

Evaluation of EC Country Strategy: FYR Macedonia 1996-2001

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The authors accept sole responsibility for this report. The report does not necessarily reflect the views of the European Commission, which commissioned this report.

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Preface

The FYR Macedonia Country Strategy Evaluation (CSE) has been carried out as one of a series of CSE exercises on EC assistance programmes worldwide, undertaken on behalf of the Evaluation Unit of EuropeAid office of the European Commission.¹

The report has been produced on the basis of 3 visits to the Commission headquarters in Brussels, including interviews and roundtable discussions with Mr Roijen (DG Relex), Ms Falkenberg (EuropeAid) and one interview with Ms Beccarelli (Delegation) and Ms Pampaloni (EuropeAid). This report is also based on visits to Washington DC (USAID, the World Bank and the IMF) and London (DFID) and the careful study of all Monitoring and Assessment reports as well as the final Phare Implementation Office report. However, unlike other CSEs in this series, this CSE report has not benefited from a visit to the country (missions were cancelled because of security considerations and also because the Delegation was engaged with other activities). The Evaluators were provided with all the monitoring and assessment reports but were given access only to a very limited amount of Commission files and audits in headquarters.² Instead, some documents were sent to the Evaluators from the Delegation in Skopje. As a result this CSE report includes limited information on issues such as the role of the Delegation in the current crisis and the performance of the Assistance section of the Delegation.

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The following Country Strategy Evaluations have been carried out by the Development Strategies/IDC team: South Africa, Senegal, Azerbaijan, Papua New Guinea, Dominican Republic, Turkmenistan, Mozambique, Uganda, Namibia, Burkina Faso and Albania.

¹ A CSE is meant to be forward-looking, contributing directly to the preparation of a new strategy.

² As described below, in some cases this was because some documents were considered sensitive, in others because Commission officials stated that they had difficulties in locating documents requested (e.g. PIO Final Report).

List of abbreviations

ACU	Aid Coordination Unit
BWI	Bretton Woods institutions
CARDS	Community Assistance for Reconstruction, Development and Stability.
CBC	Cross border cooperation
CFCU	Central Finance and Contract Unit (Ministry of Finance)
CFSP	Common Foreign and Security Policy
COP	Country operational programme
CSP	Country Strategy Paper
DFID	Department for International Development (UK)
DG Relex	Directorate General of External Relations (Commission)
DIS	Decentralised implementation system
EC	European Commission
ECHO	European Community Humanitarian Office
EIO	European Integration Office
FYR	Former Yugoslav Republic
M&A	Monitoring and assessment reports
MAFWE	Ministry of Agriculture, Forestry and Water Economy
MIP	Multi-annual indicative programme
MoF	Ministry of Finance
MS	Member States of the European Union
NEPA	National Promotion Enterprise Agency
NGO	Non-governmental organisation
OBNOVA	European programme for the rehabilitation and reconstruction of Bosnia-Herzegovina, Croatia, the Federal Republic of Yugoslavia and the FYR Macedonia
ODA	Official development assistance
Phare	European programme of cooperation with countries of Central and Eastern Europe.
PAR	Public Administration Reform
PIO	Phare Implementation Office
PIP	Public investment programme
PIU	Programme implementation unit
PMU	Programme management unit
PRSP	Poverty Reduction Strategy Paper
RESC	Regional Enterprise Support Center
SAA	Stability and Association Agreement
SAP	Stability and Association Process
SCR	Common Service Relex DG (now EuropeAid)
SME	Small and medium scale enterprises
TA	Technical Assistance
UNHCR	United Nations High Commissioner for Refugees
VET	Vocational Education Training

Executive summary

This is the executive summary of the Evaluation of the EC's Country Strategy in FYR Macedonia for the years 1996-2001. It is a part of a series of Country Strategy Evaluations of EC aid.

The report is based on interviews carried out in Brussels, London and Washington D.C. and the careful review of all monitoring and assessment reports and other key documents. Ch. 1 focuses on the relevance of the EC's country strategy in FYR Macedonia. Ch. 2 looks at the performance of the EC's programme in FYR Macedonia, focusing principally on its impact on the EC's stated objective. Ch 3. looks at key factors which explain this performance. Ch 4. presents recommendations.

1. Relevance of the strategy (p.1)

Country analysis

1. Political development and Governance.

Since independence, FYR Macedonia has been governed by a series of coalitions. Elections have generally been assessed as free and fair, although with some localised irregularities. However, governance remains extremely weak. Political competition is still seen as "winner takes all"; parties seek to gain control of state institutions for the sake of the economic rents they provide. As a consequence the state remains too centralised and politicised. This in turn leads to poor quality formulation and service delivery. In addition, spending in security has increased as a result of the current conflict. This spending is often off budget and non-transparent. Meanwhile, civil society remains weak.

2. Social developments and ethnic tension.

FYR Macedonia remains a deeply divided society. Political and governance problems have hindered efforts to deal both with ethnic tensions and with poverty. Poverty remains a significant problem on both sides of the ethnic divide. An interim Poverty Reduction Strategy Paper has been prepared with the World Bank and the IMF.

3. Economic Developments.

FYR Macedonia successfully pursued macroeconomic stabilisation, supported by the IMF and the World Bank. The economy grew in 1999 and 2000 (despite the Kosovo

crisis). However, structural reforms stalled (e.g. privatisation of large state enterprises, agriculture). The small and medium enterprise sector is dynamic but often outside the formal economy. Armed conflict in the region has facilitated the expansion of smuggling and criminal networks trafficking in arms, drugs and women. This not only has the potential to further weaken government institutions, but also has a direct impact on EU countries.

4. Role of the International Community.

FYR Macedonia's relations with the international community have, until the current crisis, been very good. The international community has been concerned that conflicts elsewhere should not spread to the country. The Kosovo crisis placed severe strains on FYR Macedonia but stability was maintained. In this context, the Stability Pact and the Stability and Association Process for South-East Europe were designed to promote regional peace and cooperation. FYR Macedonia has become the first country to sign a Stabilisation and Association Agreement with the EU (April 2001). However, it is not clear that the SAA reflects a genuine realization on the part either of government or of civil society of the pre-requisites for successful European Integration.

5. **Donors in FYR Macedonia.** The level of official development assistance is fairly high (about 6% of the GDP). The largest donors are the EC and USAID.

6. **Recent events and prospects.** If armed conflict continues, both political and economic prospects are bleak. In any case important challenges for the country include: ethnic reconciliation, renewed commitment to structural reforms, governance and anti-corruption measures and the need to combat organised crime.

7. A further complication is the possibility that future post-conflict assistance may become conditional on high-level political actions rather than structural reforms.

Relevance of EC strategy to country needs (p. 7)

8. **Lack of strategy documents for the period 1996-2001.** The Evaluators concluded that all annual programming in the period 1996-2001 was prepared without reference to any written country strategy. The multi-annual indicative programme 1996-1999 does not contain a proper analysis of the Macedonian political and economic conditions, nor a statement of Phare objectives in the country. In particular, it does not consider the potential for ethnic tensions in FYR Macedonia.

9. The MIP describes support to 5 core sectors. However, in practice these sectors covered virtually the entire economy and most spheres of government activity. Nor were programmes within these sectors well focused. There was also little consideration of the realism of such ambitious set of programmes, given the limited implementation capacity of the government and the EC.

10. **Annual programming process.** The annual programmes include little in the way of strategic analysis. Programming largely took place in headquarters, with relatively little consultation with other stakeholders. The programmes include little explanation of the coherence of the programme, likely government ownership or the implementation capacity of the government. Moreover, there is no analysis of past interventions, risks of the strategy, or activities of other donors (including the role of the PRSP).

11. **Shift of emphasis of recent programmes.** Since the beginning of the SAP in 1999, there has been an increasing

concentration on programmes relating to European integration (particularly in the CARDS Order of Services 2001). It should be noted that most of these proposed interventions are complex and rely heavily on the provision of equipment and hardware, even in the absence of a well-defined institutional framework. In this context, it is not very likely that these programmes will achieve a significant impact.

12. However, it is important to note that a few recent programmes could contribute to support national reconciliation (e.g. support to the Census and to the Implementation of the Law of Higher Education and the SEE University of Tetovo).

13. **EU integration or domestic development.** The shift to projects directly related to formal aspects of EU integration priorities and to the SAA rather than more general and basic institutional building efforts was not based on any specific assessment. As a result, the projects appear uncoordinated and unlikely to strengthen institutions, build organisation capacity or support the resolution of the national crisis. In the considered view of the evaluators, the assumption that these objectives could be achieved solely through adaptation to EU norms is incorrect. A more effective strategy to achieve the EU political goals would be to support FYR Macedonia's economic and social development, which in turn would lead logically to EU integration and the successful implementation of the SAA.

14. **Future programming.** Future assistance is to be delivered in the framework of the CARDS programme. Some MS noted their concerns on the programming of the 2001 programme and it is not clear to the Evaluators if, or how the Commission intends to consult with stakeholders in the preparation of the new strategy.

15. It appears that in the future, EuropeAid will carry out annual programming. It is hoped that this could result in a greater realism of programmes, however, it is important that DG Relex provides a firm strategic direction and monitoring of this exercise.

The EC's programme (p. 12)

16. FYR Macedonia became a Phare partner country in 1996, having previously benefited from the Phare critical aid programme (85 million euro, 1992-1996). Between 1991-1999, FYR Macedonia received 449 million euro in commitments from the EU budget including contributions for emergency humanitarian relief and for balance of payments support. This included nearly 200 from PHARE.

2. Impact of the EC programme (p. 14)

Institutional Reforms (p. 14)

17. Phare provided support for the overall public administration, aid coordination and the public investment process. Also many other interventions included over-ambitious institutional components. However, despite this emphasis, the institutional achievements of the programme have been very low. Phare support was dispersed, did not take into account government commitment or key crosscutting issues (e.g. pay reform, politisation of the civil service, etc).

18. The public administration reform programme was donor driven and did not focus enough on implementation. The two Phare programmes in support of aid coordination (ACU/EIO) did not achieve its objectives, while the recent support to decentralised implementation (through the CFCU) has also failed (and centralisation has been reintroduced). The support to the PIP was TA driven and not adequately integrated in the budget cycle.

19. In Agriculture, the M&A finds that the interventions had very little impact on the sector and little progress is reported in the support to programming and implementation capacities of the Ministry. In the Environment, the objective to assist in creating an efficient platform for implementing the new environmental policy and the NEPA has not been achieved. The new programme focuses more on harmonisation of legislation rather than more general support to the Ministry.

20. However, the support to Vocational Education Training is reported to have contributed in reforming secondary vocational education and establishing partnerships at regional and EU level. Some progress is also reported by the M&A in the second programme to support the Statistical Office.

21. The new EC programmes address very sensitive and complex areas (e.g. local government, judicial administration, integrated border management control and customs administration). However, the same factors that limited the performance of the public administration reform programme will also probably limit as well, or even more strongly, the impact of these new programmes.

Economic Development (p. 17)

22. The information available for the large Cross Border Crossing programme rates the programme as unsatisfactory. Poor design of roads and management was responsible for substantial delays. Delays were also significant on border crossing and the veterinary and phytosanitary facilities and the water quality monitoring. No information was available on EC support to the E-65 road.

23. Substantial Phare resources have supported the creation of business promotion centers (NEPA and RESC). However, these centres are donor-dependent institutions with limited links to the private sector and working in the context of a weak policy framework. Recently the decentralised management of the SME project has resulted in serious financial control problems.

24. On Banking Reform training courses and workshops were carried out with commercial banks but support to the national bank was delayed. A feasibility study for the reform of the Inter-bank payment system was supported but the Replacement Payment System was not introduced. Sustainability is affected by the very limited involvement of the banking sector in these proposals.

Democracy and the Rule of Law (p. 18)

25. Overall this objective has received limited support from Phare. Some small support was provided by other EC programmes. Some recent programmes in Justice and Home affairs include complex components that in the absence of an effective government strategy and involvement of civil society are unlikely to be successful.

26. However, programmes in support of the Census, SEE university in Tetovo and funds to deliver rapid rebuilding of areas affected by recent fighting may contribute to support democracy and national reconciliation. Non-Phare interventions such as the EC budget support linked to the Kosovo crisis seem to have contributed to the stability of the country and the region. The support by ECHO is also reported to have made a similar contribution.

EU integration (p. 19)

27. Even early Phare interventions included activities that gave high priority to formal requirements for EU integration. Unfortunately, in most cases these programmes did not take sufficiently into account the country conditions and weak implementation capacities. As a result, the impact of these programmes has been low.

28. However, the M&A finds that the CBC programme has contributed to improving relations between Greece and FYR Macedonia. Progress in agriculture and environment has been slow. Given previous experience, it is unlikely that the more recent complex programmes will have a greater impact.

Other objectives (p. 20)

29. Phare in FYR Macedonia has pursued some interventions designed to improve the environment, but there has been little attention to poverty and gender issues. In environment, little sustainable changes have been achieved and delays have affected relevant activities (water quality monitoring projects). Moreover, the EC has not contributed as yet to the work on the Poverty Reduction Strategy Paper as yet.

Monitoring and Assessment (p. 21)

30. The monitoring consortium has produced 17 programme and one summary assessment since July 1998. Only 7 are highly satisfactory or satisfactory.

3. Explaining the Performance of the EC programme (p. 22)

Strengthening government institutions (p.22)

31. **Lack of an overall strategy and government ownership.** The Commission did not develop a coherent strategy to deal with problems in supporting government institutions. An adequate government policy framework and a minimum government commitment to reform were absent in most areas of EC support. In PAR, the EC supported reforms were “seen only as amending/adopting laws and not going to the core fundamentals of the whole organisation/management system”. Similarly in agriculture, Phare focused on delivering equipment and external TA rather than addressing the key bottlenecks for institutional strengthening.

32. **Institutional support ignores the absorptive capacity of the government.** EC implementation units have been frequently external to existing institutions and usually ill adapted to them. In some sectors, the EC supported the creation of new institutions and systems without assessing their sustainability. For example, ACU/EIO and the PIP process did not fit well into existing government structures and the new units in agriculture have proven to be heavily dependent on the EC. Similarly NEPA is heavily donor dependent and with weak links to the private sector.

