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FOR COOPERATION IN SKOPJE

Sida Country Report 2004

The Republic of Macedonia



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Abbreviations

CS	Country Strategy
DFID	Department for International Development (UK)
EAR	European Agency for Reconstruction
EBRD	European Bank for Reconstruction and Development
EU	European Union
EUSR	European Union Special Rescue
FDI	Foreign Direct Investment
IFAD	International Fund for Agricultural Development
IFI	International Financial Institute
IMF	International Monetary Fund
IOM	International Organisation for Migration
KtK	Kvinna till Kvinna
MDG	Millenium Development Goal
MFA	Ministry of Foreign Affairs
NATO	North Atlantic Treaty Organisation
NGO	Non-Government Organisation
OFA	Ohrid Framework Agreement
OSCE	Organisation for Security Cooperation in Europe
PRSP	Poverty Reduction Strategy paper
SAA	Stabilization Association Agreement
SEI	Sector for European Integration
SHC	Swedish Helsinki Committee
SME	Small and Medium Enterprises
STD	Sexually Transmitted Disease
UNDP	United Nations Development Programme
UNICEF	United Nations International Children's Emergency Fund
USAID	United States
WTO	World Trade Organisation

1. Summary

Even if Macedonia's strivings to align with and eventually become part of the euro-atlantic structures, such as the EU and NATO are on top of the agenda, domestic politics seem to distract the administration and also draw attention away from reform and development in practical terms. This was very much the case during 2004. The security and stability of the country today is considered overall good, despite the fact that Albanian guerilla groups controlled a village near Skopje during a couple of months in the autumn. Ethnic tensions still prevail, much due to the poor socio-economic situation and the increasing tendencies of separation between the two ethnic communities. The Ohrid Framework Agreement (OFA) is well underway with the decentralization as the remaining large challenge.

The Swedish country strategy for Macedonia states that support should focus on three sectors: economic development, democratic governance and environment. The current programme in Macedonia today covers all the three areas. The overall goal of poverty reduction together with the support for EU rapprochement form the basis for decisions regarding Swedish support. This orientation remains largely relevant in view of the current situation in the country. The EU integration agenda takes on increased attention in society, especially at the top political level. Among donors, supporting administrative reforms is high priority and certain sectors seem almost over-crowded (decentralisation, reform in judiciary/law enforcement). The Swedish support aims at directing support to capacity development of the public administration, but emphasises the need for ownership at the local institution, maybe at the expense of speed. This year, cooperation in the field of penitentiary and for the Ombudsman was initiated. In economic development a review of proposals were made so as to guide future interventions. This area is highly important as the unemployment figure rises and foreign investment figures are falling. The potential source for instability that this represents, as well as the obvious poverty relevance, calls for attention. Support to land reform/cadastre was launched and two new agricultural projects were initiated, complementing the existing agricultural portfolio. An active Ministry of the Environment has generated a potential for a higher profile of Swedish cooperation in this area, while the politicised nature of the utility sector and the many different stakeholders renders more difficult the planned cooperation in the field of water management.

The government has still not taken the lead in overall aid coordina-

tion, even if the capacity has increased. The work with the EU Questionnaire during autumn has been a clear example of both a crowding-out effect where other work was more or less put on hold, as well as of an exceptional goal-oriented teamwork.

2. Strategic Country Development Trends

The year of 2004 can be characterized as a year of politics. It started with the tragic loss of the popular president Trajkovski. State funeral and early presidential elections followed. Prime Minister Crvenkovski was elevated to President and left the place as party leader of the ruling party with an interim solution, placing the new Prime Minister H. Kostov as party leader. Before the year's end, however, he left the post accusing the Albanian coalition partners of corruption. Former Defense Minister Buckovski was elected new party leader and Prime Minister in late autumn, revealing some internal party tensions in the run-up.

