

THE OTHER MACEDONIAN CONFLICT
ESI DISCUSSION PAPER

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Executive Summary

This discussion paper offers an exploration of certain aspects of the Macedonian conflict which have received insufficient attention from Macedonian and Western policy makers. It is concerned not with the immediate causes of last year's violence, but with the fractures within Macedonia's economy and society which make it prone to ethnic conflict. It argues that these underlying structural problems must be addressed if Macedonia is to have any lasting prospect of stability.

The paper outlines a triangle of problems which frame the Macedonian conflict:

- (a) underdevelopment in the countryside, which creates a severe poverty trap for the rural population. This impacts disproportionately on the ethnic Albanian population, which is significantly less urbanised;
- (b) the continued de-capitalisation and lack of investment in socialist industries, where structural reforms have yet to open an alternative development path. This is causing growing economic insecurity among ethnic Macedonians, who have enjoyed privileged access to former socially owned enterprises and to the public-sector and now face increasingly uncertain employment prospects;
- (c) the lack of capacity of Macedonia's public institutions to address these problems, a weak administration and a growing crisis of public confidence in the political elites.

These parallel crises of development have turned Macedonia's political economy into a zero-sum game, as the two ethnic communities compete for a diminishing share of public resources. Against this background, Albanian demands for equal participation in the state and state-sponsored development are seen as a direct threat to the ethnic Macedonian community. At the same time, growing economic insecurity on both sides form the background to a breakdown in the inter-ethnic elite co-operation which characterised public life in the first decade after independence. This creates opportunities for new actors willing to pursue their interests outside of the political process.

The paper argues that the Framework Agreement concluded at Ohrid in August 2001 will lead to long-term stability only if accompanied by programmes directed at the underlying sources of insecurity and addresses what this paper calls *the other Macedonian conflict*. This will require serious attention to implementing some of the more ambitious aspects of the Agreement, in particular the need for more effective local self-government, which entails long-term resource commitments. Beyond the Framework Agreement, Macedonia's stability will depend upon a broader development strategy which will address the causes of economic insecurity and restore public confidence in the Macedonian state. The alternative is continued erosion of trust in the political class, making the task of addressing inter-ethnic problems increasingly difficult.

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Introduction

For the time being, international intervention in the Former Yugoslav Republic of Macedonia has succeeded in containing the violent conflict that sprang up in Macedonia in early 2001. Under the leadership of the EU and NATO, the international community has created a framework for limiting the conflict, which has claimed fewer than 250 victims.¹ However, despite the agreement signed in Ohrid on 13 August 2001 (“Framework Agreement”), Macedonia now finds itself in a situation which is significantly *worse* than that which prevailed at the beginning of the conflict only a year ago. While interethnic distrust has deepened, many of the underlying causes of conflict remain, and the prospects of resolving them seem distant. It is crucial that international and domestic actors turn their attention to the roots of the conflict and search for ways to address them in a sustainable fashion.

This discussion paper explores the structural tensions within Macedonia’s political economy that make it prone to ethnic conflict. It is not concerned with the immediate events which triggered the crisis of 2001. It does not analyse the shifts in the balance of power within the country’s political and military elites which accompanied the outbreak of conflict. Nor does it discuss the regional environment and the role of Kosovo. Instead, it provides an overview of certain underlying dynamics that pose a continuing threat to Macedonian stability.

The paper identifies a series of fractures within Macedonia’s political economy. First, there is the chronic underdevelopment of the rural areas, which affects disproportionately the Albanian community. Second, the crisis of former socialist industries and of the large and inefficient public administration generates widespread insecurity among ethnic Macedonians. Third, the weakness of the Macedonian state means that there is very little confidence among either community in the capacity of the political process to generate solutions to these existential and concrete problems.

These dimensions of the Macedonian problem should be of immediate concern to international policy makers as they prepare for the forthcoming donors’ conference. Unless they can be addressed through credible, long-term strategies, then the gains achieved at Ohrid, as important as they have been, will remain easily reversible.