33. EC programmes have been too ambitious and fragmented. For example, agriculture and the PAR covered too many dispersed activities.

34. **Recent interventions are even more complex.** There is some evidence that an

excessive focus on the more formal aspects of EU integration is not only leading to even more complex programmes (therefore making it more unlikely that they will achieve their objectives) but it is also distorting some sector priorities (e.g. in agriculture and possibly with the newly created European Integration units in different government departments).

Support to civil society (p.25)

35. The EC did not formulate a strategy for supporting the civil society in FYR Macedonia. It did not consult civil society organisation on its programme, and did not channel support via these organisations. However, there are some recent programmes in this area (see above) and the Delegation has noted that it is aware of the need to work more closely with civil society organisations.

Donor Coordination (p.26)

36. To date, except in periods of serious crises, donor coordination has been very weak. Consultative group meetings are still limited to exchange of information. Coordination at the level of the Stability Pact is better but it neglects specific country conditions.

37. Coordination between the IMF and the World Bank has improved recently at headquarters level but it is still mostly limited to exchange of information. Coordination with USAID (another major donor) is very limited. Coordination on the ground is weak, although in the past this was explained by the absence of a Delegation. The Commission argues that there is an implicit division of work: EC works on EU integration and the other donors on structural issues. However, in practice this division does not work well. A focus on formalistic aspects of EU integration and harmonisation detracts from a focus on getting the basic structures and strategies right.

38. There is also the potential tension resulting from the possibility that post-conflict assistance will be provided on the basis of political conditionality alone.

39. **Sector level coordination.** Donor coordination is also weak given the absence of government sector strategies and the

weakness of government institutions. Coordination on the PAR, transport and environment is reported to have been weak. However, coordination on agriculture (land reform legislation), VET, customs, budget support and ECHO appears to have been stronger.

Commission Implementation Capacity (p.29)

40. **Commission Services in headquarters.** Weak implementation and serious delays have been described in the M&A reports. During most of the period covered by this report, implementation was managed from DG Relex in Brussels. However, implementation does not seem to have improved with the creation of a separate implementation DG (EuropeAid-previously SCR). At present, the Delegation notes very serious delays in implementation and a large backlog of programmes (from 1997, 1998 and 1999). Moreover, the move towards decentralisation should have been managed more carefully. However, it is important to note that ambitious and unrealistic programming has not facilitated implementation.

41. The Evaluators also conclude that the creation of EuropeAid has introduced some disruptions in programme implementation and in record keeping, while transparency in the management of the programme appears to be limited.

42. **Implementation in FYR Macedonia.** Initially implementation was monitored by consultants in a Phare Implementation Office which became part of the Office of the Resident Envoy and then of a Delegation (2000). The government counterpart was the ACU and later the EIO but they both had a number of weaknesses and often contributed to reduce the ownership of projects by line ministries and specialised units.

43. **Failed moved to decentralisation.** The Central Finance and Contracting Unit was established in December 1999 under the responsibility of the Ministry of Finance to carry out the decentralised implementation system (DIS). The DIS was implemented only in late 2000 but resulted in a number of serious irregularities in the management of

the SME project. As a result, headquarters has abandoned DIS and has decided on the re-centralisation of all programmes that have not started.

44. Decentralisation would have required greater improvements to the capacity of both the government and the Delegation (particularly in financial management and controls). Meanwhile, a special task force has been created in EuropeAid for the delivery of aid to FYR Macedonia, a recognition that normal systems in EuropeAid are unable to deliver effectively as yet.

45. **Adequate monitoring, insufficient evaluations and weak learning.** EC monitoring systems (by OMAS consortium) in FYR Macedonia are relatively advanced. However, some important projects have not been assessed (e.g. E-65 road) and the timing of the reports could be improved. Reports have been highly critical but are nevertheless often more optimistic than can be justified by reference to the actual impact of Phare assistance.

46. Unfortunately, M&A reports often have not resulted in improved programming or implementation and few evaluations have been carried out.

47. **Financial management and controls.** The Evaluators are unable to provide any assessment on the general quality of systems of financial management and control for EC programmes in FYR Macedonia. However, there is some evidence that the weakness in the project cycle extended to the area of financial control systems. The recent failure of the shift to a decentralised system also points to important weaknesses. The Delegation notes that it is working hard to improve systems of financial control.

4. Key Recommendations (p. 35)

48. **Strategy.** EC strategy should focus on support to comprehensive civil service reform, to civil society organisations, sustainable development and ethnic reconciliation.

49. **SAA.** A gradual implementation of the Stability and Association Agreement.

50. **Strategy preparation** should include systematic and transparent consultation with

different elements of civil society. This should be part of a wider effort to support political dialogue and ethnic reconciliation.

51. The future EC country strategy should be based on reviews and evaluations of key past programmes, careful country analysis and consultation with major donors (including discussions on the role of the PRSP).

52. **Annual programming** should be based on transparent consultations with stakeholders, the lessons' learnt from evaluations, the analysis of government commitment and capacity in the sector, and coordination with other donors. DG Relex should keep a close monitoring of this process (now to be carried out by EuropeAid).

53. **Modalities of sector support.** Programmes should only be maintained if they address key objectives and take into account country risks.

54. Commission should focus interventions in 2 or 3 tightly defined areas of support and work with other donors on crosscutting issues of public administration reform.

55. **Budget support** should support crosscutting issues and sector programmes with common donor conditionalities and implementation procedures.

56. **Sectors:** EC could consider support to Transport, Agriculture (linked possibly to budget support), small interventions in Education (Tempus, VET and SEE University of Tetovo). In other sectors, including Judiciary, Integrated Border Management, Customs, Administration, Environment and support to Economic Reforms, support should be made less ambitious and could be provided under the leadership of other donors. Naturally, the Commission would continue to lead in aspects directly linked to approximation to EU legislation.

57. Support to the SME sector and the PIP process should be discontinued.

58. **Civil Society.** EC should develop and implement a *strategy* to strengthen civil society and to promote national and ethnic reconciliation.

59. EC should also provide *greater financial support* to relevant civil society organisations, particularly through the use of intermediary funding organisations. EC should support the role of civil society in monitoring the quality of governance and public service delivery.

Aid Coordination

60. *The EC should support a joint approach to public sector reform*, corruption and sector wide approaches. Donors should provide funding jointly on a sector basis.

61. Time and resources allocated to consultation with other donors should be increased. Consultations are particularly necessary on the future EC country strategy.

62. Coordination between the CFSP bodies and DG Relex and EuropeAid should be enhanced.

63. Budget support should only be provided jointly with other major donors (see also 71).

64. *Technical assistance* should be provided as much as possible as joint donor pools for the sector. EC specific implementation units should be avoided (PIUs or PMUs).

65. Donors should assist the government to strengthen its coordination mechanisms.

Commission implementation

66. There is a need to make Commission *working practices and approaches more transparent* and open to external feedback and cooperation with other donors. DG Relex and EuropeAid should also work more closely with other DGs (e.g. Development and Enlargement).

67. DG Relex should keep a close monitoring of the programming process (now to be carried out by EuropeAid).

68. Division of responsibilities between different stakeholders should be made clearer. Clear, written and binding statements of service standards should be introduced.

69. Commission headquarters should improve its systems to keep complete and accurate *records* of documents relevant to the programme.

70. A thorough independent *evaluation of the failure of decentralisation* and the CFCU

should be carried out. Re-centralisation should be a transparent process.

71. The reform of the EC implementation procedures in FYR Macedonia should be discussed with government and other donors.

72. *Annual Country Reviews and a Delegation Quality Support Group* should be introduced to improve the learning cycle.

73. *Monitoring and assessment reports* should be made public. They should be shorter, timely, more focused on strategic issues and identify those responsible for poor implementation.

74. Findings of monitoring and evaluation reports should be internalised better by the relevant Commission Services.

75. *Systematic evaluations and financial audits* should be carried out in all major programmes (including the Critical Aid Programme and budget support).

1

Relevance of the EC Strategy

The first part of this chapter reviews key aspects of the political, economic and social context in Macedonia, including the general role of all donors. The second part is an assessment of the relevance of (and constraints on) the EC's strategy in this context before implementation. Key characteristics of Macedonia are reviewed to identify factors which should underlie the EC's strategy choices. The analysis includes both factors which were present when the strategy papers were prepared as well as more recent developments.

A. Country Analysis

Significant progress was made in achieving macroeconomic stability, however structural reform has lagged, and the country is highly dependent on external aid. Formal democracy is established, but the political and governance system remains dysfunctional and civil society is weak. Recent armed conflicts may have been precipitated by external events, but have revealed the extent of internal ethnic division. The future is highly uncertain – if open conflict can be avoided, political reform will be necessary to address ethnic tensions and further economic reform.

Political developments and Governance

Although Macedonia has long existed as a distinct geographical and cultural entity, it gained a political identity only in 1948, as one of the constituent republics of Yugoslavia. As part of Yugoslavia, Macedonia had considerable economic and political autonomy. However, it was the poorest of the six republics, with a GDP per capita of less than two-thirds the Yugoslav average.

Macedonia played a minor role in the disintegration of the Yugoslav federation. The first democratic elections took place in 1990. In March 1991, an overwhelming majority of Macedonians – although not of ethnic Albanians – supported independence in a referendum. De facto independence followed shortly thereafter.

Since independence, FYR Macedonia has been governed by a series of coalitions. The principal political tendencies are the Internal Macedonian Revolutionary Organisation³ (VMRO, nominally centre-right), the Party of Democratic Change (centre-left, former Communists) and various parties representing the Albanian minority. The President from independence to 1998 was Kiro Gligorov, who is widely credited for FYR Macedonia's relative stability in this period.

³ The name reflects the party's historical origins as an organisation of fighters for independence against Turkish rule.

Parliamentary elections in November 1998 brought VMRO to power in coalition with smaller parties (including ethnic Albanian representatives). Presidential elections in 1999 resulted in the election of Boris Trajkovski, viewed as a reformer and a supporter of a multi-ethnic country.

Elections have generally been assessed as free and fair, although with some localised irregularities. Human rights have been generally respected, political parties are free to organise, and there is a free and relatively vigorous press. FYR Macedonia is rated as “partly free” by Freedom House, with a slight deterioration in the last year.⁴

Governance, however, remains extremely weak, largely as a consequence of the nature of the political system. As one analysis puts it, “While Macedonia has moved ahead in developing the necessary legal and institutional foundations for democracy, much remains to be done....institutions are still weak, often inefficient, and generally do not represent the people they are intended to serve.”⁵ In other words, while the forms of democracy are in place, the essential cultural underpinnings are not. Political competition is still seen very much as “winner-takes-all”; parties seek to gain control of state institutions for the sake of the economic rents they provide. As a consequence, the state remains highly centralised and highly politicised. Meanwhile, civil society is weak and provides little in the way of checks and balances on government conduct.

This in turn leads to poor quality in policy formulation and service delivery. Since middle and senior level civil servants are seen as political rather than technical appointments, they tend to change, not only as administrations change but also as Ministers do. So there is little policy continuity, and political manoeuvrings within or between parties leads to policy paralysis and has held up reform. Meanwhile, the use of public sector employment as a tool of patronage has led to an overstaffed and inefficient public sector. A further, and related, problem relates to the increase in spending on security and defence that has already resulted from the current conflict.⁶ Such spending is often off budget, non-transparent, and to take place in an environment conducive to poor governance.

Need of fundamental reforms. All this has held up structural economic change, and means that while FYR Macedonia has seen reasonable macroeconomic stability, sustainable growth requires more fundamental reforms. As a recent report on the Stability Pact countries concluded, weak legal and policy frameworks “overwhelmingly favour activities that promote redistributive rather than productive activity, that create monopolies rather than competitive conditions, and that restrict opportunities rather than expand them. They seldom induce investment in education that increases productivity. The organisations that develop in this institutional framework will become more efficient — but more efficient at making the society even more unproductive and the basic institutional structure even less conducive to productive activity.”⁷

Social developments and ethnic tensions

Relations between the two main communities in FYR Macedonia – Macedonian Slavs and ethnic Albanians, who make up 20-30 percent of the population – have been a source of concern since

⁴ See <http://www.freedomhouse.org/research/freeworld/2001/table1.htm>

⁵ “Support for East European Democracy Act, Implementation Report, FY 2000”, US Department of State, March 2001.

⁶ For example, the recent purchase of helicopters from Ukraine.

⁷ “Institutions, Institutional Change and Economic Performance: the Stability Pact, South East Europe Compact for Reform, Investment, Integrity and Growth”, Douglass North, July 2000.

independence⁸. Tensions have arisen over both symbolic issues (flags over Albanian municipalities, constitutional recognition over Albanians as a “constituent nation”, language rights) and resource allocation (public sector employment and higher education). The government’s handling of these issues has varied between the conciliatory and the heavy-handed (including the imprisonment, for a period, of a number of ethnic Albanian municipal officials), reflecting internal tensions between hard-liners and relative moderates. However, with parties representing ethnic Albanians represented in all governing coalitions since independence, these issues have largely been dealt with within the political process until the recent outbreak of violence.

Nevertheless, FYR Macedonia remains a deeply divided society. There are substantial cultural, political and economic divisions between these two communities. Most of the principal Macedonian parties have resorted to appeals to nationalism at one time or another: “In Macedonia, the nationalist bloc and the former Communists held diametrically opposite views on Macedonian independence and the idea of Yugoslavia, but in their shared willingness to use prejudice against ethnic Albanians living in Macedonia for political gain there was substantial basis for momentary tactical alliances at that time and in the future.”⁹ There is no major multi-ethnic political party, there are few NGOs or civil society organisations which bridge ethnic divisions, and public sector employment in key Ministries – especially security-related ones – remains largely a Macedonian Slav preserve. The government’s failure to deal with these underlying issues must be regarded as a major contributory factor to the current violence.