Implementing the OFA and aligning to the EU requirements remain the top political priorities. Up to approximately 80% of the OFA has been implemented. At the end of 2004 about 14% of the civil servants were ethnic Albanians. Debates on quality versus OFA-compliance occur periodically when it comes to equitable representation and quotas. The largest still outstanding issue is the decentralization process. The process of redrawing municipal boundaries, meaning *inter alia* a reduction of the number of municipalities and in some of them also a change of ethnical structure, illustrates some of the immaturity of the political system. Discussions in the government coalition on the proposal were on the brink of collapse, but eventually passed parliament. However, the whole process was far from transparent and a lot of public discontent surfaced. It all evolved into an ethnic issue emanating in the question of whether the Slav Macedonians were willing to implement the OFA or not. A referendum was staged preceded by various protests throughout the country. The leading party as well as the international community lobbied for boycott. On the eve of the referendum, the United States recognized the name of the Republic of Macedonia, which probably contributed to the low voter turnout, resulting in an invalid referendum.

The heated decentralization debate left some mistrust in the coalition, which was further emphasized by Prime Minister Kostov's later resignation. In several respects, the government does not act in a unified manner and Ministers seem more prone to listen to their respective parties than to the head of the government. Furthermore, the opposition is now split in several fractions, which weakens their position.

Transcending party politics is however the overall goal of joining the European Union. This ambition was underlined this year by the submitting of the application for EU membership in March, the entering into force of the SAA in April and the speedy filling out of the EU Question-

naire. The EU agenda can become a unifying force advancing reform and promoting stability. The questionnaire exercise revealed many deficiencies in the administration and may form a good basis for planning of necessary reform work. The political elite of the country now aims at a positive EU opinion, candidate status and date for start of negotiations during 2005 and has even stated that target date for EU-membership is 2010. Macedonia moreover hopes for NATO membership in 2006.

Corruption is one of the main obstacles on the road to Europe and also for a positive development in general. The former Prime Minister as well as the deputy speaker of Parliament resigned for those reasons, pointing in the direction of the Albanian coalition party. The new government set-up stresses the need to fight corruption, but actions to demonstrate this remains to be seen. Some measures, such as reducing the ministers' discretionary rights and openly declaring the financing of political parties, have already been initiated. However, some particularly affected sectors, such as the judiciary and law enforcement, are in need of substantive reforms. The Anti-corruption State Commission concludes that there is no real political will to fight corruption and nepotism in the country. Probably, many others will adhere to this view.

A positive sign of internal stability was the fact that no spillover effects of the incidents in Kosovo in March took place, nor did the many changes of government lead to any visible disturbances. However, a worrying sign was the inability of the government to deal with the situation in the village of Kondovo during the autumn. A group of armed Albanians more or less put a village two kilometers outside Skopje under siege for a couple of months. After interventions from leaders of the Albanian political parties the group was eventually dissolved, but left some question marks as to the de facto control over the country. The demarcation of the border with Serbia/Kosovo remains unresolved.

The policy of maintaining the fixed exchange rate to the euro as well as keeping a low inflation underpinned the macro-economic stabilization. At the end of July 2004, *Standards and Poor's* gave the Macedonia the first sovereign long-term credit rating 'BB+/B'. Key factors for the positive note were the rapid progress in terms of the political stability, led by the Ohrid Framework Agreement and the perspectives for the EU membership, macroeconomic stability, moderate level of foreign borrowing and moderate to low budget deficit.

Nevertheless, there is little sign for a sustained take-off when it comes to economic growth. There are serious weaknesses in the functioning of the economy and reforms as to business climate, competitiveness and enforcement of property rights are sluggish. Direct investments, both domestic and foreign, remain at a very low level (in Europe, FDIs are lower only in Moldova). Industrial output during 2004 dropped cumulatively by almost 13% compared to 2003. The privatization process has more or less been finalized, but one of the results was an increase of bankrupt companies and more people without jobs and/or salaries. A much-needed influx of foreign capital or know-how did thus not take place. Anyhow, the reform pace was considered positive according to the World Bank and led Macedonia to entering the 'high-case scenario', meaning that more World Bank credits were made available. In the short run, some of the restructuring and reforms will create an immediate negative effect for those people who are about to lose their jobs in the public administration and in the large loss-making companies. This aspect of the transition has been seen elsewhere, but is equally difficult to manage for local politicians.

