

Introduction

The Republic of Macedonia (or FYROM) is the only republic to have seceded from the former Yugoslavia without war, and it is often regarded as a model of a relatively stable country in transition. This reputation is only partially warranted. Since its independence in 1991, Macedonia has been a parliamentary democracy in which the country's two major ethno-linguistic communities (Macedonians and Albanians) have shared power. Despite this power sharing, Macedonia's years of statehood have been characterized by disputes over whether Macedonia is a unitary or a bi-national state, with all the institutions that such definitions entail. The country has weathered most of its crises without violence and the threat of imminent collapse. Several events, however (including the attempted assassination of President Gligorov in 1995 and the presence of an illegal Albanian-language university in Tetovo since 1997), have threatened Macedonia's social and political stability. Most recently, Macedonia confronted an influx of nearly 360,000 refugees from Kosovo. NATO's campaign against Yugoslavia brought into sharp relief the tentativeness of Macedonia's identity as a state, and compelled the country's citizens to consider whether they identify primarily with their "ethnic community," regardless of political borders, or with their country, including its ethnic, religious, and linguistic diversity. The short duration of the crisis precluded definitive answers to these questions.

Most Macedonians, when comparing their current situation with living in the former Yugoslavia, hold that they live in a "golden cage": They have their own state, but one that is poorer. They carry Macedonian passports, but encounter many visa restrictions. Despite favorable international assessments of their government's monetary policies, Macedonians see themselves becoming more impoverished. Historically, the health of Macedonia's economy depended on the domestic Yugoslav market and access to the Greek seaport at Thessaloniki. UN sanctions against Serbia during the Bosnian war and the embargo imposed by Greece from 1994 to 1996 severely choked Macedonia's economy. Unemployment has hovered officially around 30 percent, but unofficially it is closer to 50 percent. During the Kosovo war it rose to 70 percent. An unfavorable tax environment, unreliable banking institutions, and a questionable privatization regime, among other things, have discouraged foreign investments. Indeed, the 1998 elections fo-

cused on economic issues; the VMRO/DA coalition won the elections through promises of sparking economic recovery. This recovery has not materialized and, consequently, Macedonia still depends on a thriving gray economy and remissions of hard currency from Macedonians abroad.

Unlike other ex-Yugoslav republics, Macedonia recognizes national minorities and provides for their political, social, and cultural rights. Despite some communities' dissatisfaction with the implementation of their rights, Macedonia is still the most tolerant society in the Balkans. Macedonia, in short, is a country in transition, but one not entirely decided on its destination. It has established the institutions of a participatory and representative democracy, but is still locked in domestic and regional disputes over political legitimacy. It has subscribed to international conventions regarding minority rights, but still cannot define itself as a society that is both pluralistic and integrated. It has declared itself an open, free-market economy, but has not yet overcome the cronyism and corruption that would make it attractive to the world market. Eight years of independence are a short time in which to accomplish all these goals. Although Macedonia's path has been full of zigzags and setbacks, so far it has maintained enough political and social momentum to stay the course.

Democratization

POLITICAL PROCESS 3.50/7

1. When did national legislative elections occur? Were they free and fair? How were they judged by domestic and international election monitoring organizations? Who composes the government?

Elections to the parliament (*Sobranie*) took place in October (round one) and November (round two) of 1998. Unlike in 1994, these elections were not characterized by disputes over the process or results. International monitors, led by the OSCE (Organization for Security and Cooperation in Europe), declared that the elections had been conducted freely and fairly.

In the 1998 elections, the Macedonian public demonstrated its clear dissatisfaction with the policies of the SDSM (Social Democratic Union of Macedonia), a coalition government that had been in power since independence in 1991.

In an unexpected campaign tactic, the nationalist VMRO-DPMNE (Internal Macedonian Revolutionary Organization-Democratic Party for Macedonian National Unity), led by Ljubco Georgievski, formed a coalition with the newest Macedonian party, the Democratic Alternative (DA), led by Vasil Tupurkovski. The electorate, both Macedonian and Albanian, gave its overwhelming support to the opposition parties. Of the 120 seats in parliament, 49 were won by VMRO-DPMNE, 13 by the DA, and 11 by the “radical” DPA (Democratic Party of Albanians), led by Arben Xhaferi. The SDSM, led by former Prime Minister Branko Crvenkovski, won 27 seats, but it has remained in silent opposition since its decisive defeat. The Party for Democratic Prosperity (PDP, the Albanian coalition party in the SDSM government until 1998) won 14 seats; the Liberal Democratic Party (LDP) gained 4 seats; the Socialist Party 1 seat; and the Party for the Complete Emancipation of the Roma 1 seat, too. Although the VMRO and DA secured sufficient parliamentary seats to form a government, they nevertheless invited the DPA into a new multiethnic coalition. Parliament then elected Ljubco Georgievski as prime minister; neither Tupurkovski nor Xhaferi hold ministerial posts. Most ministries are in the hands of the VMRO, with the DPA holding the same portfolios that their Albanian predecessors from the PDP had held under the previous government: Labor and Social Policy, Transportation and Communications, and Science.

2. When did presidential elections occur? Were they free and fair?

Presidential elections are slated for autumn 1999. Although legally eligible to stand again, President Kiro Gligorov will not be his party's (SDSM) candidate due to his poor health and advanced age. Vasil Tupurkovski, head of the DA, had long been considered Gligorov's heir apparent. Tupurkovski's chances of being elected, however, have plummeted in the months since the general elections, partly because of the Kosovo crisis. The primary cause of his decline, however, has been Tupurkovski's grandiose promises of economic recovery, which have not been realized. What characterizes the presidential race at this stage is the absence of qualified candidates from the VMRO, and the Macedonian public's deep alienation from candidates who have represented other parties for the past six or seven years.

3. Is the electoral system multiparty-based? Are there at least two viable political parties functioning at all levels of government?

Article 20 of the 1991 constitution gives citizens the right

to form political parties (Article 20). They have used this right to create a highly pluralistic electoral system, which in 1994 and 1995 consisted of nearly 70 parties. Today, of the 26 registered organizations, there are only three serious Macedonian parties: VMRO-DPMNE, SDSM, and the Liberal Democratic Party (LDP). Minor Macedonian parties include the Socialist Party, led by Ljubislav Ivanov-Dzingo, and the Movement for All Macedonian Action (MAAK), led by Strašo Angelovski. Macedonia's Albanians belong predominately to the DPA and PDP. Minor Albanian parties include the National Democratic Party (NDP) and the Party for Democratic Action-True Path. Most of Macedonia's ethnic communities are also represented, usually by one, or at times several, parties; for example, the Democratic Union of Serbs, the Party Democratic Progressive Party of Romas, and the Democratic Party of Turks.

There is political participation by various parties on all levels of government. Local elections are quite different in outcome from elections to parliament. Thus, in the capital Skopje, the mayor of the entire metropolitan area is from the LDP, but the mayors of metropolitan Skopje's five municipalities are split between the VMRO and LDP. Likewise, throughout the country at least two Macedonian and Albanian parties hold local power, whether at the level of mayoralties or on city councils.

4. How many parties have been legalized? Have any parties been banned or declared illegal?

Macedonia currently has 26 registered political parties. No new parties have been registered over the past year. No parties have been banned and none of the existing parties has been declared illegal. Before the 1998 elections, however, the DPA was in an ambiguous position, with the SDSM government challenging its legitimacy as a way of discrediting the party's “radical” position on Albanian issues. Although the DPA was taken to court several times on these grounds, no actions were taken to deprive DPA politicians of their elected posts. As often occurs in Macedonia, politically sensitive issues are allowed to fade away without being addressed. Thus, the DPA has no legal standing as a political party. Officially, it still belongs to the party that was formed when the old PDP and NDP merged, creating the PDPA (Party for Democratic Prosperity of Albanians). When the DPA splintered from this party, it left behind the PDP and NDP, but was refused the right to register as an independent party. As a member of the VMRO/DA/DPA coalition, the DPA's legal status is no longer contested, but nor has it been resolved in the courts.

5. What proportion of the population belongs to political parties? What proportion of party membership is made up of women?

The proportion of the population that belongs to political parties is unknown, as parties inflate membership rolls. Macedonian citizens usually do not identify with any party. Albanian citizens of Macedonia are likely to identify directly with one of their two major parties. Polling data, even when gathered, are usually inaccurate since citizens mistrust such information-gathering exercises.

Although women constitute over 50 percent of the population, there is a disproportionately low level of participation of women in politics generally, and in government in particular. Local nongovernmental organizations such as ESE (Organization for the Emancipation and Solidarity of Women) and CMUC (Center for Multicultural Understanding and Cooperation) have tried to raise women's political awareness and to bolster their political participation. Nevertheless, women tend to remain on the political sidelines and therefore occupy relatively few positions of power, especially at the national level. In the current government, only two women—Dosta Dimovska of the VMRO and Radmila Kiprianova of the DA—hold positions of power. After the 1994 elections, 3.8 percent of the MPs were women. Although this percentage doubled after the 1998 general elections, Macedonia still has one of the lowest levels of women's political participation in Europe, according to the ESE. There are no statistics indicating the specific gender make-up of political parties as such.

6. What has been the trend of voter turnout at municipal, provincial, and national levels in recent years? What are the data related to female voter participation?

