed and being used by media outlets for marketing and program decisions.

2004

- At least 20 community groups that have received assistance from CSHI successfully seek funding and assistance from other donors
- Majority of public express satisfaction with services provided by local government
- Political parties improve networks of communication between national and local branches and local branches play a greater role in candidate and leadership selection.
- The government develops a communications plan based on the government’s policy agenda.
- A local production team has taken over completely the production of the Nashe Maalo series.
- A new tax code has been adopted containing provisions for tax exemptions for NGOs and on voluntary contributions to NGOs.
- Macedonia’s court system begins to apply modern court management techniques.
- A comprehensive national continuing education program for judges and court personnel is established.
- Three Intermediary Support Organizations are serving as resource centers and mentors for other civil society organizations.
- Civic education curriculum is being taught to all children in kindergarten through grade eight.
- Improved coverage of ethnic issues and perspectives in both Macedonian and Albanian language media.

Performance Measurement Plan

The SO 2.0 PMP is provided in Annex C. Performance Data Tables for reporting indicators are shown below. The performance indicators the Mission intends to use for the remainder of the strategy period are similar to the intent of several of the indicators used in the past, but have been revised to draw on the new sources of information the Mission has developed, particularly its annual national citizen attitude and perception survey, initiated in 2000, and its parallel survey at the municipal level, for target municipalities under the IR 2.3.

Two indicators which the Mission used for performance reporting, i.e., the Freedom House Nations in Transit rating and the NGO Sustainability rating will be monitored, for comparative purposes, but will no longer be reporting indicators. In their place the Mission is using a number of responses and indexes based on clusters of responses to its survey questions to more closely pinpoint measurements to the kinds of changes the Mission is trying to bring about. For target municipalities under the local government/decentralization program, we will use several of the same questions used in the national survey, for the purpose of determining whether direct assistance results in more rapid improvements in citizen perceptions. By using this technique to compare data on target municipalities to a legitimate reference we are addressing the conceptual need for a “comparison group” while recognizing that there is really no legitimate comparison we can make, because the program’s target municipalities include all of the largest cities in the country. Local government expenditure as a percent of government expenditures is another new

indicator. It is one that is particularly useful because it allows the Mission to compare Macedonia's status on this measure to that of Europe.

With respect to NGOs, while we are interested in their sustainability and involvement in advocacy activities at the Sub-IR level, we are shifting, at the reporting level to a focus on citizen participation in these organizations and on the degree to which NGOs are trusted in the Macedonian society. A rule of law indicator that describes citizen perceptions concerning respect for rule of law in their country has been added and we have brought back an indicator that focuses on elections.

At the reporting level, the Mission's indicators are skewed toward measures of perceptions. These selections are appropriate because at the highest levels of the RF, these are the measures that will best capture change. On the other hand, it is worth noting that perceptions tend to change slowly, which our targets reflect. Further, factors other than USAID's program can affect them. Over the coming year, for example, we anticipate that perceptions may not improve, and on some measures confidence could slide as a result of the crisis. Because of the nature of the SO, we do not expect to be the only cause, in an accountability sense, of what happens in Macedonia. We do, however, expect our programs to be influential and that changes in perceptions in the specific areas where we are working will reflect the impact of our program. At the same time, the Mission supplements these reporting indicators with numerous output type measures that have an institutional focus at the Sub-IR level, as shown in the Performance Monitoring Plan for this SO.

Strategic Objective: SO 2.0 More Legitimate Democratic Institutions		
Result Name: SO 2.0 More Legitimate Democratic Institutions		
Approved: 1998		Country/Organization: Republic of Macedonia
Indicator: Change in public commitment to democratic values		
Description: This indicator is an index developed based on several questions used in USAID’s survey of citizen attitudes and perceptions, first conducted in the Fall of 2000 and scheduled for annual updates. Full definition of this index is included in the SO 2.0 PMP and is found on page 20 of the 2000 survey report.		
Source: USAID, through it survey research contractor		
Year	Planned	Actual
FY2000		46%
FY 2001	44-46%	
FY 2002	44-48%	
FY 2003	46-50%	
FY 2004	Over 50%	

Strategic Objective: SO 2.0 More Legitimate Democratic Institutions		
Result Name: I.R. 2.1 Increased Citizen Participation in Political and Social Decision Making		
Approved: 1998		Country/Organization: Republic of Macedonia
Indicator: Citizen participation in political activities		
Description: Average score of survey respondents on a set of “realized” political action questions. List of survey questions identified in the SO 2.0 PMP.		
Source: USAID, annual citizens survey		
Year	Planned	Actual
FY 2000		18.75
FY 2001	16-20%	
FY 2002	16-20%	
FY 2003	18-22%	
FY 2004	Over 25%	

Strategic Objective: SO 2.0 More Legitimate Democratic Institutions		
Result Name: IR 2.1 Increased Citizen Participation in Political and Social Decision Making		
Approved: 1998		Country/Organization: Republic of Macedonia
Indicator: Citizen participation in decision making at the community level		
Description: Percentage of citizens indicating that they have joined others to work on community problems. This is a composite of several survey questions as listed in the SO 2.0 PMP.		
Source: USAID annual citizen survey		
Year	Planned	Actual
FY 2000		22%
FY 2001	20-24%	
FY 2002	22-24%	
FY 2003	26-28%	
FY 2004	Over 30%	

Strategic Objective: SO 2.0 More Legitimate Democratic Institutions		
Result Name: IR 2.1 Increased Citizen Participation in Political and Social Decision-Making		
Approved:		Country/Organization: Republic of Macedonia
Indicator: Increased Citizen Participation and Initiative at the Community Level		
Description: Number of Citizen Community Groups actively participating in larger community and municipality have organized and implemented activities and are actively seeking funding assistance from other donor groups.		
Source: CSHI Project Monitoring and Evaluation System Reports		
Year	Planned	Actual
FY 1998-99		
FY 2000		
FY 2001	5	
FY 2002	20	
FY 2003	30	
FY 2004		

Strategic Objective: SO 2.0 More Legitimate Democratic Institutions		
Result Name: IR 2.2 Adherence to Rule of Law Enhanced		
Approved:	Country/Organization: Republic of Macedonia	
Indicator: <i>Tentative:</i> Degree to which Right to Equality before the Law is perceived to be Respected		
Description: Citizen responses on a 1-5 scale question in USAID’s annual citizen survey. Citizens are asked how important they consider various democratic rights to be and then asked to characterize how well that right is respected. This indicator reflects the second of these judgments.		
Source: USAID annual citizens survey		
Year	Planned	Actual
FY 2000		2.28
FY 2001	2.28	
FY 2002	2.28	
FY 2003	2.5	
FY 2004	2.75	

Strategic Objective: SO 2.0 More Legitimate Democratic Institutions		
Result Name: IR 2.3 More Effective, Responsive and Accountable Local Government		
Approved: 1998	Country/Organization: Republic of Macedonia	
Indicator: Change in satisfaction with Local Government		
Description: Index based on several answers in survey conducted by the Local Government Reform Project. The index will be calibrated to have the value = 100 in the base year (end of FY2001) and then the index number in succeeding years is reported as an integer relative to the base year.		
Source: USAID municipal government survey		
Year	Planned	Actual
FY 2001		100
FY 2002	112	
FY 2003	136	
FY 2004	154	

Strategic Objective: SO 2.0 More Legitimate Democratic Institutions		
Result Name: IR 2.3 More Effective, Responsive and Accountable Local Government		
Approved: 1998		Country/Organization: Republic of Macedonia
Indicator: Trust in Local Government – Target City Differential		
<p>Description: Responses to parallel question in both the Mission’s national and municipal surveys. This indicator will test the hypothesis that direct assistance to target municipalities makes a difference by looking at the difference in the rate of improvement on this answers Baseline for the national survey shows trust in local government at 41.7% (+/- 3%). Baseline data at the municipal level are being collected in 2000. Accordingly, the Mission expects to match the start year for these two surveys, using as its baseline the 2001 data from both, particularly since USAID’s national survey last year preceded the crisis. The figure used for reporting will most likely involve a subtraction, e.g., the target municipality rate minus the national rate. Different approaches to the calculation will be tested to find the best.</p>		
Source: USAID surveys		
Year	Planned	Actual
FY 2000		National 41.7%
FY 2001	40-43%	
FY 2002	42-45%	
FY 2003	45-50%	
FY 2004	Over 50%	

Strategic Objective: SO 2.0 More Legitimate Democratic Institutions		
Result Name: IR 2.3.1 Local Governments Have Increased Responsibility and Financial Resources		
Approved: 1998		Country/Organization: Republic of Macedonia
Indicator: Local government spending as a percentage of all general Government expenditures		
<p>Description: This is a measure that cannot change significantly unless decentralization laws are passed, implementing regulations are published and the effective date set for the implementation of new laws is met. This indicator goes beyond that to incorporate whether the Ministry of Finance is making good on its obligations under decentralization. Furthermore, the indicator allows comparison to Europe, (at 22%) , as indicted in the Mission’s Strategy. In its narrative reports for the R4 the Mission will present an annual summary of legislative and regulatory progress to accompany this indicator and revalidate expectations</p>		
Source: USAID and contractor calculation; raw data from Ministry of Finance		
Year	Planned	Actual
FY 1998-99		1.8%
FY 2000	1.8 – 2.0%	
FY 2001	1.8 – 2.0%	
FY 2002	1.8 – 2.0%	
FY 2003	1.8 - 2.0%	
FY 2004	Double the baseline	

