



Swiss Cooperation Strategy Macedonia 2017-2020



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Foreword

Stability and prosperity of the Western Balkan countries constitute a fundamental aim for Swiss foreign and security policy. Switzerland's engagement in the region was initiated in the 1990s, by providing humanitarian assistance and refuge for many people. Switzerland and the Balkans have developed close ties over the years, best documented by a sizeable diaspora living in Switzerland and an intensive cooperation programme. More than 500'000 residents of Switzerland have family ties to the Western Balkans.

Switzerland has been supporting Macedonia's political, social and economic transition processes since 1992. Today Switzerland ranks among Macedonia's largest bilateral cooperation partners. Bilateral agreements between the Governments of Switzerland and Macedonia underpin this trusted partnership.

Macedonia has made significant achievements since its independence. The Swiss Cooperation Strategy Macedonia 2017-2020 is the expression of Switzerland's commitment to continue supporting Macedonia in addressing remaining challenges in its political, social and economic transition. It focuses on three thematic domains: Democratic governance, Employment and Economic Development, and Infrastructure and Environment. Switzerland has relevant expertise in all three domains and is confident that it can make an effective contribution to the further development of Macedonia. The foreseen financial commitments for the period 2017-2020 amount to 76 million Swiss francs.

This document provides an overview of recent political and economic developments, and lays out the rationale for the Swiss Cooperation Strategy Macedonia 2017-2020. It draws implications from past achievements and experiences and outlines the priorities and objectives for the upcoming period. It concludes with information about program management, monitoring and steering.

The Swiss Cooperation Strategy 2017-2020 has been developed by the Swiss Agency for Development and Cooperation (SDC) and the State Secretariat for Economic Affairs (SECO), in close consultation with Macedonian government offices and civil society partners. Both institutions, represented by the Swiss Embassy in Macedonia, closely cooperate and coordinate in the implementation of their respective parts of the Cooperation Strategy.

We are confident that the goals and priorities set out in this strategy are particularly relevant to the sustainable development of Macedonia and the well-being of its people.

Berne, February 2017

Swiss Agency for Development
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Abbreviations and Acronyms

ADKOM	Association of Macedonian providers of public services
CBO	Community Based Organisation
CS	Cooperation Strategy
CSI	Civil Society Index
CSOs	Civil Society Organisations
CSPM	Conflict Sensitive Programme Management
EU	European Union
FIBL	Research Institute of Organic Agriculture
GDP	Gross Domestic Product
GIZ	Deutsche Gesellschaft für Internationale Zusammenarbeit (German Agency for Development and Cooperation)
IDSCS	Institute for Democracy “Societas Civilis” Skopje
IFC	International Finance Corporation
ILO	International Labour Organization
IMF	International Monetary Fund
IRI	Integrative Research Institute
KfW	Kreditanstalt für Wiederaufbau (German Reconstruction Credit Institute/Development Bank)
MCIC	Macedonian Centre for International Cooperation
MERV	Monitoring System for Development Related Changes
MPs	Members of Parliament
NDI	National Democratic Institute
NGO	Non-Governmental Organization
NIRAS	International Consulting Company
ODA	Official Development Assistance
PI	Parliamentary Institute
PU	Public Utility
SDC	Swiss Development Cooperation
SECO	State Secretariat for Economic Affairs
SMEs	Small and Medium Sized Enterprises
UNDP	United Nations Development Programme
USA	United States of America
USAID	United States Agency for International Development
VET	Vocational Education and Training
WB	World Bank
WEF	World Economic Forum
WFD	Water Framework Directive

Executive Summary

Switzerland supports the transition of former communist countries in Eastern Europe to democracy and social market economies. This active engagement is based on its tradition of solidarity and is in Switzerland's interest, as transition assistance opens up economic opportunities for Switzerland and new jobs offer alternatives to migration.

The Republic of Macedonia is a multi-ethnic state with a population of just over two million. The Ohrid Framework Agreement ended a short armed-conflict in 2001 and laid the basis for non-discrimination and equitable ethnic representation; it marked the start of decentralisation. Macedonia received EU candidate country status in 2005, but the opening of accession negotiations has been repeatedly blocked. Recent years have been marked by an increasingly fragile and polarized political environment. In early 2015, the main political parties traded blame for illegal wiretaps, igniting a wave of public protests across ethnic lines. In an effort to strengthen the rule of law a Special Prosecution Office was created to investigate allegations of wrongdoings and corruption brought to light by the publication of the illegal

wiretaps. The political future of the country remains nevertheless uncertain. The most likely scenario is a government that continues to follow an externally-driven reform agenda linked to the prospect of European and transatlantic integration.

Following years of annual GDP growth of 3 to 4%, the domestic crisis is threatening progress towards macro-economic stability and building a market economy. Public debt has grown, surpassing 50% of GDP in 2016. The economy faces structural problems, characterized by low value-added production and the lowest wages in the region. Poverty, in relation to the national poverty threshold, and socio-economic disparities are high. Especially the unemployed, youth, Roma and the disabled are at risk of poverty or social, political and economic exclusion. Environmental challenges remain significant, with relevant indicators significantly below EU levels. The implementation of water and nature legislation and strategies is delayed. Climate change jeopardises already fragile income sources and livelihoods. Environmental organizations and pressure groups face difficulties mobilizing a critical mass for change.





The Swiss Cooperation Strategy 2013-2016 built on Switzerland's relevant expertise by working through drivers of change. Tangible results were achieved, notably in strengthening decentralisation, creating employment and protecting water resources. However, the political crisis and fragile democracy call for adaptations. Most importantly, there is a need to foster systemic commitment to social, political and economic inclusion as well as to create and better use spaces for policy dialogue.

Macedonia's various sectoral development strategies, the Federal Dispatch for Switzerland's International Cooperation and the EU accession-related requirements provide the overarching framework for the Swiss Cooperation Strategy 2017-2020. The overall goal of the new strategy is to support Macedonia in its reforms to meet European standards, build a socially-inclusive democracy as well as market economy, while ensuring sustainable governance of natural resources. The three Swiss portfolio priorities are: (1) democratic governance at central and local levels; (2) sustainable economic growth and employment for youth and other socially excluded groups; and (3) sustainable natural resources governance and equitable access to quality public utility services. Gender

and governance are transversal themes; youth, Roma and disabled persons are particular target groups and partners in action.