According to the local Helsinki Committee, human rights abuses in the country are largely stemming from the inability of the government to fight poverty and halt economic deterioration, leaving the population with increasingly poor living conditions. Poverty figures from UNDP show that about 32% of the population lives below the poverty line¹. In 2000 poverty figures were about 20% and in 2002 about 23%. The UNDP found that the most affected groups are where the head of the household is unemployed, with low education or where social benefits constitute the main income. During autumn, the official unemployment figure reached record high 37%². The instability that this situation may spur is evident. The new government puts emphasis on economic reforms, but some of the credibility as to what they can achieve is lost. The low level of public trust in the Government and public institutions reduces its legitimacy and thus hampers the process of major reforms.

The Government has produced a National Poverty Reduction Strategy. However, as Macedonia no longer is eligible for IDA-term loans, the strategy consequently lost part of its relevance. It is nevertheless claimed to be used for policy work at the Ministry of Finance and for the Ministry of Labour and Social Policy. The PRSP and the MDGs are however treated with less enthusiasm compared to the EU-agenda.

Regarding the donor community, the main multilateral actors are the World Bank, the EAR and UNDP and major bilaterals are the Netherlands, USAID, Switzerland, Germany and Norway. DFID is phasing out its support and the USAID are also signaling a possible exit within a few years. Donor coordination exists on sector and project level in the field, however still not in the hands of the beneficiary, as would be preferable. The EU development cooperation is administered by EAR and the EU Delegation handles the political dialogue together with the EUSR. The many faces of the EU in Skopje create confusion, maybe not only for the local population.

¹ Defined as consumption below 60% of 1996 median monthly consumption, ie about 50 usd/month or 1,7 usd/day

² State Statistical Office of the Republic of Macedonia

3. Swedish Development Co-operation

3.1 Strategic Assessment and Considerations

During 2004, there has been a shift of focus from a previous emphasis on civil society support to focus more on institution building measures in the public sector. The period of immediate crisis handling and reconstruction work has passed and more focus may be put on the functioning of the state and its services. The overall pace of reform during 2004 was sluggish, much due to the political events and deliberations that took the attention away from necessary reforms. The EU integration strivings of the government will be the main driving force to overall reform of the public sector and it is imperative that these strivings are upheld.

Macedonia being one of the poorest countries in the region, facing negative socio-economic development and high unemployment numbers, indicates that a poverty focus is highly relevant. How best to tackle this problem is a difficult and continuous question. The Swedish programme tries to include various dimensions of poverty, not only in the material sense, but also with respect to lack of opportunities and lack of influence.

Encouraging transparent and fair public administration and rule of law practices represent a means to further a rights-based perspective. Providing for equal access to services and a better functioning of the state apparatus should in the end benefit all citizens. Increased exposure to alternative ways of managing public administration can also serve as a means to disturb or curb inefficient and corrupt practises. Supporting non-discrimination and minority issues are other examples addressing the power dimension of poverty. Support to civil society (especially in their role as society watch-dogs) therefore remains a priority area, even if forms and channels for the Swedish support as well as its current focus might be reviewed. Support in this field contributes to fulfilling the Copenhagen political criteria.

Economic development is seen by many as a key to overall development and increased stability of the country. To improve the business environment is a priority in the European Partnership. However, the government clearly lacks strategic thinking and planning in this field. Sida tries to contribute to more favorable conditions for growth and employment by supporting measures aiming at reducing obstacles for economic development as well as those that promote small businesses. The comprehensive agricultural portfolio that Sida supports addresses several aspects of the sector and is highly relevant both for the poverty and livelihood aspects and for the forthcoming EU-alignment and restructuring. The complexity of this needs to be further considered.

The cooperation in the field of environment seems to gain ground, much due to an ambitious Ministry. The sector represents a complex and costly part of the EU-alignment. The present Swedish environmental support stretches over several ministries, targeting both central and local administration as well as improvement of local utility infrastructure.