Strategic Objective: SO 2.0 More Legitimate Democratic Institutions		
Result Name: IR 2.4 Increased Confidence in Government Institutions and Political Processes		
Approved:		Country/Organization: Republic of Macedonia
Indicator: Trust in Parliament		
Description: Percentage of citizens saying that they trust Parliament		
Source: Annual citizen survey		
Year	Planned	Actual
FY 2000		36.7%
FY 2001	34 – 38%	
FY 2002	35-38%	
FY 2003	37-39%	
FY 2004	Over 40%	

Strategic Objective: SO 2.0 More Legitimate Democratic Institutions		
Result Name: IR 2.4 Increased Confidence in Government Institutions and Political Processes		
Approved:		Country/Organization: Republic of Macedonia
Indicator: Free and fair elections		
Description: Conclusions of international observers in formal report. This is an indicator based on well accepted observation processes, its output however is a collective judgment and will simply be reported as such		
Source: Embassy		
Year	Planned	Actual
FY 2000	Free and fair	Not free and fair: irregularities present
FY 2002	Free and fair	
FY 2004	Free and fair	

Strategic Objective 3.4 Mitigation of Adverse Social Impacts of the Transition to Market-Based Democracy

1. Problem Analysis

The transition to a market-based democracy throughout Central and Southern Europe has been accompanied by a decline in GDP growth, an associated decline in real wages, high unemployment and an increase in the percentage of people living in poverty, with much of this decline coming early in the 1990s, immediately after Independence. While Central Europe has, by and large, recaptured and even exceeded its pre-independence standard of living, much of Southern Europe, including Macedonia, has not. The impact of this transition effect, at the household level, has been substantial, and conflict management models suggest that these deteriorating conditions, and the sense some people have that the price of democracy has been decline, have played an important role in the outbreak of ethnic conflicts in the Balkans, of which Macedonia's is the most recent example.

In light of the role these transition effects appear to play in the progression from stable peace to open conflict, USAID/Macedonia's May 2000 situation reassessment included an examination of the vulnerabilities that have emerged for particular population segments as a function of the country's economic and democratic transition. This analysis, which is presented in a more detailed manner in Appendix A, has helped the Mission to pinpoint the nature and locus of several key problems.

Poverty on the Rise

The increase in the number of people living in poverty in Macedonia, from 4% to 20% in a decade, is perhaps the clearest signal of the extent of those adversely affected by the transition process. The transition, according to the World Bank's Poverty Assessment (1999), increased poverty for all segments of society regardless of demographics, as described in greater detail in Annex A. Nevertheless, the situation has worsened to a greater degree for some population clusters than for others:

- Families headed by people younger than 30 and those with large number of children are among those most likely to be living below the poverty line.
- In rural areas, poverty tends to be associated with low wages, e.g., from part time or seasonal work, whereas in urban areas, unemployment is the significant factor affecting poverty.

The strongest determinants of poverty, according to the World Bank are low levels of education and labor force status, i.e., unemployment or part time, low wage status employment. Conversely, the two factors most likely to keep households out of poverty were their participation in a small business and remittances.

Unemployment and the Labor Force

The workforce in Macedonia is made up of 53% of the population as compared to 70% in most European countries. Ethnic Macedonians dominate the workforce, holding 79% of the jobs while ethnic Albanians account for about 13%, with the rest coming from other minority populations. Roughly 60% of the workforce is male, although this varies by ethnic group. Labor force participation among ethnic Albanians (at 40%) is lower than it is for Macedonians, primarily because of a difference in level of participation of women from these two ethnic groups. Among ethnic Macedonians, women make up 44% of the workforce, as compared to 16% women among ethnic Albanians. Within the workforce, 30% are under 30 years of age, with all but 10% of the workforce being under the age of 50. It is in this context that Macedonia's widespread unemployment and disparities in the way it affects different segments of the population are best understood, i.e.:

- The national unemployment rate, as indicated in Part I, is 32%. However, for ethnic Macedonians it is somewhat lower (at 28%), compared higher unemployment rates among ethnic Albanians (49%) and the Roma (73%). Women make up 43% of the unemployed; men comprise 57%. This differs significantly by ethnic group. Among Macedonian men, unemployment ran at 25% in 2000, compared with 47% for Albanian men. The pattern was the same among women, but the percentages were higher, with unemployment for Macedonian women in the workforce at 32%, compared with 62% for Albanian women who are active in the labor force.
- Nearly half of the unemployed are under 30 years of age. This figure is higher still among young men in the 15-24 year age group who are not in school and say that they are looking for work. Of unemployed young males between the ages of 15-19, nearly 50% are Albanian, a figure far in excess of their proportion of the population. This is significant in terms of the conflict models that the Mission is using, in that unemployed young males are perceived in these models to be prime targets for recruitment by paramilitary groups.
- There is an inverse relationship between education and unemployment in Macedonia, which is most obvious for male members of the workforce. Unemployment among males with no better than a primary school education ran at 38% in 2000, as compared to 29% for men with a secondary school or technical secondary school degree and 16% for men who have university level educations or better.

While the economic environment in Macedonia is changing, i.e., Government is selling off state-owned enterprises and new private sector firms are opening in their place, despite slow economic growth, labor market mechanisms remain much the same as they were prior to the break-up of the former Yugoslavia. The Macedonian labor market is still characterized by rigidities seen in many statist economies. Workers lack the skills they need to find gainful employment in the private sector. They cling instead to redundant, unproductive public sector jobs. Redundant workers are unable to access job search services until after they are already laid off. This hinders labor mobility and a planned transition to the private sector. Social benefits, which accrue only

to those employed in the formal sector, or officially unemployed, further distort the labor market. It is commonly recognized that people who become eligible for unemployment benefits try to stay on the unemployment rolls for as long as they can in order to maintain important benefits such as health care. Not only is this a drain on the public budget, it distorts the statistics regarding the labor market, masking the true nature of the problem. Labor unions, which in principle could help to smooth Macedonia's economic transition, are not doing so. They lack the tools to bargain collectively with public or private employers, and resort instead to strikes and other disruptive tactics. This makes it difficult for the Government to execute crucial policy reforms like privatization and it scares off potential investors.

The Education Connection

Poverty is highly correlated with low educational attainment. Roughly three-fourths of rural residents have a primary school education or less, as compared to half of the urban population, where a secondary school education is much more common. Poverty among those who have a primary education or less runs a rate of 25%, as compared to 8% or less for those with a secondary education or better.

Low educational attainment is also a problem for the business sector where frustration is expressed concerning the lack of qualified workers. While primary school is a requirement, participation is less than universal and involvement in the school system drops off sharply at the secondary school level. Key findings in this regard include the fact that:

- Gross enrollment at the primary school level was at 84% in the mid-1990s, while net enrollment was 83%.⁵ There is almost no difference between rural and urban areas in this regard, and very little difference between the net enrollment rates for girls (82%) and boys (84%), even when ethnicity is considered or as a function of differences in family income;
- A net enrollment rate of 83% implies that 17% of the children in Macedonia do not attend primary school. There is very little information available that identifies or explains who these children are;
- Of the nearly 275,000 individuals over age 15 who are without or have an incomplete education, the majority (66%) are women; of these women, only 15% are in the work force.
- Overall attendance declines dramatically at the secondary school level where gross enrollment drops to 72% and net enrollment drops even farther, to 50%. Secondary school enrollment in rural areas (at 37%) is much lower than in urban areas (64%), and it is lower for poorer families (28%) than for those with higher incomes (65%). Ethnicity is also a significant factor, as Table 1 demonstrates.

⁵ Gross enrollment is calculated by dividing the total number of pupils at this level by the age relevant population, whereas net enrollment divides the age relevant number of pupils by the age relevant population, thereby eliminating from this latter figure students who are older than the norm.

	Primary School	Regular Secondary School
Macedonian	59%	80%
Albanian	30%	14%
Turk	4%	2%
Roma	3%	1%
All Other	4%	3%

- Despite these differences, secondary school enrollment among minorities, particularly among Albanians, has risen over the past decade, i.e., from 4% of those attending secondary school in 1990/91 to 15% in 1998/99. Most Albanian students who attend secondary school receive their instruction in the Albanian language. Of the 95 regular secondary schools in Macedonia, 22 offer instruction in Albanian and four offer classes in Turkish.
- Net enrollment at the university level is only 10% of the age relevant cohort. University enrollment for urban students is 16% compared to 3% for rural students, and women make up slightly more than half of the student body. On a percentage basis a much larger proportion of Macedonians study at the university level than is the case for Albanians, and as noted above, education at this level is not provided in the Albanian language at any accredited universities.
- The labor force is split when it comes to educational attainment. According to Government figures for 2000: 36% have a primary education or less; 50% completed secondary school, and 14% have a university level education or better. Level of education is strongly associated with labor force participation. Those who have a secondary school or university education are more likely to be active members of the labor force than are those with only a primary school education (35%). Among secondary school and university graduates, roughly 70% are in the workforce, in contrast to 35% of those with a primary education or less.