In democratic governance, Switzerland will strengthen the legitimacy of institutions, thus enabling more accountable and inclusive policy processes; it will promote dialogue between citizens, CSOs and public institutions to ensure better responsive policies and practices. In employment and economic development, Switzerland will embark on strengthening training and job-matching service providers in order to increase employability and ease access to jobs, especially for youth and the socially excluded; it will support framework conditions and help strengthen the entrepreneurship ecosystem to increase the competitiveness of start-ups and SMEs. In infrastructure and environment, Switzerland will strengthen natural resources governance to protect the environment and reduce climate change-related impacts; it will work towards better service delivery of municipalities and public utilities in the areas of water supply, wastewater and solid waste.

1. Context Analysis

After the break-up of the Federal Yugoslav Republic in 1991, the Republic of Macedonia re-emerged as an independent, multi-ethnic state. The last census, conducted in 2002, counted a population of just over two million, principally composed of communities of ethnic Macedonians (64.2%), Albanians (25.2%), Turks (3.9%), Roma (2.7%) and Serbs (1.8%).

In 2001, the Ohrid Framework Agreement ended a short inter-ethnic armed conflict and laid the normative basis for non-discrimination, equitable ethnic representation and the use of minority languages. It also marked the start of political, administrative and fiscal decentralisation. However, a 2015 review of the Agreement highlighted limited fiscal decentralisation, little autonomy of local governments, lack of accountability and transparency in government financial transfers to municipalities, and under-representation of non-majority communities in public institutions. The two main ethnic groups - ethnic Macedonians and Albanians - often live in parallel societies, characterized by segregate settlements, separate schools and strongly ethnic-coloured politics and rhetoric. As in wide parts of the Balkans, especially the Roma face heavy discrimination and exclusion.

The initial implementation of the Ohrid Framework Agreement and visible progress in economic, social and environmental development paved the way for receiving EU candidate country status in 2005. More than ten years later, unsatisfactory progress towards the adoption of the EU acquis and the ongoing dispute with Greece over the country's name still hamper the start of formal membership negotiations.

Polarized political environment

During a relatively stable 2nd decade of independence, Macedonia built a fairly functional government and democratic institutions. The more recent years, however, have been marked by slowing reforms and an increasingly polarized political environment, bearing elements of state capture by political parties: undermined parliamentary and judiciary roles, politicization of public institutions, and an increasingly exclusive and non-participatory vision for further nation-building. Media freedom deteriorated, with

Macedonia downgraded to 'not free' in the 2016 Freedom House report on Freedom of the press.

In early 2015, the main political parties traded blame for illegal wiretaps, in which more than 20,000 people were monitored. For the first time in recent history, citizens across ethnic lines took to the streets together in protests aiming at expressing their outrage at the alleged abuses of power and demanding accountability from political leaders. Agreements between political parties on how to defuse the crisis were brokered by the EU and the USA. The Prizno Agreements envisaged legal and electoral reforms; de-politicization of the public administration; freedom of expression; a technical government to bring the country to early elections; and the creation of a Special Prosecution Office to investigate wiretapped material. Following two postponements, the parliament decided to hold early elections in December 2016.

Despite years of economic growth, poverty levels and socio-economic disparities, including inequalities across ethnic groups and the regions, are consistently high in Macedonia. In 2014, more than 35% of the population was severely materially deprived; over 40% was at risk of poverty or social exclusion, especially the unemployed, youth, Roma and the disabled.¹ As a result, popular discontent has begun to show, kindling civic protests and giving birth to critical grassroots movements and the potential risk of renewed inter-ethnic conflict needs to be observed closely. The country is also directly affected by the global refugee crisis, with the main migration route from the Near East to Western Europe passing through its territory and posing yet another political, social and security challenge to authorities.

Looking ahead, the political future of the country remains uncertain. The most likely trend, no matter which political parties are in power, is a sustained "opportunistic" government that follows a mainly externally-driven reform agenda linked to the prospect of European and transatlantic integration (Annex 5). However, "stability" in the sense of sustaining the status quo is not a desirable prospect.

¹ The "at risk of poverty or social exclusion" (AROPE) indicator - as used in EU social policies and referred to by the Government of Macedonia - takes into account relative monetary poverty, severe material deprivation and households with very low work intensity.



Macro-economic stability and economic growth at risk

In the 2000s and early 2010s, Macedonia enjoyed sustained economic growth and made significant progress towards achieving and maintaining macro-economic stability and building a market economy. However, the ongoing domestic political crisis is increasingly affecting private sector investment despite continued government measures to improve the business environment and boost job creation, such as tax exemptions for investors and lighter registration procedures. This led to a deceleration of the annual GDP growth of 3 to 4% only. The economy faces structural problems, characterized by low value-added production and the lowest wages in the region. Public debt has constantly grown over the past eight years, surpassing 50% of GDP in 2016, and therefore overshooting the IMF-recommended debt threshold of 50%. Doing business in Macedonia is furthermore hindered by limited access to financing, corruption, an inadequately educated and trained workforce, and affected work ethics. In this fragile macro-economic context, remittances from the Macedonian diaspora play an important role: According to an IMF analysis, personal transfers have been ranging from 13 to 21% of the country's GDP in the past years², sufficient to cover the trade deficit. Remarkably, over 11% of the remittances come from Switzerland.

Dismal perspectives for the young and unemployed

Very high unemployment persists. Youth suffer particularly, the main reason being inadequate skills. In the 2nd quarter 2016, the unemployment rate was 24% among the whole population and 49% among youth. In the last four years, the gender gap in economic participation and opportunity has failed to nar-

row.³ Due to the lack of perspectives, an estimated 500,000 working-age people, including many young people, have emigrated over the past 25 years.

Gender gaps and inequalities

Despite legal and policy reforms aimed at improving the status of women in Macedonia, gender gaps and inequalities exist in all aspects of life. The worldwide existing structural barriers, such as unequal distribution of unpaid work between women and men, professional segregation or the gender pay gap, are also present in Macedonia and hampering the achievement of full and substantial equality of women. As a result women do more hours in domestic work and care for children, the elderly and sick family members, limiting their own personal time for development and paid careers. Only 43.1% of women in Macedonia participate in the labour market as opposed to 67.5% men.⁴ There is an obvious need for economic and social policies effectively addressing continued stereotyping, and the direct and indirect discrimination of women and the socially excluded groups such as the poor, the elderly, the disabled and members of smaller ethnic groups.

Significant environmental challenges

Environmental indicators for Macedonia remain significantly below EU levels, although on par with regional averages. On the plus side, water supply services reach almost 100% of urban and around 65% of rural households. With some exceptions, supplied water is generally potable. However, only 15% of the population benefits from functioning wastewater treatment. Solid waste is mainly deposited in illegal dump sites, often in ecologically-sensitive areas. Heavily polluted rivers, air and agricultural land, uncontrolled exploitation of available natural resources, and missing implementation of environmental frameworks are seriously affecting the social and economic value of the environment. Additional challenges are climate change-related impacts, such as floods and droughts, which jeopardise already fragile income sources and the livelihoods of farmers and the population in rural areas.