Notwithstanding the general aim of concentration and of reducing sectors for cooperation, discussions on entering the social sector have been initiated. This is justified by the deteriorating living conditions and the instability it might imply, as well as by the increased emphasis that the Swedish Government has put on addressing poverty problems. Improving social standards and addressing poverty and social exclusion is stated a medium term priority in the European Partnership.

Other priorities in the Swedish country strategy are e.g. gender awareness, regional cooperation, conflict and tolerance. As to gender awareness, Sida arranges training for its partners on this theme in order to improve capacity for mainstreaming. The Swedish NGO Kvinna-till-Kvinna (KtK) is directly targeting women NGO in their support. Tolerance and non-discrimination aspects are included in almost all activities dealing with youth and children as well as civil society in general. The regional aspect is stressed in some projects, such as trade promotion, youth leader training, a Euro-region initiative including Albania and Greece. However, due to dispute about the name of the country a temporary halt of the latter took place during the year.

One of the key dialogue issues during the year has been ownership and commitment, trying to reach a situation where Macedonia is in the driver's seat and Sida's role would only be to add some fuel to an already running car. The success of this largely depends on the capacity of the beneficiary institution, where the public administration clearly has shown to be a weak link. One reason is the very centralized and politicized – and somewhat immature – administrative system, where some staff seem more loyal to the Minister and the party than to the idea of a well functioning administration. The obvious risk of losing the job if there is a shift of government does not promote long-term thinking. Old time habits and procedures are still present in today's administration. Another more practical limitation is that there simply are not enough open minded, reform-prone persons at a sufficiently high level (and with adequate language skills) in the public sector to manage foreign aid and press forward in-depth reforms. The EU-questionnaire exercise proved this, in that all other discussions were more or less put to a halt during some months. On the positive side was that the administration managed to deliver, in time, a joint product, something that might promote a much-needed increased intra-ministerial cooperation.

The implementation of the CS for Macedonia in general follows the priorities set. Deviations are primarily caused by political events or administrative procedures resulting in time delays. On project level, some ideas have not been realized due to for example limited capacity on Swedish side (Data inspection) or cooperation has been ended due to sub-standard performance or failure to comply with Swedish priorities (Balkan Children and Youth Foundation, War-thorn societies) or dubious management of fund (PRONI). Decisions in relation to this have formally been taken by Sida-Stockholm.

In view of the current process of revising the country strategy for Macedonia this spring, issues for strategic adjustments and alternative choices are left out in this text. In general, however, the current fields of cooperation are still relevant. Risks for successful future implementation of

the strategy during its last year are mainly linked to political events taking away attention and resources from reforms (not least the upcoming local elections and the discussions on the status of neighboring Kosovo).

3.2 Overall Country Portfolio Review

The project portfolio of Swedish assistance to Macedonia covers the three prioritised areas, which, as stated above, contributes to the goals of poverty alleviation, stability and EU integration. Most of the interventions have an EU integration aspect, be it indirect or more direct.

Sida prefers to enter into long-term commitments where the ownership clearly lies with the project partners. This approach can entail lengthy and cumbersome project preparations, but in the end is believed to promote a more sustainable reform and development process. This is especially important in the public administration projects, where a lot of the needed reform should be achieved by means of changing attitudes, habits and perceptions of staff. Such changes can never be achieved without sincere political will, a long-term approach and a project firmly rooted in the administration.

The channelling of projects through the aid coordination unit, the Sector for European Integration (SEI), provides for some level of commitment and prioritising from the government as a collective. It also contributes to supporting the local donor coordination function. The SEI is still not taking the lead in aid coordination as it ought to, but also, some donors are not respecting their coordination function. Norway is via UNDP providing support to the SEI.

Various actors, such as non-governmental organisations, public institutions and consultants, implement the Swedish country strategy. Beneficiaries are in general fairly weak and it is important that contracted implementers are open minded in their approach and let the beneficiaries steer the process, even if it implies that more time is required for carrying out the project. Sida has an advantage here in not working against contracting deadlines.