The political and governance problems described above have hindered efforts to deal both with ethnic tensions and with poverty. The centralised and politicised nature of the state means that the rural poor – and ethnic Albanians in particular – have little stake in FYR Macedonia as a nation. As one donor puts it “Public confidence in the workings of central government is low. The entire ethic of government needs to be radically overhauled...Many Macedonians still feel unable to approach central or local government with their problems.”¹⁰ Addressing these problems will require radical change: “Building a sustainable, democratic foundation requires bottom-up mechanisms that give people means to influence public policy, push for a transparent, accountable government, and reinforce a system of checks and balances”¹¹ – but these mechanisms are largely absent at present. Local municipalities have little power and financial resources, and no revenue-raising capacity. Even Parliament (a part-time body) is very weak.

Economic Developments

At independence, FYR Macedonia’s economy was extremely weak, with high unemployment and a large number of inefficient state-owned enterprises. To these internal problems were quickly added a number of severe external shocks. The break-up of Yugoslavia, and the associated conflicts, cut Macedonia off from its traditional markets. Trade sanctions imposed by Greece cut one of the country’s main trading routes. And the imposition of UN sanctions against former Yugoslavia were even more damaging. As a result, by 1996 it is estimated that GDP had declined to perhaps two-fifths of its 1989 level (itself depressed by a decade of recession).

⁸ Other minorities include the Turkish, Roma and Serbs.

⁹ “Balkan Tragedy: Chaos and Dissolution After the Cold War”, Susan Woodward, Brookings Institution, 1997.

¹⁰ “FYR Macedonia: Country Strategy Paper”, UK Department for International Development, 2001.

¹¹ “Support for East European Democracy Act, Implementation Report, FY 2000”, US Department of State, March 2001.

Nevertheless, FYR Macedonia successfully pursued a programme of macroeconomic stabilisation, supported by the IMF and World Bank. Despite the Kosovo crisis, GDP grew by about 4 percent in 1999 and 6 percent in 2000.¹² Inflation is low and reasonably stable. There is a substantial external deficit, but it is financed by external support and unrecorded flows¹³.

However, despite the relatively benign macroeconomic environment, there are serious *structural problems*. Structural reform stalled in 1998-2000, as a result of political differences within the ruling coalition, and the Kosovo crisis.¹⁴ While there has been substantial small-scale privatisation, a number of large, loss-making state enterprises remain under government ownership. Little progress has been made in rationalizing these enterprises to the point where privatisation would be possible. In the financial sector, most banks have been privatised but banking management remains very weak, the level of non-performing loans high, and access to capital for private businesses and agriculture is a severe constraint on growth.¹⁵ Agriculture remains inefficient and largely unreformed.

The economy therefore remains split between large, loss-making state enterprises on the one hand, propped up by government subsidies and frequently in arrears on taxes and wages; and on the other, an small and medium enterprise sector that is dynamic, but frequently outside the formal economy, evading or underpaying taxes, and with little access to the capital needed to expand. Dealing with this dichotomy is made more difficult by the fact that employees in the former sector are largely ethnic Macedonians – making large-scale redundancies even more politically difficult – while entrepreneurs in the latter sector are often ethnic Albanians, and thus even more reluctant to participate in the formal economy.

Smuggling and criminal networks. Smuggling, particularly to former Yugoslavia, is a major source of income, although it is hoped that democratisation and normalisation in Serbia will increase legal trade. Unfortunately, armed conflict in the region has facilitated the expansion of criminal networks trafficking in arms, drugs and women. This not only has the potential to further weaken government institutions, but also has a direct impact on EU countries.

Again, the dysfunctional nature of the political system hinders efforts at sustained structural reform. There is little or no evidence of a coherent overall development strategy. While the current government is seen as largely “reformist”, there is less commitment on the part of several key Ministers. Moreover, the tendency on the part of donors to identify certain Ministers as “reformers” misses the larger point that change cannot rely excessively on individuals, but needs to feed through the entire system, preferably from the bottom-up, and to be part of a coherent strategy that is shared by the government as a whole.

Poverty, although probably somewhat worse among ethnic Albanians, remains a significant problem on both sides of the ethnic divide. As a result of a statistical revision, GDP per capita is now estimated at about \$1,800, but the unemployment rate, officially over 30 percent, remains stagnant. Poverty is particularly severe among the unemployed, in rural and mountainous areas, and among those with no more than primary education.¹⁶ An interim Poverty Reduction Strategy

¹² “FYR Macedonia: Staff Report for the 2000 Article IV Consultation”, IMF Staff Country Report 00/76, IMF, June 2000.

¹³ However, note that the recent crisis is having a significant effect on macro-economic stability.

¹⁴ “FYR Macedonia: Country Assistance Strategy Progress Report”, World Bank, August 2000.

¹⁵ “FYR Macedonia: Recent Economic Developments”, IMF Staff Country Report 00/72, IMF, June 2000.

¹⁶ See “FYR Macedonia: Focusing on the Poor”, World Bank, June 1999.

Paper (PRSP) has been prepared with the World Bank and IMF, and analytical work is in progress with a view towards the preparation of a full PRSP in 2002. As with other countries in the region, women have full legal equality, but suffer considerable social and economic discrimination in practice. There are a number of significant environmental problems, relating largely to the industrial legacy of communism, and to the lack of proper waste- water treatment.

Role of the International Community

The international relations of FYR Macedonia in the first few years after de facto independence were dominated by a dispute over the country's official name, with Greece objecting strongly to the designation of Macedonia, as well as to the country's flag and constitution. This delayed FYR Macedonia's full integration into the international community. Greece first delayed FYR Macedonia's official recognition by the EU, and subsequently imposed a variety of official and unofficial sanctions. The dispute was largely resolved by an accord in 1995, and relations with Greece are now good.

Apart from this specific issue, FYR Macedonia's relations with the international community have, until the current crisis, been very good. FYR Macedonia has been regarded as having behaved responsibly both in relation to the conflicts elsewhere in former Yugoslavia, and – by and large - with respect to its own ethnic Albanian minority. The international community has been particularly concerned that conflicts elsewhere should not spread to FYR Macedonia. A small NATO peacekeeping force was stationed in FYR Macedonia for a period during the earlier Balkan conflicts. However, the behaviour of the international community over the imposition of sanctions on Serbia – when FYR Macedonia bore the brunt of the economic pain, while receiving little in compensation – was regarded critically by many Macedonians.

The Kosovo crisis, and the associated influx of refugees, placed severe economic and political strains on FYR Macedonia. Nevertheless, stability was maintained. In the aftermath of the crisis, a new framework for relations between the countries of South-East Europe and the international community was established in the form of the Stability Pact.

The Stability Pact notes that the EU has a special role to “draw the countries of this region closer to the prospect of full integration into its structures ...through a new kind of contractual relationship, taking into account the individual situations of each country... and with the prospect of European Union membership.” The Stability Pact has a dual objective: first, to promote regional peace and cooperation in South-Eastern Europe; and second – partly offered as a carrot to give governments in the region an incentive to deliver the first – EU integration and perhaps eventual membership for the countries of the region. In 1999, the Stability and Association Process for South-East Europe was also adopted.

In April 2001, FYR Macedonia became the first of the countries in the Stabilisation Association Process to sign a Stabilisation and Association Agreement (SAA) with the EU. However, government ownership of this complex agreement and its consequences (as opposed to a general commitment to “becoming a part of Europe”) appears low. It is far from clear that the SAA reflects a genuine realization on the part either of government or of civil society of the prerequisites – economic and political – for successful European integration.

Principal milestones in relations between FYR Macedonia and the EU

November-December 1990: First democratic elections

March 1991: Referendum on independence

January 1992: Badinter Commission finds FYR Macedonia meets criteria for recognition, but EU refuses recognition because of Greek objections. FYR Macedonia receives Phare funds as well as other EC assistance.

February 1994: Greece imposes trade embargo

October 1995: Bilateral accord between FYR Macedonia and Greece. Full EU recognition follows.

1996: FYR Macedonia becomes eligible for PHARE funding.

1997: Regional Approach. The EU Council of Ministers establishes political and economic conditionality for the development of bilateral relations.

1998: Opening of the Office of the Resident Envoy in Skopje.

1999: Inception of Stabilisation and Association Process for South-East Europe

March 2000: Start of negotiations for an Stability and Association Agreement.

November 2000: Zagreb Summit. SAA was initialled.

April 2001: Stabilisation and Association Agreement signed.

Donors in FYR Macedonia

The level of official development assistance is fairly high, at about 6% of GDP. Both fiscal and external balance therefore depends to a considerable extent on donor aid. The largest donors are the EC and USAID. The country has had more or less continuous structural adjustment programmes with the IMF and World Bank since 1992-93. FYR Macedonia has a Poverty Reduction and Growth Facility with the IMF, which is likely to be extended, and has produced an interim Poverty Reduction Strategy Paper. However, the upward revision to estimated per capita income means that FYR Macedonia will no longer be eligible for concessional (IDA) lending from the World Bank. This is likely to lead to increased dependence on grant assistance, as provided by the EC.

Recent events and prospects

The recent conflict between ethnic Albanian rebels and FYR Macedonian government forces was precipitated by the involvement of Albanian fighters from Kosovo. However, the considerable support that the rebels have attracted among indigenous Macedonian Albanians – and the reaction among Macedonian Slavs – have revealed the depths of ethnic division, and the degree of alienation from the state among many Macedonians of all ethnicities. Clearly, if armed conflict continues, both political and economic prospects are bleak. Moreover, conflict is likely to facilitate the continued expansion of criminal activities, with consequent repercussions in EU countries. Even if a political agreement is reached, FYR Macedonia will face very serious challenges over the next few years:

- *ethnic reconciliation*. The recent conflict has clearly deepened already existing divisions;
- *a renewed commitment to structural economic reform*. This is likely to be particularly difficult, given that reform of the public sector and of state enterprises is likely to result in significant job losses at a time of very high unemployment;
- *governance and anti-corruption measures*; as described above, neither ethnic reconciliation nor structural reform will be possible without significant improvements to the functioning of the political system, broadly defined, and to the involvement of civil society in decision-making.
- *The need to combat organised crime and dismantle criminal networks..*

A further complication relates to the substantial influx of donor assistance that is expected to follow signature of a political accord. While clearly necessary, the fact that such aid will be conditional on various high-level political actions – relating for example to constitutional modifications – rather than to structural economic and political reform may weaken the internal political pressure for the latter. This may have very damaging medium-term consequences, and it will be important for donors, especially the EC, to avoid this risk.

B. Was the EC's strategy relevant to the country's needs?

The Commission's activities in FYR Macedonia do not appear to have followed a clear strategy. The 1996-99 MIP contained no statement of objectives or country analysis, and the proposed programme was not focused. The subsequent annual programming was also not focused and did not include an analysis of past interventions or of the activities of other donors. Little attention was given to central issues such as ethnic tension and the dysfunctional nature of the political system. In addition, no country strategy was prepared in the year 2000. The recent shift in emphasis towards EU integration objectives has not been properly analysed and has led to even more complex and disperse programmes, which the EC is unlikely to be able to implement successfully.

Lack of strategy documents for the period 1996-2001

An assessment of the EC's strategy in FYR Macedonia is made difficult by the notable absence of written strategy documents or of any explicit formulation of the strategy. As discussed below, a Multi-Annual Indicative Programme was prepared in 1996, but this contains very little in the way of analysis and cannot be considered a strategy document. Commission documents refer to a draft 1996 Country Strategy.¹⁷ However, Commission officials informed us that this document did not exist. At the time of writing, despite a number of written requests, no explanation of this discrepancy had been received.

¹⁷ Both the COP 1997 II and the Project Implementation Office Final Report, 2000 refer to the 1996 Country Strategy.

The previous strategy (if it does indeed exist) should, like the associated MIP (see below) have expired in 1999. However, Commission officials informed us that no strategy was prepared in the year 2000.

Based on this evidence, the Evaluators conclude that all annual programming in the period 1996-2001 has been prepared without reference to any written country strategy. This lack of both a thorough analysis and a formal country strategy is clearly contrary to best practice. Instead, annual programmes have been somewhat linked to the EU Regional Approach and to the Stabilisation and Association Process. In the considered view of the Evaluators, the lack of a thorough and systematic analysis and strategy preparation hinders the effectiveness of the Commission programmes in FYR Macedonia.

Weaknesses of the Multi-Annual Indicative Programme 1996-1999

The nearest thing to a strategy document in the relevant period that was supplied to the Evaluators is the 1996-99 MIP. However, this contains neither a proper analysis of the Macedonian economic and political situation, nor a statement of the objectives of Phare assistance to FYR Macedonia. A particularly notable omission is a discussion of the potential for ethnic tensions in FYR Macedonia. Subsequent programming documents refer to this issue but targeted interventions have only been proposed very recently.

Indeed, the most relevant programme in the MIP – the proposed Municipal Development Investment Fund and the support to civil society– was not included in the annual programmes¹⁸. This lack of attention to what is the most important issue facing FYR Macedonia is difficult to understand, given that there has been considerable international concern about the possibility of ethnic conflict in FYR Macedonia since the outbreak of the Bosnian war. The Phare programme did not position itself to try to avert the current ethnic conflict in the country. The MIP did not include any substantive discussion of the underlying political and governance problems of the country, as discussed above.

Objectives. Although the MIP includes a section entitled “Objectives”, this simply states that Phare assistance will be concentrated on five sectors: support to the enterprise and financial sectors, public investment and infrastructure, agriculture and natural resources, social sector and human resources, and “reform sustainability”.

As this list makes clear, the proposed programme was extremely ambitious – the “core sectors” covers in practice virtually the entire economy, and most spheres of government activity. Nor were programmes within these sectors well specified or well focused. For example, “reform sustainability” covered not only aid coordination and civil society, but also the statistical office and cultural development. However, there was little discussion of the realism of such an ambitious set of programmes, given the limited implementation capacity both of the FYR Macedonian government and of the EC; little discussion on the activity of other donors; and little analysis of the past critical aid programme or of in what sectors the EC might have a comparative advantage. Nor was there any discussion of Phare (or EC) assistance in other countries, which might have provided useful pointers as to what forms of assistance would be most likely to succeed in FYR Macedonia.

¹⁸ Funds were programmed for the Ministry of Local Governments. However, the 2001 programme has proposed a Small Infrastructure for Local Governments. Implementation modalities have not been decided.

Given all these weaknesses, the MIP was entirely unrealistic and over-ambitious, and many of the implementation failures described in the subsequent chapters can be traced directly to these weaknesses.