Financial, technical and human resources are still lacking at all administrative levels to fulfil international conventions, treaties and agreements, to which Macedonia is party, and to comply with EU environmental acquis. The government continues to prepare legislation, strategies and actions plans, but implementation is delayed and incomplete. Environmental organizations and pressure groups are motivated but face difficulties mobilizing a critical mass for change.

2 IMF Selected Issues: Remittances and economic development in Macedonia, 2014

3 Macedonia ranked 69th of 145 countries on the 2015 WEF Global Gender Gap Index (Serbia 45th, Albania 70th, Switzerland 8th).

4 UN Women, 2016, Progress of the World's Women 2015-2016, Annex 2.



2. Rationale for the Swiss Cooperation Strategy for Macedonia

As part of its transition assistance, Switzerland supports former communist countries in Eastern Europe on their paths to democracy and social market economies. Despite obvious progress, there remains a backlog of reforms in areas such as decentralization, rule of law, economic development and public services. Switzerland's transition assistance in the region is based on a mutual interest in inclusive socio-economic development, stability, security and European integration and motivated by Switzerland's solidarity with the poor and excluded and the respect for human rights. Further transition assistance opens up economic opportunities for Switzerland and new jobs offer alternatives to migration.

Given the considerable diaspora¹ and geographical vicinity, it is in Switzerland's interest that Macedonia develops into an inclusive, prosperous and democratic state. SDC and SECO have shared responsibility for Switzerland's transition assistance to Macedonia since over two decades. Since the EU became the major development partner in Macedonia, bilateral assistance from most EU countries has significantly reduced. Switzerland, together with Germany and the USA, remains one of the last significant bilateral donors. Total ODA makes up about 2.2% of GDP.² Although the formal responsibility for donor coordination lies with the Macedonian Government, donor coordination in practice largely depends on individual donors' initiatives with Switzerland taking on a prominent role.

Macedonia's national development policies and sector strategies, EU accession-related reforms, including the urgent reform priorities related to the Przino Agreement, and the Federal Dispatch for Switzerland's International Cooperation 2017-20 provide the general frameworks for this Cooperation Strategy. The Government of Macedonia's strategic priorities for the period 2014 to 2018 include: EU and NATO integration; improved economic growth and employment; fight against corruption and enforcement of rule of law; good inter-ethnic relations; implementation of the Ohrid Framework Agreement; and investment in education. Cooperation with Mac-

edonia contributes to the seven strategic objectives of the Federal Dispatch³ (see Box below).

1. Respond to global challenges in the areas of climate change and the environment, food security, water, health, migration and development
2. Prevent and manage the consequences of crisis and disaster, and of fragility; promote conflict transformation
3. Support sustainable access to resources and services for all
4. Promote sustainable economic growth
5. Strengthen the rule of law and democratic participation; support institutions serving society and the economy
6. Ensure the respect for human rights and fundamental liberties, and support efforts to advance their cause
7. Strengthen gender equality and the rights of women and girls

The new strategic cycle will provide an opportunity to effectively address social, political and economic shortcomings that manifest themselves in poverty, socio-economic disparities, the exclusion of parts of society and socio-political fragility. Increasing focus will be put on addressing social exclusion as a source of fragility of the society.

Accordingly, the overall goal of Swiss engagement for the period 2017 to 2020 is to support Macedonia in its reforms to meet European standards and build a socially-inclusive democracy and market economy, while ensuring sound governance of natural resources.

¹ Switzerland is home to a Macedonian diaspora of around 80,000 people.

² 2014: WB data; nominal GDP USD11.32bn, per capita USD5,455; ODA 2014: USD211m.

³ Dispatch on Switzerland's International Cooperation 2017 – 2020: <https://www.eda.admin.ch/deza/en/home/sdc/strategy/legal-bases/message-international-cooperation-2017-2020.html>

3. Results and Experience of the Cooperation Strategy 2013-2016

During the period 2013 to 2016, Switzerland continued to work in governance and the water sector. In view of weak economic perspectives and persistent high unemployment, economic development was re-introduced as a third domain of intervention. Gender and good governance were mainstreamed throughout.

Democratic governance and decentralization: Democratic governance and decentralization is the longest-standing domain of cooperation in Macedonia. Despite considerable contextual challenges, Switzerland was able to strengthen democratic values and processes at local and central levels.

Key Accomplishments

- Public participation in local decision-taking increased through Community Forums
- €13m for balanced regional development mobilized
- CSO legitimacy, voice and assertiveness strengthened
- Law-making capacities of national parliament improved
- Gender-responsive budgeting introduced

Local municipalities have meanwhile institutionalized such Community Forums. Thanks to these, citizens, including members of ethnic minorities, have the possibility to actively participate in local decision-taking (average of 90 people/forum). Women participation increased steadily over the years, reaching today an average of over 40%. For example, Community Forums were instrumental in deciding how to use small grants provided to municipalities as part of interventions under the water domain (e.g. improvement of village water-supply or sewerage systems). Switzerland also promoted balanced regional development. Through its support for Regional Councils and Regional Development Centres, it contributed to reducing inequalities between the regions. Additional €13m from national and EU funds were mobilized for 28 large-scale regional development proposals.

The Swiss-funded “Civica Mobilitas” programme is the largest civil society support programme in Macedonia. Since 2009, Civica Mobilitas has provided small grants to 149 CSOs. Such grants have clearly strengthened CSO voices, constituencies and their positioning in diverse aspects of the social change process. For example, CSOs were instrumental in proposing solutions to the political crisis following the wiretapping accusations.

Thanks to Swiss cooperation, a non-partisan Parliamentary Institute has been established to boost the law-making capacities and overall performance of the national Parliament. The Parliamentary Institute, supported by Members of Parliament from both the ruling and opposition coalitions, has started to strengthen the quality of the legislative process.

As part of its commitment to gender equality, Switzerland supported the introduction of gender-responsive programming and budgeting in Macedonia. Instructed by the Ministry of Finance, line ministries have started to incorporate gender equality principles into their budget processes.

Economic development: Although a new domain, considerable results were achieved, thanks also to a strong focus on economic governance. With Swiss support, the economic system is adjusting towards a social market-based economy that promotes growth and creates jobs and income opportunities.



Switzerland has successfully introduced participatory Community Forums to Macedonia. 59 (of 81) municipi-

Thanks to Swiss engagement in the economic development sector, 979 persons were newly employed in 2015, corresponding to 8% of all newly-employed in the country. At least two-thirds were women, youth or persons at risk of social, political and economic exclusion. More Roma than ever are benefiting from active support to find jobs or become self-employed.