Despite the growth of political cynicism, voter turnout remains strong. In the Parliamentary elections of October and November 1998, approximately 78 percent of registered voters turned out. Voter turnout for local and national elections tends to range between 70 and 80 percent. Gender-specific polling data are unavailable.

CIVIL SOCIETY 3.50/7

1. How many nongovernmental organizations (NGOs) have come into existence since 1988? What is the number of charitable/nonprofit organizations? Are there locally led efforts to increase philanthropy

and volunteerism? What proportion of the population is active in private voluntary activity (from polling data)? What are some of the major women's nongovernmental organizations, and what is the size of their membership?

The Macedonian Center for International Cooperation (MCIC), which compiled the 1998 *Guide of Nongovernmental Organizations in Macedonia*, has not compiled a similar guide since. The most recent reliable information is that approximately 300 hundred international associations and domestic NGOs are registered in Macedonia. There are definitely more NGOs in Macedonia now, however, since the war in Kosovo has attracted a large number of volunteer organizations, some having registered in Kosovo and moved to Macedonia, and others coming to Macedonia directly from third countries.

Philanthropy and volunteerism are both rather alien concepts in Macedonia. Self-help traditionally is the domain of families—both nuclear and extended—or possibly of villages. The low level of citizen concern across traditional lines of personal responsibility is one of the major obstacles in the development of civil society in Macedonia, and consequently of the nongovernmental, voluntary, and charitable organizations that reflect civil society. Many NGOs are vestiges of Yugoslav-era organizations, which were “of” but not necessarily “for” the citizens. Furthermore, economic conditions and tax legislation both mitigate against the creation and sustainability of voluntary organizations and their support via philanthropy. The average Macedonian citizen is too concerned with day-to-day survival to contribute time or money to voluntary work. An extra 23-percent tax on philanthropic contributions, originally intended to thwart the use of nonprofits as a money-laundering tool, also discourages businesses from supporting the work of NGOs.

Polling data for participation in private volunteer efforts are unavailable. USAID and a number of its larger contractors have declared that approximately 25 percent of the population will have participated in NGO activities by the year 2001. These are rather vague assertions, and would be difficult to demonstrate empirically because of the indefinite number of members belonging to NGOs and the manipulation of membership figures by organizations to bolster the strength of their proposals to funders. Among the truly voluntary organizations are: the SOS Telephone, which operates in Skopje and Kumanovo; *Daja* and *Majka*, two Roma women's NGOs in Kumanovo; the association of Single Mothers (*Samohrani Majki*) in Štip; and the Organization of Macedonian Women in Gostivar. Overall, however, Macedonian citizens view NGOs

as a lucrative employment sector, particularly since the majority of NGOs receive their funding from international sources.

There are basically two categories of women's organizations in Macedonia: holdovers from the Yugoslav period and organizations created since independence. The former category consists of large umbrella organizations such as the Organization of Women of Macedonia. This NGO claims thousands of members, including subgroups representing women of specific ethnic communities: the Union of Serbian Women, the Union of Vlach Women, etc. Women's organizations that have arisen since independence are largely ethnically defined also; only rarely do they have an ethnically mixed leadership or membership. Foremost among these newer groups is the Skopje-based organization for the Emancipation and Solidarity of Women (ESE). One of the largest of the new, ethnically defined women's groups is the League of Albanian Women, headquartered in Tetovo but with branches throughout the country's heavily Albanian regions. In general, membership figures provided by all NGOs are highly misleading, and should not be taken as indicative of an organization's true makeup. Whereas organizations commonly will claim hundreds or more "registered" members, only a handful are active.

2. What is the legal and regulatory environment for NGOs (i.e., ease of registration, legal rights, government regulation, taxation, procurement and access-to-information issues)? To what extent is NGO activism focused on improving the legal and regulatory environment?

Indigenous NGOs must register and file financial reports with the government. Beyond this, the overall environment for nongovernmental organizations is rather hazy. There is no tradition of civic organizations functioning outside governmental control, which was also the case under former Yugoslavia. Thus, the role of NGOs in society is still ambiguous. The government tends to view NGOs as a necessary evil, part of the fabric of civil society being pushed by international donors and assumed by many of the European organizations in which Macedonia is seeking membership. For these reasons, NGOs do not face procedural obstacles such as being refused the right to register. Nonetheless, they are neither encouraged nor considered beneficial. Not having progressed much beyond the former centralized style of administration, the governments of independent Macedonia have treated information as the provenance of state, and have therefore been reluctant, and at times totally unwilling, to release information to NGOs. This has been evident in the cases of the Movement of Ecologists of Macedonia (DEM) and of ESE, both of which have attempted

to influence the course of legislation in their areas of interest. For the most part, however, nongovernmental organizations have no particular expectations of government and few make an effective effort to make their presence known either to government or to the general public.

Several organizations (the Soros Foundation's Open Society Institute, and the Macedonian Center for International Cooperation) have tried to establish NGO resource centers that, among other objectives, would help nongovernmental organizations focus on legal and regulatory issues. Despite these efforts, however, NGOs are not active in this arena.

3. What is the organizational capacity of NGOs? Do management structures clearly delineate authority and responsibility? Is information available on NGO management issues in the native language? Is there a core of experienced practitioners/trainers to serve as consultants or mentors to less developed organizations?

Nongovernmental organizations in Macedonia tend to have a very small core of activists and varying numbers of members who belong only on paper. The absence of local funding sources means that there is little chance of serious organizational development and thus little chance of building capacity. Typically, an NGO will bid on a project proposal once it has discovered that funding is available from a certain donor. If such funding is unavailable, NGOs are often dormant. It is therefore difficult to speak of organizational capacity in the abstract. International NGOs such as the STAR project, which for three years (1995 to 1998) worked on building the organizational capacity of women's NGOs, found it difficult to convince women of the need for building capacity as a skill that would prepare them over time to create and lead NGOs.

For most NGOs, management structure is a non-issue because of their small size and limited membership. Larger organizations, especially those functioning as umbrella groups for smaller NGOs (Movement of Ecologists of Macedonia, the Organization of Women of Macedonia, to take two), have management structures that delineate authority and responsibility. Brochures, booklets, handbooks, training primers, and other management-related materials have been created by international NGOs such as STAR, the Institute for Sustainable Communities, National Democratic Institute, and others, and have been made available locally in both Macedonian and Albanian.

Funders such as USAID have developed training programs. Among AID-funded NGOs, the Institute for Sustainable Communities (ISC) has been at the forefront in the training of

trainers. ISC has successfully created a group of mentor/trainers that domestic NGOs can (and do) call upon for help in core organizational-development problems (strategic planning, budget preparation, report writing, etc.).

4. Are NGOs financially viable? What is their tax status? Are they obliged to and do they typically disclose revenue sources? Do government procurement opportunities exist for private, not-for-profit providers of services? Are NGOs able to earn income or collect cost-recovery fees?

Without international donor support, Macedonia's domestic NGOs would be unable to survive. Most do not levy membership fees and those that do collect such fees receive small sums, which do not contribute meaningfully to the organization's sustainability. NGOs in Macedonia are not tax-exempt in the way that 501(c)3 organizations are in the United States. They receive limited tax concessions on funds used for certain projects, but are otherwise taxed on income.

NGOs are required by law to report revenue sources and amounts. Typically, however, they reveal their funding sources but do not fully disclose how funds were spent. This is done largely to avoid tax obligations. The practice of creating false receipts and writing financial reports based on such receipts is commonplace. Aside from government procurement opportunities at times of crisis such as the war in Kosovo, there is no evidence of government procurement of not-for-profit providers; nor of a not-for-profit sector ready to provide services if called upon to do so. Exceptions to this are organizations such as the Macedonian Red Cross.

NGOs can earn income through levying membership fees, but are otherwise restricted in their ability to generate income. There is a poorly defined demarcation between not-for-profit income generation and activities regulated as business. For example, the organization of Single Mothers (Štip) decided to use an international donor's funds to establish a laundry service, which was intended to generate income to support the NGO and to earn personal income for the women who ran the laundry. Although the donor was forbidden from providing funds to create a personal income-generating activity, the NGO simply disregarded this legal restriction. Their business was unable to generate sufficient income of any sort and soon folded.

5. Are there free trade unions? How many workers and what proportion of the workforce belong to these unions? Is the number of workers belonging to trade unions growing or decreasing? What is the numeri-

cal/proportional membership of farmers' groups, small business associations, etc.?

Trade unions exist and function freely in Macedonia, under the jurisdiction of the Ministry of Labor and Social Policy. Precise figures on union membership, however, are unavailable. Generally, Macedonia's unemployment rate and the growth of small businesses since independence have diminished the size and importance of trade syndicates. Privatization has also resulted in worker redundancy and thus in smaller union membership.

Macedonia's agricultural sector has been private since Yugoslavia abandoned collectivization in the early 1950s. Agri-businesses in independent Macedonia are still very rare (the Bitola Dairy is a rare success story). Accordingly, the majority of Macedonia's farmers are private individual producers. International NGOs such as VOCA (a USAID contractor specializing in agriculture) have attempted to establish commodity-based farmers' associations, but with little success. Likewise, Macedonia does have professional and business associations, but they are not active in the development of the country's private business sector. As with non-governmental organizations, membership figures for these associations are unreliable.

6. What forms of interest group participation in politics are legal? What types of interest groups are active in the political and policy process?