The Office for Cooperation in Skopje tries to assist in finding links and promote cooperation between cooperation projects, by gathering implementers occasionally, by sharing information with and between them and by trying to be as open and transparent as possible when preparing and discussing project ideas. This openness is naturally also directed towards other actors and donors.

Concentration of the portfolio is a main concern. It is perhaps especially needed in the field of democratic governance/civil society, where there are a number of projects of various sizes. Increasing the volume of projects is one thing, but reducing sectors/sub-sectors are more troublesome, as it implies phasing out and ending some co-operation. Sida is presently trying to withdraw from direct agreements with local NGOs and only cooperation efforts of long-term nature are being considered.

Exploring the comparative advantages of other donors, such as local know-how, capacity or credit possibilities, and working in partnerships can be another way of increasing the efficiency of the Swedish input as well as contribute to donor coordination. During the year, Sida has been co-operating with UNDP, OSCE, World Bank and the EBRD.

Volumes and Forecasts

The disbursements for 2004 amount to about MSEK 58. During 2004, two large agricultural projects were launched (National advisory services and cooperation between the Farmers organisations). The start of one compre-

hensive environmental project (Vodovod) was however not taking place as planned. Commitments for 2005 are estimated to about MSEK 60.

3.3 Sector-wise Analysis

Democratic Governance

Democratic governance can be defined in many ways. Here it involves both civil society development and public administration reform, including Justice and Home affairs. The judicial sector is crucial for the overall democratic development and for the rapprochement to the European Union. It is at the same time one of the more difficult areas to reform, being at the heart of a state building process. The legacy of the old regime is still present. The international community is much concerned about this area and support efforts are numerous. Even the World Bank and the IMF are getting involved in the judicial sector. The judicial reform package presented by the Ministry of Justice during late 2004 is an ambitious and well-structured document, which hopefully is to be used by donors. Sida needs to be careful where to place support efforts so as not to overburden recipients or overlap with others. Today, Sida provides initial support to institutional cooperation in the penitentiary field, which is an often-neglected part in the judicial chain, yet it is mentioned in the European Partnership. And, via OSCE, Sida financed a first step in a likely long-term support to the Ombudsman office. The reform and development of the Ombudsman office is listed a short-term political priority in the European Partnership. This first step was slightly delayed, partly because of the somewhat drawn out process of signing an inter-agency agreement, due to a previous negative experience with the OSCE (not the mission in Macedonia) when it comes to administration and management of funds. If considering to extending support in the justice area, the question would be how to relate to and position oneself in this context of great needs and many donors, while making sure Swedish funds are efficiently used.

The decentralization process is a complex and politicized reform, which needs a lot of attention and support. The uncertainty of the decentralization process of this year caused further delays. Substantive training is required in order for the local level to shoulder the increased responsibility that will be handed over to them. Donor interest in this field is extensive and training efforts are overlapping. For example, four different trainings on procurement have been delivered, each of them teaching different methods and practices. This calls for a cautious approach and has meant that further Sida support in this area has not yet been decided. Sida previously financed, via UNDP, assessments of various aspects of the process and now keeps a dialogue with the main parties on possible areas of intervention. The responsible Ministry has not clearly expressed any needs or been able to formulate any appropriate proposals for Sida to consider. The Sida-funded local mobilizations programs (AMPEP and ALKA) focusing on solving common, predominantly infrastructural, problems at community level are complementing the high donor interest placed on the local administration. The two programs were evaluated during the year, leading to some necessary adjustments, including an exit strategy.

The main focus in the field of civil society is children and youth, women, media, minorities and victims of trafficking. Basically all supported activities within the civil society sector include a component of interethnic dialogue and tolerance. It is moreover important to try to

widen the minority concept in Macedonia. The support in this field primarily rests on the three Swedish framework organisations, which remained throughout the year. KtK visibly fills a gap in the country's civil society and contributes to the enhancement of gender issues. The need for having two relatively similar framework organisations, such as the OPIC and SHC, both working in the field of non-discrimination and human rights, could be discussed. The framework cooperation in the field of children and youth was not renewed this year, leaving somewhat of a vacuum in this area. Discussions on additional framework agreements were also halted when the mismanagement in the organisation PRONI surfaced. Sida-Stockholm immediately stopped the cooperation and initiated an investigation. An interim solution was set up so as not to stop the project activities and a long term solution with another Swedish partner is now found.