Key Accomplishments

- 979 persons newly-employed in 2015, mostly women, youth and Roma (8% of all newly-employed)
- CHF 3m in additional sales for Macedonian SMEs
- Government scheme of special agricultural subsidies for rural women and young farmers
- Special tax exemption for companies hiring socially excluded people

With Swiss support, the professionalism and competitiveness of SMEs has been enhanced. New technologies and management and corporate governance practices were introduced in 307 SMEs. Business training improved the knowledge of hundreds of entrepreneurs. Six innovative financial instruments and new funds amounting to CHF21m increased their competitiveness. As a result, beneficiary SMEs recorded CHF3m in additional sales on international and domestic markets.



Switzerland has started to promote equal job and income opportunities. A project following the market system development approach aims at engaging especially women and youth in decent (self-) employment in green economy, creative industries and tourism. Thanks to Swiss support, the government is providing special agricultural subsidies to historically underserved rural women and young farmers. Companies hiring socially excluded people such as Roma and those with disabilities can now benefit from a special tax exemption.

Water: Switzerland was the only bilateral donor with a substantial engagement in the water sector, which has long suffered from low attention by the authorities. Switzerland was instrumental in developing environmental framework conditions in line with EU standards, improving public water supply and wastewater services, and conserving nature and water quality.

Switzerland engaged with the authorities to improve the framework for implementing the Law on Water and the Law on Nature. It supported, among others, the elaboration of the National Strategy on Nature; and River Basin and Flood Risk Management Plans.

In selected locations, Switzerland helped to improve water resource management. Thanks to Swiss investments, roughly 60,000 inhabitants of Gostivar and its surrounding villages benefit from a new drinking water reservoir and an improved water supply network. Approximately 50% of Bregalnica region inhabitants (around 90,000 persons) enjoy improved water services and a healthier environment.

Switzerland has contributed to nature protection and conservation. The Swiss-funded Lake Prespa Ecosystem Restoration Project built the capacities of the environment department of the municipality of Resen to address water governance issues, including through the establishment of a water quality monitoring system. It intervened with apple farmers, one of the area's main sources of income, to reduce harmful emissions, while increasing women's involvement in this economic activity from zero to 13% in two years. As a result, water quality of Lake Prespa has clearly improved and the number of native species in the overall fish stock has increased.



Key Accomplishments

- National Strategy on Nature developed
- Approximately 150,000 persons benefit from improved water resource management
- Water quality and biodiversity of Lake Prespa improved
- Environmental education institutionalized in the formal school system

Switzerland supported various information, education and communication activities that have improved citizen environmental awareness, as evidenced through surveys. The Swiss-supported Environmental Education Project played a key role in institutionalizing environmental education in the formal school system.

Lesson learned: The Swiss Cooperation Strategy 2013-16 was highly pertinent in the Macedonian context. It clearly built on Switzerland's expertise in the three domains of intervention and took advantage of drivers of change, notably citizens, CSOs, local governments and SMEs. Significant and tangible results were achieved despite the challenging political context. However, with the worsening of the political crisis, reform processes towards EU accession have been stalled and collaboration impeded, putting in question the sustainability of achieved results.

4. Implications for the Cooperation Strategy 2017-2020

The domestic political crisis and undermined democracy noticeable in state institutions, including weak oversight and separation of powers between the executive, legislative and the judiciary, call for modifications to the Swiss programme portfolio. There is a need to strengthen the functioning, accountability and independence of institutions and mechanisms; and, most importantly, to foster systemic commitment to social, political and economic inclusion as well as to creating and using spaces for policy dialogue.

An intensified engagement in governance is all the more important in view of an “opportunistic” state with an externally-driven reform process, the likeliest scenario for the future. Citizen participation in decision making will continue to be addressed in the **democratic governance domain**. Enabling conditions and democratic spaces will be created for dialogue between institutions on the one hand and between citizens and institutions on the other, thus also enhancing institutional legitimacy. While this implies more interventions at national level, the sub-national level will remain key. Advancing decentralisation and ensuring transparent and fair allocation of resources is important and a major milestone for implementing the Ohrid Framework Agreement. Furthermore, CSOs with strong constituencies will remain at the core of Switzerland’s drive for democratic change. CSOs will be supported to re-establish legitimacy of and trust in public institutions and to contribute towards a common and inclusive vision of the state.

The decision in 2013 to re-enter the **economic development domain** with a focus on SMEs was timely. The political crisis, however, has started to create certain constraints, such as declining private sector investments and decelerating economic growth. The accent on private sector development and SME growth will continue in the new Swiss Cooperation Strategy 2017-20. Entrepreneurship will be fostered to accelerate the growth of start-ups. In order to more comprehensively address unemployment, including that of youth, the economic domain will be extended to include vocational skills development and job matching/labour market measures. To counter-balance the repercussions of political instability, Switzerland will also emphasize macroeco-

omic stability and engage in regional work on trade facilitation.

Switzerland’s support through the **infrastructure and environment domain** is a continuous contribution to Macedonia’s European integration process in view of EU environmental *acquis* requirements. Progress in the water sector was visible but slow and confronted with low prioritization by decision-makers. For this reason, Switzerland will identify new entry points that ensure continued relevance for Macedonia’s political and socio-economic reforms and that promise more opportunities and potential. Topics such as solid waste management, energy efficiency and renewable energy, disaster risk reduction, and climate change will be explored. More attention will be given to social inclusion and citizen participation in decision-making processes. Work with public utilities will involve more policy dialogue and continued application of good governance principles in corporate development.

The Swiss programme portfolio mix has continuously evolved over the years to align with Macedonian transition priorities in given contexts, while taking into consideration available means and comparative advantages of Swiss international development cooperation. The future portfolio should help build institutional capacities and generate public demand in support of reforms to meet European standards and build a socially-inclusive democracy and market economy, while ensuring sound governance of natural resources. Government buy-in and ownership of supported reform processes is a prerequisite for the achievement of these goals. Programme management and working modalities will need to be context/conflict sensitive and adjusted to any extreme changes in the transition context (Annex 5).

5. Priorities and Objectives for the Cooperation Strategy 2017-2020

The overall goal of the Swiss Cooperation Strategy Macedonia 2017-20 is to support Macedonia in its reforms to meet European standards and build a socially-inclusive democracy and market economy, while ensuring sound governance of natural resources.

In a nutshell, the three Swiss portfolio priorities are: (1) democratic governance at central and local levels; (2) sustainable economic growth and employment for youth and other socially excluded groups; and (3) sound natural resources governance and equitable access to quality public utility services.