Public participation in politics takes several forms. Enfranchisement is clearly the most prominent. Membership in political parties is prominent too. Advocacy and lobbying are relatively new concepts in Macedonia. Training in interest-group development and in the implementation of interest-group strategies has been conducted by a small number of international NGOs, such as the 1998 STAR project (focusing specifically on women and women's groups). Citizens' rights to strike at the workplace also extend to their right to demonstrate in public, as long as proper permits have been secured. Public demonstrations have been occurring more often, particularly in the wake of the collapse of several pyramid schemes, such as TAT in Bitola, and the closure of factories such as the Makedonka textile plant in Štip. Defrauded investors in TAT not only demonstrated but also formed a political party with an anticorruption platform. There is also a political party of pensioners.

7. How is the not-for-profit/NGO sector perceived by the public and government officials? What is the nature of media coverage of NGOs? To what extent do

government officials engage with NGOs? Is the government receptive to NGO policy advocacy?

Generally speaking, there is little public recognition of this sector, either by citizens or by the government. Certain organizations, atypical because of their large size or the wide scope of their work (Soros Foundation, UNHCR, Red Cross) have received attention, especially during the Kosovo war and its aftermath. Otherwise, few NGOs make much of a public impact. The Search for Common Ground in Macedonia, an NGO based in the US and Belgium, has worked to forge closer links between Macedonian NGOs and the media. It has encountered a high level of apathy toward NGOs by journalists, and disinterest on the part of NGOs to educate the media about their sector. When NGOs engage in public actions, such as the protests against industrial pollution organized by DEM, the media do cover these events. There are no ongoing NGO efforts in the media, however, to inform citizens on issues of general public concern. Like the media, government officials generally view NGOs as insignificant. Humanitarian organizations have become prominent since the Kosovo war, requiring government to engage with them. In general, however, politicians regard government as their exclusive domain and tend to dismiss NGOs categorically.

NGOs are infrequently involved in politics, and only rarely serve as lobbyists in the legislative process. Environmental and women's groups are among the few NGOs that take such initiatives: Under the umbrella of DEM (Movement of Ecologists of Macedonia), actions have been taken to advocate for greater environmental protection. Environmental groups have also contributed to the creation of Macedonia's National Environmental Action Plan (NEAP). ESE has been involved in lobbying for legislation protecting rights to maternal leave and other pieces of legislation in the area of family law. The government, in these instances, has taken such advocacy seriously.

INDEPENDENT MEDIA 3.75/7

1. Are there legal protections for press freedom?

Freedom of the press, freedom of speech, and protection from censorship are constitutionally protected (Macedonia's 1991 constitution, Chapter II, Article VI).

2. Are there legal penalties for libeling officials? Are there legal penalties for "irresponsible" journalism? Have these laws been enforced to harass journalists?

Although there are penalties for libel, slander, and misinformation, there are no cases of these measures being used to harass or censor the media. During the Kosovo war, the government did publicly accuse two of Skopje's independent TV stations (A1 and Sitel) of anti-state activities, ("irresponsible journalism"), but the accusations led to no legal or other actions.

3. What proportion of media is privatized? What are the major private newspapers, television stations, and radio stations?

The only media organization under direct governmental control is the state-run television and radio network MRTV. Until recently, it was the only radio and TV network with national coverage, serviced by stations in most parts of the country. There are no plans to privatize MRTV, despite vigorous arguments by the independent media that it should become a "public service broadcaster" along the lines of the BBC. Second, NIP Nova Makedonija (the publishing group that publishes the daily Macedonian-language papers *Nova Makedonija* and *Vecer*, the daily Albanian paper *Flaka e Vëllazërimit*, the thrice-weekly Turkish paper *Birlik*, and the Macedonian weekly *Puls*) is for all intents and purposes, government controlled, despite its privatization. The state owns approximately one-third of the company's shares. Appointments to positions of responsibility are made mostly on political rather than professional grounds.

All media besides MRTV and NIP Nova Makedonija are privately held. At times, however, the media are politically biased (TV Telma in Skopje, for example, is owned by the pro-LDP Makpetrol Company), or owned outright by political parties (Sitel TV in Skopje is owned by the president of the Socialist Party, Lj. Ivanov). In the past year, the government formally put the new broadcast licensing law into effect in an attempt to regulate the industry. Despite the licensing of both TV and radio stations, those without a concession have remained on the air without repercussions. The most significant outcome of the licensing process is that there are now two private stations (A1 TV and Kanal 77 Radio) with national coverage.

The past year has seen the appearance of two new daily papers in Macedonian (*Makedonija Denes*, which was preceded by its weekly *Denes*, and *Utrinski Vesnik*) and one in Albanian (*Fakti*). The major weeklies have remained unchanged, with the addition of *Kapital* that focuses on economic issues. For the most part, politically oriented publications such as *Makedonsko Sonce* and *Delo* have a tiny circulation that makes them minor players. Because of generally low levels of readership in Macedonia, any daily paper

with a circulation greater than 50,000 is considered successful. Of the NIP Nova Makedonija papers, only *Vecer* surpasses this level; *Nova Makedonija* claims a daily circulation of approximately 20,000, which is doubtful; and *Flaka* only prints about 3,000 copies. Among the private papers, *Dnevnik* and *Utrinski Vesnik* have the highest circulation, each approximately 50,000 copies per day.

Among TV stations, there are two tiers: a small number of successful and (more or less) professional local stations, and a large number of stations that do little more than rebroadcast entertainment that they have downloaded from satellite signals. The former category consists of stations such as A1 TV (Macedonian, Skopje), TV ART (Albanian, Tetovo), TV KISS (Serbian/Macedonian, Tetovo), TV TERA (Macedonian, Bitola), TV Festa (Albanian, Kumanovo), TV IRIS (Macedonian, Štip), and TV VIS (Macedonian, Strumica). Skopje alone has a plethora of TV stations, including two fulltime Albanian (TV ERA and TV TOSKA), eight Macedonian (A1, Sitel, Telma, TV Skopje, KRT, TV 5, Amazon, Skynet), two Roma (BTR and Šutel), and one Serbian (TV 96).

The airwaves are also overcrowded with radio stations, most of them in the entertainment business. Many local TV stations have affiliated radio stations. Because only Kanal 77 has national reach, it is difficult to rate radio stations as major and minor. In Skopje, Radio Uno, 103.7 FM, Radio Noma, and Radio Ravel are popular among Macedonians. Albanians tend to listen to Radio Vati, which became an important player during the Kosovo war as a channel for the dissemination of refugee-related information, especially for family reunification.

4. Are the private media financially viable?

Left to their own devices to generate income through circulation or advertisements, most private media would go bankrupt almost immediately. The broadcast media market is over-saturated and there is no economic basis for the existence of hundreds of players. The government does offer some support for independent media from the national budget, though these media complain of unfair disbursement policies. A major undertaking by the government is to redistribute to private media producers some DM 3 million per year from the TV and radio tax (fee) the state collects from households that own sets. Information on whether or how much of this fund has been disbursed, or to whom, is not available. Generally, the only financially viable broadcast media are those owned by individuals or companies able to subsidize them. Artificially low advertising rates offered by MRTV are one of the major obstacles to the

media's financial health. The low rates prevent fair competition for the advertising revenues that the independent broadcast media depend on for their survival. Among the print media only *Dnevnik* is in the black. Its closest competitor is *Vecer*, which is published by NIP Nova Makedonija and therefore is not required to show a profit. The popularity of the relatively new *Utrinski Vesnik* is increasing, and this may become the second financially viable Macedonian-language paper.

5. Are the media editorially independent? Are the media's news gathering functions affected by interference from government or private owners?

If defined as free of direct government intervention, the media are largely editorially independent. The editorial positions of the private media, however, are usually a reflection of their owners' politics. There is still little differentiation among journalists between news gathering and editorializing. Thus, the slant of the media is evident both in their reporting of events as well as in their commentaries. Media under direct (MRTV) or indirect (NIP Nova Makedonija) government control make no pretense of editorial independence. MRTV's general director is appointed by parliament, and changes in government are then reflected in the attitudes displayed by national TV and radio. Likewise, editors at the state-affiliated papers are politically appointed, and it is entirely "normal" for the party in power to make its wishes known to these papers (protestations of independence by their editors notwithstanding). For the most part, the influence of such interventions does not show up in the newsgathering itself, but in the tone taken when events are reported.

6. Is the distribution system for newspapers privately or government controlled?

Currently, only two distribution networks are in operation. The largest, by far, is owned by NIP Nova Makedonija and therefore caters to pro-government publications. The second, Tutun, though privately owned, also tends to be generally pro-government. Both have national distribution capacities. *Dnevnik*, in response to the distribution obstacles it encountered as an "opposition" paper, launched a virtual army of street hawkers, and also lowered its price from 30 to 5 (and now 10) *denari*. In response, NIP Nova Makedonija also lowered its prices, and now (one year later) allows its papers to be sold on the street.

7. What proportion of the population is connected to the Internet? Are there any restrictions on Internet access to private citizens?

There are no data on the number of Macedonians using the Internet. It is generally considered to be small, since few people can afford computers. Nevertheless, access to the Internet is readily available, with several service providers in commercial competition: Ultra Communication's Unet, Informa, MOL (Macedonia On Line), and MPT (the post office). Non-commercial access is available to university-affiliated personnel through Marnet, whereas Soros's Open Society Institute offers NGOs free use of the net through its own server. There are no restrictions of any sort to private citizens.

