

Former Yugoslav Republic of Macedonia

The Development Challenge: The Former Yugoslav Republic of Macedonia is faced with the dual development challenge of trying to build a stable, multi-ethnic society, while completing the transition to a democratic, market-oriented economy. Its future depends upon successfully managing these development challenges. Macedonia has made significant progress toward reestablishing peace and building the foundations of a functioning democracy. Since the signing of the Ohrid Framework Agreement, which ended the 2001 ethnic conflict, the government has modified the constitution in 16 areas to comply with the peace accord; passed landmark legislation to begin decentralizing government; and implemented an amnesty law that paved the way for former combatants to reintegrate into society. Free and fair parliamentary elections in 2002 resulted in the election of a moderate government that is committed to implementation of the Framework Agreement. Despite the general improvement in inter-ethnic relationships, ethnic tensions remain high and ethnically motivated acts of violence still occur sporadically. On the economic front, the Prime Minister undertook a major cabinet reshuffle replacing the ministers of Economy, Finance, and Transport and Communications in an effort to deal with the slow pace of economic growth, which was estimated at just less than 3% in 2003. Further, unemployment climbed from 32% to 37% during the past year, according to the Government of Macedonia's Labor Market Survey. On a positive note, Macedonia did successfully negotiate a Stand-By Arrangement with the International Monetary Fund (IMF), which frees up \$150 million in donor funding and will give a substantial boost to needed structural reform efforts. The resultant macroeconomic stabilization will generally strengthen the business climate and should improve prospects for next year. But to enable more extensive investment, further action will be needed to reduce corruption and to create a more business-friendly legal environment.

Macedonia remains the poorest country of the former Yugoslav Republics. According to the National Bank of the Republic of Macedonia, per capita GDP for 2002 was \$1,835. In 2002, real GDP grew by 0.7%, and the preliminary estimate for 2003 is 3%. External debt for 2002 was 41.6% of GDP.

Key U.S. national interests in Macedonia include national and regional stability, economic prosperity, and democratization. Macedonia is also in a position to be a helpful partner in combating organized crime and extremists in the region.

The USAID Program: The USAID program is aimed at addressing the principal challenges that Macedonia faces, namely maintaining stability and addressing the root causes of ethnic conflict. USAID's objectives concentrate on the revitalization and accelerated growth of the private sector; strengthening vital components of democracy, including decentralization; and preparing the labor market for the transition to a market economy by reorienting the education system to train for modern job skills. Private sector activities include competitiveness, financial sector reform, and active participation in the World Trade Organization (WTO), energy privatization, small and medium enterprise (SME) financing, corporate governance, and quality improvements for agricultural processors. Democracy assistance includes decentralization, support for the 2004 presidential and local elections, judicial reform, parliamentary development, strengthening political parties, and civil society development. Labor market reform assistance includes support for primary and secondary school reform, expansion of information, communication and technological capability in schools, and assistance to strengthen the quality of instruction at the South East European University (SEEU). USAID also intends to use FY 2004 funds to respond to changing circumstances, such as increasing the integration of minority groups into Macedonian society, combating human trafficking, and developing human resources. USAID will continue to implement assistance in cooperation with a solid network of development partners, including the Government of Macedonia (GoM); a variety of non-governmental actors; the private sector; and the education community.

Other Program Elements: USAID's Bureau for Europe and Eurasia Bureau is funding four regional projects in Macedonia. The Strengthening the Youth Sector Program provides capacity-building services through coaching, workshops, exchange programs, and grants for non-governmental organizations (NGOs) supporting youth in South Eastern Europe countries. In these exchanges, NGOs share information and technical expertise on civil society's role in improving employment, technology, non-

formal education, health, civic education, and democracy building. So far, eight out of 48 grants have been given to youth NGOs in Macedonia for projects in non-formal education, health promotion, and technology. Another project is the Joint History and Reconciliation Project being implemented by the Center for Democracy and Reconciliation in South East Europe. This activity is providing alternative teaching kits for history teachers at primary and secondary school levels. The third is the Balkan Trust for Democracy, a program to strengthen democratic institutions in the region. It has made one grant to a local NGO in Macedonia, in order to host a workshop for youth leaders from the Balkans to discuss common community development issues across the region. The final project is the Regional Networking Program for NGOs implemented by Freedom House. This program provided grant support for interchange of ideas between Albanian and Macedonian NGOs to enhance relations between the countries.