The foregoing points to the existence of several vulnerable groups in Macedonian society. A high incidence of unemployment among youth, coupled with limited access to secondary education, condemns many young people to a life of limited opportunity, poverty, and frustration and constitutes a threat to social and political stability, particularly if they happen to have been born in a rural area. Under a scenario of privatization and government downsizing, the stakes have become very high as groups compete for a shrinking share of the pie. Inequality of opportunity regarding access to public sector employment and the higher education needed to qualify for it has become a major bone of contention in the Macedonian conflict. Other particularly useful observations that emerged from this analysis include:

- ***The education problem is as much an out-of-school problem of under-educated, unemployed youth, particularly young men and women, as it is a school problem.*** These young people need experience to get jobs and they need jobs to get experience. There are ways to crack this chicken-and-egg cycle. Apprentice, intern, and other learn-as-you-go opportunities cut into this cycle as do summer jobs and programs that teach young people useful skills whether or not they are enrolled in school.
- ***An important school issue for Macedonia is the “stay in school problem.”*** Without a secondary school education, many of the unemployed will never have the basic skills needed to succeed economically, nor will there be secondary school graduates clamoring to attend the new university USAID is helping to build.
- ***The problem of failure to continue on to secondary school is more serious for young Albanian women,*** in good part for cultural reasons, suggesting that answers may be found in other countries with these same traditions. The benefits of girls’ education in terms of family health and overall welfare are so pronounced that countries with similar traditions, such as Morocco, are beginning to see girls’ education as a national opportunity.

Also important is the relationship between educational level and the adoption of democratic values. Research has shown that educational level, rather than the experience of participating in democratic practices themselves, is the most important predictor of adoption of democratic values such as political tolerance and system support. This is a crucial factor for young democracies like Macedonia and it is key to reducing conflict over the medium term.

The situation review described above was undertaken at a point where the Mission was already considering increasing its emphasis on formal and non-formal education. The information the review provided helped the Mission in two important ways. First, it demonstrated clearly the linkages between education, unemployment and discontent within the society and the utility of organizing USAID’s efforts across this spectrum under a single Strategy Objective. Second, it helped the Mission to begin to define the kinds of activities that make sense in this nexus as elements of a workforce transition strategy. For example, the review provided a useful context into which on-going USAID efforts help establish a new university that will provide higher education in the Albanian language as well as Macedonian fit. It also demonstrated that the link backward to secondary school enrollment among young Albanians is extremely important. Similarly, the framework USAID’s review provided has helped the Mission to see the importance for the business community as well as individual workers of addressing unemployment problems facing young people who have never had a job as well as people who have lost one. These linkages are central to the Mission’s rationale for proposing a new Strategic Objective, SO 3.4, to address the labor preparedness and educational aspects of unemployment and their relationship to increased tensions within the society and vulnerabilities for important population segments.

2. Strategy: The Results Framework

The Development Hypothesis

In order to mitigate the adverse social impacts of the transition to a market-based democracy, which in Macedonia's case have given rise to ethnic conflict, Macedonia must have:

- Effectively financed and administered systems to reduce the incidence and severity of poverty [IR 3.4.1];
- Social insurance programs that are broadly available, adequately funded, and effectively administered [IR 3.4.2];
- Mechanisms for facilitating the transition of the workforce to productive, market-appropriate employment [IR 3.4.3];
- Policies and programs to protect vulnerable groups from violence, discrimination and exploitation [IR 3.4.4]; and
- Formal and non-formal education systems that strengthen human capacity and prepare the country's workforce for productive employment [IR 3.4.5].

A common theme running through these five areas of intervention is the need to ensure equal access to benefits, and transparency and efficiency in program administration. Dealing with these issues will go a long way toward addressing the root causes of conflict related to equality of opportunity and lack of legitimacy of government institutions.

USAID/Macedonia has chosen to concentrate its strategic intervention on IRs 3.4.3 and 3.4.5, though limited interventions in 3.4.4 are planned to respond to the evolving nature of the conflict in the country and the relative importance of different interventions over the life of the Strategy. The decision not to engage in the provision of social services or pension/social insurance reform is based on the fact that USAID has already completed a successful pension reform activity. In addition, the World Bank and the IMF are actively engaged in overall macroeconomic and structural reform, including a Poverty Reduction Strategy, which addresses requirements for a social safety net. The Bank and the IMF may be prepared to modify the pace of public sector reform so as to permit the GOM to respond to ethnic Albanian demands for public sector employment while avoiding exacerbating unemployment and poverty among ethnic Macedonians.

In this context, USAID recognizes that its management capacity will not permit it to embrace a broad social transition program. USAID has a comparative advantage in the areas of education, workforce development, and addressing the needs of groups affected by conflict. Its programs, albeit nascent, in the areas of civic education, worker re-deployment, higher education and conflict mitigation provide jumping off points for a more coherent approach to these sectors. Further, these sectors lend themselves to a combination of short and long-term interventions that can help to reduce ethnic tensions now while addressing several important root causes of the conflict.

As a result of activities comprising SO 3.4, USAID postulates that by 2004 a greater percentage of Macedonian children will attend primary school and a greater proportion of youth (including women and minorities) will continue on to secondary school or obtain secondary school equivalency degrees. Curricula in primary and secondary schools, as well as universities, will be more relevant to a democratic political system and a market economy. Increasing numbers of Macedonian students (including women and ethnic minorities) will have access to higher education. The workforce will have increased access to market-relevant skills training and, assuming a positive growth rate, unemployment among youth, particularly 15-24 year old males, will decline. Labor unions will increasingly play a positive and significant role in facilitating workers' transition to market-appropriate employment.

The “second generation” development hypotheses for USAID/Macedonia’s social transition program as a result of success with SO 3.4 are:

- Increased educational attainment by Macedonian youth will increase the likelihood that they will gain professional employment and decrease their chances of being poor.
- Secondary school attendance and temporary employment Secondary school equivalency, skills training, and information about the job market will increase the likelihood that young adults and adults will be employed or re-employed, and will make young males less vulnerable to recruitment into groups engaged in armed conflict.
- Increased educational attainment for girls will improve overall health status (e.g., leading to lower fertility rates as well as maternal and child mortality rates, although this will not be visible during this three-year strategy period).
- Increased levels of education will increase the adoption of democratic values, such as political tolerance and system support, and
- Greater equal access to education and employment will reduce ethnic tensions in Macedonia over the longer term.

Critical Assumptions

Three basic assumptions will have a potentially critical impact on the success of efforts to achieve this Strategic Objective. These are:

- *That the conflict will not escalate to such a degree that financing for social programs, particularly education, is significantly reduced.* Macedonia achieved 5% growth in GDP last year and generated a budget surplus from privatizations and enhanced tax collection. The government had established a list of priority programs to receive funds from this surplus, including computerization of the courts and several social services programs. Unfortunately, the cost of the war, now estimated at well over \$200 million, will likely eat up much, if not all, of this surplus. As continued conflict puts a damper on investment, GDP next year is projected to grow only 2%, if at all. If the conflict continues and military expenditures cut into social sector budgets, this could affect the achievement of results in the SO.

- *That escalating conflict does not prevent access to schools, employment bureaus, or other institutions in geographic areas where interventions are targeted.* If the conflict is confined to the northern and western borders, this will affect access to several municipalities that would be likely target areas for social sector interventions; however, this is probably manageable. Should the conflict spread and cut off access to major portions of the country, or should armed conflict continue for a significant period of time, it could affect implementation of several of the activities comprising this Strategic Objective, especially those aimed at assisting vulnerable groups.
- *That other donors make good on stated commitments to finance social transition programs, especially planned commitments to the education sector.* USAID's social transition strategy for Macedonia, especially the selection of Intermediate Results, is predicated on the assumption that other donors will follow through on commitments to poverty reduction programs. Moreover, the World Bank is planning an education sector policy reform program, which this Strategy is designed to complement. Should that program not go forward, USAID might need to become involved in educational policy reform, at least in those policy areas directly affecting chosen technical interventions.

Causal Linkages

In order to mitigate the negative social impacts of the transition, progress must be made toward all five Intermediate Results outlined in the E&E Bureau's strategic framework. However, USAID has opted to fully develop programs for only two of these five IRs, IR 3.4.3 and IR 3.4.5. It will also initiate limited programming in a third, IR 3.4.4. The Results Framework that follows shows the three Intermediate Results on which USAID will work are displayed in white. Shaded boxes are used with the other two IRs to indicate that USAID's role in these areas will be minimal. Other donors will take the lead and make most of the investments on the two shaded IRs.