8. What are the major press and journalists' associations? What proportion of their membership is made up of women?

Macedonia has a Union of Journalists, which is a continuation of the Yugoslav-era journalists' organization. In 1995, IREX (International Exchanges and Research Board) supported the formation of a Journalists' Club for Interethnic Dialogue, intended as an alternative organization for progressive members of Macedonia's media. This club only lasted for a few months. Younger journalists tend not to join professional organizations, so this association does not represent the real number of active journalists in the country. Women represent a significant proportion of Macedonia's journalists, both in print and in broadcasting, though they rarely hold positions of authority (TV TERA in Bitola and previously A1 in Skopje have had women as their editors-in-chief). Likewise, the head of the Union of Journalists, Maria Dimovska, is a woman. No gender-specific statistics are available, however, on the number of women in media. Anecdotally, women are said to comprise well over half of Macedonia's working journalists.

9. What has been the trend in press freedom as measured by Freedom House's *Survey of Press Freedom* ? Freedom House's *Survey of Press Freedom* has rated Macedonia partly free from 1995 through 1999.

GOVERNANCE AND
PUBLIC ADMINISTRATION 3.00/7

1. Is the legislature the effective rule-making institution?

Constitutionally, the parliament is Macedonia's only effective rule-making body. Its authority extends to passing laws, amending the constitution, and electing the prime minister.

Other functions include appointing the head of Macedonia's national TV and Radio Network (MRTV). Legislative powers rest with the parliament and the prime minister, who is the head of government. The president, chosen separately through direct elections, is the head of state and is thus uninvolved with rule-making procedures.

2. Is substantial power decentralized to subnational levels of government? What specific authority do subnational levels have?

One of the primary criticisms leveled at Macedonia by independent observers is that it has become more rather than less centralized; this despite legislation devolving power to subnational levels. The country is divided into 123 *opštini* (singular: *opština*, municipality), each with its own locally elected mayor. Constitutionally, these municipalities are units of self-administration that are authorized to act on local issues involving community services (utilities, for example), urban planning, education, as well as "other fields determined by law." Conflicts arise, however, in exercising this authority, for two reasons: First, city councils often consist of members from opposing parties who cannot reach consensus on issues they need to resolve. Secondly, municipalities have only limited access to funds.

3. Are subnational officials chosen in free and fair elections?

The electoral process for local officials closely resembles national elections in its degree of freedom and fairness. Political parties receiving less-than-expected support are quick to level accusations of voter fraud. Even when elections have been declared free and fair by international observers, Macedonians generally assume that the party in power locally has managed to tip the balance because of its access to voter rosters or voter-registration cards. That city councils often consist of members from various parties is an indication, however, that fraud, which undoubtedly does occur, is not as widespread as the accusations would indicate.

4. Do the executive and legislative bodies operate openly and with transparency? Is draft legislation easily accessible to the media and the public?

The legislative body does operate with some transparency, but while parliamentary sessions are open to the public, the public is not encouraged to attend or observe. The media report regularly on both the legislative and executive branches of government. Transparency has not been a hot topic in Macedonia, where citizens still do not commonly

think it their right to voice an opinion on the way government conducts its work; only on the results.

By law, any legislation being drafted must be announced to the public through the *Sluben Vesnik* (*Parliamentary Gazetteer*). The public then has an opportunity to read the draft and to comment. Once a law goes into its second draft, public comment is precluded. Rarely does the average citizen read the *Parliamentary Gazetteer*, and thus rarely is there public input on legislation.

5. Do municipal governments have sufficient revenues to carry out their duties? Do municipal governments control their own budgets? Do they raise revenues autonomously or from the central state budget?

In theory, municipal governments have access to funds coming from local taxes and from the state budget. In practice, however, municipal governments tend to be under-funded, or at least to complain of insufficient funds to carry out their duties. Municipal governments are caught in a fiscal catch 22. On the one hand, they levy and collect taxes locally, and are constitutionally authorized to engage in “issues of local relevance.” On the other hand, they are required to remit all tax revenues to the state, and then to request funds from Skopje based on budgets that local governments submit to the state. Local governments, consequently, complain that Skopje exercises too much control. This is the kind of centralization for which the Macedonian government has been criticized by international organizations engaged in reforming administrative practices.

6. Do elected local leaders and local civil servants know how to manage municipal governments effectively?

The greatest obstacle to effective local government is the poor cooperation between parties that control various departments or agencies. For example, in Skopje, the Municipal Sanitation Department is in the hands of one party and the administration of the country’s only sanitary landfill (Drizla, about ten kilometers outside of Skopje) is in the hands of another. As a consequence, Skopje’s solid waste is not deposited in the sanitary landfill but in a plain-earth landfill (*Vardar*), also administered by the party heading the Sanitation Department. Similarly, Mayor Penov of the Skopje metropolitan district has succeeded in launching a series of urban renewal projects, but the mayors of Skopje’s five municipalities are from rival parties and have been unable to find common ground with the Penov government. In some cases, disputes over local government inefficiencies have been taken to court. Most often, however, no action is taken to address such grievances. The absence of effective municipal government is often cited as the source of

rural under-development. For example, the Resen municipal government has not collected garbage from the villages belonging to its district, which has led to local water-pollution problems and to delays in the development of tourism. As is the case at higher levels of government, people complain that local civil servants refuse to provide services unless they are compensated. Over the past year, there have been several internationally sponsored (Dutch, Swiss, US) workshops intended to improve the quality of local government, as well as to elevate the level of understanding and cooperation between local government and domestic NGOs.

7. When did the constitutional/legislative changes on local power come into effect? Has there been reform of the civil service code/system? Are local civil servants employees of the local or central government?

The Law on Self-government was adopted in 1995. The following year, Macedonia promulgated a redistricting law that increased the number of municipalities from 34 (previously voting districts) to 123. This 1996 Law on Territorial Division was ostensibly intended to facilitate the new proportional voting law by creating a larger number of districts that would be more representative. Albanians, however, object to this law as a form of gerrymandering.

Civil service reform has not occurred despite repeated suggestions by international organizations dealing with administrative reforms. Among observers of the Macedonian government, there is widespread agreement that professionalizing the civil service is indispensable and would contribute substantially to citizens’ overall confidence in government. Local civil servants are exclusively employees of local government, with the exception of employees in branches of national ministries, often located in the local government’s office buildings.

Rule of Law

CONSTITUTIONAL, LEGISLATIVE, AND JUDICIAL FRAMEWORK 4.25/7

1. Is there a post-Communist constitution? How does the judicial system interpret and enforce the constitution? Are there specific examples of judicial enforcement of the constitution in the last year?

The Republic of Macedonia adopted its post-independence constitution in September 1991. The constitution is inter-

preted through the rulings of a nine-member constitutional court established in Section V of the 1991 constitution. Judges serving on the constitutional court are elected by parliament to a non-renewable nine-year term. Cases may be brought directly to this court, or may be heard upon appeal of a ruling by a lower court. Information on specific judicial enforcement of the constitution in the last year is not available.

2. Does the constitutional framework provide for human rights? Do the human rights include business and property rights?

Human rights are cited specifically in the constitution. Among the rights enumerated are freedom of religion or conscience, the right to privacy and assembly, and freedom of speech. The constitution explicitly lists the right to own and inherit property “under conditions determined by law.” There is also a guarantee for “freedom of the market and entrepreneurship.”

3. Has there been basic reform in the criminal code/criminal law? Who authorizes searches and arrest warrants? Are suspects and prisoners beaten or abused? Are their excessive delays in the criminal justice system?

Reform of the criminal code occurred in 1996, when Macedonia replaced the old Yugoslav code that had been enforced even after independence in 1991. This reform was followed in 1997 by the new Code of Criminal Procedure. Among the significant provisions of the new code are limitations on “informative talks” (an old Yugoslav euphemism for interrogation), which the police had used — and often still use with impunity — to extract information from anyone they wish to.

The court issues search and arrest warrants. According to a 1995 law, police are prohibited from entering homes without a warrant. In addition, the constitution guarantees a right to the “inviolability of the home.” Despite such legal protection, however, there are complaints of police entering homes without authorization. This was one of the most serious accusations against the police following the unrest in Gostivar (July 1997), which led to calls for police training in human rights and community-policing methods. There are also complaints that police engage in unwarranted arrests and prolonged detention. In one case (April 1998), an Israeli businessman, long resident in Macedonia, was arrested and held for 118 days before being charged with a crime.

Police abuse is rampant and has been cited on numerous occasions by international organizations such as the New York-based Human Rights Watch. Physical abuse is common both on the street and when prisoners are in custody. Non-Macedonians receive a disproportionate amount of abuse from the police, who usually are Macedonians. This is particularly true for the Roma. There are anecdotal reports of people in custody being beaten to death by the police. Albanian deaths from police violence during the Gostivar unrest in 1997 were well documented. Albanians have reported other instances of deaths from police violence in Skopje. Ethnic Macedonians are not immune from such violence, as could be seen in Bitola when the police used force to quell a demonstration by defrauded TAT investors.

Macedonian citizens report that they avoid going to court for several reasons, one of which is the lengthy delays in the justice system. Once a case is on the docket, the judicial process is painfully slow. Trials do not continue on a daily basis until the case has been resolved. Rather, should a trial not end on the day a case was heard, the next session is scheduled within 30 days of the present trial date. In this manner, a case can continue over an indefinite number of months.