For the time being, far too little is known about the way Macedonia’s ethnic divisions are reflected and reinforced in the economic sphere. There is a shortage of information on matters such as patterns of revenue collection and spending, access and equity in public service delivery, the role of the grey economy and the gulf between rural and urban areas. This is the first instalment of a larger ESI research project studying the political economy of conflict in Macedonia.

¹ The official figure given by the Macedonian government is 70, but Albanian leaders say that this includes only casualties within the security forces.

***The perils of rural overpopulation:
a snapshot of Greek Macedonia in 1947***

In the history of the Balkan Peninsula over the past century, the twin phenomena of rural overpopulation and underdevelopment have proved to be a highly combustible combination. In northern Greece after the Second World War, civil war emerged from circumstances which bear some striking similarities to today's Macedonia. A brief historical analogy can help to draw attention to the underlying dynamics of the Macedonian conflict.

In 1947, in the midst of the communist insurgency, an American research team travelled across Greece in order to “hear both sides: this involved finding ways to penetrate hill villages where guerrilla power was based”.² Among their many interesting observations, the team traced the social dynamics of the conflict in the Greek Macedonian village of New Eleftherohori.³

Before the Balkan wars of the early 20th century, the fields of New Eleftherohori were owned and cultivated by Turks, who fled before the advance of the Greek Army in 1912. The abandoned village was settled first by Greeks from the upper slopes of Mount Olympus, and later by Greek refugees from Asia Minor. In 1927, public surveyors divided the land into allotments of 6.6 acres, the amount officially deemed sufficient to support a single family. On these plots of land, it was indeed possible to raise enough wheat to feed a family with enough for the next year's seed, but in most seasons there was little surplus for sale at market. In other words, the pattern of land tenure forced the inhabitants of the village to remain subsistence farmers.

This rural underdevelopment had a time-bomb built into it. The population of New Eleftherohori doubled in 20 years, rising from 450 in 1927 to 812 in 1947. With division of the family plots clearly impossible, living standards began to decline. The new generation was blocked from internal migration by the widespread economic crisis, and from external emigration by the political instability of the inter-war years. There was little prospect of breaking out of this vicious circle. As one member of the research team recalled: “I remember how bitterly a man, introduced to me as the best farmer of the village, explained how he had tried fertilizer before the war and found that it did indeed increase wheat yields on his land; but when he sold what he could spare from his crop at the support price that was then maintained by the Greek government (even though it was above world levels), the interest on the debt he had incurred for the fertilizer cancelled out everything he had gained, and made him, in fact, a little worse off than he would have been without incurring the debt in the first place”.⁴

² An account of the team's work can be found in McNeill, *The Metamorphosis of Greece since World War II*, University of Chicago Press, Chicago, 1978, pp. 138-205.

³ New Eleftherohori (“New Free Village”) was later renamed Methone.

⁴ McNeill, *op. cit.*, p. 144.

With no escape from the poverty trap available to the young men, the village provided the ideal recruiting ground for the communist guerrilla movement. As the American visitors noted:

“For such young people, the brightest spark of hope was that offered by EAM / ELAS,⁵ with its promises of a better life after the war. As a result, about twenty young men left New Eleftherohori to serve in ELAS ranks. Only three returned to the village after 1945, for in truth they had nothing to come back to. During the war, opinion within the village was about evenly divided between families that sympathized with EAM and others who distrusted the leftists”.⁶

By 1950, the worst of the civil war was over. A lasting solution to the conflict became possible only once the underlying social problems were alleviated. A member of the research team who returned to New Eleftherohori a decade later found:

“where bleak hopelessness had formerly prevailed, there now seemed to be some chance of escape, given enough hard work and self-denial. Easier credit terms offered by the Agricultural Bank made use of fertilisers practicable, and the farmers of the village already knew what this could accomplish for them. In addition a bus service made it possible to send village boys to a secondary school located in Katerini, a nearby small town... Secondary education led to a job behind a desk... By 1956 when I next visited New Eleftherohori, no fewer than thirty-six boys from the village were attending the gymnasium and a few had graduated already”.⁷

The extension of infrastructure to rural areas of northern Greece, partly financed by one of the largest *per capita* American aid efforts in post-war Europe, and the continued growth of the Greek economy changed rural lifestyles for the better. At the same time, outlets for significant emigration relieved the pressures of rural overpopulation which had fed the conflict. In time, reconciliation between former enemies within the village became possible.