5.1 Democratic Governance Domain

Domain Goal: Strengthened democratic governance at central and local levels

Outcome 1: More legitimate institutions at central and local levels practice accountable and inclusive policy processes.

Outcome 2: Increased citizen participation in public affairs fosters a political culture of dialogue between citizens, CSOs and public institutions and results in policies and practices reflecting all citizens' needs.

The democratic governance domain aims to support

Macedonia on its way out of fragility and towards internal stability by addressing social exclusion, the lack of separation of powers, insufficient accountability of public institutions and the unfulfilled oversight role of the legislative powers, weak regulatory frameworks, and the incomplete state of decentralization. A two-prong approach will ensure that public institutions on the one hand and civil society on the other receive the necessary support for positive democratic development in the longer term.

At the institutional level (*Outcome 1*), Switzerland will strengthen the legislative, oversight and representative roles of national and selected local legislatures. Municipal Council and National Parliament members will receive knowledge and skills that increase their independence from the executive. Empowered municipal councillors and MPs will more effectively and efficiently ensure that policies and budgets reflect citizens' needs and oversee public funds expenditures.

Furthermore, Switzerland remains committed to contributing to the implementation of the Law and Strategy on Balanced Regional Development. Under *Outcome 1*, it will strengthen institutional capacities and democratic processes to reduce socio-economic disparities between the regions.

At the same time, Switzerland will target and engage civil society (*Outcome 2*). Support for citizen participation in municipal budget discussions and in planning and decision-making at the regional level will increase their influence on municipal policies and regional priorities. Continued support for CSOs, including constituency building, will strengthen CSO influence as drivers of positive social change and political dialogue partners for state authorities, resulting in more inclusive policies and programmes and better public services. CSOs will be empowered to claim spaces for democratic dialogue and to legitimately represent citizens' concerns. This is in line with the government's commitment to establish a Civil Society Council and increase financial support for CSOs.

Through an in-depth assessment based on a Political Economy Analysis, entry points to promote dialogue between political actors and to support reforms ensuring free and fair elections will be explored and form the basis of a new full-fledged project.



5.2 Employment and Economic Development Domain

Domain Goal: Inclusive employment and sustainable economic growth

Outcome 1: Un- and underemployed, especially those at risk of poverty or exclusion, increase their employability and gain easier access to jobs created by the private sector

Outcome 2: Start-ups and SMEs accelerate their growth by increasing their competitiveness and benefiting from a stronger entrepreneurship ecosystem and improved framework conditions

Promoting inclusive employment and sustainable economic growth is critical for improving livelihoods, reducing poverty and exclusion, and, in the longer term, creating a more prosperous society.

The employment and economic development domain will therefore address Macedonia's market deficiencies as well as high unemployment rates and lack of perspectives especially of young men and women, Roma and the disabled. Increasing employment and competitiveness and accelerating economic growth are among the top priorities for central and local-level government.

Switzerland will support employment and private sector growth in a comprehensive manner, targeting both the supply and the demand side. First, it will facilitate access to the labour market. It will enable young men and women and socially excluded population groups to acquire market-oriented skills (*Outcome 1*). Building upon experience in vocational skills development in the region, Switzerland will strengthen training providers and vocational schools; it will promote public-private dialogue and cooperation in order to boost the labour market orientation of the vocational education and training system. Additionally, it will advance job-matching services and active labour market measures for the unemployed. Socially excluded groups will acquire relevant skills for the labour market and hence increase their employability, gain employment and increase their earnings.

Second, Switzerland will foster private sector jobs that offer decent and equal employment opportunities for men and women, including youth and other groups at risk of social and economic exclusion. It will support the creation of start-ups and foster SME competitiveness and sustainable growth (*Outcome 2*), among others in sectors such as tourism, creative industries and green economy. Policies and regulations will be developed and improved, new private sector financing opportunities provided, company working practices and entrepreneurship improved, trade promoted, and domestic and international markets expanded. In a synergetic manner, Switzerland will emphasize macroeconomic stability, debt management capacities and engage in trade promotion.



5.3 Infrastructure and Environment Domain

Domain Goal: Sustainable natural resource governance and equitable access to quality public services

Outcome 1: Effective and efficient institutions and organizations in selected municipalities and regions protect the environment and reduce climate change-related impacts through improved natural resources governance

Outcome 2: Sustainably managed public utilities provide all citizens in selected municipalities, including socially excluded groups, with reliable and affordable water, wastewater and solid waste services

The environment, especially water resources and the biodiversity richness of Macedonia, presents one of the major values and potentials for the future development of the country. The protection and conservation of environmental features, the establishment of adequate infrastructure, the provision of quality public services, and a sustainable use of natural resources are all crucial for saving Macedonia's fragile environment and improving living conditions. They support and reinforce endeavours to meet European standards and build a socially-inclusive democracy and market economy.

Selected rural and urban municipalities, Centres for Regional Development and community-based organisations will be supported in their efforts to ensure that natural resources, first and foremost water bodies and forests, are managed in a sustainable manner (*Outcome 1*). Swiss support will contribute

to awareness-raising, reducing man-made pollution, protecting the environment and reducing climate change-related impacts of floods and droughts. A particular focus will be put on institutional capacities to develop, manage and implement integrated water resources management plans and disaster risk reduction measures. Conservation approaches will purposefully be linked to local economic development agendas with the intention to enhance economic opportunities for the population and especially women and socially excluded groups.

Infrastructure investments and strengthening technical, organisational and financial capacities of selected public utilities will assure a greater coverage of reliable and affordable, but increasingly cost-covering, quality services in the fields of public water supply, wastewater and in addition solid waste (*Outcome 2*). A particular emphasis will be put on equitable access to municipal services and reducing disparities. As experience shows, the provision of quality public services also reinforces trust in state institutions, which is sorely lacking in Macedonia.

6. Programme Implementation and Management

Synergies: Diverse entry points exist for creating synergies to achieve greater and better results – between and within the domains of intervention. For example, the development of sustainable tourism can be supported through projects in all three domains, covering citizen participation in the development of local tourism strategies, improvement of working practices of hospitality businesses, and efforts to protect the environment. In the past, SDC and SECO collaboration within one geographical cluster, often with the same partners, but on complementary issues, has proven to be efficient, effective and sustainable. SDC and SECO will continue to explore linkages and pursue close cooperation, especially in the employment and economic development domain and in the infrastructure and environment domain where both institutions have a financial stake. For instance, both SECO and SDC will pursue sustainable economic growth and inclusive employment, SECO through focusing its support on macroeconomic stability and private sector development while SDC through focusing on market system development and improving access to labour markets. SDC Regional Advisors in governance, employment & income and water & environment will facilitate a

regional perspective and knowledge exchange with other Swiss Embassies and Cooperation Offices.