4. Do most judges rule fairly and impartially? Do many remain from the Communist era?

In addition to the length of court procedures, Macedonian citizens also avoid the system because they do not expect to receive fair or impartial judgments. This is particularly true of the country’s Albanians, who regard the courts as fundamentally biased toward them. Trial procedures favor the prosecution over the defense, thereby making it structurally difficult to arrive at fair and impartial judgments. Most judges remain from the former Yugoslav period.

5. Are the courts free of political control and influence? Are the courts linked directly to the Ministry of Justice or any other executive body?

The popular perception in Macedonia is that the courts are subject to direct political influence. This is manifest in several ways. First, the courts are an extension of the police and tend to serve the prosecution. This relationship between the court and police determines what evidence is admitted, which witnesses are called and how they are questioned, and the nature of the final verdict. Secondly, the courts have conducted trials with an obvious political purpose and outcome. Among them have been several trials in which Albanians have received lengthy sentences for activities with

political implications. For example, in 1996 a group of Albanians was convicted of smuggling arms into Macedonia, despite the fact that the prosecution did not produce any weapons as evidence. In September of the following year, the Albanian mayors of Tetovo and Gostivar received sentences of 7 and 14 years respectively for their role in the events leading to the violent police intervention of July 7. Domestic and international objections to these sentences led to their reduction and eventual dismissal.

The courts are directly linked to the Ministry of Justice as can be seen in the advantage enjoyed by the police and prosecution in trials. Moreover, the judicial selection process is a reflection of party politics. Judges are nominated by a judicial council appointed by parliament, which links judges directly to the government.

6. What proportion of lawyers is in private practice? How does this compare with previous years? How many new lawyers are produced by the country's system of higher education? What proportion of lawyers and judges are women?

Unlike in the West, law practice is not viewed as an elite profession. Young lawyers tend to go into private practice immediately upon receiving their degree. The number of such lawyers in private practice is increasing regularly; the current number is 1,050. They belong to the Macedonian Bar Association, the organization that grants licenses to practice.

At the University of Sts. Cyril and Methodius in Skopje, the Faculty of Law has one of the highest enrollment rates. To date, this faculty has graduated a total of approximately 10,000 people; or about 300 annually. Although women do attend the Faculty of Law, the number of women lawyers is still relatively low. Specific statistics are unavailable. According to the ABA's CEELI office in Skopje, approximately 70 percent of Basic Court judges, 25 to 30 percent of Appellate Court judges, as well as 6 of the 25 Supreme Court judges and one of the seven Constitutional Court judges are women.

7. Does the state provide public defenders?

The state provides public defenders in theory but rarely in practice. Over the past five years, attempts have been launched to organize lawyers interested in providing pro bono counsel to make up for this deficiency. In one such effort in 1995, the OSCE and the American Bar Association (through its NGO called CEELI, or the Central and East European Law Initiative) brought together lawyers to form

a local NGO that would perform this function. Skepticism and the lack of a tradition for volunteerism both contributed to the failure of this idea.

8. Are there effective anti-bias/discrimination laws, including protection of ethnic minority rights?

In a manner reflecting its Yugoslav legacy, Macedonia offers constitutional protection to all minorities in the preservation and expression of their cultural, linguistic, and religious identities. Minority rights are also protected in the European Council's Convention on Minority Rights, to which Macedonia is a signatory. Anti-discrimination based on gender is guaranteed both constitutionally and in legislation. Despite these guarantees, women activists assert that women in Macedonia face serious if subtle discrimination in employment, political participation, and education.

The effectiveness of minority-rights provisions has been the subject of at times acrimonious political and social debate. The government, and the ethnic Macedonian majority generally, maintain that the minorities (read Albanians) are the most privileged of any minority population in the Balkans, and thus interpret any demand by minorities for greater rights as a pretext for ulterior political ambitions. The minorities, and the Albanians in particular, claim that their rights exist on paper but are curtailed in practice by the majority in its desire to create a unitary Macedonian state. In this dialectic, issues unrelated to minority rights escalate into inter-ethnic conflicts. For instance, the debate around the legality of an Albanian-language school in Tetovo has mutated from a question of quality education for Albanians at the primary and secondary level into a question of whether the establishment of such an institution represents the first step toward Albanian secession from the republic. The question of educational quality has been eliminated from the debate entirely. As these political disputes continue, however, Macedonia remains a country in which each community enjoys wide-ranging rights for cultural, religious, and linguistic self-expression.

9. Are judicial decisions effectively enforced?

Judicial decisions are enforced on an unpredictable basis that encourages disregard for the law. This is true in virtually every domain of public and private life. A few examples: The government effectively decided in 1998 which radio and television stations may use the public airwaves, but has not taken any steps to penalize or shut down stations that continue to broadcast illegally. In 1997, the constitutional court ruled that flying the flag of a foreign country over

Macedonian governmental buildings was illegal, but did not implement this law until it was necessary to deploy armed special police forces to do so. The Albanian-language university in Tetovo repeatedly has been declared illegal, and yet it continues to function with the full knowledge of and tacit acceptance by national authorities.

CORRUPTION 5.00/7

1. What is the magnitude of official corruption in the civil service? Must an average citizen pay a bribe to a bureaucrat in order to receive a service? What services are subject to bribe requests – for example, university entrance, hospital admission, telephone installation, obtaining a license to operate a business, applying for a passport or other official documents? What is the average salary of civil servants at various levels?

Macedonian citizens encounter corruption at every turn of life, both private and public. Official corruption is ubiquitous, and permeates government at virtually all levels. Macedonia prided itself on an image of a relatively corruption-free system, especially when compared to Mafia-infested societies such as Bulgaria and Russia, or the anarchy that characterized Albania. In fact, corruption has been so ingrained that it has become a normal part of day-to-day life. In the past several years, the country has been rocked by several turbulent corruption scandals. The collapse of several pyramid schemes, TAT in Bitola in particular, was connected directly to illicit financial dealings by officials in the Ministry of Finance, some of whom were forced to resign. Another scandal involved the diversion of arms and arms-procurement funds in the Department of Defense and the Macedonian Army, which until then had been considered one of the few institutions immune from corruption. Throughout the period of the UN sanctions against Yugoslavia and the embargo by Greece against Macedonia, officials from the Ministry of the Interior were involved in contraband as well as collecting bribes from materials smuggled across the Serbian, Bulgarian, Albanian, and Greek borders.

It is more than likely that an average citizen will have to pay a bribe in order to receive a service. Bribes are often no more than a pack of cigarettes or a bottle of alcohol offered as a token of appreciation for a service rendered. At all levels of business, and certainly when striking deals with any representative of government, it is at least necessary to

wine and dine an official being approached, and then to express one's gratitude when the "favor" has been extended.

For Macedonian citizens, bribes are part of everyday life, rather than a way of influencing the higher echelons of power. There are virtually no services for which some form of payment is excluded. For students, bribes are required if not for university admission, then for professors to administer exams needed for graduation (DM 500 was the standard price in 1998). Health care is another prime example: Patients must pay for better rooms, for their families to be able to bring them personal belongings or extra food, and for access to the drugs allegedly covered by their insurance but which have somehow become "scarce." Any public service, such as telephone installation, involving technical or manual labor requires that the worker be bribed. The issuance of business licenses or of travel documents (whether passports or domestic documents such as residence permits) are subject to varying levels of payoffs. The average salary of a Macedonian civil servant is approximately DM 300.

2. Do top policy makers (the president, ministers, vice ministers, top court judges, and heads of agencies and commissions) have direct ties to businesses? What are the legal and ethical standards for boundaries between public and private sector activity? Are they observed in practice?

Government officials and business are intimately connected. As was demonstrated by the scandals which shook Macedonia over the past year or so, top government officials (at the ministerial level) have had their hands deep in numerous business enterprises, including those shown to be highly corrupt. The privatization regime has been characterized by management buyouts, which have brought either current or recently retired government officials into the business world, where they can mine their government connections for profit. Although this corruption has diminished somewhat since the outer wall of UN sanctions against Yugoslavia was lowered, there are still ties between policy makers and black market operations throughout Macedonia. Depending on the strictness of international controls over materiel from Macedonia designated for Kosovo's reconstruction, a similar scenario is likely to develop there. Information on the legal or ethical boundaries between public and private sector activity was not available.

3. Do laws requiring financial disclosure and disallowing conflict of interest exist? Have publicized anticorruption cases been pursued? To what conclusion?

Are there laws against racketeering? Do executive and legislative bodies operate under audit and investigative rules?

Although there is legislation regulating financial disclosure and forbidding conflict of interest, such laws are seldom enforced. Surveying the cases that public prosecutions have disclosed, the enforcement of such laws often aims for political rather than legal objectives. A rare anticorruption case that was pursued publicly was the prosecution of the individuals responsible for the collapse of TAT, which defrauded investors in Bitola of hundreds of millions of German marks. Despite this widely publicized trial, which resulted in convictions, the jail sentences were later dismissed and the same individuals have been reinstated to reconstruct TAT. Extortion is a crime according to the Macedonian Criminal Code. Racketeering is not explicitly dealt with as it is in US legislation. Macedonia operates under a Law on National Audit that is applicable to both the executive and legislative bodies of government.

4. Have there been public opinion surveys of perception of public sector corruption conducted with the support of reputable monitoring organizations? What are the principal findings and year-to-year trends?