A National Roma Strategy was finalised by the Government during the year, with the NGO PER facilitating the process. The further implementation will be followed. However, main priorities lie with housing, education and health, areas not covered by the Swedish cooperation strategy.

Trafficking in human beings has received a lot of attention during the year. Besides the support to IOM, the Office arranged screenings of the film Lilja 4-ever. Furthermore, OSCE has arranged several screenings; the EU Police Mission Proxima used the film for seminars for the local police and several NGOs arranged workshops on trafficking where the film was screened. The Skopje office tried to be present at most of the screenings.

HIV/AIDS

The area of HIV/AIDS does not receive a lot of attention. Absolute numbers of known cases are seemingly low, but trends are worrying. Drug use, STDs are on the rise and the young people are most vulnerable. This is a common and unfortunate feature in transition countries. Sida support to preventive efforts by the UNICEF has this year been complemented by a project focussing on risk groups and treatment of HIV/AIDS victims. During the year, the Ministry of Health has gained access to the Health Global Fund, but fears are that they will not be able to use these funds, due to inability to produce structured project proposals.

Economic Development

As indicated above, there are many obstacles to economic development in today's Macedonian society that needs to be overcome. However, some progress has been made in supporting development of small and medium sized enterprises. In parallel to the adoption of the European Charter for Small Enterprises, the Government introduced measures for the purpose of supporting entrepreneurship and competitiveness of SMEs. However, access to credit remains weak and the banking system is still characterized by lack of competition, high deposit and lending rates and a limited appetite for lending, even if liquidity is high.

Sida is presently supporting various initiatives in the area of private sector development. For example, there is a Guarantee Fund, which clearly fills a gap in the financing system, facilitating SME loan requests by providing guarantees for part of the necessary collateral. The Fund is today a well-known organization enjoying a good reputation. During the year they developed new instruments, which further widen their possibilities for support to small entrepreneurs. Joining forces with IFAD, Sida continues to support possibilities for crediting in the agricultural

SME sector. After a delayed start this project is now up and running. Nevertheless, not having any local presence of IFAD have caused a more difficult co-ordination and an inert exchange of information. The above projects respond to the priorities of the European Partnership linked to standards criteria. A partial review of proposals and projects in the private sector was made during the autumn. According to this, Macedonia has a relatively well functioning institutional set-up and financial and non-financial services to SMEs seem fairly abundant, but a lack of donor interest was found as to micro-financing and start-up business.

The absence of a reliable cadastre and the lack of certainty about property rights are also proving to be serious impediments to investments. In particular it limits the possibility for small firms to pledge property as collateral and obtain loans. During the year, Sida has, together with some other bilateral donors, joined the World Bank in a broad land management and cadastre reform project. The Swedish supported component, which forms an integral part of the World Bank program, is focused on strengthening the institutional capacities of the State Authority for Geodetic Works. The project directly targets a short-term priority in the economic area of the European Partnership.

Taking into account the WTO membership, the active SA agreement, as well as the numerous bilateral free trade agreements concluded Macedonia now enjoys a high level of liberalized trade relations. So as to benefit from this and as a direct continuation of an international training course conducted in Stockholm, a regional program on food safety and quality has been prepared. It is based on the WTO SPS requirements and the European Union rules and regulations. Close coordination with an upcoming EAR funded project is taking place.

Agriculture

2004 did not prove to be a turning point towards progress for agriculture, nor for other sectors in the country. The general economic and political situation and the transformation have direct implications to the area of agriculture, being one of the largest industries in Macedonia. The rural population is risking to gradually becoming an urban poor population. Many of the industries in rural areas are closing down and the workers are trying to survive by either moving into urban areas or by farming on small pieces of land. In the process of trade liberalization and opening up of markets, competition is increasing. Since the agricultural business in Macedonia does not yet comply with EU quality standards, trade possibilities are limited, even to traditional 'home markets' such as Slovenia.