Other Donors: USAID and other donors collaborate on issues of particular interest to the U.S. Government, such as decentralization, development of SMEs, and reforms in the judiciary, education, financial and pension systems. The United States and the European Union (EU) are the largest donors in Macedonia. The European Agency for Reconstruction (the EU development arm) focuses on good governance, institution-building, rule of law, market economy development, environment, infrastructure, social development, and civil society strengthening. The Dutch government is the third largest donor, providing balance-of-payments assistance, support to the education, agriculture and public finance reforms; and assistance for development of a civil society and respect for human rights. Macedonia also receives assistance from the German, British, and Swedish governments. Donor coordination is excellent.

Data Sheet

USAID Mission:	Macedonia
Program Title:	Economic Growth
Pillar:	Economic Growth, Agriculture and Trade
Strategic Objective:	165-0130
Proposed FY 2004 Obligation:	\$10,350,000 AEEB
Prior Year Unobligated:	\$0
Proposed FY 2005 Obligation:	\$8,800,000 AEEB
Year of Initial Obligation:	FY 1994
Year of Final Obligation:	FY 2006

Summary: USAID's program to accelerate the development and growth of the private sector will focus on strengthening financial sector institutions, increasing the competitiveness of private firms, and improving the enabling environment for investment.

Inputs, Outputs, Activities:

FY 2004 Program:

Strengthening the financial sector (\$3,800,000 AEEB). USAID assistance is building a financial sector that is dynamic and provides the necessary capital for economic growth. The capital market program is improving the legal and regulatory framework and bringing the stock exchange, securities commission, and central registry of shares and brokers into compliance with international best practices. The law on non-bank financial institutions will be amended to make the capitalization of these institutions easier, and to make them part of the payment system. Once new audit and accounting laws compliant with International Federation of Accountants (IFAC) standards are passed, assistance will focus on implementation of these laws and the establishment of self-regulating organizations of accounting and auditing professionals. USAID will support the Government of Macedonia (GoM) in implementing investment of pension contributions in privately managed funds and developing reliable investment mechanisms. In the banking sector, assistance to develop a credit information agency will enable banks to make informed lending decisions. Upon request from the GoM, USAID is developing a treasury bills auction that will provide funding to cover the budget gaps and absorb excess liquidity. Establishing a credit rating for Macedonia will encourage foreign direct investment. The National Bank will also benefit from USAID assistance. Program implementers are: Deloitte Touche Tohmatsu (prime), Financial Sector Volunteer Corps (prime).

Improving the competitiveness of the private sector (\$3,150,000 AEEB). USAID is developing selected industry clusters (meat and dairy, and tourism) to increase the competitiveness of products and to enable them to penetrate foreign markets. At least 10 initiatives per cluster will be implemented using local business service providers. Two more clusters were recently formed: information and communication technology and grape/wine. A fifth cluster will be added in 2004. Institutional strengthening in the areas of policy, economic analysis, and advocacy will be carried out with the National Entrepreneurship Competitiveness Council (NECC), which is envisaged to become the permanent steering mechanism for public-private sector dialogue in Macedonia. The recently established Small and Medium Enterprise (SME) finance fund will provide at least \$3 million in specialized purchase order financing to approximately 60 SMEs in 2004. Interested local banks will be trained to provide this type of innovative financing. The widely recognized Seal of Quality and agribusiness programs for meat and dairy products will be expanded to include fruit and vegetable products as well. USAID will provide technical assistance and grants to foster public-private partnerships, promote entrepreneurship, build SME networking capacity, and conduct market research. Program implementers are: Booz-Allen Hamilton (prime), Crimson Capital (prime), Land of Lakes (prime).

Improving the investment environment (\$3,400,000 AEEB). USAID will support implementation of the new Company Law that streamlines company registration and introduces modern and comprehensive corporate governance requirements. This support will include a public education campaign, preparation of simplified forms and manuals, and training for shareholders, businesses, and the legal community. Fifteen publicly traded companies will receive assistance to improve their corporate governance. USAID will assist the GoM in implementing the legal and regulatory regime required as a World Trade Organization (WTO) member. Mechanisms will be developed to foster public-private dialogue and increase private sector participation in trade policy formulation. In the fiscal area, assistance will focus on improving the transparency and accountability for revenues and expenditures of central and local government institutions. This assistance improves tax administration, builds capacity for accounting and auditing, disseminates integrated financial management systems, supports the Financial Police, and introduces e-government. To facilitate the privatization of the energy sector, USAID helped form the Energy Regulatory Commission to implement energy efficient strategies. Program implementers are: Deloitte Touche Tohmatsu (prime), Booz-Allen Hamilton (prime).