To date, no public-opinion polls have been conducted surveying perceptions of public-sector corruption.

5. What major anticorruption initiatives have been implemented? How often are anticorruption laws and decrees adopted? Have leading government officials at the national and local levels been investigated and prosecuted in the past year? Have such prosecutions been conducted without prejudice or have they targeted political opponents?

No particular anticorruption initiatives have been implemented, despite the surge of public concern with corruption following the TAT affair and other scandals. VMRO's parliamentary election campaign of 1998 largely focused on the SDSM's laxity in dealing with corruption, and on the need for cleaning up corruption in order to achieve economic reform and growth. Nevertheless, no steps have been taken to eliminate systemic or personal corruption. No anticorruption laws have been adopted since the passage of the 1996 Criminal Code. Information was not available on new investigations or prosecutions of national or local government officials. Although the anticorruption cases prosecuted over the past few years are considered to have a solid legal basis, they also include a political dimension. For ex-

ample, Bitola, where the TAT scandal led to highly publicized prosecutions, is one of the VMRO's important strongholds. Because of this, there have been widely held doubts about the motives behind the final acquittal of the TAT defendants, who initially had been convicted of fraud and sent to jail.

6. Is there growing public intolerance of official corruption as measured in polls? Are there effective anticorruption public-education efforts?

Public intolerance of official fraud has not been measured in polls. It must be kept in mind that the only reliable body for conducting such polls is the Institute for Sociological, Political, and Juridical Research, which is affiliated with the University of Sts. Cyril and Methodius in Skopje. The institute is part of a state institution, which is not likely to be engaged in research critical of the government. Nonetheless, official corruption is certainly a topic of everyday discussion and there is an elevated degree of public cynicism due to the revelation of corruption at high levels. Corruption is not the subject of public-education efforts in Macedonia's media or schools.

7. How do major international corruption-ranking organizations like Transparency International rate this country?

According to Transparency International (*Corruption Perception Index* 1999), Macedonia's score for 1999 was 3.3 on a scale where 0 = highly corrupt and 10 = very clean, and its ranking was 63rd of 99 countries.

Economic Liberalization

PRIVATIZATION 4.00/7

1. What percentage of GDP comes from private ownership? What percentage of the labor force is employed in the private sector? How large is the informal sector of the economy?

Approximately 70 percent of GDP comes from the private sector. About 62.4 percent of the country's employees work in the private sector; private-sector workers generate 76 percent of the profit in the entire economy. An exact assessment of the informal sector is unavailable, but unofficial sources put the figure at between \$300 million and \$500

million. Western financial officials estimate that the gray economy is equivalent to at least 20 to 30 percent of GDP.

2. What major privatization legislation has been passed? What were its substantive features?

The central legal document governing the privatization of socially owned enterprises is the 1993 Law on Transformation of Enterprises with Social Capital. Under it, small enterprises are privatized by employee buyouts (with employees purchasing at least 51 percent of the firm), by the sale of part of an enterprise through publicly auctioned shares, or by direct agreement with a prospective buyer. In addition, medium-sized companies can also be purchased by leveraged management buyouts. These agreements can be made with employees or outsiders who offer a business plan for the enterprise. The management group that offers the most attractive plan through a public tender is selected to control the enterprise; a down payment of just 20 percent of the enterprise's appraised value is required. The new ownership team must purchase at least 51 percent of the shares of the firm in no more than five installments; there is no interest charge. For large enterprises, the down payment is only ten percent.

Other privatization legislation includes the Foreign Investment Law, the Concessions Law, and the Securities Law, all adopted in 1993; the Law on Trading Companies (1996); and the Law on Issuing and Trading Securities (1997).

Under the Law on Transformation of Enterprises, 1,278 enterprises were slated for privatization: 113 large, 274 medium-sized, and 890 small-sized enterprises. By mid-1998, 1,160 had been completely privatized. In 1996, parliament passed the Law on the Transformation of the Enterprises and Cooperatives with Social Capital which use Agricultural Land. This law sought to privatize 150 agricultural enterprises and 210 agricultural cooperatives. The most important of these enterprises and cooperatives are the so-called agro-kombinats (which combine different agricultural and, sometimes, processing industries), which control less than 20 percent of Macedonia's agricultural land.

After signing an agreement with the IMF in April 1997, Macedonia promised to accelerate its privatization program by selling its large state-owned enterprises. Apart from the sale of Macedonia's largest state oil refinery in 1999, however, little progress has been made.

3. What proportion of agriculture, housing and land, industry, and small business and services is in private hands?

Agriculture: Ninety percent of agricultural production is private. Agriculture accounts for 20 to 25 percent of Macedonia's total social product.

Housing and land: Most housing has already been privatized, since private ownership was permitted even under the Yugoslav regime. More than 85 percent of Macedonia's land is privately owned. In 1997, the government passed a controversial denationalization law to return property and land, or at least offer a compensatory sum, to owners whose assets were seized by the Communists.

Industry: Many large state-owned companies have yet to be privatized. Twenty-five money-losing enterprises have been restructured; the companies were broken up into smaller entities and many workers dismissed. Ten enterprises were liquidated.

Small business and services: Small businesses and services represent the fastest-growing sectors of the economy. Under the 1993 privatization act, more than 800 small businesses have been privatized, most of them in the service sector. The Yugoslav regime permitted small private businesses and the Macedonian government estimates that today there are more than 100,000 such firms.

4. What has been the extent of insider (management, labor, and nomenklatura) participation in the privatization process? What explicit and implicit preferences have been awarded to insiders?

Insiders dominated privatization in Macedonia. Yugoslav-era managers with close connections to politicians and to leading political parties took over many of the most viable companies. The enactment of the 1993 Law on Transformation of Enterprises with Social Capital favored employee buyouts. In December 1997, the director of the Macedonian Privatization Agency admitted that in 90 percent of the privatizations, only one bid was received, and it usually came from insiders. Some 80 percent of the 1,000 companies privatized in the period from 1994 to 1997 were sold to well-connected managers and employees. Employee shares in privatized firms are usually illiquid because of the power of managers. Even though workers nominally own their enterprises, managers retain de facto control.

5. How much public awareness of and support for privatization has there been? What is the nature of support and opposition to privatization by major interest groups?

The privatization process was widely publicized by the government, the media, and the Macedonian Privatization

Agency. Labor unions have protested lay offs in inefficient state-owned enterprises. Manager-owners and private businessmen, however, many with close ties to the government, have benefited from privatization and contribute to various leading political parties that support it.

MACROECONOMIC POLICY 4.75/7

1. Has the taxation system been reformed? What areas have been overhauled? To what degree are taxpayers complying? Is tax compliance difficult to achieve? Has the level of revenues increased? Is the revenue-collection body overburdened? What is the overall tax burden?

In the post-Yugoslav tax system introduced in 1994, there are 8 different taxes instead of 16. The main taxes are: a personal income tax; a profit tax (corporate); a trade tax for goods and services; an excise tax; a customs tax; a property tax; an inheritance and gift tax; and an estates and rights trade tax. Special decrees determine the bases for calculating specific income taxes. Every month, the "average net Macedonian wage" (ANMW) is published. Wages and salaries in Macedonia usually are stated on a net rather than a gross basis. In determining taxable income, a standard deduction of 25 percent of ANMW is granted. Taxable income of up to double the ANMW is taxed at 23 percent; of 2 to 5 times the ANMW at 27 percent; and of more than 5 times the ANMW at 35 percent. The basic annual profit tax rate is 30 percent.

The Public Revenue Office is responsible for administering the personal income tax. Tax compliance and collection is a serious problem. In October 1997, the Finance Ministry observed that it found irregularities in more than half of the 9,000 audits it performed. It reported that tax evasion was a major reason why fewer funds were available for the budget. The ministry estimated that tax evasion was between 30 and 35 percent, with more than half of the nation's enterprises not paying taxes. An article in the November issue of *Vecer* said that the state has been incapable of collecting taxes for several years, and is contemplating a VAT in 1999 to boost revenues. In 1999, tax revenue fell substantially because of the Kosovo conflict, which brought about a decline in production.

2. Does fiscal policy encourage private savings, investment, and earnings? Has there been any reform/alteration of revenue and budget policies? How large

are budget deficits and overall debt? Is the financing of the social insurance/pension system sustainable? What proportion of the budget is taken up by subsidies to firms and individuals?

Macedonia has implemented tight fiscal policies since 1995, thus achieving admirable macroeconomic stability. Its budget deficit is quite small (just 0.3 percent of GDP in 1998). The 1999 budget was adopted in March. It calls for \$710 million in spending, which is 24 percent of GDP. Macedonia signed a \$73 million loan agreement with the IMF in April 1997. It helped provide the needed discipline to enforce spending cuts and other fiscal reforms. However, the economic impact of the Kosovo conflict has put these objectives in doubt. A May 1999 donors' conference organized by the World Bank raised \$60 million in grants and \$192 million in loans. The Bank itself signed a \$50 million agreement in April.

By the end of 1998, Macedonia owed \$1.4 billion in foreign debt, with \$1 billion of the total promised to official creditors. In March 1997, the government agreed to assume its portion of the former Yugoslavia's private debt to the London club. Repayment was rescheduled over a 15-year period (with a four-year grace period included as part of the agreement). Because of the disruptions caused by the Kosovo conflict, in April 1999, the Paris Club issued Macedonia a limited one-year moratorium on debt repayment. In early 1998, the outgoing government promised to privatize or liquidate 12 large loss-making firms, a promise that has yet to be fulfilled.