Annual programming process

Evaluators were supplied with copies of older annual programming documents (COP), although some of these documents appear to be drafts rather than finalised documents (See Annex). These documents similarly constitute primarily a list of proposed programmes, with little in the way of strategic analysis.¹⁹ Moreover, as noted above, they are not based on a proper country strategy. Interviews with Commission officials indicate that programming largely took place in Brussels and often under instructions of senior officials, but with relatively little consultation either with the Delegation in Skopje (since 2000) or with FYR Macedonia officials. This suggests a top-down approach to programming which has not given enough consideration to transparency or participation of stakeholders.

Given the heavy dependence of the government on EC economic and political support, its strong commitment to the EU integration process and the SAA, and its lack of policy-making capacity, the government is not in a strong position to question or to assess critically proposals emanating from Brussels. In this context, the government often takes EC programmes as given, rather than as a matter for discussion and mutual agreement. government ownership of the programming process and of the EC aid strategy is therefore low. There is also little consultation with Member States or other donors, or with Macedonian civil society.

As a consequence of all these factors, the annual programming documents show the following weaknesses:

- There is little explanation of how the proposed EC interventions are intended to form part of a coherent development strategy for the country;
- There is little indication of likely government ownership;
- The (often implicit) assessment of the implementation capacity of the FYR Macedonia administration is unrealistically over-optimistic.

In particular, the 2001 Financial Proposal (and the Order for Services)²⁰ lacks a number of key elements that should be part of any annual planning document (as noted also by some Member States)²¹:

- there is no analysis of past interventions. There is nothing about commitments or disbursements of previously approved programmes, nothing about the impact of previous interventions, and nothing about lessons learned from those interventions²²;
- there is little country analysis or analysis of risks to the strategy. This is particularly problematic given the current unstable situation in FYR Macedonia;

¹⁹ Similar comments apply to programming documentation for Cross-Border Cooperation programmes.

²⁰ The Order for Services is an internal Commission document.

²¹ Commission notes that a number of these issues will be discussed in the new country strategy.

²² The Commission argues that because some of the programmes are ongoing, no lessons can be provided.

- there is no discussion about the activities of other key donors. In particular, the PRSP, which is a key element of the country's development programme and is currently under preparation, is not mentioned at all.

Shift of emphasis of recent programmes

While not explicitly stated or analysed in programming documents, there has been a clear shift of emphasis and objectives of the EC programme over the 1996-2001 period. As set out above, the MIP attempted to cover most sectors, with major programmes proposed in the SME sector, financial sector, infrastructure, agriculture, public administration, social sector and so on. However, over the period – and especially since the beginning of the SAP in 1999 and the annual programme 2000 – there has been an increasing concentration on programmes and objectives relating to European integration. This is visible in the stated objectives of EU assistance, which according to the Commission website are threefold:

- “The EU aims to support the achievements to date in the field of democracy by strengthening the institutional and administrative capacity of the state and of the actors of the civil society.
- The EU aims to assist the government at central and local level to facilitate the process of economic and social transformation towards a market economy.
- The EU aims to bring the former Yugoslav Republic of Macedonia closer to EU standards and principles, and to assist the country in the framework of the Stabilisation and Association Process.”

It is even clearer in the 2001 Order for Services (CARDS is mostly concerned with political objectives and the SAP): “The purpose of the assistance is to support the participation of the former Yugoslav Republic of Macedonia in the Stabilisation and Association Process (SAP)”; there is no reference to how this objective relates, if at all, to the country's overall development objectives. This shift is also clear in the proposed interventions, which concentrate on justice, border management, customs, legal approximation, and other formal aspects of direct relevance to European integration. The strategic implications of this shift are discussed in the box below.

It should be noted that most of these proposed interventions are complex and highly technical. For example, the proposed “integrated border management” programme relies heavily on the provision of sophisticated equipment (including IT and special purpose equipment like border monitoring and control equipment, vehicles and vision and telecommunications equipment), which accounts for a majority of the budget. This programme is proposed despite the fact that “five government Ministries are responsible for the direct management and control of the state border” and “the government needs to determine which Ministry will be responsible for implementation of the Programme”.²³

Experience with complex programmes of this type shows that programmes which rely heavily on the provision of equipment and hardware, in the absence of a well-defined institutional framework, are unlikely to be successful or sustainable. These conditions are not present in FYR Macedonia and explained the low impact of the previous (less complex) Phare programme (see Chapter 2). Similar considerations apply to other proposed programmes, for example those in the area of customs and agriculture.

²³ This is particularly problematic in the context of border control and security, since it is well known that different Ministers have very different attitudes to the current conflict in FYR Macedonia, with some wishing to take a much harder line than others.

Finally, it is important to note that in the last two years a few programmes have been adopted that could contribute to support national reconciliation. These projects are included in the 2000 programme (support to the Census and to the Implementation of the Law of Higher Education) and the 2001 programme (SEE University in Tetovo).

EU integration or domestic development: A strategic choice?

The EU in FYR Macedonia is faced with the “tension between the EU’s dual roles of aid donor and gatekeeper for club membership”. Since 1999, there has been a realignment in EC programmes away from broad-based economic development and towards EU integration. As one analysis puts it: “[EU policies] comprise not policies designed to achieve macroeconomic stabilisation or development goals, but rather a set of structural requirements aimed at ensuring convergence towards key economic and socio-political characteristics of the EU, and compatibility with its legal base.”²⁴

However, there was no formal analysis of the rationale of this important shift. This is particularly important since FYR Macedonia – unlike the 10 candidate countries which also benefit from Phare – is not yet a candidate for accession, and – even in the most optimistic economic and political scenario – accession is a long way off. A refocusing of Phare activities which was primarily designed for the benefit of the candidate countries appears to have spilled over into the FYR Macedonia programme.

As a consequence, the focus of EU assistance has shifted to projects directly related to formal aspects of EU integration priorities and to the SAA (border management, customs, justice, approximation of legislation, standards) rather than more general institution-building efforts. This shift is not based on any assessment of the prioritisation of different sectors from the Macedonian perspective. The result is a set of projects that are uncoordinated and appear directed not at constructing a functioning and competent Macedonian administration, or at the successful resolution of the current Macedonian crisis, but rather at “checking off” different areas in which action is regarded as necessary for implementation of the SAA

Without in any way questioning the political objectives, shared by both the Macedonian authorities and the EU, of the SAP/SAA process, the Evaluators considered view is that it is unlikely that with the current sequencing of activities the EU will be able to achieve its political objectives.²⁵ The Commission’s sequencing appears to be:

- 1) Strengthening of institutional capacity in the sectors required for implementation of the SAA, notably Justice and Home affairs (including border management and customs), and approximation to EU legal and other standards;
- 2) combined with a “quick-fix” financial assistance to the government designed to provide incentives to resolve the current political crisis;
- 3) in the expectation that this put the country “back on track” for continued EU integration and economic and social development.

²⁴ “Fostering social inclusion through institutional transformation in central and eastern Europe: the role of EU accession conditionality”, Heather Grabbe and Kalypso Nicolaidis, December 2000

²⁵ This analysis is shared by a number of academic researchers in this field, including those generally sympathetic to the long-run goal of European integration. See Grabbe and Nicolaidis, *op. cit.*; also “Stability, Institutions, and European Integration”, Brussels Discussion Paper, European Stability Initiative, 31 October 2000; and Douglass North, *Institutions, Institutional Change and Economic Performance: Stability Pact, South East Europe Compact for Reform, Investment, Integrity and Growth*, July 2000. For a more general treatment of sequencing issues relating to globalisation and domestic governance, and the dangers of an undue focus on the former at the expense of the latter, see “Has Globalisation Gone Too Far”, Dani Rodrik, Institute for International Economics, 1997.

In other words, “the EU assumes that adaptation to EU norms will in itself achieve goals such as strengthening institutions and building organisational capacity”. The Evaluators, along with many other analysts, consider that this is not very likely that this will happen. Without sustainable economic development and ethnic reconciliation, built on functioning public institutions and services, and founded on a strong civil society, the SAA could become a legal framework superimposed on a dysfunctional society and economy. Under this scenario the SAA will be unable to deliver the EU’s political objectives.

Instead, a more strategic and sustainable sequencing of activities would be:

- 1) support for a comprehensive political reform, including depoliticisation of the civil service, decentralization, public administration reform, particularly in the key social sectors of health and education, and the creation and implementation of a functioning legal framework; and the development of civil society;
- 2) support for a bottom-up ethnic reconciliation and domestically driven economic and social development, based on a government-owned development strategy;
- 3) leading in turn to a socially cohesive and economically dynamic Macedonia that will be in a position to make a success of the SAA and eventually of integration in the EU.

The latter strategy is conceptually different from the current EC approach., however, there are a number of sectors that remain important under both approaches (e.g. justice and home affairs). The point is to reorient this support towards a more strategic approach to FYR Macedonia’s own economic and social development, which will in turn lead logically to EU integration, rather than to focus narrowly on the formal requirements for the SAA. **In the considered view of the Evaluators only a domestically based strategy would allow the EU to meet its political goals and to successfully implement the SAA.**

Future programming

Future assistance to Macedonia will be in the framework of the CARDS programme, which commenced operations in 2001. It seems likely that this programme will continue to focus even more on the objective of supporting the formal requirements of the SAA. It is not clear for the Evaluators if, or how the Commission intends to consult with stakeholders in the preparation of the new country strategy.²⁶ DFID (UK) told the evaluators that they had serious concerns with the 2001 annual programme, and that they wished to have a greater participation in the preparation of the new country strategy.

C. EC Programme ²⁷

FYR Macedonia became a Phare partner country in 1996, having previously benefited from the Phare critical aid programme (85 million euro, 1992-1996). Between 1991-1999, FYR Macedonia received 449 million euro in commitments from the EU budget including contributions for emergency humanitarian relief and for balance of payments support. This included nearly 200 from PHARE. Details of the allocation of these funds between sectors are shown in the table below.

²⁶ Although a draft of the new CSP was in preparation at the time of writing of this report, Commission officials did not make it available to the Evaluators.

²⁷ This section is taken from the Commission’s terms of reference for this assignment.

OVERALL ASSISTANCE IN FYROM, 1992-99 (Million Euro)

(commitment)

Type of assistance	1992	1993	1994	1995	1996	1997	1998	1999	Total
PROGRAMME									
PHARE Critical Aid		60		25					85
PHARE Cross-border Co-operation					10	10	10	7	37
PHARE National Programme					15	23	15	15*	68
EIB Interest Subsidy								20	
PHARE (STAP/ATA)							1.6	1.2	2.8
ECHO humanitarian aid		36.52		9.15			0.4	43	89.07
MEDIA			0.05	0.28		0.21	0.28	0.5	1.32
Democracy and human rights						0.5	0.2		0.7
Balance of Payment Support (EC-DG ECFIN)						40		80	120
Budgetary assistance (OBNOVA)								25	25
TOTAL ASSISTANCE		96.57		34.43	25	73.71	27.48	191.7	448.89

2

Impact of the EC Programme (Phare)

The objectives of the Phare programme were mostly chosen to suit accession countries.²⁸ For most of the evaluation period, Phare objectives were institutional reform (to facilitate a market economy), economic development, democracy and the rule of law and EU integration. However, since 2000, the EC programme has increasingly focused on EU integration objectives (partly because of the SAP process).

The available evidence indicates that the impact of the Phare programme on its overall and immediate objectives has been very low. This assessment is based on the monitoring and assessment reports, on the Project Implementation Office Final Report and discussions with Commission officials and some key donors. EC interventions have been too dispersed (the DG-Relex web site identifies 14 areas of support) and provided in a piece-meal fashion. Moreover, interventions have been poorly designed, over-complex and unrealistic and carried-out in the absence of government commitment or sector strategies. Implementation has also been very weak (Chapter 3).

The likely impact of more recent interventions (Phare 2000 and CARDS 2001) is also very low. The programmes in support of EU integration objectives are even more complex and unrealistic (e.g. in Home and Justice affairs, information technology components, etc). The programme appears designed for countries with advanced public administration and governance institutions and not for FYR Macedonia.

A - Impact on Institutional reforms

The Phare programme in FYR Macedonia focused on the need to support institutional reforms. Phare provided support for the overall public administration, aid coordination and the public investment process. Also many Phare interventions included over-ambitious institutional support components. However, despite this emphasis, the institutional achievements of the programme have been very low. Phare support was dispersed in too many areas and without seriously considering government reform commitment or key crosscutting issues (e.g. pay reform, politisation of the civil service, creation of new ministries and corruption). Thus, despite considerable Phare support, government institutions have continued to deteriorate.

Public administration and aid coordination

Phare supported the overall process of *public administration reform*. This is a key area, and the selection of it by the Commission as a main focus was correct. However, the Phare programme was donor driven and piecemeal (components on policy and management, financial control,

²⁸ In Phare, only Albania and FYR Macedonia were not candidates for membership.

decentralisation, courts and judicial administration). Thus, while a large number of reviews and studies were produced by the TA, very little of it was translated into implementation. The M&A found that programme objectives had not been achieved, and rated this as ‘unsatisfactory’²⁹. Other donors also questioned the impact of a dispersed programme in absence of government leadership. However, arguably the programme helped keep public administration reform on the agenda.

The two Phare programmes to support aid coordination (ACU/EIO) had a low institutional impact. The M&A for the two programmes report that overall and immediate objectives were mostly not achieved (‘unsatisfactory’). As in Albania, the Aid Coordination Unit was weak and was used mostly to support only Phare programmes rather than to support general aid coordination. In this context, it is not surprising that this unit recently became the European Integration Office (EIO), with the objective of assisting the government can fit into the EU integration process. A broader aid coordination role is not longer claimed as an objective for the EIO³⁰.

Support to Phare decentralised implementation (through the CFCU). This project was to support the government capacity to implement EC and other donor projects. However, while an early M&A report rated all aspects of the programme positively (‘highly satisfactory’), decentralised implementation resulted in serious financial control problems (see next Chapter). As a result, new projects have been centralised again³¹.