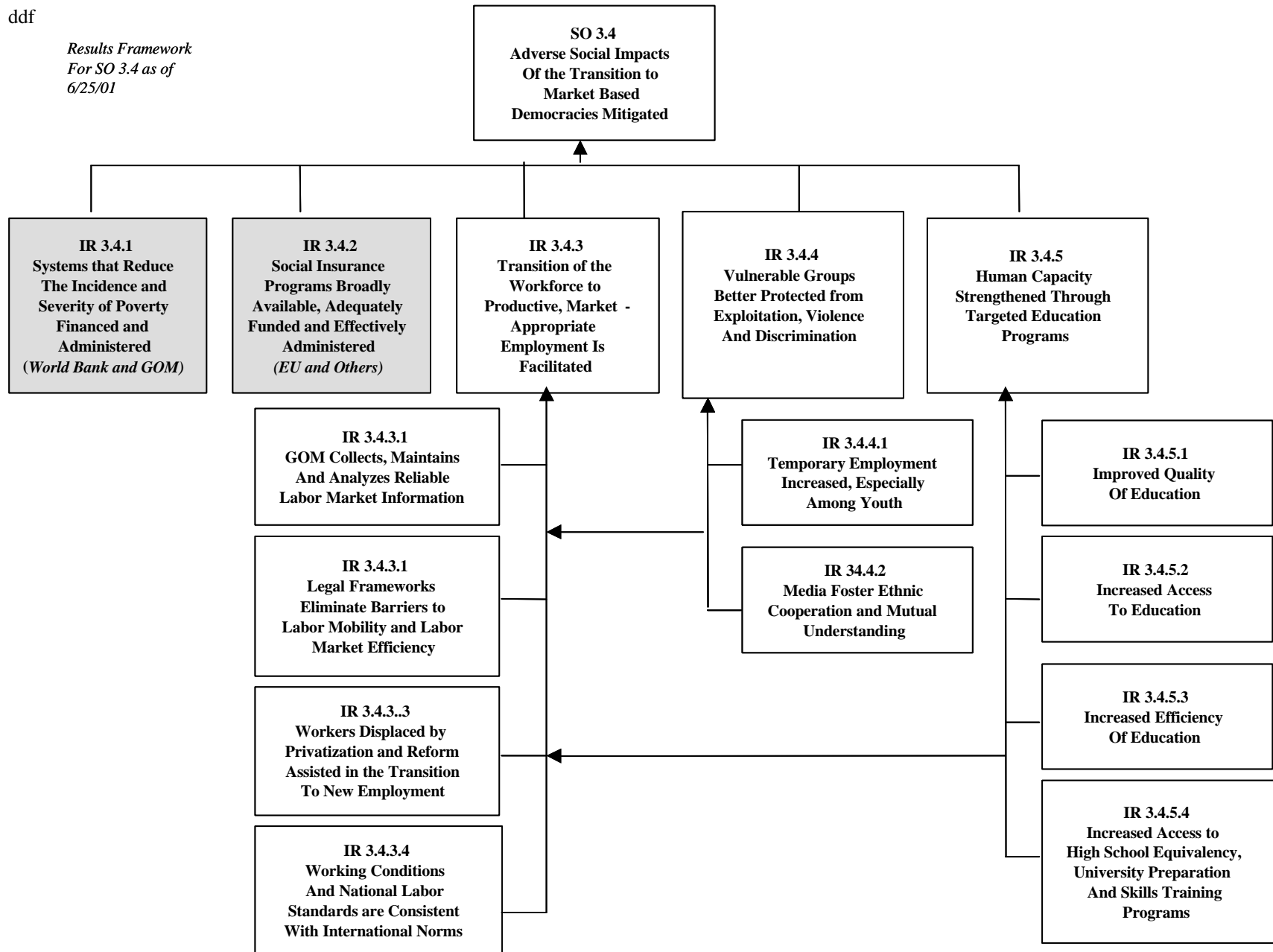
The Mission's medium-term strategy for improving access to education and employment is two-pronged. First, activities under IR 3.4.3 will address the rigidity of the labor force by assisting the government, labor and the private sector to establish an ongoing dialogue regarding the type of labor force needed by Macedonia's emerging market economy and how to best manage the transition to minimize the adverse social impacts on the population. This implies a need for higher quality information regarding the work force and mechanisms for sharing information between and among groups. It also implies changing policy regarding labor and social benefits to eliminate labor market distortions and encourage the mobility of labor in response to market signals. Finally, it implies the provision of job information and re-training to those whose jobs are eliminated as a result of public sector downsizing.

Under IR 3.4.5, USAID will focus on improving access to and quality of formal and non-formal education that provides potential workers with skills relevant to a market economy. This includes skills needed to obtain employment in a growing private sector economy versus the bloated state bureaucracy or loss-making public enterprise. Preliminary data, as well as an assessment of higher education needs conducted in 2000, suggest that the Mission place emphasis on relevant curricula and the quality of the teaching/learning environment in primary and secondary school, increasing access to and persistence in secondary education, and

increasing access to higher education for all ethnic groups through the establishment of an accredited institution of higher learning in Tetovo. Emphasis throughout the program will be on ensuring that students learn market-relevant skills at each level of education and on encouraging more students to attend and complete secondary school in order to have a qualified pool of secondary school graduates, including ethnic minorities, capable of gaining entrance to the

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Results Framework
For SO 3.4 as of
6/25/01



university or gaining employment in the private sector. Throughout the range of interventions, emphasis will be placed on curricula and educational methods that impart market-relevant skills, democratic values, and critical thinking capabilities required by the emerging private sector.

The Mission recognizes that, under current circumstances, it may be some time before the private sector in Macedonia recaptures its relatively high 2000 growth rate and is able to employ an increasing share of the emerging labor force. Hence, the short-term strategy for reducing ethnic tensions and conflict is designed to buy time by:

- Encouraging young Macedonian men and women of all ethnic groups to stay in school or return for secondary school equivalency courses (under IR 3.4.5);

Providing temporary employment and internships for youth who make up the preponderance of the unemployed and who are most vulnerable to exploitation by extremist groups (IR 3.4.4);

- Reintegrating refugees, internally displaced persons, and potentially ex-combatants into their former communities through the repair of community infrastructure (IR 3.4.4 and SO 2.0); and
- Promoting ethnic reconciliation through grassroots activities and positive use of media to break down ethnic barriers. (IR 3.4.4 and SO 2.0).

This approach integrates activities undertaken by the Office of Transition Initiative (OTI) and the democracy team to encourage dialogue and community self-help across ethnic lines and utilize the media to present a positive image of ethnic cooperation. If the ethnic conflict abates and a crisis response is no longer needed, the Mission should consider continued programming under IR 3.4.4 to reduce the exploitation of and discrimination against vulnerable groups over the medium term.

IR 3.4.3 Transition of the Workforce to Productive, Market-Appropriate Employment Facilitated

In order to facilitate the smooth transition of the workforce to employment in a free market economy, the government must collect, maintain, and analyze reliable labor market information and share this information with both the education and training institutions and the private sector. Government, business, and labor must work together toward policies that eliminate barriers to labor mobility and labor market efficiency. Workers displaced by privatization and public sector reform, as well as those who have never succeeded in entering the formal workforce, must receive employment information and skills training to gain or re-gain employment. Finally, and especially important for EU accession, working conditions and national labor standards must be consistent with international norms.

Strategic Objective 3.4 is a new SO for USAID/Macedonia; therefore, progress to date includes related work conducted under existing Strategic Objectives, as well as efforts by Government, other donors, and nongovernmental organizations. In the labor market policy and redeployment areas, for example, SO 1.3 initiated the PRISMA activity, which is implemented by DOL and involves legislative reform and technical assistance, while at the same time focusing on

grassroots solutions to labor market problems. Associated interventions include local economic development workshops, assistance to labor-management adjustment committees, and retooling the workforce for enterprise competitiveness. This activity would be incorporated into SO 3.4. Under it, USAID has also been working with the National Employment Bureau, which has, until recently, included on its staff a group of industrial adjustment specialists who help job seekers to prioritize and locate appropriate job training. This group of specialists currently is being re-assigned to the Ministry of Education. USAID expects that the education-employment linkages that play a major part of SO 3.4 will leverage Government knowledge, capabilities, and experience in redeployment, regardless of their ministerial home.

As it moves forward under this Intermediate Result, USAID/Macedonia will undertake activities clustered under four Sub-Intermediate Results in order to ensure the transition of the workforce to productive, market-appropriate employment.

Sub-IR 3.4.3.1 Government Collects, Maintains, Analyzes and Disseminates Reliable Labor Market Information

In order to facilitate policy dialogue and a more accurate and fluid flow of information among public and private sector actors influencing the labor market, the government must collect, analyze, use, and share up-to-date labor statistics. The government Statistical Office carries out an annual labor market survey and publishes the results. Data are considered quite reliable. Two weaknesses remain, however. First, Statistical Office staff are not trained to carry out more than very basic statistical analysis on the data, making comparisons or judgments regarding the relative importance of factors contributing to unemployment difficult. Second, dissemination of the findings is open but perhaps less aggressive than it could be in order to stimulate policy dialogue. USAID will assist this unit to assess and improve the quality of its analysis and dissemination of labor statistics. Training in data processing, statistical analysis, and forecasting techniques may also be required. In addition, a planning process that helps the Statistical Office identify and serve government, business and labor decision-makers, by disseminating the kinds of information the need should be structured into this program, perhaps beginning with a series of workshops or round tables.

Sub-IR 3.4.3.2 Legal Frameworks Eliminate Barriers to Labor Mobility and Labor Market Efficiency

Information produced by the government, as well as that obtained by the private sector, must be used in a tri-partite dialogue regarding the enabling environment for workforce development. The critical market and labor transition that Macedonia is undergoing, coupled with ethnic tensions fed by perceived inequalities in access to employment, necessitates a constructive, participatory dialogue, which, in turn, can result in policies that will break down the rigidities that characterize the labor market. Only then will the investment required to produce new jobs flow into the country. Information developed by the Statistical Office can and should serve as a jumping off point for tri-partite policy seminars that focus on improving labor policies and laws that would reduce labor market rigidity and create an enabling environment conducive to investment. Moreover, the dialogue should address workers' rights and working conditions in order to move Macedonian public and private enterprises closer to internationally accepted labor standards.