Aid modalities: Switzerland enters into project partnerships with central government entities through formal agreements. Co-financing from national and local governments is requested at project level where appropriate and feasible. At local level, collaboration with municipalities is based on contracts or enabled through implementing partner organizations, the latter based on open calls or through co-financing modalities. Switzerland will not provide sector budget support. The EU does not consider the technical requirements to be in place. Earmarked institutional support is, however, a possibility.

Switzerland will continue to pursue a multi-stakeholder approach by engaging with other development partners, including other donors, regional and international organizations, CSOs, NGOs and the private sector. It will continue to provide financial contributions to local, national, regional and international initiatives that benefit Macedonia. Switzerland will make a particular effort to identify, support and seek partnerships with emerging and new agents of





change – e.g., youth organizations. Public-private development partnerships will also be thoroughly explored, especially in the employment and economic development domain.

Transversal themes: Gender and governance are transversal themes in the domains (sector governance) and with partner institutions. Governance includes the notion of social, political and economic inclusion, in particular the principles of equality and non-discrimination in connection with inter-ethnic relations and the social, health and economic status of the population. The performance of each of the domains of intervention is monitored with indicators related to gender and governance.

Youth, Roma and disabled persons are particular target groups and partners in the employment and economic development and democratic governance domains.

Climate change issues will be addressed within the infrastructure and environment domain specifically. The vulnerability of all projects to climate change and natural hazards will be assessed. If required, appropriate mitigation and adaptation measures will be undertaken, such as flood and other disaster risk reduction activities. The principles of conflict-sensitive

programme management (CSPM) will be adhered to throughout the strategy cycle.

Social, political and economic inclusion: Exclusion deprives individuals of the opportunity to participate in economic, social and civic processes, and limits their ability to lead productive, creative lives in accordance with their needs and interests. The projects and programmes in the frame of this Cooperation Strategy target specific excluded groups with the aim to increase job opportunities, improve social services, and create greater opportunities for civic participation. Appropriate measures and indicators are developed to monitor these interventions.

Geographical coverage: Macedonia is a comparatively small country. In principle, the Swiss Cooperation Strategy covers all its territory. However, the need to foster social, political and economic inclusion and a more balanced regional development is acknowledged. Therefore, targeting disadvantaged areas and politically, socially and economically excluded population groups will be criteria for identifying project sites, besides political willingness.

Finances: The activities under this strategy will be financed through the Swiss framework credit 2017–2020 for transition aid and cooperation with Eastern Europe.

The information on planned commitments for the four-year period of this strategy is indicative. Actual disbursements will depend on various factors, such as the changes in the project portfolio and the framework conditions of the partner country as well as available disbursement credits authorized by the Swiss Parliament.

Compared to the 2013-16 Cooperation Strategy, the employment and economic development domain will gain importance. The infrastructure and environment domain will experience a budget cut compared to the earlier water domain. However, SECO allocations to the water domain were exceptionally high during the previous Cooperation Strategy cycle and it is foreseen to remain the largest domain in financial terms. Budgets (Annex 4 for more details) will be allocated as follows in 2017-20:

Indicative budget allocation per domain CS 2017–2020 ¹	In Mio CHF	in % of total budget
Democratic Governance	24.2 (SDC)	32%
Employment and Economic Development	21.0 (SDC 17.0 / SECO 4.0)	28%
Infrastructure and Environment	30.0 (SDC 8.0 / SECO 22.0)	39%
Other interventions ²	0.8 (SDC)	1%
Total	76.0 (SDC 50.0 / SECO 26.0)	100%

¹ % based on total of CHF76m (Annex 4 – Indicative Budget Allocation).

² According to FDFA/SDC's Budget process 2017, programme management costs are no longer included in the Framework Credit but are integrated in the FDFA Global Credit.

7. Strategic Steering

The purpose of the Cooperation Strategy monitoring system is to provide crucial but selective information on a regular and timely basis to support steering the implementation of the Cooperation Strategy in order to achieve its objectives. Nature and quality of the information collected through monitoring has to be in line with this responsibility. The monitoring system offers a dependable global picture, from an "eagle's view", of the programme reality, keeping a critical distance from the trials and tribulations of project implementation. The ambition of the monitoring system is to check progress and shortcomings of the entire programme from the "end perspective" of targets and goal achievement, measured by outcomes, effects and impacts (intended or not). This approach will assist the programme steering process by providing a basis for adjusting the Cooperation Strategy portfolio if needed.

The monitoring system of the new Cooperation Strategy is organized so that the effectiveness and coherence of its implementation is checked at programme level through the use of a monitoring matrix deriving from the Results Framework. On an annual basis, it assesses progress towards achieving expected outcomes of Swiss interventions and their contributions to country development, including with

regard to social, political and economic inclusion and the transversal themes gender and governance.

The monitoring system also offers an overview of how the Cooperation Strategy adheres to the context using an instrument for outsourced analysis of context developments relevant for the Cooperation Strategy. The Monitoring System for Development Related Changes (MERV) is also used to this end. The scenario table (Annex 5) contains the adaptations to the Cooperation Strategy which may be needed based on possible changes in the context.

Efficiency is measured by monitoring the overall Embassy operational targets. These targets reflect the best use of human and financial resources in achieving the objectives of the projects and programmes implemented with Swiss support. For this purpose, operational plans with objectives and indicators are being developed and reviewed annually.

The monitoring system has been developed in a manner that provides possibilities for assessing and evaluating the usefulness of all monitoring instruments; based on the findings they can be amended to ensure more accurate and practical monitoring.



Annex 1

Swiss Cooperation Strategy for Macedonia at a Glance

Synopsis of the Swiss Cooperation Strategy Macedonia 2017-2020		
Overall Goal		
To support Macedonia in its reforms to meet European standards and to build a socially-inclusive democracy and market economy, while ensuring sound governance of natural resources.		
Domains of intervention: Objectives		
Democratic governance (SDC)	Employment and economic development (SDC and SECO)	Infrastructure and environment (SDC and SECO)
Strengthened democratic governance at central and local levels.	Inclusive employment and sustainable economic growth.	Sustainable natural resource governance and equitable access to quality public services.
Domains of intervention: Outcomes		
More legitimate institutions at central and local levels practice accountable and inclusive policy processes.	Un- and underemployed, especially those at risk of poverty or exclusion, increase their employability and gain easier access to jobs created by the private sector.	Effective and efficient institutions and organizations in selected municipalities and regions protect the environment and reduce climate change-related impacts through improved natural resources governance.
Increased citizen participation in public affairs fosters a political culture of dialogue between citizens, CSOs and public institutions and results in policies and practices reflecting all citizens' needs.	Start-ups and SMEs accelerate their growth by increasing their competitiveness and benefiting from a stronger entrepreneurship ecosystem and improved framework conditions.	Sustainably managed public utilities provide all citizens in selected municipalities, including socially excluded groups, with reliable and affordable water, wastewater and solid waste services.