FY 2005 Program:

Improving the competitiveness of the private sector (\$4,350,000 AEEB). In industry competitiveness, all five selected clusters will develop business strategies for increasing the quality of their products and the volume of their exports. Implementation of various cluster level initiatives derived from the business strategies will continue. Support to the National Entrepreneurship Competitiveness Council will build independence and sustainability of this institution. Ongoing technical assistance to agricultural sub-sectors will focus on generating employment through local economic development.

Improving the investment environment (\$4,450,000 AEEB). USAID assistance in commercial law reform will continue to focus on implementation of the Company Law, enforcement of corporate governance provisions in selected companies, and harmonization of related commercial laws. Continuing support will be provided to WTO compliance needs and mechanisms for fostering dialogue between the government and the private sector. Assistance in the fiscal area will address management of public revenues and combating corruption by developing audit, treasury, and budget systems, procurement systems, e-government, a financial intelligence unit, and financial crimes investigation capacity. USAID will continue assistance to develop the financial sector. Special emphasis will be placed on increasing the role of non-bank financial institutions, improving laws and regulations, developing GOM treasury bills and bonds, and implementing pension system investments in privately managed funds.

Performance and Results: A major achievement in 2003 was an amendment to the Company Law prohibiting "management agreements" which were previously used by managers to deprive employees/shareholders of voting rights and freedom to trade stocks for five years. Participants in the meat and dairy Seal of Quality program significantly improved performance (including increased sales), improved profitability, compliance with improved industry standards, and increased market share in the domestic and export markets, while it increased investment and introduced new technologies. NECC, composed of 25 members from public, private and civil society sectors, was established to shape national economic priorities. USAID SME lending activities disbursed loans of \$7.6 million, exceeding its target by 19%. The Energy Regulatory Commission was established in 2003 to implement energy efficient strategies.

By program completion, USAID interventions will contribute to more vibrant financial markets, a more enabling legislative framework based on international standards, and better managed Macedonian businesses capable of competing in the global market. This will result in an increase of foreign direct investment to \$100 million per year, a 10% increase in total annual exports and 65% of the workforce employed in the private sector by 2006.

Data Sheet

USAID Mission:	Macedonia
Program Title:	Democracy and Governance Reform
Pillar:	Democracy, Conflict and Humanitarian Assistance
Strategic Objective:	165-0200
Proposed FY 2004 Obligation:	\$11,750,000 AEEB
Prior Year Unobligated:	\$0
Proposed FY 2005 Obligation:	\$10,000,000 AEEB
Year of Initial Obligation:	FY 2002
Year of Final Obligation:	FY 2006

Summary: USAID's democracy and governance program focuses on 1) increasing citizens' participation in political and social decision-making; 2) enhancing adherence to the rule of law; 3) improving the effectiveness and accountability of local government; and, 4) increasing confidence in government institutions and political processes.

Inputs, Outputs, Activities:

FY 2004 Program:

Civil Society Strengthening (\$4,900,000 AEEB). USAID will continue to strengthen a core group of policy-oriented NGOs and will help citizens address community problems. A new activity will be designed to continue supporting the development of civil society in Macedonia. It will build upon the assistance currently provided by the Community Self Help Initiative and the Democracy Network Program. Assistance will also continue to help the federation of trade unions in Macedonia become a modern union that can better represent member interests in a market economy. Media assistance will strengthen the legal and regulatory environment, the effectiveness of key media associations, and the professionalism and management skills of journalists and media managers. The civic education program will be institutionalized by developing standards to make it one of three required subjects in elementary schools, as well as by introducing the curriculum at the four pedagogical faculties in Macedonia. Program implementers are: Institute for Sustainable Communities (prime), Louis Berger Group (prime), American Center for International Labor Solidarity (prime), and International Research and Exchanges Board (prime).