Diverging development: the rural/urban divide in Macedonia

In modern-day Macedonia, the rural areas are exhibiting some very similar patterns. Population growth rates among rural Albanians are some of the highest in Europe. Rural villages are trapped in a cycle of persistent poverty and high unemployment, which provides fertile ground for social and political instability. Although rural poverty occurs in both communities, the Albanian community is significantly less urbanised and therefore bears a greater share of the burden.

⁵ ELAS: the Leftist Greek guerrilla movement.

⁶ McNeill, *op. cit.*, p. 145.

⁷ *Ibid.*, p. 147.

The crisis in depressed rural areas coincides with a very different crisis in the urban centres. As the former socialist industrial sector and the public administration continue to be under pressure to contract, the Macedonian population, which has held a disproportionate share of public-sector jobs, is facing increasing economic insecurity. It is the combination of these two crises, together with the low capacity of the Macedonian state to resolve them, which provides the backdrop to the recent heightening of ethnic tensions.

In the 1950s, the beginning of communist development of industry and the growth of the administrative structures of a Macedonian Republic within socialist Yugoslavia triggered a process of emigration from depressed rural areas to “jobs behind desks”. However, this phenomenon applied predominantly to the ethnic Macedonian majority. Particularly after the Skopje earthquake of 1963 and the massive reconstruction effort which followed, large numbers of Macedonians left their villages to take up blue-collar positions in new socialist enterprises and white-collar jobs in the expanding administration.

Western Macedonia in the period between 1948 and 1981 provides an illustration of this general trend. In the ethnically mixed valley of the Black Drin, leading towards Struga on Lake Ohrid between the Karaorman and Jablanica Mountains, Albanian and Muslim Slav villages both grew by 50 percent in the period up to 1961. After 1961, however, the growth rate of the rural Macedonian population began to decline rapidly, while growth in Albanian villages remained constant. The exodus of Macedonians from highland areas was particularly pronounced, with the average size of the villages cut by more than half and many villages abandoned altogether.

As a result of urbanisation, population growth rates among Macedonians continued to decline. The result was a progressive “Albanisation” of the countryside.

Table 1. Comparative demography of villages in Struga municipality⁸

	Number	Population ('000)			Annual growth (%)	
		1948	1961	1981	1948-61	1961-81
Albanian villages	15	8.7	11.3	17.2	2.00	2.06
Muslim villages	5	6.8	8.1	11.0	1.41	1.54
Albanian-Macedonian villages	4	1.5	1.8	2.4	1.51	1.46
Macedonian villages in the valley	7	4.1	5.4	6.6	2.12	0.97
Macedonian villages in the mountains	20	9.0	8.7	4.8	-0.26	-2.80
Total rural population	51	30.1	35.3	42.0	1.23	0.87

Socialist development led to a growing divergence in the economic fortunes of the two communities. In 1981, on the eve of a general economic crisis across socialist

⁸ Michel Roux, *Les Albanais en Yougoslavie: Minorité nationale territoire et développement*, Paris 1992, p. 136.

Yugoslavia, more than half of the Albanian population was employed in agriculture. Macedonians were over-represented in white-collar jobs, particularly in the larger urban centres. Only in some socialist industries an ethnic key was used to distribute jobs. Throughout socialist Yugoslavia, infrastructure and public services were developed to service urban areas and socially owned enterprises, while rural areas were left to fend for themselves. Thus, discriminatory treatment of the two ethnic communities by the state was an unintended consequence of the socialist political economy.