Sub-IR 3.4.3.3 Displaced Workers and New Entrants to the Workforce Assisted in the Transition to Employment and Skill Development

As privatization and public sector downsizing progress, it has become increasingly important to assist redundant workers in making a smooth transition to private sector employment through market-appropriate skills training. This kind of support to the displaced will help to encourage social stability and overall poverty alleviation. In addition, as previously mentioned, youth and young adults experience very high unemployment due to difficulty obtaining that important first job. For those already out of school, non-formal education, skills training, internships and apprenticeships are needed to help prepare them for productive employment. Activities undertaken by SO 1.3 such as micro finance, and short term employment programs under IR 3.4.4, can help make that happen. The Mission will employ a two-pronged approach to non-formal education and training under this IR. One aspect of the program will provide employment information and skills re-training to workers laid off due to public sector downsizing. The other will imbue new entrants to the labor force with skills they need to either gain wage employment or start their own businesses. This latter component contemplates a mix of interventions such as secondary school equivalency courses, skills training, business/entrepreneurial training, internships, and apprenticeships. While vocational training could be contemplated, experience has shown it to be ineffective except where clear demand for certain types of skills in the private sector can be demonstrated. A more precise definition of the types of programs will emerge from an activity design process.

Sub-IR 3.4.3.4 Working Conditions and National Labor Standards are Consistent with International Norms

As Macedonia approaches WTO and EU accession, it will become increasingly important that labor standards and practices approximate national standards. Macedonian labor unions are institutionally weak and unskilled in collective bargaining techniques. Strengthening the unions in ways that will enable them to better advocate for workers' rights while at the same time playing a constructive role in the economic transition will be an important step in developing Macedonia's workforce and mitigating the adverse effects of the economic transition. Under SO 2.1, USAID/Macedonia has begun a process that aims at improving the capacity of trade unions, a part of that Strategic Objective's overall effort to diversify the range of civil society organizations (CSOs) through which citizen views and concerns can be channeled into social, economic, and political decision making. The Mission anticipates that this activity will be developed jointly by SO 2.1 and SO 3.4 and that its home will shift to SO 3.4 to ensure a close integration with other aspects of this new effort to address overall labor market issues.

IR 3.4.4 Vulnerable Groups Better Protected from Exploitation, Violence, Discrimination and Neglect

No social sector strategy is complete unless the needs of the most vulnerable groups are addressed. While an overall program, such as the one the World Bank is initiating, to reduce poverty and ensure equal access to social benefits can go a long way to achieving this objective, some groups that are not well linked to the formal sector will remain untouched by such programs. In Macedonia, there are several groups who fall into this category, including youth, or

more specifically unemployed youth; ethnic minorities; women who do not benefit from available education and health care systems; and families affected by armed conflict.

Given the sheer numbers of unemployed youth who lack a secondary school education and the vulnerability of youth, particularly young men, to exploitation by extremist groups, the Mission has chosen this group for special attention. A second major beneficiary group on which the Mission is focusing includes the families in municipalities most directly affected by armed or civil conflict (e.g., Tetovo, Kumanovo, and other affected towns and villages). Their sheer numbers, direct relationship to the conflict, and, for some, a lack of access to benefits due to their status outside the formal sector argues strongly for a special focus on their needs, some of which are short-term in nature. The Mission is convinced that addressing the needs of vulnerable youth and conflict-affected families is crucial to speed up recovery from armed hostilities, lessen their long-term impact, and reduce ethnic tensions, thereby enabling other core programs to move forward. While interventions will focus on needs in conflict-affected areas, they will not target one ethnic group to the exclusion of another. Interventions designed to mitigate conflict should not, inadvertently, exacerbate it. Activities, at the community level, and through the media, that emphasize ethnic cooperation and eschew ethnic discrimination and stereotyping can also help to diffuse tension, promote mutual understanding, and prevent further discrimination.

There are other vulnerable groups about which the Mission is concerned. One group consists of women who lack even a primary school education and who, health system data on pockets of extremely high infant mortality rates (i.e., over 100 infant deaths per thousand) would suggest, are not receiving adequate maternal and child health counseling or care. Ethnic minorities, may in some instances overlap with these women, and be simultaneously linked to poverty status. Improving conditions for these vulnerable populations depends, in the first instance, on increasing the level of educational attainment among these groups, given the well established link that exists between education and improved health status for women and children. The Mission addresses this need under IR 3.4.5 below. Improved economic performance and higher income levels, the aims of SO 1.3, will also help these groups.

Sub IR 3.4.4.1 Temporary Employment Increased, Especially Among Youth

In the end, a growing economy is the best remedy for high unemployment among young people. In the absence of such growth, however, there are ways of helping youth to gain the kind of experience that prepares them to work in the labor force and, for some, provides the inspiration needed to start them down the path toward creating their own enterprises. These kinds of opportunities often exist within a framework of other needs and existing programs and need only be opened up to youth participation to be effective as a temporary source of employment and work experience. Two such programs are on-going in Macedonia, one, a United Nations Development Programme (UNDP) initiated program, called “Clean and Green”, which is focused on environmental problems and the other, USAID’s Community Self Help Initiative (CSHI) program, which is focused, at least in part, on the immediate needs of families in towns and villages affected by the conflict. The temporary employment of young people through these programs will accomplish several objectives. In addition to providing them with productive activity, temporary employment will help raise their self-esteem, give them a measure of financial independence, and where project activities draw together an ethnically mixed group, these experiences will enrich their positive exposure to people of diverse backgrounds. It may,

to a lesser extent, impart skills that could lead to more permanent employment, though this is not a primary focus. Rather, by giving youth a stake in the economy and the community, these programs should help reduce their vulnerability to radicalization and exploitation by extremist groups.

The first of these programs will allow the Mission to rapidly respond to the current crisis and maximize the outreach to youth during the summer months when even those enrolled in school may be idle. To that end, the Mission is planning to enter into an agreement with the UNDP to expand its successful “Clean and Green” program. This program, which previously provided temporary employment to youth in 80 of the country’s 124 municipalities, is now active in only 20. USAID’s infusion of funds will expand the activity again to reach at least 80 municipalities with special emphasis on those with ethnically mixed populations and those in and around conflictive areas (access permitting). If for some reason this mechanism cannot be used, the Mission would design and implement a similar program with an alternative implementing organization.

Secondly, the Mission will begin to involve youth on a temporary basis in its CSHI program, helping with efforts that target municipalities directly affected by the conflict as well as in municipalities with ethnically mixed populations elsewhere in the country. This program is a particularly advantageous one in which to engage youth, in that it achieves a number of objectives simultaneously. It delivers needed support for reconstruction in conflict-affected areas and for community-specific projects in other parts of the country; it exposes those youth who work on CSHI projects to real problems and in some cases to multi-ethnic approaches for solving those problems; and it provides youth with an exposure to community-based groups and methods that, at least potentially, can be applied to solve additional community problems once the first such project in a community is completed.

Sub-IR 3.4.4.2 Media Foster Ethnic Cooperation and Mutual Understanding

In situations of ethnic conflict, the media often plays an important role for good or ill. The objective of this Sub-Intermediate Result is to encourage the media to play a constructive role in fostering mutual understanding among ethnic groups by expanding coverage of successful multi-ethnic activities based on shared concerns. This IR complements but does not duplicate core media activities described in SO 2.0, i.e., two important and on-going media strengthening activities, one designed to professionalize the broadcast media in general, and the other geared toward producing children’s programming focused on themes of ethnic cooperation and mutual understanding. Under this Sub-IR, USAID will work directly to counteract the tendency in society to engage in ethnic stereotyping and discrimination in public discourse and communications. Directly linked to SO 3.4, is the media element of the program OTI has initiated as part of its crisis response strategy. OTI has hired a media expert in order to ensure that there is a media component to community development efforts designed to ameliorate the effects of the conflict. This component, initially funded for six months, will utilize the media to disseminate positive messages about inter-ethnic cooperation in community projects and activities. This strategy can and should be expanded to highlight inter-ethnic cooperation across the USAID project portfolio. Accordingly, the Mission plans to integrate this aspect of the OIT program into its longer-term strategy and fold it under Sub-IR 3.4.4.2.

IR 3.4.5 Human Capacity Strengthened Through Targeted Education Sector Programs

In order to strengthen human capacity in a way that facilitates the transition to a market economy and a democratic form of government, a combination of interventions in formal and non-formal education is required. In the formal education system, which is the focus of this IR, the Government and donors need to concentrate on three major aspects of education – access, quality and efficiency – in order to improve the average level of educational attainment in Macedonia. The importance of these three aspects varies by level—primary, secondary, and higher education. Hence, it will be important to tailor interventions along these three axes according to their relative importance at each level in the system.