Improving the Efficiency of the Courts and Independence of the Judiciary (\$2,400,000 AEEB). USAID will continue building the capacity of key legal associations and institutions to represent the interests of the profession and advocate for legal reform. With the passage of the Court Budget Law in September 2003, USAID will focus its assistance in the coming year on establishing an Administrative Office of the courts to manage the budget process. Assistance to improve the efficiency of the courts will also intensify, as the improved administrative and managerial methodologies, facilities, and information technology solutions introduced in the seven pilot courts are disseminated to other trial courts in the country. Program implementers are: American Bar Association/Central European and Eurasian Law Initiative (prime), and DPK Consulting (prime).

Building the Capacity of Local Government (\$2,000,000 AEEB). The Local Government Program will continue working on the decentralization process, specifically on the implementation of the Law on Local Self Government as well as the passage and implementation of the Law on Local Government Financing. Subsequently, assistance will focus on building local government capability to carry out newly-devolved responsibilities. Program implementer is Development Alternatives, Inc. (prime).

Increasing Trust in Political Institutions and Processes (\$2,450,000 AEEB). Parliamentary assistance continues by improving the operation of the plenary sessions and commissions; strengthening the accountability to the public, and oversight of government of parliament; developing non-partisan,

professional staff who are able to contribute to the legislative process in a structured, reliable manner; and increasing the ability of parliamentarians to represent the interest of citizens. With presidential and local elections scheduled for 2004, focus on election law reform, election administration reform, voter education, and poll worker education will intensify. Political party assistance will continue for internal party development and training emerging leaders. USAID will provide the State Statistical Office with assistance to disseminate and publish the 2002 census results. Program implementers are: International Foundation for Election Systems (prime), National Democratic Institute (prime), International Republican Institute (prime), U.S. Census Bureau (prime).

FY 2005 Program:

Civil Society Strengthening (\$3,500,000 AEEB). USAID will continue to develop civil society organizations and community groups, and to support the reforms underway within the labor unions.

Improving the Efficiency of the Courts and the Independence of the Judiciary (\$3,000,000 AEEB). Assistance will continue to improve the administration of the courts at all levels, and the efficiency and functioning of the courts at the trial level will continue, as will assistance for improving the system of judicial education.

Implementing Decentralization (\$3,000,000 AEEB). A new local government activity will assist municipal governments as they assume increased administrative and fiscal responsibilities, and participatory methods of governance.

Increasing Trust in Political Institutions and Processes (\$500,000 AEEB). Parliamentary assistance to enhance the functioning of the parliament and the ability of parliamentarians to reach out to constituents will continue. Political party assistance will concentrate on building the capacity of local branches and on strengthening youth and women organizations of the key political parties.

Performance and Results: USAID assistance has funded 79 local community projects and 27 NGO projects providing support for victims of HIV/AIDS and human trafficking, as well as addressing topics such as local economic development, youth employment, gender integration, and ethnic cooperation. USAID supported the draft Broadcast Law which has been submitted for governmental review and will improve the environment for private media. Civic education is being taught in all kindergarten and grades one through six in Macedonia, and efforts to institutionalize this curriculum are well underway. With USAID assistance, the trade unions were successful in re-establishing the social dialogue process, which includes representatives from government, employers, and trade unions. The unions were also able to get a commitment from the Government to sign the International Labor Organization (ILO) convention on social dialogue, which will commit the social partners to dialogue on social and economic issues. The independent court budget law was passed, providing the judiciary with increased control over their budget. This represents a major step for judicial independence. The law on municipal finance was prepared with USAID assistance. Four pilot municipalities have been supported to improve their property tax administration. The Mayors' Association has formed a Training Coordination Unit in response to municipal training needs. Strategic and action plans on Local Economic Development were completed in 13 municipalities. With USAID assistance, 40 constituent offices have been opened by Members of Parliament around the country, providing an avenue for regular communication between citizens and their elected officials.