Table 2. Employment and ethnicity in Macedonia 1981 (%)⁹

	Albanian	Macedonian	Total
Working population as part of total population	25.2	44.5	39.3
Primary sector (agriculture, forestry)	51.3	29.0	32.1
Secondary sector (industry, mines)	30.1	34.2	33.8
Tertiary sector	16.2	35.7	32.7
Out of which in administration	5.3	10.5	9.5

In the decade following the collapse of the second (socialist) Yugoslavia and the creation of an independent Macedonian state, these tendencies have become more acute. At present, fewer than 20 percent of Macedonian Albanians of working age are formally employed.¹⁰ Even using the conservative figures provided by the government, Albanians are grossly under-represented in public employment. According to the 1994 census, which is contested by Macedonian Albanians, Albanians make up 22.7 percent of the population, but they account for only 10.2 percent of the overall state administration. In the critical area of security, Albanians make up 2.9 percent of army officers and defence ministry personnel, even though they constitute between 16 and 26 percent of recruits, depending on the year. In the interior ministry, they constitute 8.7 percent of employees.¹¹ Police chief Risto Galevski estimates that some 4 percent of the police force itself is Albanian. In the predominantly Albanian cities of Tetovo and Gostivar, Albanians constitute 17 and 12 percent of police.¹² A similar pattern is visible in the formerly state owned enterprises: for example, 91 percent of the employees of the textile company Gotex in Gostivar are allegedly ethnic Macedonians, even though the factory is located in an area with 55 percent Albanians.

The divergence between the two communities is also reflected in educational patterns. In the school years of 1980-81 and 1995-96, Albanians made up 28 percent of primary school pupils and only 12 percent of secondary school pupils. In 1993-94, only 2.8 percent of university students were Albanians, down from 4.6 percent a decade earlier

⁹ Roux, *op. cit.*, p. 139.

¹⁰ State Statistical Office, *Labour Force Survey*, Skopje, April 2001.

¹¹ Ministry of Foreign Affairs, *Facts about National Minorities in the Republic of Macedonia*, Skopje, April 1997, p. 28.

¹² US Department of State, Bureau of Democracy, Human Rights, and Labor, *The Former Yugoslav Republic of Macedonia – Country Report on Human Rights Practices 2000*, February 2001, p. 9.

and approaching the levels of the 1950s.¹³ A study by a sociological institute in Skopje found that, particularly in Albanian-majority Western Macedonia, the population is sceptical of the value of education, considering it “not important at all whether they regularly attend instruction because even if they were to finish school with the highest grades possible, neither the state nor anybody else would offer them secure jobs. This is why a large number of them do not finish secondary education”.¹⁴ The demands of the Albanian community for higher education in the Albanian language was one of the public controversies preceding the recent conflict.

Certain segments of the Albanian community have been able to prosper in spite of their exclusion from the public economy by building a lively informal sector. From the 1980s onward, Albanians took advantage of economic liberalisation to establish small private businesses. Relying on trade contacts generated by the large diaspora in Western Europe and an older diaspora in Turkey, a new Albanian economic elite began to emerge. With inflow of remittances from abroad the Albanian urban centres of Western Macedonia experienced a residential construction boom.

Nonetheless, this prosperity has not been distributed evenly among the Albanian community and it has not lead to job creation inside Macedonia. In rural areas, most families struggle on with subsistence agriculture, supported by relatives in the diaspora. Crucially, while previous generations with SFRY passports found it relatively easy to travel to Western Europe in search of temporary or seasonal work, this route is now largely closed. This has two effects on the Albanian community: it removes the safety valve for population pressures in the rural areas; and it diminishes the financial support available from the diaspora.

The development trap among the rural Albanian communities fuels a growing disillusionment with the older generation of Albanian politicians. This creates political opportunities for those willing to exploit ethnic divisions. With very high unemployment among Albanian youth in the Tetovo and Kumanovo areas and substantial levels of unemployment among young males in all communities (as many as 64 percent of the unemployed are under 35 years of age)¹⁵, it is easy to see how discontent and radicalism find fertile ground, providing a pool of potential recruits to guerrilla and paramilitary structures.¹⁶

¹³ Natalija Nikolovska & Gordana Siljanovska-Davkova, *Makedonskata tranzicija vo defekt*, Skopje, Magor, 2001, pp. 15-16.

¹⁴ Institute for Sociological and Political-Legal Research, *Qualitative Analysis of the Living Standard of the Population of the Republic of Macedonia*, Skopje, 1998, p. 16.

¹⁵ State Statistical Office, *Labour Force Survey*, Skopje, April 2000, p. 21.