Support to the Public Investment Programme process and the Project Preparation Facility could have also helped to improved government planning and donor coordination. However, again, weak government commitment made it difficult to achieve sustainable impact in this area³². The Phare programme contributed to the PIP process but it was a TA driven exercise that has not been incorporated in the normal budget cycle, has poor links with the MoF³³ and only weak links with line ministries. Moreover, the BWI support to the budget process itself, may further marginalize the PIP. The other component of the project, the *Project Preparation Facility* was not able to achieve its objective of support specific infrastructure projects since it was unlikely to complete the two feasibility studies in the lifetime of the project³⁴.

Low institutional impact in Agriculture and Environment. While Phare support to Transport and CBC did not focus on institutional strengthening, the 1996 and 1999 Phare programmes included many institutional components in both agriculture and the environment.

In *Agriculture*, the first M&A reports that both the agriculture and land reform components had minimal beneficial outputs and no impact on the sector. The second M&A reports rates the project also as unsatisfactory and notes that “there is little likelihood that the results of the activities will achieve the objectives within the Programme’s lifetime”. However, it reports patchy progress in the transfer of European policy information -veterinary and phytosanitary

²⁹ However, overall rating was considered ‘satisfactory’ (taking into account a good rating for management and implementation.

³⁰ At the time of M&A, July 2000, the second programme of support had been interrupted.

³¹ It appears that the TA will not be renewed after February 2002.

³² The M&A reports that of 4 immediate objectives only 1 was achieved and 1 was partially achieved. However, it gives an overall ‘satisfactory’ grade for achievements. Discussions with other donors and lessons from PIP processes in other countries suggest that the achievements of the PIP may not be sustainable.

³³ Until the recent absorption of the Ministry of Development by the MoF.

³⁴ At the time of the M&A report. 34 projects were initially identified for carrying out studies.

control- and the support to water management capacity. Delays and problems are reported both to equip border posts for veterinary and phytosanitary controls and for the establishment of a national animal identification system.

More importantly, little progress is reported in the key programme activity: to strengthen the programme planning and implementation capacities of the Ministry³⁵. In this context, the sustainability of all activities is low (including those to support EU integration).

Environment. The M&A report only refers to the first programme. It reports that the objective to assist in creating an efficient platform for implementing the new environmental policy and the NEPA has not been achieved³⁶. Most immediate objectives related to water and waste management planning were not achieved either. This is in part because the confused institutional arrangement in the sector³⁷ and because of a TA driven approach which often neglected sustainability issues (e.g. National Solid Waste Management System, proposal for Environmental Agency and the Environmental Inspectorates). The new programme is somewhat more focused but includes complex areas (e.g. harmonisation of legislation, etc) rather than more general support to the Ministry in the context of public administration reform. Therefore, likely sustainability appears low.

Statistics and Vocational Training. The M&A reports consider that support to the Statistical Office is in the process of achieving some institutional impact. The initial programme made progress only on the Labour Force Survey but the most recent programme was reported by the monitoring report to benefit from the pro-active role of the Statistical Office and the good work of the contractor. However, the Commission disagrees with this positive assessment.³⁸ Similarly, the support to VET is reported to have contributed in reforming secondary vocational education, including developing a strategy, modernised curricula, implementing reforms in pilot schools, and establishment of partnerships at regional and EU level. However, no progress on the cultural development Phare support is reported by the M&A reports.

The evaluators had little access to information on recent programmes such as the Local government Development and Social Development (1999), Judicial administration (2000 and 2001), Integrated border management control (2000 and 2001) and customs administration (2001)³⁹. However, in all likelihood, the factors that affected the public administration reform programme will affect these sensitive and complex programmes even more. Therefore we expect the impact of the new programmes to be low as well.

³⁵ Although two donor dependent government units have been created in the Ministry (Department for International Co-operation and Development and a Policy Advisory Group).

³⁶ In particular objective to improve capacity as regards legislative framework, EU harmonisation, monitoring/enforcement functions, information management, environment fund management and public relations were not achieved.

³⁷ The government made some significant institutional changes which were of limited success. Until end-1998 (i.e., when the programme was designed), co-ordination of environmental issues was under the Ministry of Urban Planning, Construction and Environment. Later in January 1999, a Ministry of Environment was established “*which shares responsibility for environmental matters with the renamed Ministry of Urban Planning and Construction and various other ministries*” ,i.e., institutional arrangements remain very messy. The Ministry of Urban Planning has subsequently been merged into the Ministry of Transport and Communications. The Phare programme has been at the periphery of these changes; affected by them, but not affecting them.

³⁸ EuropeAid did not agree with the assessment of the monitoring report. In particular, EuropeAid was not satisfied with the work of the contractor and the team leader was replaced.

³⁹ The financing agreement for 2001 programmes was signed on September 2001.

B - Impact on Economic Development

Support has been provided by the CBC to Roads, border crossings (including veterinary and phytosanitary facilities at border posts) and monitor water quality on the river Vardar. The Evaluators have only very limited information on the CBC programme. Information from the M&A reports is available for the CBC 1996 and 1997 which rates the programme unsatisfactory because few results have been produced. Poor design of road programmes was an important reason for substantial delays but also poor management. Only the study for the road E-75 was available at the time of the M&A - although environmental concerns might still need to be addressed and maintenance and sustainability issues have been neglected (e.g. role of the Fund for National and Regional Roads). Work on the border crossings of Bogorodica and Medzitlija were considerably delayed, while work on the veterinary and phytosanitary facilities and the water quality monitoring had not even started.

As a consequence, impact on economic development of CBC support to FYR Macedonia is rated as very low⁴⁰.

It is also important to note that no information on the funding of the E-65 road (including the Tetovo by-pass) was available to the Evaluators. No monitoring report has been produced in this area.

Phare has provided significant support to the small and medium enterprise programme through the 1996, 1997, 1999 and 2000 annual programmes. However, the programme has been very dispersed and this has limited its impact on economic development. Phare supported the creation of business promotion centres, NEPA and RESC, and these were created after some delay. However, these centres are donor-dependent institutions with limited links to the private sector and working in the context of a weak policy environment for the promotion of the private sector⁴¹. The M&A reports find that the micro-credit system has been very successful, although, it has not been work in parallel to the RESCs as yet⁴². More recently, the decentralised management of the SME project resulted in serious financial control problems and its suspension in FYR Macedonia (See discussion in Chapter 3).

On Banking Reform the objectives were ambitious (for both the National Bank and commercial banks) but in practice only training courses and workshops (e.g. on credit evaluation and risk management) were carried out as well as some short-term TA to the 3 biggest banks. The M&A reports that support to the National Bank was delayed because of problems with the contract with the Netherlands Central Bank. Finally, support to the reform of the Inter-bank payment system contributed to a feasibility study but the Replacement Payment System was delayed and no results were achieved. Sustainability is also affected by the very limited involvement of the banking sector (p. 4 PIO Final Report Annex D).

⁴⁰ The Evaluators are unable to discuss progress on other road projects such as the upgrading of the Negotino-Demir Kapija or the Tetovo by-pass but similar institutional problems may be present.

⁴¹ M&A reports rates this programme as satisfactory but in this Evaluation we take more global considerations and our discussions with other donors in the sector.

⁴² Support to the approximation of accounting standards has been relatively successful, but the components of SIEP and the policy to integrate informal enterprises were not implemented.

The institutional weakness of Phare support to agriculture and the PIP (as discussed above) constrained their impact on economic development. However, it is likely that the VET may have a positive impact.

C - Impact on Democracy and the Rule of Law

Overall, this objective has received limited support from Phare, which was slow in identifying Democracy and the Rule of Law as a key area for interventions. Some small support was provided by other EC programmes.

The MIP 1996-1999 did envisage support for a municipal investment fund and support to civil society. However, these projects were not included in the annual programmes. Only the CBC included a Small Project Fund but which was implemented with serious delays and was put on hold by headquarters⁴³.

There was support in the 1999 programme for the new ministry of Local governments and the Ministry of Labour and Social Policy⁴⁴ but given the poor capacity of public administration it is likely that this programme will face similar problems to the PAR. PAR support to Court and Judicial Administration, is also likely to have little impact. Unfortunately, the design of these programmes have not benefited from the participation of civil society.

Recent programmes include more activities in the Justice and Home affairs, customs and border management and control (including complex information technology components). However, given the Commission's weak strategy in the sector, implementation capacity and weak links with civil society, it is unlikely that impact on democracy and the rule of law would be enhanced. In the absence of a coherent strategy, these programmes are likely simply to increase the gap between programming and reality in the ground.

Non-Phare interventions: EC budget support linked to the Kosovo crisis seem to have contributed to the stability of the country and the region. Support was provided both by Obnova and Macro-Financial Assistance⁴⁵. The support by ECHO is also reported to have made a similar contribution⁴⁶.

However, in *recent programming* exercises the Commission has included funds that may contribute to supporting democracy and national reconciliation (e.g. support to the Census 2001, support to the SEE university in Tetovo and also funds to deliver rapid rebuilding of areas affected by recent fighting.)⁴⁷ More programme ideas were discussed but not included in the final Order for Services. However, unfortunately, no support to specific anti-corruption activities has been provided by Phare, although this is increasingly seen as a key area for the country.

⁴³ The management of this fund was heavily centralised.

⁴⁴ Social Development programme also was meant to support social welfare institutions. No information on implementation was available to the Evaluators.

⁴⁵ Evaluators do not have much information on these operations. Both interventions are being subject to internal audits. Evaluators have received only some documents linked to the Obnova audit.

⁴⁶ Evaluation report:

⁴⁷ Discussion with the relevant DG Relex staff.

The Evaluators were unable to assess the role of the Delegation in supporting dialogue and national reconciliation in FYR Macedonia (through consultations, workshops, research, speeches, etc). However, the Commission has insisted on the point that the Delegation is playing a strong role in this area and is also supporting the very active political role played by the CFP representative and the DG Relex commissioner. However, it was also noted by the Commission staff that greater coordination between the CFP representative and DG Relex is required.

D - Impact on EU integration

In the last two years all Commission interventions had a very explicit EU integration objective. However, even early Phare interventions included activities that gave high priority to formal requirements for EU integration, etc. (e.g. PAR, veterinary and phytosanitary standards, aid coordination, CBC or statistics). Unfortunately, in most cases these programmes have not taken sufficiently into account the country conditions and weak implementation capacities. An excessive focus on formal harmonisation has neglected structural and institutional constraints. As a result, the institutional impact and sustainability of the Phare programme has been low and therefore it has made little contribution to EU integration. Moreover, in the absence of sector strategies, and with limited government managers, harmonisation and EU integration initiatives may be even distractive.

M&A reports find that while the *CBC* has been seriously delayed (both roads and cross border crossings), it has still contributed to improving relations between Greece and the FYR Macedonia. Progress in agriculture (veterinary and phytosanitary) and environment harmonisation has been low. However, some positive impact may have been achieved through the VET and Tempus. Given previous experience, and the weakness of the government institutions, it is unlikely that the more recent complex programmes (e.g. approximation of legislation, integrated border management control, customs administration) will have a greater impact.

The SAA could potentially be a factor for stability in the country and the region, particularly given the desire of FYR Macedonia for EU integration. However, Phare and the new CARDS programme have not yet effectively supported either stability or EU integration. Its approach to harmonisation and the *acquis* appears premature and sometimes disruptive of FYR Macedonia development initiatives. These programmes may look similar to those of accession candidates but country conditions in FYR Macedonia are different. Closer cooperation of DG Relex and EuropeAid with DG Enlargement and DG Development is needed in this area.

E - Other Objectives: Poverty, Gender and Environment.

These objectives are included in the Maastricht Treaty and the Commission's communication on development policy (April 2000) and are pursued by most other donors. However, Phare in FYR Macedonia has not focused on these objectives. Phare has pursued some interventions designed to improve the environment, there has been little attention to poverty or gender issues⁴⁸.

For example, transport and CBC programmes include little discussion on using poverty as criteria for selecting road projects. Reported environmental problems on the road E-75 may indicate insufficient attention of these problems in the study phase. Strong focus on small and medium enterprises and EU harmonisation has not been accompanied by a discussion of the impact of these programmes on poverty. There is also no discussion of the potential conflict between EU formal requirements for integration and poverty reduction objectives. The most recent annual programming does not include any reference to the interim Poverty Reduction Strategy Paper produced by the government and the World Bank.

The Phare programme has had some focus on environmental activities. However, little sustainable institutional changes have been achieved (see first section in this chapter) and delays have affected other relevant activities (e.g. water quality monitoring projects).

⁴⁸ EuropeAid has argued that "As these objectives are pursued by other donors, we do not deal with them except for where we have a comparative advantage". However, this argument underestimates the need to coordinate objectives and interventions and work together with Member States and other key donors.

F – Monitoring and assessment reports

The OMAS consortium was contracted by the Commission to produce Monitoring & Assessment reports on a programme-by-programme basis. 17 assessments have been produced since July 1998. Only 7 are highly satisfactory or satisfactory. This is substantially below the Phare average. See Chapter 3 for a discussion on some of the limitations and weaknesses of this monitoring system.

Table 1: OMAS Ratings of Achievement of Programme Objectives by Year and Sector

Sector/cluster	1998	1999	2000	Total n° of reports
Agriculture & Land reform	HU	-	U	2
Aid Co-ordination/European Integration	U	-	U	2
Cross Border Co-operation	-	U	-	1
Cultural Development	-	U	U	2
Vocational Education & Training	-	-	S	1
Environment	-	U	-	1
Approximation of Law	U	-	-	1
Enterprise & Financial Sectors	S	S	-	2
TA to the Central Finance & Contract Unit	-	-	HS	1
Public Investment Support	-	-	S	1
Public Administration Reform	-	S	-	1
Statistics	-	U	S	2
TOTAL				17

Key:

HS = 'Highly Satisfactory': the Programme is expected to achieve or exceed all its major original/revised objectives and to yield substantial benefits

S = 'Satisfactory': the programme is expected to achieve most of its major original/revised objectives and to yield satisfactory benefits without major shortcomings

U = 'Unsatisfactory': the Programme is neither expected to achieve most of its major original/revised objectives nor to yield substantial results

HU = 'Highly Unsatisfactory': the programme is neither expected to achieve any of its major original/revised objectives nor to yield worthwhile results.