Data Sheet

USAID Mission:	Macedonia
Program Title:	Social Transition
Pillar:	Economic Growth, Agriculture and Trade
Strategic Objective:	165-0340
Proposed FY 2004 Obligation:	\$8,200,000 AEEB
Prior Year Unobligated:	\$0
Proposed FY 2005 Obligation:	\$8,200,000 AEEB
Year of Initial Obligation:	FY 2001
Year of Final Obligation:	FY 2006

Summary: The USAID program helps to mitigate the social impacts of the transition and to address unemployment problems in Macedonia. This is done through local economic development and reforming the education system to make the labor force more relevant to the needs of a market economy. This program offers training and technical assistance to improve the quality of schools, decentralize the education system, and increase access to education at all levels for all ethnic groups.

Inputs, Outputs, Activities:

FY 2004 Program:

Local Economic Development (\$1,800,000 AEEB). In order to create jobs and reduce poverty in targeted municipalities, USAID is promoting entrepreneurship and building the capacity of micro-, small-, and medium-sized firms. USAID will fund technical assistance to agricultural producers and processors to: introduce new technologies to agricultural producers and processors; improve links between buyers and sellers; and match firms seeking to grow with financing. USAID also will fund Information and Communication Technology (ICT) Business Centers to expand private firm access to and use of computers and ICT. These centers will provide firms ICT skills necessary to compete in a modern market economy. USAID will continue to provide local artisans and small and medium businesses in the furniture and home furnishing sectors with technical assistance to expand domestic and export sales. Program implementers are: Land O' Lakes (prime); Educational Development Center (prime); and Aid to Artisans (prime).

Improving Access to Education (\$1,600,000 AEEB). USAID will finance technical assistance to the multi-ethnic, multi-lingual, private South East European University (SEEU) in Tetovo. USAID support will continue to improve SEEU academic and instructional quality, upgrade faculty and curriculum, and expand the use of English and information technology. SEEU faculty members will receive instructions at the masters' level at Indiana University to further strengthen the quality of academic instruction and research. USAID will seek to increase the enrollment of Roma children at the primary and secondary school levels. Currently the Roma have the poorest rates of enrollment and attendance of any ethnic group, which prevents them from participating fully in the political and economic life of the country. Based on encouraging results of a pilot effort to help Roma children stay or re-enter school, USAID plans to expand programs to this community. Program implementers are: Association Liaison Office for University Cooperation in Development (prime), Indiana University (sub).

Reforming the Education System (\$4,800,000 AEEB). USAID will assist the GoM to improve the quality of the education system and develop teaching skills needed to prepare students to compete in the global labor market. Teachers will be trained in teaching methodologies that encourage critical thinking and active student participation in the learning process. USAID will also continue to provide technical assistance to expand information and communication technology in primary and secondary schools. A selected number of primary and secondary schools will be developed as model schools in the use of computer assisted learning. Computer science teachers will be trained in modern computer literacy skills. At the secondary level, technical assistance will help vocational schools link with local businesses.

USAID will support a certification program to upgrade the organizational and managerial skills of school principals in line with the GoM's plans to decentralize education. Additionally, to become more responsive to a changed business environment, career centers and virtual firms in secondary schools will allow students to gain practical knowledge of the business world and become aware of employer needs and job possibilities. Program implementers are: American Institute for Research (AIR) (prime); Education Development Center (EDC) (prime).

FY 2005 Program:

Local Economic Development (\$2,550,000 AEEB). USAID will further expand this activity by adding technical assistance and training for agricultural processors and producers to increase sales of horticultural, meat and dairy products. Further support may be provided to ICT centers to improve the efficiency and growth of client operations.

Improving Access to Education (\$1,200,000 AEEB). USAID will expand the support to the nascent South East European University to further enhance it as a quality institution of higher learning. Increasing SEEU performance will provide an example for reform of the other institutions of higher learning in Macedonia. In addition, USAID will examine how SEEU can be more effectively allied with ongoing development programs and, in particular, review the extent to which SEEU can increasingly become a training resource to meet the needs in education, business, and teacher training. USAID also plans to increase the support for Roma education.

Reforming the Education System (\$4,450,000 AEEB). USAID plans to replicate the support of ICT for the primary schools with additional computers and internet connectivity. Further work will be needed to expand information technology applications in secondary schools to ensure the school system is fully aligned and responsive to the development needs of Macedonia, and that the digital divide is addressed. Lastly, USAID may consider the expansion and reinforcement of programs to improve the management and administration of secondary schools and further strengthen links with the private sector.