A fully defined program approach must wait for the activity design phase, including consultations with the Government and other donors active in the sector. Nevertheless, an illustrative set of activities can be outlined based on what is already known from an analysis of the education sector data and the Mission’s recent higher education assessment. Given the likelihood of a World Bank program focusing on policy reform in the education sector, and the EU’s nascent program in curriculum reform, USAID should structure its sectoral program to complement these programs. Strategically, its plan should focus on the development of a package of selected technical interventions designed to remove very specific constraints to access, quality, and efficiency. This package of interventions should respond to the relative importance of each factor at each level of the system. Primary, secondary, and higher education in Macedonia all face special sets of problems in relation to access, quality, and efficiency, a number of which the Mission is only beginning to understand. Additional research in support of the evolution of this Sub-Intermediate Result will be an early priority.

Sub-IR 3.4.5.1 Increased Access to Education

Access issues appear to increase at each level of Macedonia’s education system:

- As indicated above, most children enroll in primary school and those who begin this level of education tend to complete it, yet an estimated 17% of children remain outside this system and do not receive a primary school education. The World Bank poverty assessment suggests that these children are not in school for economic, rather than gender, ethnicity reasons, i.e., their families are unable to cover the cost of transportation, books, and supplies.
- A parallel problem emerges at the secondary school level, where attendance drops significantly for reasons that are not totally clear and required further examination. It may be that while primary schools are widely available even in the rural areas, students from rural villages have to travel to the nearest town to attend secondary school. Alternatively, many families may not be able to pay the opportunity cost of sending their adolescents to high school, especially if they are needed on the farm or in the family business, or cultural barriers to secondary school attendance may be a factor. Parents may be reluctant to send adolescent girls to school in mixed gender classrooms. In addition, quality issues at the primary level may leave many primary school graduates unprepared for the level of work required in secondary school, and there simply may be an inadequate supply of secondary schools places, especially in

schools offering instruction in languages other than Macedonian. Further data is needed to fully understand the importance and extent of these likely barriers to secondary school access.

- Access to higher education, especially in minorities' native languages, is inadequate and has become the subject of much political debate. Broader access to multi-ethnic, multi-lingual higher education is needed in order to remove the barriers to entry into multiple fields of white-collar employment for minority as well as majority students of both genders. A significant result of relatively low Albanians' enrollment at the university level is that they are underrepresented in leadership positions throughout government and in the formal economy.

As the foregoing suggests, impediments to school attendance exist at all levels. While further research will be required, the outlines of the situation have already begun to suggest support is needed.

Improving Access to Basic Schooling

What seems clear, at a minimum, is that some combination of policy reform regarding fees and subsidies as well as investments in school construction will be needed to boost net enrollment beyond the current 83% at the primary school level and 50% for secondary schools. The education sector is already receiving attention from several donors. The World Bank recently has developed an overall strategy for the sector that emphasizes policy reform as well as activities that focus on rehabilitation and construction of schools in rural and underdeveloped areas and the EU is active as well, focusing primarily on curriculum reform. Given the importance parents attached to cost impediments to school attendance, however, it will take more than improvements in school facilities to increase enrollment. The fees and other direct costs that parents must bear raises an important issue that may have implications for educational policy in Macedonia, especially subsidies for books and transportation.

In other countries where such costs have been reduced or eliminated at the primary school level, attendance has sometimes risen quite rapidly. "Stay in school" campaigns that stress the importance of education and its long-term economic returns can also have an impact. A "stay in school" campaign might have particular relevance for Macedonia if it is linked to efforts to increasing access to secondary school for all ethnic groups through a combined approach that stimulates demand for and expands the supply of market-relevant secondary education. Such a program could include a component geared at changing parental attitudes to overcome cultural barriers to secondary school enrollment, if qualitative research determines this to be a problem. Cultural impediments, particularly to the education of girls, have been addressed successfully elsewhere and the merits of various approaches to this issue may turn out to have relevance for Macedonia where existing data show a more severe decline in school attendance at the secondary level for girls than for boys. USAID has significant experience that could be brought to bear on this range of issues.

One of the things that is clear from USAID's experience elsewhere is that policy changes and other actions that encourage school attendance must be carefully formulated and enrollment accurately forecast, so that new demand for primary and secondary education would not outstrip

supply and lead to overcrowding of classrooms. Constraints to enrollment and persistence relating to the supply of culturally appropriate secondary education should be explored in conjunction with other donor and Government plans to ensure that demand is not generated before adequate infrastructure and staff are in place to absorb it. USAID's precise role in the basic education sector will require further study and should be determined after extensive consultations with the Government, the World Bank, and other donors that are active in this sector. In the short-term, USAID will continue on-going activities to improve access to primary school under projects such as CSHI which work in communities and can respond quickly when they identify activities that could improve school attendance as a high priority. This may encompass rebuilding the educational infrastructure in war-torn areas.

Enhancing Access to Higher Education

At the university level, USAID conducted an assessment that has helped to pinpoint issues affecting higher education, and the Mission is actively involved in an effort to establish the South East Europe University (SEE) in Tetovo as a new, high-quality, multi-cultural, multi-lingual accredited private university that will offer instruction in the Albanian language beginning in late 2001 or early 2002.

Access to multi-lingual higher education within Macedonia has been a particularly difficult problem to resolve. Until now, state university education has been provided only in the Macedonian language. There is no state-sponsored university in Tetovo, Macedonia's second largest city, where ethnic Albanians comprise the majority of the population and where the provision of higher education in the Albanian language would attract Albanian students who might not otherwise continue on to the university level. Instead, there is a university, which the Albanian community established on its own, but which has experienced difficulties, including recruiting staff, and which is not government accredited. As a result, degrees from this university are not formally recognized. Most children who go to primary and secondary schools, where Albanian or another minority language is used as the language of instruction, do not know Macedonian well enough to attend classes at the university level taught in Macedonia. This is because primary and secondary schools taught in a minority language treat Macedonian as a foreign language and provide only a few hours of instruction per week. As a result, fewer Albanians are enrolled at the National University of Cyril and Methodius than might be expected, given the quotas set aside to ensure their ability to attend. In addition, as a function of the relatively poor quality primary and secondary education that some students receive in minority languages, and because of difficulties the school system has in attracting strong teaching staff for positions in what are often poor rural schools, minority students often find it difficult to compete on entrance exams and with Macedonian students once they matriculate.

To address the need for multi-lingual higher education, without becoming locked into a political fight over the unaccredited university that already exists in Tetovo, the OSCE worked with interested parties to draw up a plan for a new university that would offer courses in Macedonian, Albanian, and English, would be located in Tetovo, and would house special facilities, such as schools of Business Administration, Public Administration, Law, Education and Communications Information Sciences that should serve to draw in Macedonian as well as Albanian students. Through the efforts of the OSCE and the Democratic Party of Albanians (DPA), a new law was passed in 2000 that makes it legal to provide university level education in

other languages and to establish private colleges. This represents a breakthrough for equal access to higher education, and USAID is supporting this effort..

USAID currently plans to help finance the start-up costs of the university through a grant to the OSCE for roughly one-fourth of the projected costs. Other donors, i.e., the Dutch, Soros Foundation and the European Union, will finance the remainder of the new university's start-up costs. These resources will help the new university establish administrative and management procedures and underwrite construction expenses. USAID funding will also support training in the United States for some of the faculty that have already been identified and for faculty exchanges aimed at ensuring high-quality teaching from the start. Student exchanges, including Fulbright scholarships, are also contemplated, which would benefit students at all universities in Macedonia. USAID will also work with the new university on its plans for becoming self-sustaining. The university will be private and will need to depend on tuition payments as well as the largess of the international community. To ensure that poorer applicants also have access to its multi-lingual facilities, the new university will also need help in establishing an endowment that can fund scholarships, or some alternative program, that would achieve the same end.

In addition to its assistance on the start up of the new South East Europe University, the United States, through the Public Diplomacy Office of the U.S. Embassy actively promotes exchanges with U.S. community colleges and universities and is exploring a program to help students of Tetovo University get their degrees accredited.

Sub-IR 3.4.5.2 Improved Quality of Education

Quality of education is a key variable affecting the efficiency of the system and educational attainment by students. In transitional countries, curricula are often outdated and ill-suited for preparing students to enter the workforce or participate in a democratic society. Anecdotal information suggests that this is the case in Macedonia at all levels of the system, from primary to higher education. In rural areas, some children reportedly study in one-room schoolhouses where a single teacher works with children at all primary school grade levels. The fact that 9% of students no longer enrolled in primary school cited academic failure as the reason for not attending school also suggests problems with quality.

Education quality at the primary school level is already receiving attention from the World Bank and the EU, which are involved in a new curriculum reform program. To date, USAID's involvement in basic education has concentrated on curriculum development for civic education. Education quality at the secondary school level is also a matter for concern. The level of effort currently being devoted by the Government and donor organizations is not as obvious at the moment as are investments in quality at the primary school level. At both of these levels, as USAID's higher education assessment pointed out, parental involvement in schools and in children's education at home is key to improving the quality of education for children and improving their achievement in the classroom. Improving educational quality as well as attendance at the secondary school level is critical, if Macedonia is to produce more university graduates capable of performing high level, white-collar jobs and entering professions that require post-graduate study. This is particularly true with respect to the supply of Albanian students qualified for university-level education. For this reason, in addition to addressing quality and access issues through the education system, USAID, will incorporate activities in its

portfolio that provide supplementary help, e.g., tutoring and other out-of-school programs, that help young people continue or re-enter the school system (see IR 3.4.5).