3

Explaining the Impact of the EC Programme

This chapter examines the key determinants of the performance of Phare in FYR Macedonia: the role of EC aid in strengthening institutions, donor coordination, and the Commission's own resources and procedures. EC programmes were not part of an overall development strategy and institutional design was poor. Despite the importance of strengthening civil society in the Macedonian context, this issue was not addressed. Donor coordination only worked relatively well during crisis periods, but it was generally poor, patchy, and hindered by fundamental differences of approach with the World Bank⁴⁹. All these difficulties were compounded by very poor centralised implementation management by Commission Services. Moreover, a recent attempt to decentralise implementation (DIS) and establish a Central Financing and Contracting Unit also failed.

A - Strengthening Government institutions

Phare support to central government institutions was not part of an overall strategy, and did not take proper account of the weaknesses of Macedonian public administration, either in design or implementation. As a result, government ownership of Phare reform programmes was low, programmes were focused on key issues, were poorly coordinated, and unsustainable. Phare (like other donors) has used programme management and implementation units in a way that has contributed to the fragmentation of government institutions. Recent EC programmes are even more unrealistic and complex, do not adequately take into account lessons from previous experiences and, therefore, are unlikely to be successful.

Lack of an overall strategy and government ownership

The Phare programme in FYR Macedonia has included from its inception considerable support to government institutions including central public administration, aid coordination (including the PIP process), agriculture, environment, etc. However, as described above, the impact of these interventions has been very low. Monitoring reports and Commission officials partly attribute this to the low quality of the local public administration, and this is an important factor. However, the Commission did not develop a coherent strategy to deal with the resulting difficulties (which are unavoidable when trying to support government institutions), nor did the Commission readjust its programming to take account of the institutional environment or of the implementation problems with its existing programmes. There was little policy analysis and dialogue, at both global and sector levels. In most areas where the Commission has programmes, adequate policy framework and minimum government commitment to reform and ownership were absent. Programme conditionalities were minimal, typically relating to personnel, office

⁴⁹ However, the Delegation notes that it has recently been able to increase its efforts in the area of donor coordination.

space and equipment, and even these were frequently ignored. Assistance was mostly project-based, and not part of a coherent sector-wide programmatic approach.

The EC's *support to the Public Administration Reform* is a case in point. While an official 'Strategy on PAR' existed on paper, this strategy was not internalised by the government. The quality of the preparatory analysis used in the strategy has been questioned by some donors, which point out that basic information – such as the size of the civil service – is still unavailable. As a result, the consultants mobilised by the EC for the PAR followed a narrow approach that focused on technical studies rather than on addressing relevant political and strategic issues. Many studies were produced⁵⁰ but reform did not gain political momentum, as a result of which impact was severely limited (see chapter 2).

In particular, the most pressing – and politically charged – problems of public administration were not addressed (e.g. poor pay, politisation, corruption). The EC's approach was overly formalistic, concentrating on the legal framework at the expense of implementation. As noted in the PIO Final Report, EC supported "reforms are seen only as amending/adopting laws and not going to the core/fundamentals of the whole organisation/management system."⁵¹ The EC's focus on EU integration, also detracted from a focus on country-specific social and economic issues, and to have made a coordinated donor approach less feasible. Finally, the reform programme did not have a clear agenda for implementation, making it impossible to monitor it adequately.

Another example of low government ownership is *agriculture and land reform*⁵². The EC provided assistance to these two sectors in the absence of a clear commitment to reform on the part of the government. Only in 1999 did the annual programme include the commitment to support an agriculture sector strategy, which is still not available, although collaboration with the ministry (MAFWE) subsequently improved somewhat. However, in Agriculture, as in other sectors, Phare institutional support often focuses on delivering equipment and external TA rather than addressing the key bottlenecks for institutional strengthening.

Institutional support ignores the absorptive capacity of the Government

Government institutions in FYR Macedonia are fragmented, frequently overlapping, and highly politicised. Instead of seeking to improve matters, however, the institutional choices selected by most donors, and the Commission in particular, for programme implementation have largely ignored the absorptive capacity of the public administration in the country. This approach indicates a limited understanding on the effect of political changes on public administration and the implementation capacity of government. As a consequence, EC implementation units have been frequently external to existing institutions and usually ill adapted to them.

In some sectors, the EC has created new institutions and systems, often without an assessment of the sustainability of these institutions. The *Aid Coordination Unit* (later to become the European Integration Office) did not fit well into government structures: ACU focused primarily on Phare activities and had poor links with line ministries; it was thus unable to fulfil its function. Even

⁵⁰ 20 Studies according to the PIO Final Report Annex. The reports are also usefully included in a CD-ROM produced by the consultants. Some were presented at a donor conference on 24 June 1999. See *Country Assessment Review of the Phare assistance up to the end of year 2000*, OMAS, April 2001.

⁵¹ Phare Implementation Office, Final Report, 2000.

⁵² See Monitoring and Assessment Report on MA-9603 (18/3/99)

relations with the Commission were often difficult. The EIO has not addressed these weaknesses and its initial plan was developed with no feedback from the government. There is still a lack of clarity regarding the roles and responsibilities of the EIO (both within the government and in respect to other PIUs, such as that responsible for CBC programmes). In the *agriculture* programme, the EC 1996 programme sought to set up a special unit for policy analysis, the European Strategy and Programming Unit (ESPU). This unit was not created. However, EC support has led to the creation of two units to support EU Integration issues (Department for International Cooperation and Development and the Policy Advisory Group). These units are relatively weak and heavily dependent on the EC.

Other examples of project-specific new institutions include the NEPA. The NEPA was eventually hosted in the Privatisation Agency and is also a heavily donor dependent institution, and has been set up in the absence of a properly formulated policy framework, which is essential to enterprise development⁵³. Links with the private sector are also weak⁵⁴. It is thus unlikely to be sustainable. More recently, the Commission has supported newly created ministries such as the Ministry for Environment and Local Government. Here, sustainability is again likely to be an issue in the absence of a coherent public administration reform.

The support of the PIP process has neglected the need for an adequate institutional process. In part this is due to the location of the project in the Ministry of Development, with poor links with the Ministry of Finance and other line ministries. Some of the donors interviewed considered the PIP as a formal exercise with little impact on policy. Meanwhile, the Ministry of Finance is receiving support from other donors, including the World Bank, for improvements to budget management that may lead to the preparation of a medium-term expenditure framework, which could further marginalize the PIP process.

In the *road sector* the complex institutional set up used by the EC has resulted in numerous difficulties and delays. By contrast, the World Bank, which has the National and Regional Roads Fund as its main counterpart, reports relatively good progress. In the *environment sector*, EC Phare appears to have made some progress even in the context of a very complex government institutional setting⁵⁵.

Excessive fragmentation

Support to the agriculture sector (2 Meuro, 1996) was intended to provide support for Development of Veterinary and Phyto-sanitary Control Capabilities, Water Management Projects and support to MAFWE (including the establishment of European Strategy and Programming Unit (ESPU), support to the Water Management Department, Veterinary and phytosanitary training and preparation of Phytosanitary Inspection Manuals). The PAR is even more ambitious and covers strategic policy and management, financial control, central/local government

⁵³ The current approach of the Commission (and most major donors) to enterprise development increasingly focuses on reforming the macro environment of the private sector (taxation, credit policy, infrastructures, reform of the training sector, etc.) as opposed to direct micro-based support to selected enterprises.

⁵⁴ The PIO Final Report, p3 Annex, also notes the nepotistic interference from local political authorities.

⁵⁵ Over-ambitious ToR in terms of output and timing. 6 project components and 7 institutions responsible for the water component. The two ministries responsible were unable to agree on anything. "Cooperation between ministries is low to non-existent". Page 3. Annex C. Environment and Water. PIO Final Report

relationships and court and judicial administration. And these are only two interventions in an extremely dispersed Phare programme. Only in a few cases programme adjustments were made to simplify these ambitious programmes.

Given the limited management and monitoring capacity of the Commission and the government, it is not surprising that these programmes have had relatively low impact.

More recent EC interventions still more complex

There is already some evidence that an excessive focus on the formal aspects of EU integration is distorting some sector priorities: for example, in agriculture, the focus of the training component for the MAFWE civil servants on EU agricultural matters was on policy and legislation, not general agricultural best practices and international experience. In the absence of an adequate policy framework, the programme was over ambitious and did not reflect the countries' needs. The newly formed European Integration units in different government departments could also contribute to increased fragmentation and complexity in the Macedonian civil service.

It is likely that this risk will increase in the future. The Commission is adopting even more complex programmes of institutional change, particularly given its interpretation of the Stability and Association Agreement (e.g. most recently in the Justice and Home Affairs sector, including justice, border management and control and customs). As initial conditions in the relevant sectors and past implementation performance are both poor, and there is little evidence to date that the Commission has assimilated the lessons of its past institutional failures, it is unlikely that the new generation of institutional interventions will be able to deliver. Moreover, many of these proposed new interventions have a heavy information technology equipment component which will be extremely difficult to implement.

B - Support to civil society

The development of civil society is of central importance to successful economic and political development in FYR Macedonia. Potentially, civil society organisations could have made a large contribution to the important objective of enhancing social cohesion and reducing ethnic tensions:

- The lack of institutions where different ethnic groups can communicate and debate peacefully – either about the issues that divide them, or issues like economic development where they have common interests – is an important factor in the polarisation of Macedonian society, and one where civil society organisations could make a substantial contribution;
- Civil society could contribute to stability in the region (e.g. see the role of NGOs and think tanks in the recent improvement in relations between the Dominican Republic and Haiti⁵⁶).
- greater public reaction at inefficiency and corruption would provide a major spur to public administration reform, as well as improving the likelihood of success in implementing other projects;

⁵⁶ CSE Dominican Republic.

- Civil society organisations could have been a useful channel for the direct delivery of aid and the implementation of projects, given the low absorptive capacity of the government.
- Civil society organisations are essential for an adequate design and implementation for programmes in public administration, local government, private sector development and particularly in the new programmes in the Justice and Home Affairs area.

However, the EC did not formulate a strategy for supporting the civil society in FYR of Macedonia. It failed to consult civil society organisations on strategy and programming, to channel support via civil society organisations or to involve them in implementation, or to support them directly. While there are informal contacts, these are at a relatively low level. While the MIP proposed support to a Municipal Development Investment Fund and direct support to civil society, this was not implemented. Finally, the CBC included a Small Project Fund but its implementation was suspended by headquarters.

The lack of civil society organisations' involvement in institutional reform was particularly damaging, since the promotion of accountability and transparency could potentially have made a significant contribution to public administration reform, and going forward, in the home and justice sector. While support to, and involvement with, civil society is a difficult task; it is essential for sustainable development

Some recently proposed programmes, such as the 2000 support to the implementation of the law of higher education, the support to the census or the 2001 support to the SEE University of Tetovo,⁵⁷ and the use of rapid reaction funds to reconstruct areas affected by the recent conflict⁵⁸, are more directly relevant. The 2001 programme includes a Small Infrastructure Fund for Local governments and a Small Project Fund. However, implementation modalities may not encourage civil society ownership of these funds.

These interventions would be more effective in the context of a coherent sector strategy. Thus, the Commission needs to develop a strategy to work and support civil society in FYR Macedonia. The Delegation's Head of Cooperation has commented to the Evaluators that the Delegation is very aware of the need to work more closely with civil society organisations. The Commission has also noted that the sector is very fragmented and donor dependent.

C - Donor Coordination

Donor coordination was weak at both the strategic and at the sector level, reflecting the weakness of government structures and donor failure to ensure government ownership, as well as some degree of overlap and conflict between the EC and other important donors. General donor coordination during periods of crisis worked better.

⁵⁷ However, note that the VET programme did not have much success in supporting a more inclusive education policy (such as an apprenticeship scheme appropriate to the ethnic Albanian population).

⁵⁸ Discussion with DG Relex official.

Different strategic approaches

To date, except in periods of severe crisis⁵⁹, donor coordination has been very weak. This is particularly serious given the lack of a government development strategy at general and sector levels. The EC and other key donors have not been able to coordinate their efforts to support reforms⁶⁰. Consultative group meetings are still limited to exchange of information, away from decision-making concerning realities in the field. Overall donor coordination at the level of the Stability Pact is better but it neglects specific country conditions and the implementation realities on the ground.

While the general coordination between the IMF and the World Bank and the EC has improved recently at headquarters level, it is still mostly limited to exchanges of information on programmes and country developments. Coordination on the ground is weaker, although in the past this was also explained by the absence of a Delegation⁶¹. While the PIO report notes that it had close cooperation with other donors and particularly with the World Bank, consultants cannot carry out coordination effectively.

The Commission argues that there is an implicit 'division of work' between the BWI and themselves. The EC assumes leadership on the political aspects and EU integration issues of the relationship with FYR of Macedonia, while the World Bank focuses on more structural economic and social aspects, i.e. poverty reduction, corruption, public administration and other related 'development' issues.

Interviews indicate that the World Bank recognises the pre-eminence of the political objectives of the SAA and believes they may be compatible with the PRSP process. However, in practice this division does not appear to work well. The Phare programme supports public administration, aid coordination, agriculture and enterprise development that have a crucial developmental aspect in a country like FYR Macedonia. However, these programmes are not well integrated to other key donor initiatives, sector programmes and the interim PRSP.

In practice, an EC approach that focuses on formalistic aspects of EU integration and harmonisation detracts from a structural focus on getting the basic structures, strategies and policy frameworks right. There is also potential tension resulting from the possibility that post-conflict assistance will be provided on the basis of political conditionality only. This could lead to perverse incentives, as well as undermining government commitment to economic reform. In the future, donors should support jointly work on the PRSP and the SAA as tools for developing a national strategy

In addition, general coordination also appears to be weak with some bilateral donors. Particularly, coordination of the EC with USAID, a major donor which has been working on democracy, governance and decentralisation aiming to reduce inter-ethnic tensions, is very

⁵⁹ Coordination was generally good during the Kosovo crisis. However, such coordination centred mainly on the management of the immediate humanitarian consequences of the crisis, not its longer term implications.

⁶⁰ Until recently, donor coordination was also difficult for the Commission because of the absence of a Delegation (established only in April 2000). The Delegation notes that it is directing increasing efforts to this area.