A number of agricultural laws were adopted and revised in harmonization with EU law. During the autumn, the government worked intensively on answering the EU-questionnaire where agricultural issues occupy a substantial part. The complex task of restructuring and complying with EU standards and regulations and setting up relevant institutions is only at its beginning. The implementation of the governmental agricultural strategy for 2001-2005 is slow, much due to the fact that agricultural issues are still divided among three different ministries (Agriculture, Economy and Foreign affairs).

The Sida-supported programme in agriculture has expanded during the year and it now forms a holistic approach, encompassing several perspectives. Firstly, the farmers themselves, in supporting them creating a sustainable and competitive agricultural business sector via the support by a long-term arrangement with the Swedish Farmers Association. Then, the policy and technical side by supporting the Ministry and

their national advisory agency, by improving agricultural statistics in the cooperation with the Statistical Office, as well as by contributing to a scientific exchange by means of University cooperation. The farmers have never before had a chance to participate together with science and government agencies in planning and creating Macedonian agricultural policies. Furthermore, the agricultural credit schemes and the guarantee fund already mentioned further underpin the efforts to promote one of the more important economic fields in the country. The many links between the projects will be further explored in order to increase the overall impact. Agricultural reforms are included in the Partnership Agreement. The EU aspect of agriculture is obvious, but complex, and how to address the reform needs and prepare for them forms a natural part of all projects.

Environment

Macedonia, being determined to become a EU member, is faced with problems related to economic growth and substantive administrative reforms. One significant part of the alignment is adopting and implementing EU legislation on environment.

In the current country strategy, environment is a priority area for Swedish support, pointing at the environmental quality and ecologically sustainable development as key challenges and requirements for enabling peace, stability and economic development in the region. The Ministry for Environment and Physical Planning is actively pursuing the process of reforms and adjustments to EU standards and regulations. As part of this process, a national strategy for sustainable development is to be formulated with support provided by Sida.

Via the local NGO Regional Environmental Center, support is provided to the preparation of Local Environmental Action Plans in six selected municipalities. The project thus contributes to improve the local capacity of managing the increased responsibility foreseen in the decentralization process.

Support to the public enterprise for water supply and wastewater treatment in Skopje, Vodovod, is a comprehensive joint program planned to be co-financed by Sida and the EBRD. The project involves many different stakeholders why negotiations on the design and the agreements have been lengthy and complicated. The EBRD is separately negotiating a credit arrangement for an investment phase. But, the local partner perceives the terms as too hard and the credit too expensive, whereas the EBRD sees the local partners as lacking in commitment, and the whole process now is on hold. For Sida, joining efforts with a strong IFI is necessary when entering projects which are financially weightier and which involve difficult and sensitive reforms. On the other hand, Sida can adopt a more flexible approach towards the needs and conditions of the local counterparts. Strong local ownership of such projects is a precondition and the lengthy preparation process needs to be taken into account when planning activities and budgets. The municipal elections to be held in March 2005 add to the time delays.

4. Administrative Issues

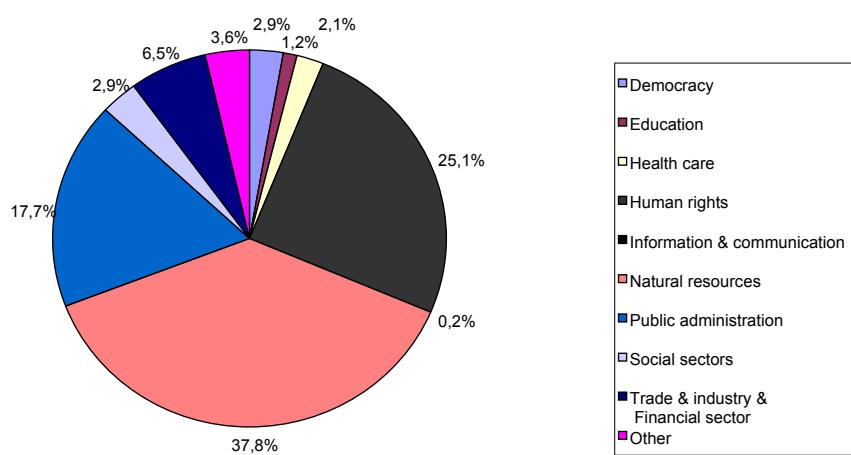
The Office for Cooperation in Skopje has in all 10 staff, out of which 4,5 staff works with development cooperation. There are two national Programme Officers, one Bilateral Associate Expert and one Coordinator, as well as one (half) programme assistant. The administrative post is shared by MFA/Sida. The Office recruited an additional National Program Officer during the spring 2004. Furthermore, the coordinator for development cooperation as well as the bilateral expert position was also changed during summer, leading to some reorganization of work. The staffing is deemed adequate in view of the present program.