3. Has there been banking reform? Is the central bank independent? What are its responsibilities? Is it effective in setting and/or implementing monetary policy? What is the actual state of the private banking sector? Does it conform to international standards? Are depositors protected?

The legal framework for the banking and financial sector was enacted by a series of laws in 1992 and 1993 and by subsequent amendments, including the National Bank Act, the Banks and Savings Houses Act, the Securities Act, and the Law on Financial Transactions. The National Bank of Macedonia (NBM), set up in 1992 as an independent central bank, regulates the quantity of money in circulation, maintains the liquidity of banks, savings institutions, and foreign payments, and issues bank notes and coins.

The commercial bank sector consists of 21 universal majority private banks, 1 branch of a foreign bank and 21 savings institutions. Out of the 21 banks, 2 have li-

cense for domestic banking activities, but 19 are authorized for foreign exchange and foreign currency operations. Twelve are completely owned by domestic shareholders, 2 have foreign capital participation of more than 70 percent, 4 of more than 50 percent, and 3 of more than 10 percent.

In general, the banking sector is weak, with low loan collection rates and wide interest rate spreads. There is a need to develop a well articulated set of banking supervision policies and procedures. In 1997, several savings institutions, many of them pyramid schemes, became insolvent, most notably TAT, Alfa-S and Lavci. These scandals badly eroded already diminished public confidence in the banking system and Macedonian regulatory authority. On March 23, parliament dismissed NBM Governor Borko Stanoevski and Vice Governor Tome Nenovski.

Thirteen banks and savings houses set up a Deposit Insurance Fund. If a member bank fails, the fund will pay 75 percent of each household deposit. The National Bank insures savings deposits of up to 60 percent by a single depositor. In October 1997, Macedonia implemented a law on compensating savers for the 7,600 households that lost money with TAT's collapse, but the compensation represented only a fraction of the lost savings. Depositor groups staged several protests during 1997, blaming the government for neglect and collusion in the scandal.

In 1995, Macedonia launched a banking reform program with the goal of removing bad loans from banks' balance sheets and recapitalizing them. The program aimed at Stopanska, Macedonia's largest bank (it had \$320 million in assets as of 1998, a market share of 35 to 50 percent). Though the plan envisioned Stopanska's privatization to the Austrian bank Die Erste, the latter pulled out in November 1998.

4. How sound is the national currency? Is the value of the currency fixed or does it float? How convertible is the currency? How large are the hard currency reserves? Has exchange rate policy been stable and predictable?

The Macedonian denar (MKD), introduced in 1992, was subsequently pegged to the German mark at a fixed level. Internal convertibility of the denar is permitted, and any foreign currency can be traded for denars in Macedonia. External convertibility is expected in a few years. Businesses may freely negotiate foreign currencies with licensed commercial banks.

The National Bank announces daily guidelines based on data from commercial banks, amounts of currency bought and sold on the local foreign exchange market, and infor-

mation from foreign currency markets. Rates are adjusted daily and may vary among institutions.

In July 1997, the denar's value dropped 16 percent because of a deteriorating current account balance. It is now fixed at 31 Denar to the mark; this value was sustained even with the pressure of the Kosovo conflict in 1999. Currency reserves total \$290 million as of March 1999.

The high inflation in the early 1990s led to wide fluctuations in the denar's value. Inflation has declined since the beginning of transition. It fell from 1,791 percent in 1992 to 3 percent in 1996. The government has successfully sustained this low level; in 1998, inflation was a mere 0.8 percent. The effects of Kosovo, however, led the government to estimate 1999 inflation to be 8 percent.

5. Is there a functioning capital market infrastructure? Are there existing or planned commodities, bond, and stock markets? What are the mechanisms for investing and lending? What government bodies have authority to regulate capital markets?

The legal framework for the securities industry was prepared in accordance with the EU Securities Law Directives. The main law that regulates these issues is the Law on Securities Issuance and Trading.

Securities, as the law defines them, are shares, bonds, treasury bills, commercial bills, treasury notes, and certificates of deposit. Securities can be issued after getting approval from the Security Exchange Commission (SEC), the main regulatory authority. The sale of securities is done through public offering. A public announcement for the issue and sale of securities appears in the print media within 30 days of an affirmative SEC decision. The public offering for securities issued by a foreign source must go through a broker. Applicants for listing on the MSE must be incorporated or otherwise established in Macedonia.

The Macedonian Stock Exchange (MSE) opened in March 1996 as a joint-stock company. The MSE has 17 members, of which 13 are banks, 2 are savings houses, and 2 are insurance companies. There are 140 licensed brokers.

The level of trading on the exchange is still low, though growing. In 1998, there were 3,400 transactions, worth 4.7 billion denar (\$86.3 million). Government bonds are the principal securities traded. Among the reasons for the market's low liquidity include the lack of procedures for the protection of shareholders' minority rights, as well as the illiquid nature of worker shares in privatized firms. The capital gains tax on all individuals is 23 percent.

 MICROECONOMIC POLICY 5.00/7

1. Are property rights guaranteed? Are there both formal and de facto protections of private real estate and intellectual property? Is there a land registry with the authority and capability to ensure accurate recording of who owns what? What are the procedures for expropriation, including measures for compensation and challenge? Have any seizures taken place?

The constitution and laws formally protect property rights. In July 1993, Macedonia became a member of the World Intellectual Property Organization (WIPO). The rights for industrial property, overseen by the Office for Protection of Industrial Property, include patent, model and sample, designs, and trade marks.

Macedonia passed a law On Expropriation in 1995. Under it, the government must submit an offer stating the type and level of compensation for property it is considering expropriating, proof showing ownership of the property that is being offered as a replacement for the expropriated property, and proof of procured funds for compensation of the expropriated property. The government must submit its proposal to the property registry in order to register the expropriation. Compensation is usually in cash or corresponding property. Complaints and challenges may be lodged with the Office of Legal and Property Affairs.

The government continues to grapple with a denationalization law that would return property to or compensate citizens whose property the Communists seized between 1944 and 1968. The law covers 37,000 hectares of agricultural land, 16,000 hectares of forest, 21,000 hectares of pasture, 258 apartment buildings, and other entities. The law excludes the restitution of church property. As of November 1997, the law had not been widely implemented. In February 1998, a citizens' group whose property was taken away under the denationalization law in Krivolak threatened to seek redress with the World Bank and international courts.

2. To what extent have prices been liberalized? What subsidies remain?

Most price controls have been lifted under a liberalization program. At the time of independence, the level of price controls on some products and services amounted to 25 percent of the retail price index. In 1992, it was decreased to 18 percent; in 1993, 15 percent; in 1994, 15.5 percent; and in the period from 1995 to 1997, 19 percent. Products still under government control in-

clude flour, bread, some post and telephone services, and some communal services. In agriculture, protective prices have been set up only for corn and tobacco.

3. Is it possible to own and operate a business? Has there been legislation regarding the formation, dissolution, and transfer of businesses, and is this law respected? Do there exist overly cumbersome bureaucratic hurdles that effectively hinder the ability to own and dispose of a business? Are citizens given access to information on commercial law? Is the law applied fairly? Does regulation or licensing requirements impose significant costs on business and consumers? Do they create significant barriers to entry and seriously hamper competition?

In the last several years, Macedonia has passed several laws on business formation: On Commercial Enterprises; On Accounting; On Bankruptcy and Liquidation; On Commercial Registration, and On Commercial Companies. Businesses can be organized as an individual entrepreneur, a partnership, a limited partnership, a limited-liability company, a joint-stock company, and a limited-stock company.

Businesses must register with the Trade Register, the Statistical Office, and the Payment Operations Service. Unreliable laws and bureaucratic delays are common. Commercial law (like all laws) must be published and publicized by the government. While commercial laws are meant to enshrine fair competition, the development of the private sector and privatization has been characterized by the advantageous position of enterprise managers with connections to the government and political parties.

4. Are courts effective, transparent, efficient, and quick in reaching decisions on property and contract disputes? What alternative mechanisms for adjudicating disputes exist?

Macedonia's judicial system is plagued by inefficiency and delays. Business and contract disputes fall under the purview of the Court at the Economic Chamber, according the Commercial Code. In international disputes, contracting parties who cannot reach a mutual agreement within six months can request arbitration by a tribunal consisting of an arbitrator from each side who nominate a chairman from a third state which maintains diplomatic relations with both contracting parties. If the parties cannot agree on a chairman within two months, the International Court of Justice will appoint one.

5. Is business competition encouraged? Are monopolistic practices limited in law and in practice? If so, how? To what degree is “insider” dealing a hindrance to open competition? Are government procurement policies open and unbiased?

Competition policy in Macedonia is defined by a 1995 law on trade and the Cartel Act. The laws contains measures against restraint of trade, cartelization, and the abuse of monopoly power. The law provides for the creation of a Commission for protection against monopolistic behavior and restrictions of trade. Despite these laws, insider dealing by managers has clouded privatization. In one example, in 1995, a tobacco company owner used his influence to bar foreign tobacco capital from entering into the country. He also was reportedly behind the closing of duty free shops, the reduction of tobacco excise taxes, and the removal of the managerial team of a rival company. Government procurement has been marred by corruption, with contracts given out on the basis of connections and bribes.