⁶¹ The Evaluators have gathered insufficient information on the most recent developments of coordination initiatives in the field. The Delegation notes that they have increased their efforts in this area significantly.

limited, even in terms of exchanges of information. Coordination with MS also appears weak. In particular, the UK has recently noted the lack of discussion and consultation in the preparation of the 2001 annual programme, and indicated the importance of proper consultation on the future Country Strategy Paper.

Weak coordination at the sector/project level

Donor coordination in different sectors and projects has been particularly difficult given the absence of government sector strategies and the fragmented nature of government institutions. It should also be noted that poor coordination enables the government to request funds for the same project from different donors.

Uncoordinated donor programmes. In this context, donors need to act together in order to create the policy and institutional preconditions for effective, coordinated donor assistance – and this has not been done. The prime effect of multiple, uncoordinated donor programmes, far from strengthening public administration, has been to impose a heavy administrative burden on the Ministry of Finance and line ministries⁶². The multiplicity of project implementation units established by different donors, and isolated offers of TA and equipment by individual donors in different units and departments, are particular problems.

Aid Coordination Unit. Improving the capacity of the government in the field of donor coordination was the specific objective of the EC's support to the ACU. However this project had no positive impact on this objective. There was little support from government; poor contractors and other donors have not worked with the ACU. Tellingly, in 1999 the ACU was renamed the European Integration Office, reflecting the fact that ACU has been mostly a Phare specific unit.

Support to Public Administration Reform. Monitoring reports, and interviews with other donors, suggest that coordination has been generally weak, in large part because of the project-focused and non-strategic approach of the EC⁶³. Similarly, current World Bank support to the budget preparation process is uncoordinated with the EC support to the PIP, which is regarded by some other donors as unsustainable.

In *transport*, while coordination appears to have been adequate with the EIB, it has been less satisfactory with other key donors. This lack of coordination is evidenced by the use of different counterparts, by the EC and the World Bank (main counterpart to the World Bank's road programme is the autonomous Fund for National and Regional Roads (FNRR)⁶⁴).

In *agriculture*, donor coordination on land reform was better, as the World Bank included the adoption of the Agricultural Land Law prepared under a EC project as a conditionality for its own programmes. However, even here there has been some duplication, with potential overlap between Phare and a Norwegian project to establish a number of Central Registries with the Ministry of Finance as counterpart.⁶⁵

⁶² TA to Aid Co-ordination, OMAS, September 2000.

⁶³ However, the Commission notes that it will not continue its involvement in public administration reform.

⁶⁴ See *Project Appraisal Document on a Proposed Loan in an amount of DEM 52.8 DEM to the FYROM for a Transport Sector Project*, World Bank, January 1999.

⁶⁵ *Agriculture & Land Reform*, OMAS, 1998.

In *environment*, monitoring reports indicate that coordination, although particularly important in a sector where so many donors are active⁶⁶, has been poor. In addition, there is no evidence that the Phare programme, which centred on general policy and institutional issues and was therefore well positioned to help to build up coordination, has made any positive contribution in this respect.

Coordination in new sectors such as *Customs, Cross-Border Crossing and Justice and Home Affairs* is particularly important given the special need of transparency and probity in these sectors. For example, close field coordination with the World Bank's Trade Facilitation Programme is essential.

Finally, in some other areas donors have managed stronger coordination. These are as follows:

- EC Macro-Financial Assistance budget support has used the programmes agreed with the World Bank and the IMF as conditionalities for disbursement⁶⁷.
- EC assistance to refugees, both through budgetary support (Obnova) and through ECHO⁶⁸, is reported to have been well coordinated with UNHCR and other major donors involved in the management of the consequences of the Kosovo crisis.
- Monitoring reports indicate that coordination on customs was stronger than in the PAR generally.
- The Vocational Education Training programme was coordinated in a satisfactory manner with UNICEF and has sought to mobilise resources from other donors.

D - Commission implementation capacity

The EC's ability to engage in policy dialogue and donor coordination is generally constrained by its limited capacity and burdensome procedures. However, in FYR Macedonia, these constraints have been aggravated by complex implementation arrangements and insufficient clarity over responsibilities (between headquarters, the Delegation, the Project Implementation Office, the ACU/EIO, PIUs and line ministries). Headquarters implementation performance was weak and has not yet improved with the creation of EuropeAid. Serious implementation delays and a huge backlog in implementation currently exist but also normal filing and record keeping has been affected. Recent programming has become even more ambitious and further disconnected from realities in the ground. The performance of the ACU/EIO has been poor, while an attempt to move to decentralized implementation (DIS) has recently failed. All this has contributed to low transparency and accountability in the management of the programme and to a failure to internalise evaluation lessons.

The weak implementation and serious delays of the EC programme has been described in some detail in the M&A reports and particularly in the PIO Final Report (Annex C and D)⁶⁹. The

⁶⁶ Other donors account for about 75 M, while the EC contribution was 2 M, (*Environment, OMAS, 2000*).

⁶⁷ However, note that the Evaluators have not received any information on this large intervention. The evaluators were told that the programme is currently subject to a sensitive audit and that no documents or interviews were to be allowed.

⁶⁸ *Evaluation on the ECHO actions in the FYROM following the Kosovo crisis*, Franklin Advisory Services, August 2000.

consequences in reducing the impact of Phare programme have been described in Chapter 2. Some examples of weak implementation include: the poor selection of contractors (e.g. ACU, Modernisation of the Medzitlija border crossing), poor set up for implementation and management arrangements (e.g. on the supervision of the E-75 road), very poor tender documents (e.g. up-grading of E-75 and the modernisation of the Bogorodica border crossing) and inadequate finalisation and supervision of project documentation (by headquarters).

Commission services in Headquarters

During the period covered by this report, implementation was mostly managed from Brussels. Decentralisation began in 2000, and effectively only in 2001, whereupon it was almost immediately suspended.⁷⁰ Centralised implementation had many weaknesses and caused many delays⁷¹. However, implementation does not seem to have improved with the creation of a separate implementation DG (SCR and later EuropeAid)⁷². In particular, the Delegation noted that *currently* there are very serious delays in implementation and a large backlog of programmes that have not been implemented (from the years 1997, 1998 and 1999). Moreover, the move towards decentralisation should have managed much more carefully. Implementation has not been helped by the programming of increasingly more ambitious and unrealistic programmes based on limited feedback from the ground. It appears that in the future, EuropeAid will carry out the annual programming. It is hoped that this could result in a greater realism of programmes, however, it is still important that DG Relex provides a firm strategic direction and monitoring of both programming and implementation.

⁶⁹ In the year 2000 a written request was made to extend the disbursing/contracting periods of financing memoranda in 10 projects (Annex 7). Extensions were requested for 12 and 24 months. Requests for 11 programmes were made in 1999.

⁷⁰ Information from interview with DG Relex official (Mr Roijen). The PIO Report May 2000 notes that only Phase II Reform of Payment Operations (COP97), Integrated SME Development (COP 99), Agriculture, and Environment were not under the authority of headquarters.

⁷¹ This is described in numerous M&A reports, which note for example slowness on response for the 'Enhancement of the Capabilities of the National Bank' and 'Reform of the Inter-bank Payment System'; the lack of transparency of approval procedures; the timeframe for commenting on documents under the CFCU project (DIS) and on management of the ACU/EIO.

⁷² See for example, M&A report on CBC. However, EuropeAid notes that its staff dealing with FYR Macedonia has increased from one person (1998) to three persons (2000).

The creation of EuropeAid also introduced disruptions in programme implementation (as for example in the implementation of the CBC) and in record keeping of project documents and reports (e.g. evidenced in our visits to Brussels and by the fact that the PIO Final Report and other key documents were sent to the Evaluators from Skopje⁷³). In general, unlike other CSEs, the Evaluators were not given access to a number of internal Commission documents. No information was provided on the large macro-financial budget support assistance. The Evaluators were told that a sensitive audit was being carried-out. The work on the draft Country Strategy was also not discussed with the Evaluators. As a result, the Evaluators came to the conclusion that the management of the EC programme in Brussels is not sufficiently transparent.

Implementation in FYR Macedonia

On the ground the implementation was monitored by consultants in a Phare Implementation Office (since 1996) which became part of the Office of the Resident Envoy and then of a Delegation (2000). Meanwhile, the government counterpart during this period was primarily the Aid Coordination Unit (which became later the European Integration Office). The role of the ACU and EIO introduced an important weakness since in many cases they became the key interlocutors for the implementation of many programmes instead of line ministries and specialised PIUs (e.g., the CBC PIU). This added an extra layer of (ineffective) bureaucracy, reduced the quality of aid coordination, and reduced ownership of projects by government ministries actually responsible for policy in the relevant sectors.

Reports suggest that PIO performance was adequate but work was carried out in a very difficult environment and in the absence of a Delegation, resulting in poor implementation, as described in detail in the PIO's own Final Report.

Failed move to decentralised implementation

The move to decentralised implementation (DIS) in FYR Macedonia was intended to address some of the weaknesses described above. However, while this move occurred much later than in other Phare programmes, and there was a very long planning period prior to implementation, it does not appear to have benefited from the lessons learnt elsewhere. The difference in country conditions (compared to other Phare countries) does not seem to have been taken into account.

The Central Finance and Contracting Unit (CFCU) was established in December 1999 under the responsibility of the Ministry of Finance to implement the DIS, and this process was rated as highly satisfactory by the monitoring and assessment report in July 2000. However, at that time decentralised financial management had not been applied to any project as yet. Five programmes were transferred for implementation by the CFCU in 2000⁷⁴.

⁷³ The Project Implementation Office, Final Report, described as a key document by the Delegation, was eventually sent to the Evaluators by courier from Skopje.

⁷⁴ Reform of Inter-Bank payment system, CBC, SME Development, Institutional Strengthening of MAFWE, Strengthening of the Ministry of Environment.

However, under the decentralised implementation (and the CFCU) serious irregularities in the tender of the SME programme occurred⁷⁵. As a result, headquarters has abandoned decentralisation and has decided on the re-centralisation of all programmes that have not started⁷⁶ (although this decision was not discussed in the Financial Proposal or the Order for Services 2001). The Evaluators understand that the CFCU may be abandoned entirely (although this was not clarified to the Evaluators, despite a number of written requests).

Possible explanations for the failure of the DIS in FYR Macedonia include the following:

- The weakness of financial control systems, and lack of internal audit capacities in the government.
- The (correct) initial intention was that the CFCU would also deal with other donors' programmes. This would have improved aid coordination and avoided the creation of an EC-specific unit within government. However, in practice, this was not achieved.
- The establishment of the CFCU may have created a 'parallel' administration within the Ministry of Finance, isolating the CFCU from the mainstream administration and decision-making centres within that administration, and making political interference with financial decisions easier.
- The respective roles of the CFCU and the EIO do not appear to have been clearly specified.

The principle of decentralisation is important, but it requires improvements to the capacity of both the government and the Delegation (particularly in financial management and controls). Meanwhile, a special task force has been created in EuropeAid for the delivery of aid to FYR Macedonia. In the view of the Evaluators, this represents an implicit recognition that normal systems in EuropeAid are unable to deliver effectively as of yet.

Adequate monitoring, insufficient evaluations and weak learning

Compared to non-Phare countries, Commission monitoring in FYR Macedonia is advanced, detailed and relatively systematic. The Phare Monitoring and Assessment system (managed by the OMAS consortium) provided reports on the implementation of these projects, and the PIO Final Report states that they produced extensive monthly reports on Phare programme operational issues.

However, some important Phare projects have not been assessed by the M&A system (e.g. Local Government Development –delayed-, the funding for the E-65 road, including the Tetovo bypass, etc).

The M&A reports provide an important description of project implementation and often useful recommendations for improvements. However, the reports need to be more systematic and the

⁷⁵ Interview with staff of DG Relex (Mr Roijen) and in written Commission's replies to the draft report.

⁷⁶ In reply to the draft report, EuropeAid stated that all programmes that have not started have been recentralised, that re-centralisation is taking place on a case-by-case basis and the TA to the CFCU will not be renewed (February 2002).

timing of the reports should be improved to facilitate the readjustment of programmes⁷⁷. The M&A reports are often highly critical but they are nevertheless often more optimistic than can be justified by reference to the actual impact of Phare assistance:

- Since they look at individual projects and programmes within sectors, and evaluate them by respect to project- and programme-specific objectives, they inevitably tend to neglect a broader perspective on the sector as a whole (e.g. assessment of SME projects).
- In a few cases the M&A reports come to premature judgements about projects that are in progress. For example, they did not anticipate the failure of the CFCU (DIS process), giving the project a 'highly satisfactory' rating, although it had to be suspended less than a year after this assessment⁷⁸.
- The reports concentrate on the quantifiable outputs of projects. For example, the 'Enterprise and Financial Sectors' project, which was twice assessed as 'satisfactory', received this positive appreciation principally because the setting up of NEPA was listed as a project-specific objective and was achieved. However, the relevance of the NEPA in a broader institutional context is not sufficiently addressed. Similarly, the good ratings of the PAR and PIP projects ignore key issues related to donor coordination and institutional continuity.
- These reports do not provide enough information on the financial control systems and programme audits.

In most cases, the M&A reports and the PIO monthly reports did not result in better programming or implementation (less over-ambitious objectives, more emphasis on government commitment and sector plans, focus on the need for qualified government staff to implement these projects, etc.)⁷⁹ The lessons of these reports were not adequately internalised by relevant Commission staff; on the contrary EC programming has become yet more ambitious.

The M&A system have not been complemented by the use of systematic independent evaluations (as required by the MIP). In practice, not many evaluations have been carried out. It is similarly very difficult to see why non-Phare projects such as the budget support from OBNOVA - ongoing-and from the Macro-Financial Assistance have not been evaluated as yet⁸⁰. The ECHO intervention in support of Kosovo refugees has been recently evaluated⁸¹.

As noted in Chapter 1, there is little or no discussion of previous interventions or lessons learnt in any of the programming documents made available to the Evaluators. Indeed, there is not, to date, a single document formally analysing the strengths and weaknesses of the FYR of Macedonia programme in the specific country context – that is, taking stock of the policy/political environment, the orientations of other donors, etc. The only two general country

⁷⁷ The Commission also stated that some of these reports were of poor quality (e.g. Statistics) and that sometimes the reports did not take into account institutional changes in the country (e.g. creation of new ministries).