¹⁶ According to police chief Risto Galevski, this year there have been unprecedented levels of interest by young Macedonians to join elite police and army units: ESI interview, 29 November 2001.

The legacy of socialist development

On the other side of the ethnic boundary, the question facing ethnic Macedonians today is whether the promise of urbanisation and industrialisation in the communist period has proved to be entirely illusory. Former socialist industries continue to be in crisis and are likely to offer a diminishing number of jobs. At the same time, the public administration is under continued pressure to contract. The road ahead therefore offers continuing painful adjustment and economic insecurity.

The transformation of a socialist economy to a market economy has been made more complicated by the regional political environment. As in other republics, Macedonian industry was already in decline in the 1980s, triggered by the loss of federal subsidies to its companies and the crisis of the socialist banking sector. Against this background, the breakdown of the former Yugoslav market, the outbreak of war in other republics, international sanctions against the Federal Republic of Yugoslavia, its most important trading partner, a temporary trade embargo by Greece and most recently the Kosovo conflict have aggravated the situation.

The initial step of privatising socially owned enterprises (SOEs) is well underway. According to the Macedonian Privatisation Agency, by the end of 2001, 1,678 SOEs had been privatised, leaving only 89 companies still in the process, plus a few larger state enterprises such as the electricity company.¹⁷ However, this privatisation process has not yet triggered the restructuring of companies which is needed in order to make them viable in an open market. In a report of April 2000, the IMF notes that:

“with the privatisation process nearing its end, the outcome has been below expectations. Internal ownership by workers and managers had widened, owing to the predominant reliance on insider privatisation... and, notwithstanding the impact of external factors, the overall financial performance of transformed enterprises failed to improve significantly.”¹⁸

A World Bank report found that, in 1996-7, new private companies were significantly outperforming the privatised SOEs. With only 5.5 percent of total fixed assets, they were able to produce 15 percent of the value added and provide 19 percent of total employment.¹⁹ The socialist legacy of soft budget constraints is yet to be overcome. The IMF points out that operating losses in post-privatisation SOEs continue to be financed by wage arrears and overdue obligations to suppliers, banks and the tax authorities. “Although during 1996-98, wage arrears for the enterprise sector as a whole declined slightly to about 7 percent of GDP in 1998, owing to wage arrears reductions by private and state and socially-owned enterprises, they *increased further in the transformed*

¹⁷ Agency for Privatisation, *Status Report as of December 31, 2001*, p. 1.

¹⁸ IMF, *Former Yugoslav Republic of Macedonia – Recent Economic Developments*, 25 April 2000, p. 48.

¹⁹ World Bank, *FRY Macedonia: Country Economic Memorandum. Enhancing Growth*, 30 November 1998, pp. 21/22.

enterprises, to about 4 percent of GDP”²⁰ Some 40 big loss-makers still await restructuring, involving significant lay-offs, or liquidation.

The implication is that the most painful period of adjustment in the old socialist industries is yet to come. Job losses among large sections of the Macedonian workforce are likely to continue for some time.

The public administration is in a similar state of flux. For most of the past two decades, real salaries and living standards in the public sector have been in continuous decline. According to the Macedonian Civil Service Agency, average salaries in the public administration have fallen from the equivalent of 500 euros in the early 1990s down to 120 euros.²¹ In addition, the international financial institutions have been pushing for a reduction in the size of the administration. As a result, a job in the public administration is no longer a guarantee of economic security.

In 1998, the World Bank recommended cutting the public-sector wage bill from 9 to 6 percent of GDP by 2005, by limiting wage and benefit increases and through a “decrease in over-staffing”.²² While parliamentary elections in 1998 and the Kosovo crisis in 1999 caused civil service reform to be deferred, by May 2001, about 4,500 civil-service positions had been cut, mainly through voluntary departure and early retirement schemes. The cost savings, however, were largely offset by expansions in the security forces and increases in allowances during 2001.²³ Although in the aftermath of last year’s conflict, the international financial institutions have been less insistent on cuts in the public administration, the issue is certain to be back on the agenda before long.