Prominent manager-owners of large enterprises, many of them with past government experience, have used insider connections to limit competition (both domestic and foreign), land lucrative contracts, and receive other special considerations.

6. To what extent has international trade been liberalized? To what degree has there been simplification/overhaul of customs and tariff procedures, and are these applied fairly? What informal trade barriers exist?

In 1993, the government passed the Foreign Trade Law; in 1996, it adopted a new law on customs tariffs. The new law lowered tariff rates and sought to harmonize them with the European Union. Customs duties are levied on imported goods. In most cases tariff rates vary from 0 to 25 percent. The average customs duty is about 12 percent. Services are not subject to duties, levies, or fees. Many agricultural products are subject to special import levies in addition to any applicable tariff duties. Quotas apply to less than two percent of import categories.

Macedonia places no customs duties on exports. The government periodically imposes quotas on some exports. It subsidizes certain agricultural exports. There is no formal registration requirement either for exporting or importing. Corruption in customs is the greatest informal barrier to international trade. Greece lifted its 18-month trade blockade on Macedonia in 1995. Macedonia is a member of the US's Generalized System of Preferences (GSP) program,

under which exports to the US face very low tariffs. In June 1999, Macedonia began negotiations with the European Free Trade Association (EFTA).

In 1998, exports amounted to \$1.3 billion, with imports of \$1.7 billion. Trade with the EU has made up an increasingly larger share of total trade. This is good news, but the Kosovo conflict punished Macedonia quite badly in 1999. Exports to its second-largest market, Yugoslavia, fell to insignificant levels from 18 percent of receipts earlier. Even worse, war-degraded transportation links (such as the impassible Danube) have made trade with neighbors 30 percent more costly in 1999. Exports traditionally routed through Yugoslavia to other markets (over half of the total) had to take far more circuitous paths. Total exports are likely to fall by a third in 1999.

7. To what extent has foreign investment and capital flow been encouraged or constrained?

The government has made a concerted effort to attract foreign direct investment by improving the legal environment for investing. The law sets up certain benefits for foreign investors, such as duty exemption on imports of equipment or other assets to be used for capital contributions, provided that the investor commits to a period of at least five years and holds 20 percent or more of the equity.

However, a weak banking sector, political instability in the region, low visibility, and an underdeveloped legal sector has resulted in a very small inflow of foreign capital compared with other Central and Eastern European countries. The total inflow of direct foreign capital between 1990 and 1996 was \$36 million (compared with \$4.5 billion to the Czech Republic). In 1998, foreign direct investment totaled \$90 million.

Other factors that reduce foreign interest are the low purchasing power of Macedonians and an underdeveloped capital market. The World Bank ranked Macedonia 107th in the world in investment risk, behind Pakistan and Romania. A minister of development is quoted as saying that “there are ... other obstacles, such as the complicated procedures for obtaining permits, [and] the non-professional procedures of the banking mechanisms.” He went on to say: “even when private or foreign capital has already penetrated ... management teams, in order to hold on to their seats, organize direct resistance, allegedly in the name of the workers.”

8. Has there been reform of the energy sector? To what degree has the energy sector been restructured? Is the energy sector more varied, and is it open to

private competition? Is the country overly dependent on one or two other countries for energy, including whether exported fuels must pass through one or more countries to reach markets?

Reform in the energy sector has moved slowly. Most energy prices have, however, been liberalized. Structural reform of the sector received a boost in May 1999, when the government sold, for \$32 million, a majority stake in OKTA, a major Skopje oil refinery, to a Greek-led consortium. A \$150 million investment program aims to build a 220 kilometer pipeline from the port of Thessaloniki in Greece to Skopje, though only half or so of that figure will actually be invested in Macedonia.

Four-fifths of Macedonia's energy needs are satisfied by domestic production of thermo- and hydro-electric power; the rest is imported from Yugoslavia and Bulgaria. As a landlocked nation, it depends on shipments over land and pipelines for its gas and oil needs. Greece's embargo was in effect until 1995. Greece now exports much of Macedonia's electricity needs. In April 1999, Macedonia finalized an agreement with Bulgaria for the reconstruction of electricity cables; this agreement will diversify its supply of electricity. Russia remains a key supplier of oil, although it is refined in Bulgaria. A natural gas pipeline was constructed in 1995 to carry Russian gas from the Bulgarian border.

Elektrostanstvo na Makedonija, an independent public utility, integrates the production, transmission, and distribution of electricity. Macedonia forms part of the European electrical energy system (UCPTE), with links to Yugoslavia, Greece, and Bulgaria. The government, with the financial help of international institutions, plans to maintain and upgrade its systems.

Social Sector Indicators

1. What is the size of the national workforce? What proportion of the workforce is employed on a full time basis? What are the labor force participation rates for adult non-retirement age women and men? What is the overall official and unofficial unemployment rate and what is the unemployment rate for men and women? Does the state provide unemployment compensation; if so, how is it calculated and how long is it paid? What proportion of the median wage does unemployment compensation constitute?

The labor force numbered 591,773 in 1994. Women constitute 41 percent of the labor force. The adult economic activity rate for men in 1996 was 67 percent; for women it was 43 percent. In 1996, the male unemployment rate was 35 percent; the female rate was 44.5 percent. In 1998, the total unemployment rate was estimated at 35 percent. These rates are in all likelihood inflated, since agricultural workers could register themselves as unemployed. Unemployment is particularly bad in the Albanian-dominated western parts of the country and among young people. Macedonia has not released data on employment since October 1998, and on unemployment since December 1997.

2. Describe the national pension and retirement system. Describe public sector and private pension systems. Provide data on government pension benefits and indicate the proportion of retirees covered by pensions. What is the retirement age for men and women? What is the average monthly retirement benefit and what proportion of the median wage does it constitute? Is there a system of specialized benefits for specific groups (for example, the disabled or certain groups like Chernobyl victims)?

The system of Social Insurance in Macedonia, which consists of health insurance and pension disability insurance, is financed through the budget and taxes on enterprises and wages. As in most transitional countries of Eastern and Central Europe and the former Soviet Union, the pension system is based largely on the pay-as-you-go benefit model. In Macedonia, pensions are administered by an extra-budgetary Pension Fund. The lack of a clear relation between years of contribution and pension benefits, the relatively generous pensions, the loose eligibility criteria, the low retirement age, a declining number of contributors, and weakening tax compliance—all of it puts downward pressure on revenues, leading to a crisis in the pension system. The Pension Fund is threatened with bankruptcy in the near future. Recent reforms have reduced minimum pensions for new retirees and brought benefits in line with contributions.

3. What is the country's average and median monthly income in local currency and dollar equivalents? What has been the trend in average and median monthly incomes since 1993? Are there major problems in wage arrears? If yes, describe their extent and scale, providing some detail related to the sectors of the economy in which arrears are most pronounced. Describe how people com-

pensate for cash arrearages (for example, barter). **What are the differences in public and private sector median wages and in median wages among men and women?**

In January 1999, the average monthly wage was 9,620 denar (\$183). Real wages rose by 6.5 percent from the same period a year earlier. Wage arrears are a problem; 16.8 percent of workers did not receive their wages on time in December 1998.

4. What has been the annual size of the elementary, secondary, and post-secondary education school population since 1993? What is the proportion of 8-18 year olds enrolled in the educational system and what has been the trend since 1993? What is the national student-to-teacher ratio? Provide basic data on public spending for education since 1993: what is the proportion of GDP expended on education by the state, and how has this proportion changed since 1993?

The elementary population has remained constant at around 260,000 since 1993. Secondary enrollment increased from 75,000 in 1993 to 84,000 in 1996, as did post-secondary enrollment, from 27,000 to 31,000 in the same period. Ninety-five percent of those eligible actually attended elementary school. The student-to-teacher ratio has remained constant at 20 students per teacher in elementary school, and 17 student per teacher in secondary school. Education expenditures increased from 5 percent of GDP in 1993 to 5.6 percent in 1996. There are two universities in Macedonia, in Skopje and Bitola.

5. Provide data on infant mortality, birth rates, life expectancy (both male and female), divorce rates, and suicide rates, and trends over recent years in these spheres.

The infant mortality rate was 23 per 1,000 in 1998. The birth rate was estimated at 15.2 per 1,000 in 1999. The fertility rate was 2.1 in 1998. Life expectancy in 1998 was 71 for men and 75 for women.

6. Provide data on the ratio of doctors and nurses to the population. What is the trend in average and median monthly wages for doctors, nurses, and medics since 1993? Provide data on the number of hospital beds and on the number of hospital beds per capita. Provide statistics on the percentage of GDP devoted to health care. Provide data on the proportion of GDP expended by the public sector on health care.

There were 219 doctors and 334 nurses/midwives per 100,000 people in 1993; 8.3 percent of GDP is devoted to health care; 7.3 percent of GDP is expended by the public sector.

7. What are official and authoritative nongovernmental data concerning the scale of poverty and poverty rates? What is the poverty rate among males, females, and the elderly and pensioners? Provide trends in poverty rates since 1993.

The World Bank in 1993 estimated that less than 2 percent of the population lived on less than \$1 a day, while 18.9 percent of the population lived on less than \$2 per day. The average wage in January 1999 was less than the estimated cost of a minimal basket of goods for a family of four.