⁷⁹ However, some partial improvements have been noted (e.g. second agricultural programme).

⁸⁰ Although both projects are now being subject to internal audit. OBNOVA budget support is ongoing.

⁸¹ *Evaluation on the ECHO actions in the FYROM following the Kosovo crisis*, Franklin Advisory Services, August 2000.

documents made available to the evaluators were prepared by contractors⁸² and, mostly have a focus on project-specific achievements⁸³.

Financial controls

The Evaluators are unable to provide any assessment on the general quality of systems of financial control for EC programmes in FYR Macedonia. However, there is some evidence that the weaknesses in the project cycle extended to the area of financial controls. For older programmes, such as the 1992-1995 Critical Aid, the PIO Final Report recommended a financial audit. The Evaluators were provided with information on the audit to the OBNOVA budget support programme but not on the audit of the large macro-financial assistance budget support, on the grounds that this audit was considered sensitive.

The PIO Final report notes a number of areas where financial controls have been weak. The recent failure of the decentralised system and the CFCU also points to important weaknesses. However, the Delegation noted that it is working hard to improve the systems of financial control. In this context, a more systematic use of financial audits is recommended throughout the EC programme in FYR Macedonia.

⁸² OMAS Country Assessment, April 2001; Final Report prepared by the PIO's TA, May 2000.

⁸³ The Commission expects that the new country strategy will address these issues.

4

Recommendations

These recommendations are intended to assist in the preparation of future programming. It should also be noted that some of these recommendations are already being implemented, while others will require action on the part of other parties as well as that of Commission headquarters and the Delegation.

The EC should focus on the objectives of reforms to governance and public administration, the development of civil society, ethnic reconciliation, and sustainable economic development. These are preconditions to greater integration with the EU, and should have a higher priority at this stage than the formal requirements of the SAA. Strategy preparation should include systematic and transparent consultations with other donors, the FYR Macedonian government, and civil society – even if this involves a delay in the current process.

The EC should reduce the number of sectors in which it intervenes and develop – in conjunction with the government and with other donors – a strategic approach, on a sector wide basis.

A radical improvement in the quality of service provided by the Commission Services is required. More transparency, including systematic evaluations and audits, is necessary throughout the programming and implementation process. .

Ensuring relevance of the strategy

1. **Objectives: governance, civil society, ethnic reconciliation and sustainable economic development.** The country analysis (Chapter 1) suggests that the EC strategy should focus on the following objectives:
 - comprehensive public administration reform, directed at improving the government's ability to deliver basic services to all communities;
 - support to civil society organisations in order to improve government accountability, promote ethnic reconciliation and help to entrench democracy and the rule of law;
 - Sustainable economic development, meaning structural economic reform to promote balanced growth, that is sufficiently widely distributed to reduce poverty, and that protects the environment.
 - Ethnic reconciliation, for which the above objectives are likely to be a prerequisite.
2. *A more gradual implementation of the SAA.* These objectives (above) should be seen as leading naturally to greater integration with the EU. Considerably less emphasis should be given at this stage to the formal and legal implementation of the SAA.

Strategy Preparation

3. *Strategy preparation should include systematic and transparent consultations with different elements of civil society.* This should be part of a wider effort to support political dialogue, conflict resolution, and ethnic reconciliation. The Delegation could play a key public role in these activities. Civil society and the private sector should not only contribute to the preparation of the strategy but support and monitor implementation.
4. *Cooperation Strategy should be based upon:*
 - Reviews of previous implementation and evaluations of key programmes. This should be carried out in a transparent and participatory manner (see rec. below on making the monitoring reports public).
 - Country analysis, which should benefit from the contributions of key donors, government, and civil society.
 - discussion and agreement among major donors on a common understanding of what the SAA means for the implementation of the cooperation programme for FYR Macedonia, and the interaction between the SAA and the government's broader development strategy (including the PRSP).

There is no indication that the country strategy currently being drafted takes account of the recommendations 1-4. If necessary, it should be revised and/or delayed, and the process restarted, so as to do so.

5. *Annual programming* should also be based on more transparent consultations with all stakeholders (and feedback from Delegation). Annual programming should be justified by references to the analytical base for the programming, reports on lessons learnt by interventions in the sector, government commitment and capacity in the sector, progress towards sector strategies and programmes and coordination with other donors. Annual programmes should not be carried out in the absence of a country strategy. DG Relex should monitor closely this process (now to be carried out by EuropeAid).

Modalities and sectors of support

6. *Programmes should only be maintained if they address key country objectives and if they are able to take into account key project risks.* Programmes must have realistic, simple and monitorable objectives.
7. *Commission should focus interventions in 2 or 3 tightly defined areas of support.* Commission should work with other donors on crosscutting issues of public administration reform (pay reform, anti-corruption, restructuring, integrity of the budget process, decentralisation, etc.).
8. **Budget support** should be used to support crosscutting issues and sector programmes with common donor conditionalities, implementation and audit procedures. A few key indicators should be identified to monitor government commitment to reform. Budget support should not be based on the misguided idea that aid can buy peace.
9. The overall poor quality of implementation and insufficient programme evaluation make it difficult to suggest sectors where the Commission can have a significant positive impact at

present. However, **subject to implementation of the other recommendations in this evaluation**, continued involvement could be considered in the following sectors:

- a) Transport
- b) Agriculture, linked possibly to the budget support
- c) Education, small programmes for Tempus, VET and the University of Tetovo (jointly with other donors)
- d) In other key sectors, including Judiciary, Integrated Border Management, Customs Administration, Environment, and Support to Economic Reforms, restructuring of Commission support is required. Support to these sectors should be made much less ambitious. It should be provided either under the lead of other donors, particularly Member States and/or the BWI, or subcontracted to them. The Commission could seek to lead in one of these sectors and in other aspects linked directly to approximation with the EU's legislation but only if it ensures that the programme will be transparent and results can be monitored by stakeholders.

10. Support to the SME sector and the PIP process should be discontinued.

Governance and civil society

11. *Support governance by developing and implementing a strategy to strengthen civil society and to promote national and ethnic reconciliation.* The EC should improve its contacts with and analysis of civil society, with a view to integrating civil society both into the formulation and implementation of the overall country strategy (see above).
12. *The EC should provide greater financial support to relevant civil society organisations.* Consideration should be given to the use of intermediary funding organisations, which would operate independently but use criteria agreed and monitored by the EC, other donors and civil society. (Commission should avoid micro-management, as in the current small fund managed by the Delegation). Particular priority should be given to the funding of civil society organisations that bridge the ethnic divide or that support regional stability.
13. *The EC should support an expansion of the role of civil society in monitoring the quality of governance.* A key constraint of Macedonian civil society is the lack of pressure on government to improve the functioning of the political system, improve services and control corruption.

Improving aid coordination

14. *The EC should support a joint approach to public sector reform, corruption and sector wide strategies.* Instead of merely seeking to avoid overlaps, government and donors should jointly work on crosscutting issues and sector-wide strategies in key sectors. The objective should be for donors to provide joint programme funding on a sector basis, rather than funding their own projects.
15. *Time and resources allocated to consultation with other donors should be increased.* There should be greater consultation with other donors concerning the new Country Strategy

(particularly with Member States), and regular and systematic in-country donor consultation. Joint work on Country Strategy issues with some Member States is also recommended.

16. *Within the EU, coordination between CFSP bodies and DG Relex programmes should be enhanced.* The cooperation programme should be more directly linked to conflict resolution initiatives.
17. *Budget support should only be provided jointly with other major donors.* It should follow same conditionalities and same monitoring and audit requirements. (This approach is being followed up in other countries, e.g. Uganda, Mozambique).
18. *Technical assistance* should be provided as much as possible as joint donor pools for the sector. Commission should refrain from setting-up EC specific implementation units or other institutions. Similarly, major donors should carryout joint evaluations of their support to the country.
19. *Donors should assist the government to strengthen its coordination mechanisms, as part of overall public administration reform.* The role and functions of the European Integration Office should be reconsidered.

Aid Management and Implementation

20. *Changes in Commission Headquarters.* **It will not be possible to implement the above recommendations, related to a more open and consultative strategy and programming process, unless the Commission headquarters makes its current working practices and approach more transparent.** Also a greater openness to external feedback and work with other donors (particularly Member States) is needed. Similarly, it is important that EuropeAid and DG Relex work more closely with other DGs (in particular DG Development and DG Enlargement).
21. *Annual programming carried out in the future by EuropeAid should be closely monitored by DG Relex.* This is important in order to ensure the strategic coherence of the programme.
22. *Accountability and service standards.* The division of responsibilities between Commission staff in Brussels and FYR Macedonia should be made clearer. Individuals should then be held accountable for the quality and timeliness of their work. Both headquarters and the Delegation should adopt a clear, written and binding statement of service standards applicable to the processing of project documentation.
23. *Greater observation of correct system and procedures in Commission headquarters.* Commission headquarters should improve its systems to keep complete and accurate records of documents relevant to the programme.
24. *A thorough independent evaluation of the failure of decentralisation and the CFCU should be carried out.* This will be useful for other countries as well as FYR Macedonia. Re-centralisation of programmes to EuropeAid should be a transparent process, with proper monitoring, improved systems and full accountability.
25. *The reform of EC implementation procedures should be carefully and transparently discussed with the government and other donors.*

26. *Annual Country Reviews and a Delegation Quality Support Group should be introduced as part of the learning process.* This will encourage greater teamwork and ensured that the Delegation has a stronger input in programme design.

Learning systems

27. *Monitoring and assessment reports should be shorter, timely, focused on strategic issues and identify clearly those responsible for poor implementation (or design).* Duplication with normal work of the Delegation should be avoided. M&A reports should include a more systematic assessment of financial control and audits.
28. *Monitoring and assessment reports should be made public.*
29. *Findings of monitoring and assessment reports and evaluations should be internalised more effectively by the relevant Commission Services.* The Commission should also explain how it has taken monitoring and evaluation lessons into account in its annual programming, and in the design and implementation of new interventions.
30. *There should be systematic independent evaluations, beginning with the programmes for budget support and transport.*
31. *Financial audits should be carried out systematically for all major programmes (including the past Critical Aid Programme⁸⁴)*

⁸⁴

As recommended by the PIO Final Report.

Annex 1

List of meetings

European Commission

Marcel Roijen, administrator, DG Relex
Paola Pampaloni, EuropeAid
Carmen Falkenberg, EuropeAid
Stefan Scheulning, EuropeAid (Obnova)
Maria Beccarelli, Head of Assistance, EC Delegation, Skopje

Member States

United Kingdom

Jim Maund, Deputy Head, Central and South Eastern Europe, DFID.
Malcolm Worboys, Project Officer, Central and South Eastern Europe, DFID

Other donors and international organisations

World Bank

Andras Horvai, Principal Country Officer.

IMF

Biswajit Banerjee, Mission Chief
Juan Zalduendo, Desk Officer

USAID

Nicholas Studzinski, Office of European Country Affairs
Nick Higgins, Office of European Country Affairs

Annex 2

Key EC documents consulted

Assessment reports

Country Assistance Review of Phare assistance up to the end of year 2000, by OMAS Consortium. Report No. S/MA/CAR/00012. 3 April 2001

Annual assessment reports for Assistance funded under:

MA-9604, Technical Assistance to the Aid Coordination Unit. R/MA/AIC/98108. 25 February 1999.

MA-9804, Technical Assistance to Aid Coordination/European Integration. R/MA/AIC/00033. 19 September 2000.

MA-9804.01. Technical Assistance to the Central Finance and Contract Unit. R/MA/GTA/00032. 12 October 2000.

MA-9703. Reform of Public Administration. R/MA/PAD/99063. 23 Nov. 1999.

MA-9705 and MA-9710. Public Investment Preparation and Management Facility. R/MA/INV/99067. 17 April 2000.

MA-9602 Enterprise and Financial Sector Reform. R/MA/SME/98109. 3 March 1999.

MA-9702, MA 9701 and MA-9709. Support to the Enterprise and Financial Sectors. R/MA/FIN/99066. 13 March 2000.

MA-9604.03. Approximation of Law. R/MA/EUR/98111. 31 March 1999

MA-9603. Agriculture and Natural Resources. R/MA/AGR/98112 18 March 1999.

MA-9603 and MA-9904.01. Agriculture. R/MA/AGR/00031. 29 June 2000

MA-9702. Environment. R/MA/ENV/99065. 18 January 2000.

MA-9703. Integrated Vocational Education and Training. R/MA/EDU/00030. 22 May 2000.

MA-9704. Cultural Development. R/MA/CUL/00034. 16 August, 2000.

MA-9704. Cultural Development. 05 October 1999.

MA-9606 and MA-9707 Cross Border Cooperation. R/MA/CBC/99064. 10 September 1999

MA-9604. Statistics. R/MA/STA/98110. 4 May 1999.

MA-9804.02. Statistics. R/MA/STA/00037. 1 November 2000.

Project Implementation Office. Draft. Final report. May 2000 (32 pp and A-G annexes).

Programming Documents

- DG Relex Order for Services 2001 (30 March 2001). (Electronic version)
- Country Operational Programme (COP) 1999 and 2000 (Electronic version).
- Annexes which include: COP 1996-1998 (including 1997 II supplementary), CBC 1997, 1998. However, in some cases only drafts of these documents were provided to us.
- Phare Multi-annual Indicative Programme 1996-1999. Former Yugoslav Republic of Macedonia. 22 May 1997.

Other programme documents

- Note for the file on Monitoring Group Meeting (25 May 2001) and Audit Mission (21 May 2001), and on second verification mission 21 May 2001. Obnova budget support for refugee related costs.
- Annex. Request for the extension of the disbursement/contracting periods of financing memoranda. EC. 2000. Also requests for 1999 (Commission Decision).
- FYROM. State of play of IMF programme and further Community macro-financial assistance. ECFIN.

Evaluations

Evaluation on the ECHO actions in the FYROM following the Kosovo crisis. Franklin Advisory Services. August 2000.