At the university level, USAID's higher education assessment documents deficiencies in the teaching/learning environment, such as lack of adequate training for teachers. Curriculum materials and teaching methods that promote critical thinking skills must replace more rote methods if the full benefits of more relevant curricula are to be realized. Accordingly, USAID and other donors, through contribution to the start-up costs of the South East Europe University, expect to have an impact on quality. USAID is addressing quality at this level through its partnership agreement with an U.S. university for policy, curriculum, and faculty development in support of this new university.

As it designs its interventions in the education sector, USAID will try to ensure that its programs, in collaboration with those of other donors, include emphasis on improving the relevance of curricula at all levels of the system and the quality of the teaching/learning environment. The former implies curriculum reform to make curricula more relevant to a democratic system and a market economy and to focus on the development of critical thinking and problem solving skills. USAID may wish to carve out a piece or pieces of this effort, as it has already done in the area of civic education, as part of a multi-donor program. Another important determinant of quality is the teaching/learning environment itself. Interventions to improve this aspect of the system may include teacher training, the development of curriculum materials for classroom use, and distance learning. These are areas that USAID may want to investigate with reference to secondary schools as well as at the primary school level. Parental involvement, through parents associations, with which USAID is already working in its civic education, is another area where USAID may be able to make a contribution on the quality side as well as on the access, or "stay in school" issue.

In sum, the Mission has noted illustrative activities to improve educational quality include curriculum reform, curriculum materials development, teacher training, distance education and increased community involvement in education in which, after carrying out further research, it may elect to become involved. The precise mix of activities to be undertaken by USAID will be determined through a consultative process involving the Government, civil society, and other donors.

Sub-IR 3.4.5.3 Increased Efficiency of Education

The quality of education is inextricably linked with the efficiency of the educational system. Research in many countries has shown that quality often outweighs social factors in determining repetition and dropout rates. Repetition and dropouts lower the efficiency of the system and raise the average cost of education per student. This would eventually limit access, as resources which could be used to expand educational infrastructure and services are used to re-educate repeaters, many of whom eventually drop out. By increasing the efficiency of the educational system, limited budget resources can be more appropriately allocated across the sector and used in ways that ensure increased/sustained access to education by the populace. Additional data regarding repetition rates for primary and secondary school, as well as for drop out rates for secondary school, are needed in order to target interventions designed to improve efficiency.

Assuming an appropriate mix of interventions to improve educational quality, many of the efficiency problems in the system will be mitigated. Nevertheless, policies regarding subsidies, student/teacher ratios, criteria for promotion to the next grade, and testing may require reform. In addition, improved education finance and administration, and possibly decentralization of the system, are key to improving efficiency. USAID's role in policy development should hinge on the extent of involvement of other donors in this area and/or the need to intervene in specific policy areas. Interventions at all three levels of the education system should target those geographic areas and beneficiaries most adversely affected. This is likely to suggest an emphasis on rural rather than urban schools.

IR 3.4.5.4 Increased Access to Non-formal Education

As noted in the section above regarding the labor market, for those youth and young adults already out of school, as well as workers made redundant by privatization and public sector downsizing, access to market-relevant skills training and degree equivalency programs is sorely lacking. Nevertheless, vocational training programs that are not market driven have a poor record of success. Skills training programs must be based on accurate, timely labor market information and real demand by the private sector if they are to result in employment for those who complete them.

In vocational education, the World Bank is implementing a project that prepares adults for skills needed in positions specifically identified by prospective employers. The effort is showing early signs of success in placement of workers. USAID is also involved in non-formal education through its work with the Department of Labor. DOL's program is providing skills training and re-training to workers made redundant through the privatization process. USAID investments in non-formal education must be defined in coordination with the activity design for the labor market transition component in order to ensure that training, including high school equivalency, college preparation, and skills development courses respond to actual demand by the workforce and potential employers. Nevertheless, one area where deficiencies clearly exist is short-term business skill training. Partners active in a wide range of activities in SO 1.3 cite a dearth of business skill training in areas such as accounting, business planning, and marketing. Therefore, this area should be a high priority for activity design. Another obvious priority, given the investments USAID is making in improving the competitiveness of these sectors, is agro-processing and agribusiness training. The full range of interventions under the non-formal education rubric should be closely coordinated with the Public Diplomacy Office of the Embassy, which is involved in a number of educational activities.

As it looks forward, USAID will also be open to ideas for using skill training under this Sub-Intermediate Result as a mechanism for reintegrating those who are involved in the current conflict into the mainstream of society, once peace is firmly reestablished and agreements on the reintegration of combatants have been reached. Finding ways to increase the stake these individuals have in a post-crisis period in Macedonia's economy and its success as a multi-ethnic democracy represents an important investment in long-term stability.

3. Development Partners

In the activity design phase for this Strategic Objective, USAID plans to work closely with other donors, particularly the World Bank which has a lead role on labor market reform as well as in the education sector. The European Union and the Dutch, as well as the Soros Foundation are also education sector donors with whom the Mission is already collaborating. The EU is also involved in primary education from an education quality and relevance perspective. In another area under this Strategic Objective, i.e., near-term action on youth unemployment, USAID is already working with UNDP and has provided supplementary funds for UNDP's Clean and Green Project, which involves young people in community-based clean up activities. USAID will also work with international donor organizations on labor market reform, a field where the World Bank plays a key role in support and where IMF demands for further reductions in the size of the civil service have implications for unemployment and a potential need to retrain ex-government employees to prepare them to work in the private sector.

4. Sustainability and Regional Integration

Almost by definition, a number of the activities under Intermediate Results and Sub-Intermediate Results that support SO 3.4's aim, *adverse social impacts of the transition to market based democracy mitigated*, will not be sustainable. Immediate responses through the CSHI project to the needs of communities involved in the conflict are a case in point. Other activities, such as the establishment of the South East Europe University, are meant to be sustainable, and USAID has identified sustainability as an issue requiring special attention under that activity. As these two examples suggest, sustainability with respect to USAID-financed activities will be addressed on a case-by-case basis as this Strategic Objective evolves. At the same time, it is important to note that as the Mission develops this portfolio, it intends to do so with an eye to sustaining such improvements in employment, educational attainment, and multi-ethnic collaboration that could be achieved through the blend of short and long-term solutions it supports.

At a broader level, success with activities initiated under this Strategic Objective would have a direct bearing on Macedonia's prospects for economic growth and successful integration into the European Union. Macedonia lags behind its immediate neighbors and behind the EU on educational attainment, and its unemployment rate is high on a comparative basis as well. Many of the activities under SO 3.4 will contribute to improvements in these competitiveness measures. These same achievements will also help to improve living standards for all ethnic groups thereby reducing some of the pressures that lie beneath the surface of the current conflict.

5. Performance Measurement and Progress Benchmarks

Performance Benchmarks

Benchmarks for this SO 3.4 are only illustrative but are meant to give a sense of the kinds of results the Mission anticipates. Design teams that work on this SO will be asked to identify appropriate benchmarks as well as useful performance indicators.

SO 3.4 Benchmarks by Year

2001

- Over 100 unemployed youth work on multi-ethnic summer teams under “Clean and Green”
- Emergency projects in crisis area completed with CSHI support
- New multi-ethnic collaboration media campaign launched with OTI
- Workplan and schedule for the design and start up of SO 3.4 activities completed

2002

- MOU with Office of Statistics on aims of program of support
- Assessment and concept paper for education intervention aimed at increasing primary and secondary enrollment, including among high school age girls, completed
- After hours high school equivalency courses in key subjects pilot tested, e.g., in Community Information Centers (CICs) in USAID local government target municipalities

2003

- USAID-assisted “Stay in School” campaign garners national attention
- National job postings website operational and publicized at Internet cafes nationwide
- New analytic products from Statistical Office issued for the first time
- New Labor Law passed aimed at easing market rigidities

2004

- Net enrollment for both primary and secondary school show a significant increase over baselines
- Youth unemployment declines in target cities
- Repeater rate declines in Macedonian schools, reportedly as a function of improved teaching, wider availability of textbooks, and difference between net and gross enrollment at the secondary school level declines.
- Overall unemployment level declines, with youth unemployment declining faster than average

Performance Measurement

While it is premature to define reporting indicators for this new SO, there are several existing data sets that have already been identified and used in this analysis. To provide the Mission with a sense of “real world” progress in the areas this SO is meant to address the following indicators

should be tracked periodically, regardless of whether USAID selects these variables as formal performance measures for the SO. Measures for “monitoring” at a national level should include:

- Poverty incidence rate, disaggregated by gender, age, ethnicity and location and infant and child mortality, by ethnicity and location;
- Gross and net enrollment in primary and secondary school, disaggregated as above;
- University enrollment, disaggregated as well.
- Repeater and drop out rates in primary school;
- Unemployment, disaggregated as above, and on the basis of number of the average number of months unemployed;
- Low wage employment, i.e., percentage of labor force included among the employed on the basis of reporting of work as a seasonal or part time laborer; and
- Changes in the real wage rate.