Annex 2

Results Framework

Democratic Governance Domain		
Domain goal: <i>Strengthened democratic governance at central and local levels</i>		
(1) Swiss portfolio outcomes	(2) Contribution of Swiss programmes	(3) Country development outcomes
<p>Outcome statement 1</p> <p>More legitimate institutions at central and local levels practice accountable and inclusive policy processes.</p> <p>Indicator 1: Local authorities inform citizens transparently and involve them in decision-making-processes. They take specific measures for consideration of interests of women and men equally (ARI GO1, SDG 16)</p> <p>Baseline: Citizens satisfaction with the transparency and accountability of municipal bodies on 1-10 scale: 4,67 (2015)</p> <p>Target: Citizen satisfaction with the transparency and accountability of municipal bodies on 1-10 scale: 5,5 on transparency and accountability</p> <p>Baseline: 6% of participating municipalities have allocated budget items for the implementation of activities included in the Action Plan for Equal Opportunities of Women and Men (2015).</p> <p>Target: At least 50% of all participating municipalities have allocated budget items for the implementation of activities included in the Action Plan for Equal Opportunities of Women and Men</p>	<p>The Swiss portfolio outcomes contribute to the country development outcomes as follows:</p> <p>By strengthening the capacities of the legislative power, both central and local, and by enabling active participation of the citizens including those of the underdeveloped regions, as well as women, ethnic communities and other disadvantaged groups, local and central government is held accountable through increased oversight. This leads to greater internal stability and more conducive regulatory frameworks, which ultimately contribute to quality services, political participation and representation of Macedonian citizens.</p> <p>Assumptions:</p> <ul style="list-style-type: none"> • All levels, national, regional, and local, are responsive and willing to contribute to effective balanced regional development policy implementation • Interest of institutions to cooperate • Willingness of civil society to address own 	<p>Outcome statement 1</p> <p>Sources: EU Progress Report; Programme for sustainable local development and decentralization in the Republic of Macedonia 2015-2020; Additional Protocol to the European Charter of Local Self-Government on the right to participate in the affairs of a local authority;</p> <p>1a) Improved functioning of oversight institutions</p> <p>Field of observation: Key central and state oversight institutions are able to carry out their functions proactively, effectively and free from political pressure.</p> <p>Baseline: Unfulfilled role of legislative, central and local oversight institutions, in terms of holding the executive accountable.</p> <p>Target: Independent oversight bodies are able to carry out their roles responsibly.</p> <p>1b) Decreased regional disparities</p> <p>Source: Law on Balanced Regional Development,</p>

¹ The Results Framework is subject to changes and adaptations throughout the course of implementation. Please refer to the electronic version of this document available at www.eda.admin.ch for the latest updates.

<p>Indicator 2: Allocation of funds for balanced regional development according to criteria as prescribed in the Law of Balanced Regional Development. (ARI GO2, SDG 16+17)</p> <p><i>Baseline:</i> EUR 13.8 mil. annually from central government to the regions (2015)</p> <p><i>Target:</i> up to 75% increase reaching up to EUR 24.15 million annually</p> <p>Indicator 3: Quality of the legislative process in and the oversight of the national parliament.</p> <p><i>Baseline:</i> 36.5% of MPs used the Parliamentary Institute's research services in the legislative process (2014)</p> <p><i>Target:</i> 70% of MPs use PI's research services in the legislative process</p> <p><i>Baseline and target for oversight - tbd</i></p> <p>Outcome Statement 2</p> <p>Increased citizen participation in public affairs fosters a political culture of dialogue between citizens, CSOs and public institutions and results in policies and practices reflecting all citizens' needs.</p> <p>Indicator 1: Level of civic engagement for social change through policy making contributions of CSOs.</p>	<p>weaknesses</p> <ul style="list-style-type: none"> • Willingness of legislative to assume oversight function; stabilization of political crisis <p><i>Risks:</i></p> <ul style="list-style-type: none"> • Worsening of the political crisis leads to decrease of political will for addressing balanced regional development, in particular at the national level • Government undermines devolution of financial powers • Instrumentalization of CSOs by political parties for own means • Electoral system jeopardizes oversight function • Continued political crisis after 2016 elections/volatility 	<p>Strategy for Balanced Regional Development 2009-2019</p> <p>Indicator: Disparities in the level of development between the most and the least developed planning regions.</p> <p><i>Baseline:</i> Disparities at 2.6 times</p> <p><i>Target:</i> Reduced disparities at 2.2 times by the end of 2019</p> <p>1c) Citizens' trust in Parliament</p> <p><i>Source:</i> IDSCS, IRI surveys</p> <p>Indicator: Citizen satisfaction with the work of Parliament</p> <p><i>Baseline:</i> 2.69³ (2014)</p> <p><i>Target:</i> more than 3.0</p> <p>Outcome statement 2</p> <p>Policy dialogue processes include greater CSO participation.</p> <p><i>Source:</i> Strategy for Cooperation of the Government with the Civil Society sector 2012-2017</p> <p>Indicator: Establishment of the Council for Cooperation between the Civil Society and the</p>
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³ Average grade of the work of the Assembly of the Republic of Macedonia measured in the period 2009-2014 based on a nation-wide public opinion survey conducted by IDSCS about the public's perception on the work of the Parliament.

<p><i>Baseline:</i> Civil Society Index² (CSI) 52,6% (2011) <i>Target:</i> CSI 55,2% (2018)</p> <p>Indicator 2: The indicator, baseline and target with regards to culture of political dialogue are in preparation and will be determined and added to the Results Framework.</p>	<p>Government and availability of financial support to CSOs</p> <p><i>Baseline:</i> The Council is not yet formed and financial support to CSOs is EUR 250'000 annually.</p> <p><i>Target:</i> The Civil Society Council is established and financial support for CSOs is increased.</p>
<p>(4) Lines of intervention (Swiss programme)</p> <ul style="list-style-type: none"> • Support municipal councils in increasing their effectiveness and autonomy by assuming their oversight, representation and legislative role effectively, at all stages of the budget cycle. • Support the successful implementation of the Law on Balanced Regional Development through more transparent allocation of funds according to the level of development of the regions. • Support legislative, oversight and representative functions of Parliament through improved services of the Parliamentary Institute and possibly supporting the work of the parliamentary oversight committees. • Through a learning process, a “critical mass” of 100 CSOs, supported by their constituencies, that are able to initiate positive social changes resulting in stronger institutions receptive for citizens’ needs, free media and progress in the rule of law. • Support for free, democratic and fair election processes (tbd). 	
<p>(5) Resources, partnerships (Swiss programme)</p> <p>Budget: CHF 24.2 million (SDC)</p> <ul style="list-style-type: none"> • The current main implementing partners are international organisations and local partner organisations as UNDP, GIZ, NDI, NIRAS/MCIC. • The main national counterparts are the Ministry of Local Self-governance, Ministry of Finance, the Cabinet of the Deputy Prime Minister for Economic Affairs, the National Parliament, municipalities, mayors, municipal councils, Regional Centres and regional councils. Projects are coordinated with the other donors active in the same field: USAID, EU, UNDP and GIZ. 	