These adjustment processes have not been made any easier by the economic consequences of the conflict. After a long and deep recession in the first half of the 1990s, during which official GDP contracted by 10.4 percent annually from 1990 to 1994,²⁴ key indicators had begun to suggest an improved outlook for the Macedonian economy.²⁵ However, this tentative recovery may have been derailed. GDP in 2001 is estimated to have contracted by 4.5 percent, against a projected growth of 6 percent. Consumer prices rose by 5.3 percent in 2001, while official unemployment hit a record high of 39 percent. The government adjusted its 2001 budget upwards by 250 million euros, a 25 percent increase, reflecting increased spending by the ministries of defence

²⁰ IMF, *Former Yugoslav Republic of Macedonia – Recent Economic Developments*, 25 April 2000, p. 50.

²¹ ESI interview with Gjorgje Kostov, Civil Service Agency, Skopje, 1 October 2001.

²² World Bank, *FRY Macedonia: Country Economic Memorandum. Enhancing Growth*, 30 November 1998, p. 13.

²³ *Memorandum of Economic and Financial Policies for Staff Monitored Program*, www.imf.org, 24 December 2001, § 7.

²⁴ World Bank, *Former Yugoslav Republic of Macedonia: An Introductory Economic Report*, 20 July 1995, p. 11.

²⁵ It should be noted that much available economic data is of limited accuracy. Very little is known, for instance, about widespread private or communal investments in infrastructure in Albanian-majority areas. There is no hard data on the equally crucial economic role of the diaspora. Indeed, with substantial disputes on the size of the population in different areas, any *per capita* growth figures must be treated with caution.

and interior.²⁶ Considerable fiscal austerity will be needed in order to bring public expenditure back under control, just as the implementation of the Framework Agreement calls for new expenditure commitments.

As a result, the privileged access of the Macedonian community to public-sector employment during the socialist period is beginning to seem an active disadvantage. Against this background, the demands of the Albanian community for quotas and proportional representation in the state administration could only be fulfilled at the direct expense of ethnic Macedonians. Not surprisingly, this is a source of considerable resentment which undermines public support for the Framework Agreement.

The politics of distrust

These diverging patterns of economic and social development between the two communities contribute directly to inter-ethnic tensions. Many Macedonians have inherited the old socialist distrust of the “grey economy” and private economic activity in general. There is a widely held perception that the Albanian community has become wealthy from smuggling and other illicit activity. The idea of rampant Albanian criminality, although undoubtedly exaggerated, offers a convenient explanation for the relative prosperity of parts of the Albanian community.

In addition, many Macedonians consider Albanians to be disloyal citizens who fail to pay their taxes. An interesting finding from one academic study, which ESI could not independently verify, was that the city of Tetovo provides only 2-3 percent of total Macedonian tax revenue, even though it is one of the most important centres of private business activity.²⁷ In fact, there may be a number of explanations for this. A high proportion of Albanians are working in the informal sector and are therefore outside of the state’s regulatory reach. This is more a sign of weak institutional capacity on the part of the tax authorities, than of Albanian disrespect for the law. Tax systems inherited from socialist Yugoslavia have not been well adapted to cover the emerging private sector. Nonetheless, the perception among Macedonians that Albanians are somehow ‘freeloading’ on the state represents a serious political problem. It constitutes a barrier to Macedonians recognising the legitimacy of Albanian demands for greater participation.

From the Albanian perspective, the history of exclusion from the state and state-sponsored development has resulted in an acute crisis of legitimacy in the political process. A history of socialist planning where infrastructure development and employment creation was centred around the needs of the urban population, together with systematic exclusion from public-service employment, has left many Albanians feeling that the state has little to offer them. Against this background, issues such as the

²⁶ *Memorandum of Economic and Financial Policies for Staff Monitored Program*, www.imf.org, 24 December 2001; *Sluzbeni Vesnik na Republika Makedonija*, Year LVII, Nr. 68, 30 August 2001 (calculations based on 1 euro = 61 Denars).

²⁷ ESI interview with Nikola Tupancheski, Assistant Professor, Skopje Law Faculty, 28 September 2001. Tupancheski recently completed a Ph.D. on tax evasion.

designation of Macedonia in the state constitution as “the state of the Macedonian people” become powerful symbols of the wider problem of social exclusion.