The Office in Skopje does not have delegated development cooperation funds, why formal responsibility for financial follow-up rests with Sida Stockholm. Qualified experts are sometimes assigned by Sida-S to follow projects of a more complex or technical character, such as for example anti-corruption interventions or financial crediting schemes.

Closely following the political developments allows for adapting and changing the program, if necessary. The direct monitoring of projects is carried out by field visits, regular meetings with implementers and participation in some activities. The Office in Skopje keeps close contact with implementers, through the monitoring as well as by occasional gatherings in sector meetings. This also promotes cooperation between the various projects supported.

Appendix A

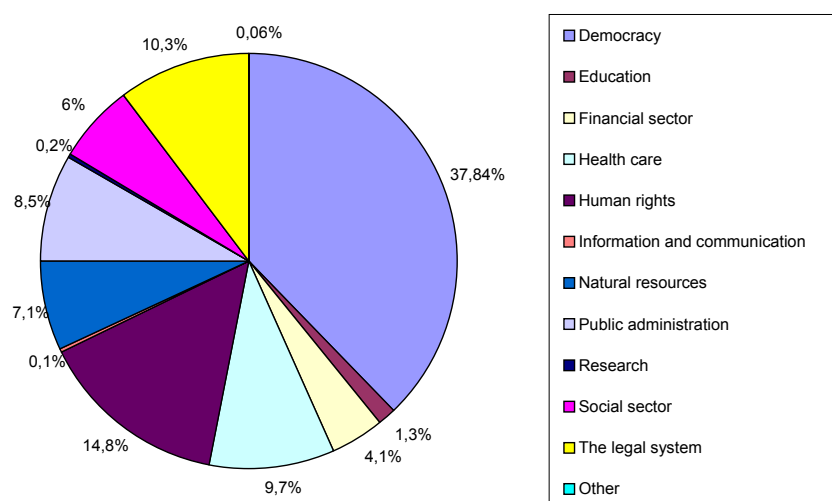
Macedonia: Disbursed 2004 (Total: 58 037 940)



Sector	SEK	%
Democracy	1 673 081	2,9
Education	660 000	1,2
Health care	1 225 000	2,1
Human rights	14 584 574	25,1
Information & communication	113 765	0,2
Natural resources	21 932 742	37,8
Public administration	10 276 555	17,7
Social sectors	1 696 394	2,9
Trade & industry & Financial sector	3 775 650	6,5
Other	2 100 181	3,6
Grand Total	58 037 940	100

Appendix B

Regional Western Balkans: Disbursed 2004 (Total 103 195 507)



Sector	SEK	%
Democracy	39 048 000	37,84
Education	1 375 000	1,3
Financial sector	4 231 658	4,1
Health care	10 000 000	9,7
Human rights	15 309 818	14,8
Information and communication	140 358	0,1
Natural resources	7 173 513	7,1
Public administration	8 802 068	8,5
Research	210 629	0,2
Social sector	6 248 586	6
The legal system	10 586 792	10,3
Other	69 086	0,06
Grand Total	103 195 507	100

Halving poverty by 2015 is one of the greatest challenges of our time, requiring cooperation and sustainability. The partner countries are responsible for their own development. Sida provides resources and develops knowledge and expertise, making the world a richer place.



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