Performance and Results: The South East European University has established itself as a viable high-quality, multi-cultural education institution, which is effectively serving the multi-ethnic community in Macedonia with instruction in Albanian as well as English and Macedonian. The SEEU and changing government policies have contributed significantly to increasing access of ethnic Albanians to higher education. Current enrollment in SEEU has surpassed targeted levels, climbing this past year (the third year of operations) to 3,867 students. The overall percentage of ethnic Albanians accessing higher education in Macedonia has increased from 4.8% to 9% of the total university population. SEEU has thus significantly increased ethnic minority access to university education and will further respond to the needs of Macedonia by providing well trained graduates to meet future development challenges.

Important progress has been made in helping Macedonian artisans find and develop domestic and foreign markets. USAID technical support has helped artisans introduce over 30 new product lines. A local rug maker modified a traditional product and significantly expanded employment and sales, which reached \$100,000.

Data Sheet

USAID Mission:	Macedonia
Program Title:	Cross-Cutting Programs
Pillar:	Economic Growth, Agriculture and Trade
Strategic Objective:	165-0420
Proposed FY 2004 Obligation:	\$4,320,000 AEEB
Prior Year Unobligated:	\$1,000 AEEB
Proposed FY 2005 Obligation:	\$3,250,000 AEEB
Year of Initial Obligation:	FY 1993
Year of Final Obligation:	FY 2006

Summary: This program supports goals and strategies defined under all other strategic objectives by promoting human capacity development in all strategic sectors, enhancing synergies across objectives, and integrating other cross-cutting themes to enhance the assistance provided through other mechanisms.

Inputs, Outputs, Activities:

FY 2004 Program:

Participant Training (\$2,250,000 AEEB). Professionals of Macedonia will continue to upgrade skills and improve knowledge through the Participant Training Program in FY 2004. An increased emphasis will be placed on education and workforce development as these areas are a growing part of the Macedonia program. Program goals include a 50% women participation rate and greater inclusion of ethnic minorities. USAID will expand the participant training program to increase the academic level of the professionals in Macedonia, provide them with certification programs, and raise the level of English language proficiency. World Learning (prime)

Peace Corps Small Project Assistance (\$50,000 AEEB). Small project assistance (SPA) grants will be provided in response to proposals submitted by the Peace Corps Volunteers. The project will address community development issues, environmental issues, and student English language training needs. Peace Corps (prime).

Program Development and Support (\$2,020,000 AEEB, \$1,000 AEEB prior year recoveries). The Program Development and Support funds (PD&S) will provide USAID with program support resources (people, evaluations and training). Examples are: sectoral and program assessments, evaluations, audits, surveys, studies, data quality assessments and people to support program implementation. PD&S includes public-private partnerships and environmental funds for new initiatives. HIV/AIDS and anti-trafficking projects will also be undertaken.

FY 2005 Program:

Participant Training (\$1,645,000 AEEB). Human Resource Development will continue in FY 2005. The focus of the program will be on education and local government as Macedonia embarks on implementing administrative decentralization. Participation goals will be 50% women and appropriate representation of minorities.

Peace Corps Small Project Assistance (\$50,000 AEEB). SPA grants will be continued.

Program Development and Support (\$1,555,000 AEEB). The support as described in FY 2004 program will continue at approximately the same level in FY 2005.

Performance and Results: Participant training has supported all USAID activities in providing knowledge and skills to Macedonian professionals during FY 2003. The program sponsored 46 U.S.-based, 18 third-

country and two in-country training events for almost 300 participants, of whom 40.3% were women and 15.1% were ethnic minorities. This is a 50% increase in the number of participants and almost a 200% increase in the number of training programs over FY 2002. USAID economic training activities focused on entrepreneurial management, retail association and management, Value Added Tax (VAT), fiscal decentralization, and securities market development. In the democracy portfolio, training interventions were directed to community action planning, lobbying and advocacy skills, conflict prevention, increased women's participation in labor unions, social dialogue, legislative work for members of parliament, civic education, and feasibility and financial proposal writing. Under social transition, training was provided in the following fields: market readiness, local development networking, targeted industrial training, professionalization of vocational schools, and community outreach centers for the South East European University. Special emphasis was given to cross-sectoral collaboration such as tax and policy administration training jointly planned by the Economic Growth and Democracy and Governance teams. Peace Corps approved 10 Small Project Assistance grants in FY 2003.