Some incremental improvements in the situation have been recorded in recent years. The proportion of Albanians employed in the state administration in 2000 was 10.2 percent, up from 8.3 percent in 1997 and 3 percent in 1993.²⁸ In the area of education, the University of Skopje has belatedly begun to recruit greater numbers of Albanian students, even adopting some positive discrimination in intake procedures. Although a degree of change was in the pipeline before the recent conflict, it seems to have been too little and too late to counteract the growing radicalisation of the population.

The parallel economic crises also feed tensions within the two ethnic communities. Among Albanians, there is a differentiation between groups who have prospered in the informal sector, and a large group which remains trapped in rural poverty, with no short-term employment prospects. The old elite, represented by the two largest Albanian parties, the Democratic Party of Albanians (DPA) and the Party for Democratic Prosperity (PDP), have been willing over the past decade to enter into coalitions with Macedonian parties but have proved unable to adequately address these problems. As a result they are now losing the confidence of an increasing number of Albanians, particularly among the younger generation. This created a political opportunity for new political actors, such as Ali Ahmeti and the officially disbanded NLA, who were prepared to pursue Albanian interests outside the discredited political process.

Among Macedonians, one would also expect to see the emergence of tensions between the political cadres able to benefit from “insider privatisation” and widespread corruption, and those whose economic fortunes are tied to a public sector in irreversible decline. It is the latter group which is likely to look for a strong hand to fend off Albanian competition for limited public resources. Macedonians appear to have become disillusioned with the old political contest between Prime Minister Ljubco Georgievski’s nationalist VMRO-DPMNE and Branko Crvenkovski’s social-democratic SDSM. This causes the entire political spectrum to shift towards the right, in an attempt to regain the political initiative. Thus, over the past year we have seen the emergence of the hard-line interior minister, Ljube Boskovski, as one of the most prominent figures in the government. His strong anti-Albanian rhetoric and willingness to resort to force seems to appeal to a growing section of the Macedonian community. As could be seen in the fraught parliamentary politics which surrounded the adoption of the Framework Agreement, there seems to be more political capital to be made from strong-arm tactics than from compromise.

Because of these intra-group tensions and mounting economic and social insecurities, the previous form of interethnic elite compromise (including the sharing of spoils) has become increasingly delegitimised.

²⁸ Civil Service Agency, *Information on the Personnel Structure of the State Administration in Macedonia based on Nationality*, Skopje, July 2001.

Planning a European commitment

The past year has seen the beginning of a positive international engagement in Macedonia which has successfully prevented the crisis from spinning out of control. Intervention by European and United States mediators, followed by the deployment of a small peacekeeping mission, came just in time. There is now a stronger international diplomatic presence on the ground in the form of the Office of the EU Special Representative, Alain le Roy, and a larger OSCE mission.

The Framework Agreement signed in August 2001 creates a framework in which some of Macedonia's structural problems may be addressed. With some strong-arm pressure from the international community, it has delivered progress on the constitutional front. It holds out the promise of Albanian minority self-government, revised voting rules in the parliament to protect minority rights, proportional representation in the police and public administration, recognition of Albanian as an official language in central institutions, and state funding for tertiary education. If implemented, these reforms may go some way towards addressing the sense of discrimination felt by many Albanians.

However, the prospects for long-term stability in Macedonia have been set back significantly by the 2001 conflict. The past year has seen a deterioration in the general economic situation, the trust between the ethnic groups and the relationship between parts of the Macedonian elite and the international community. Perhaps most disturbingly, it has led to a further discrediting of political institutions and a deepening distrust among both Macedonians and Albanians for their own political class. It is this political class which is now called upon to implement, under the most difficult economic and social conditions, a complex agreement calling for leadership and skilful balancing of both inter- and intra-ethnic interests.

So long as the underlying conditions outlined in this report remain, there is not much prospect of a lasting resolution of ethnic conflict in Macedonia. Only if the Macedonian state acquires the capacity to deal with the twin crises of public-sector transformation and rural underdevelopment can there be any real chance of restoring public faith in the political process.