Strategic Objective 4.2 Cross-Cutting Programs

1. Overview

Crosscutting programs are activities that are strategic in nature but are significant to two or more strategic objectives. While the Mission has generally used its discussion of cross-cutting programs to only to describe funded activities, its program reassessment using crisis management models has highlighted the large number of areas where two or more SO's are using their resources to address problems they share with other SOs. Several of these cross-cutting problems are directly linked to the Mission's broad priorities: helping Macedonia to restore stability, recapture the economic momentum it had begun to establish; move forward on reforms that will strengthen democratic institutions, and make important strides toward its integration into Europe and, through the WTO, the global economy.

Several cross-cutting programs are important in that regard, and for each one, the Mission has a vision and intended results to which other SO's contribute. These include:

- **Ethnic Cooperation Enhanced.** The Mission is promoting ethnic cooperation and better understanding between ethnic groups under all of its SOs. Alliances the Mission is fostering between Macedonian and Albanian businesses under SO 1.3 have a strong impact on this objective because the shared objectives on which they are based are long term and very fundamental in nature. Multi-ethnic collaboration projects that address community problems, efforts that improve the dialogue in Parliament and among civil society organizations as well as civic education activities, including television programs for children under SO 2.0 all have this common aim. All of these efforts directly address elements of the situation that led to the crisis in Macedonia, so aptly described in the Collier model, which focuses directly on the instability associated with the existence of a majority population and a large minority and those aspects of the Lund model that suggest that misperceptions and lack of trust help to foster a climate in which hostilities can erupt.
- **Youth Involved in the Economy and Democracy** USAID intends to increase its efforts to link young people to economic and political opportunities, recognizing the vulnerability that a large number of unemployed youth, particularly young men, represents for Macedonia. The Mission is already working with young people to provide them with exposure to the workings of democratic institutions, under activities that give them a chance to work with political parties and with Parliament. Opportunities to help address community problems are being expanded, along with a chance for young people to gain work experience, through an alliance the Mission has formed with the UNDP's "Clean and Green" program through which young people of different ethnic groups work together to address environmental problems in their towns. Under the Mission's new SO, activities that will have a "stay in school" focus will complement other activities in support of this cross-cutting objective.
- **Legal Framework Improved** Weaknesses in Macedonia's legal framework impede progress on other SOs. As a result, the Mission is engaged in making improvements of

this sort across several SOs. Under SO 1.3, the Mission is addressing gaps in the legal framework that make it difficult for business to function and discourage investment. Tax law is another area where the Mission is making an effort to improve the legal framework. The absence of adequate law in both of these areas is contributing to slow growth. Contradictions in the legal framework for decentralization are just as problematic. These weaknesses, which are being addressed under IR 2.3 have impeded the devolution of power to the municipal level that was envisioned by the Constitution. The slow pace of decentralization is one of the grievances listed by the armed ethnic Albanian extremists. The lack of sufficient legislation to enable judges to do their job also threatens the legitimacy of the democratic system in Macedonia because of the way it impedes the work of the judicial system and diminishes respect for it. SO 3.4 will address this aspect of the legal framework problem.

- **Corruption Curbed** As part of its D/G assessment in 2000, the Mission began looking into this field. One recognition that came out of that initial look was that the Mission was already working to improve transparency, an important deterrent to corruption, through existing SOs. Under SO 1.3, the Mission's efforts to introduce International Accounting Standards (IAS) into banks and business are directly aimed at increasing transparency and reducing opportunities for irresponsible behavior from a fiduciary standpoint as well as tax evasion. Under IR 2.3 the Mission is working with municipalities to improve the information flow between government and citizens that is the starting point for greater accountability at the local government level. The second recognition that came out of the Mission's initial review of corruption issues in Macedonia is that next to the political patronage systems that political leaders and parties operate to ensure the loyalty of their followers, all other forms of corruption in Macedonia are minor – at least in terms of their corrosive impact on behavior and the cynicism this system engenders as the face democracy puts on in this country. Accordingly, the Mission is reactivating its political party development efforts with an eye to transforming the basis on which these institutions operate. Finally, the Mission is aware the existence of petty corruption in the bureaucracy and the affect it has on foreign investment and the competitiveness of private businesses. There is also reason to be concerned about smuggling across Macedonia's borders and the way in which it is linked to corruption. Later in 2001, the Mission intends to undertake an anti-corruption assessment that will help place all of these issues in perspective and highlight priorities among them.
- **Gender Disparities Reduced** The Mission will expand its focus on gender disparities across all SOs through a coordinated effort to deal with problems of access and attainment in three crucial areas: education, credit and leadership, both in the public and private sectors. Central to the Mission's approach is the recognition that population segments in Macedonia have problems in this regard that differ from what one might think looking at national data and perceiving them as norms. In fact, there are multiple sets of norms: one for each of the two largest population segments, at minimum. It is the norm, for example, for Albanian women not to work outside the home, although some do. The norm for Macedonian women is quite the opposite. Differences in norms, in and of themselves, create the appearance of discrepancies. In practice, this situation, and other situations where there appear to be discrepancies require careful analysis and even more careful planning if USAID intends to become involved. The Mission's Gender Action

Plan details many of the issues in Macedonia that are gender specific in character and the actions the Mission is contemplating under existing SOs to address them. Illustrative of these is the effort the Mission contemplates, under its newest SO Mission, to focus on both girls and boys who are not receiving a primary school education as well as on the disparity between girls and boys with respect to secondary school attendance. In the workplace and in the political arena, where the Mission has on-going activities, it will seek to improve the gender balance with respect to training that relates to advancement and new functions. Access to leadership opportunities, for women as well as men, in both the political and the business arena will receive attention where USAID is active, i.e., from political parties under IR 2.4, to local government under IR 2.3, to banks under SO 1.3. This latter focus subsumes the attention the Mission is already paying to women's access to credit under SO 1.3, since access to credit is closely linked to the chances that women-owned businesses have for success and for rising to the leadership ranks within the business community. (The Mission's Gender Action Plan in Annex B supplements this brief description).

- **Specialized Skills and Knowledge Enhanced** As noted above, there are some activities, which the Mission funds directly through this SO. As it has traditionally done, USAID/Macedonia will continue to support a cross-cutting participant training program in support of this SO. The program the Mission supports is TRANSIT-Europe, which serves as a general Mission resource and is used by all SO teams and the Audit, Evaluation, and Project Support (AEPS) programs. The implementer for TRANSIT-Europe is World Learning. As the only cross cutting program that is described in this cluster that is funded as a separate activity under this SO, the TRANSIT-Europe program is described more fully below.

2. Participant Training - Progress to Date

Since FY93, the USAID participant training program has been a crucial crosscutting program that is designed to support achievements of each Strategic Objective. Under the Global Training for Development Program (GTD), training services are provided through an E&E Bureau buy-in to GTD called TRANSIT-Europe, which ends in FY01. The Mission is committed to continue funding this participant training program through the end of the revised Plan period. Since its deployment in 1998, the USAID participant program has integrated participant training resources into the implementation of partner activities, thereby directly strengthening each activity's progress towards its Intermediate Results and Strategic Objectives. Typically, the program works with local, regional or U.S. training institutions to provide tailored training programs that build local capacity to address the Strategic Objectives and Immediate Results of the Mission.

In FY00, 206 Macedonians took part in 29 short-term training programs and 6 small grants were awarded to returned participants. Of these, 91 trainees participated in short-term in-country training programs, 67 trainees participated in short-term, tailored training programs in the U.S., and another 48 took part in training programs held in other Central or Eastern European countries. Forty-nine percent of the program participants were women.

Some of the most important training programs, by Strategic Objective, included:

1.3 - Economic Revitalization: General Management I and II, U.S.; LEAP, Czech Republic and Poland; Meat and Dairy Retail, U.S.; National Bank Supervisors, U.S.; Newspaper Management, U.S.; Payment Operation Service (ZPP) Seminars, in-country; Women in Business, Romania; SEETI Regional Trade Conference, Bulgaria; Summit on Int'l Aviation Infrastructure, U.S.; Textile Management, U.S.; Value Added Tax, U.S.; Value Added Tax, Slovenia;

2.1 and 2.3 - Democracy and Governance: Bar Association Development in the U.S.; Chief of Cabinet of the President of RM, U.S.; Judicial Independence Conference, U.S.; Judicial Training Centers, U.S.; Civic Education Curriculum Development, Poland.

The AEPS program has been used as a critical resource for activity design and evaluation as well as assessments of the programs and the situations in separate sectors. In addition to that, four USPSCs are funded from program funds.

3. Participant Training - Program Approaches

The Mission will continue funding participant training to support the three primary SOs on which the Mission's program concentrates as follows:

- SO 1.3 - Trade associations, meat and dairy processing, bank examination, small credit unions, stock exchange, public revenue office assistance, small business assistance, tax restructuring, technological improvements, and secured financing;
- SO 2.0 - NGO functioning, election administration, training for association administration, private sector support of local economic development, local government reform, civic education, legal reform; judicial training, legal reform campaign, training for association advocacy.
- SO 3.4 - Education reform and policy, community development initiatives, conflict resolution, labor unions.

In addition, small grants are available to support returned participants in the achievement of action plans developed during training.

With its resources, the AEPS program will support evaluation, assessment, unsolicited small grants, and activity design teams in the forthcoming years.