There are already worrying signs that the ethnic Macedonian population tends to see the Framework Agreement as a capitulation to Albanian interests, under heavy international pressure. In addition, continued competition between the two ethnic groups over diminishing public resources is likely to get worse. Unless this reality is changed, implementation of the Framework Agreement will in itself become a source of renewed tensions, as Macedonians come to see Albanian demands for equal treatment as a direct threat to their economic status. In such an environment, the Agreement is unlikely to succeed.

After a series of delays, the international community has scheduled a donors conference for 12 March 2002. The conference was made conditional on high-level political decisions relating to implementation of the Framework Agreement, particularly

constitutional amendments and the passage of a new law on local government, as well as the completion of an agreement with IMF on a Staff Monitored Programme. The donors conference is intended to mobilise support for macro-stabilisation measures, reconstruction in areas damaged by the conflict, and the implementation of the Framework Agreement.

In a background document prepared for the donors' conference, the European Commission and the World Bank have outlined preliminary financing needs for Macedonia during 2002 as follows:

Table 3. Suggested financing needs of Macedonia during 2002²⁹

	Million euro
Balance of payments and budgetary support	185
Reconstruction	45
Implementation of the Framework Agreement	25
Total	256

These categories of assistance – budgetary support, reconstruction and costs of implementing the Framework Agreement – are intended to cover financial problems linked directly or indirectly to last year's conflict. The macro-financial measures are to cover the gap in Macedonia's balance of payments which resulted in large part from increased military and police expenditure.

The main implication of this analysis is that international aid providers must begin to see the development challenges underlying instability in Macedonia. Short-term peacekeeping commitments and high-level diplomatic attention provide an essential framework of security and political dialogue but must be complemented by addressing the underlying social and economic tensions.

The Macedonian political elite as well as those providing it with assistance need to address the framework conditions for lasting stability, what we have described at the outset as the Macedonian development triangle of problems. In particular, strengthening the capacity of local government in key areas such as urban planning, local infrastructure development, education, social welfare and health will require long-term efforts on the part of the Macedonian government. Strengthening local government, integrating Albanians into the police forces and public administration, using Albanian language in central institutions and providing for higher education in Albanian are all steps with significant budgetary implications. These are recurrent commitments which will require a serious review of how public revenues are shared among different levels of government. If implementation of the Framework Agreement stalls for want of attention to these issues, it will likely set back the overall peace process.

²⁹ European Commission / World Bank, *Summary of Financing Requirements. Donors' Meeting for FYR Macedonia*, www.seerecon.org, February 2002, p 1.

In April 2001, Macedonia was the first country in the region to conclude a Stabilisation and Association Agreement (SAA) with the European Union, only weeks before the outbreak of the conflict. Aside from the infelicitous timing, the SAA process does not appear to be tailored to Macedonia's specific set of problems. A recent evaluation of the European Commission's country strategy points out that programmes in support of European integration focus excessively on "formal aspects of EU integration priorities... rather than more general and basic institution building efforts". The report asserts that existing priorities were "not based on any specific assessment" of the Macedonian situation, and that PHARE and CARDS programmes have not effectively advanced either political stability or European integration. "These programmes may look similar to those of accession candidates but country conditions in FYR Macedonia are different".³⁰ The key recommendation of the report is to support development, rather than adaptation to EU norms, as a means of speeding up European integration:

"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."³¹

From a longer term perspective, the peace process depends upon an increase in public confidence in the capacity of the Macedonian state to address the widespread economic insecurity. This requires addressing the present gap between the state and the majority of its citizens, a process in which local government must play a critical role. The alternative is further erosion of faith in public institutions, and the consolidation of parallel institutions at the local level formed along ethnic lines. This would deepen ethnic distrust and encourage the patchwork separation of the two communities.

³⁰ Investment Development Consultancy, France, and Development Strategies, Italy, *Evaluation of EC Country Strategy: FYR Macedonia 1996-2001*, September 2001, pp. ii-iii, 19, www.europa.eu.int/comm/europeaid.

³¹ *Ibid.*, p. ii.