² The Civicus Civil Society Index (CSI) is an action research project that comprehensively assesses the state of civil society in a range of countries around the world. CSI assesses state of civil society by examining five core dimensions: Civic Engagement, Level of Organization, Practice of Values, Perception of Impact and External Environment. Each dimension consists of several indicators that are grouped into 25 sub-dimensions. All five dimensions are studied using several methods (primary and secondary research): representative population survey; a survey of CSOs, in-depth interviews with stakeholders from other sectors, regional focus groups, a literature review, media review and case studies.

Employment and Economic Development Domain		
Domain goal: Inclusive employment and sustainable economic growth		
(1) Swiss portfolio outcomes	(2) Contribution of Swiss programme	(3) Country development outcomes
<p>Outcome statement 1</p> <p>Un- and underemployed, especially those at risk of poverty or exclusion, increase their employability and gain easier access to jobs created by the private sector</p> <p>Indicator 1: # of people newly (self-) employed⁴</p> <p><i>Baseline:</i> 0⁵</p> <p><i>Target:</i> 4400⁶</p> <p>Indicator 2: Change in monthly net salary of end beneficiaries. (ARI E1; SDG 8)</p> <p><i>Baseline:</i> Average net monthly salary of MKD 19'000⁷</p> <p><i>Target:</i> 10% increase</p> <p>Indicator 3: # of people who acquire new market-relevant skills (% of which gained employment /% of which are at-risk-of poverty or social and</p>	<p>The Swiss portfolio outcomes contribute to the country development outcomes as follows:</p> <p>Through strengthening vocational training and match-making service providers, young and groups at risk of poverty or social and economic exclusion will acquire relevant skills and will access the job market more easily.</p> <p>Through strengthening selected market systems and improving framework conditions through policies made in a participatory way, involving the business sector; helping companies improve their working practices, expand their markets, and access finance; as well as fostering entrepreneurship, existing companies will accelerate their growth and new companies will be created.</p> <p><i>Assumptions:</i></p> <ul style="list-style-type: none"> Continued economic growth Government remains committed to growth and 	<p>Outcome statement 1</p> <p>Increased employment</p> <p><i>Source:</i> National Employment Strategy 2016-2020; Draft National Strategy on Education 2016-2020, National Strategy on Reduction of Poverty and Social Exclusion 2010-2020</p> <p>Indicator 1a: Unemployment rate</p> <p><i>Baseline:</i> 26% among total population (2015) (48% among youth (2015), 53% among Roma (2014))</p> <p><i>Target:</i> 22% among total population by 2018 (no separate targets on youth and Roma)</p> <p>Indicator 1b: # of new jobs</p> <p><i>Baseline:</i> 12,113 (2015)</p> <p><i>Target:</i> approximately 12,700 new jobs annually</p> <p>Improved match between skills demand and supply</p> <p><i>Source:</i> Draft Strategy on Education 2016-2020 (expected to</p>

⁴ SECO Standard Indicators TO2 BL1: 1; in line with SDC ARI EV3; SDG 1, 5, 8, 10.

⁵ For comparison purposes, 1973 people were newly employed in the period 2015-2016.

⁶ Of which SDC 4100 (45% youth, 35% women, 10% other at-risk-of poverty or social and economic exclusion) and SECO 300

⁷ Calculated on the basis of the average paid net salary for four sectors: tourism and hospitality, IT, organic agriculture and sustainable building in 2016

<p>economic exclusion). (ARI EV1+EV3; SDG 4)</p> <p><i>Baseline:</i> 0</p> <p><i>Target:</i> 5'000 (% of which gained employment / % of which are at-risk-of poverty or social and economic exclusion⁸)</p> <p>Outcome statement 2</p> <p>Start-ups and SMEs accelerate their growth by increasing their competitiveness and benefiting from a stronger entrepreneurship ecosystem and improved framework conditions.</p> <p><i>Indicator 1:</i> Increase in (aggregated) sales volume of beneficiary SMEs</p> <p><i>Baseline:</i> 0⁹</p> <p><i>Target:</i> CHF 20 million</p> <p><i>Indicator 2:</i> # of policies and regulations developed in a participatory process, involving the private sector</p> <p><i>Baseline:</i> 0¹⁰</p> <p><i>Target:</i> 10 policies that provide enabling conditions for the private sector are improved or developed</p>	<p>employment-enhancing policies</p> <ul style="list-style-type: none"> • EU accession process continues <p><i>Risks:</i></p> <ul style="list-style-type: none"> • Economic downturn • Unsustainable debt levels leading to macroeconomic instability • Prolonged political instability affecting willingness of companies to invest in growth 	<p>be adopted late 2016)</p> <p>Indicator 3: Average school-to-work transition for secondary education</p> <p><i>Baseline:</i> 31.7 months¹² (2014)</p> <p><i>Target:</i> Decreased transition time.</p> <p>Outcome statement 2</p> <p>Increased economic growth</p> <p><i>Source:</i> Competitiveness Strategy and Action Plan of the Republic of Macedonia 2016 – 2020</p> <p>Indicator 1: GDP growth rate</p> <p><i>Baseline:</i> 3.7% (2015)¹³</p> <p><i>Target:</i> 4.5%</p> <p>Indicator 2: # of active companies in Macedonia</p> <p><i>Baseline:</i> 70,659 (2014)</p> <p><i>Target:</i> 80,000</p> <p>Indicator 3: Ranking in the WEF Global Competitiveness Index</p> <p><i>Baseline:</i> 60th</p>
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⁸ Exact targets in % will be developed when project on vocational skills development is in a more advanced stage.

⁹ For comparison purposes, CHF 56 million of additional sales were achieved in the period 2015-2016, this was however exceptionally high due to high investments.

¹⁰ For comparison purposes, 9 policies and regulations were developed in a participatory process in the period 2013-2016.

¹² ILO Labour Market Transitions of Young Women and Men in Macedonia.

¹³ Source: the National Bank of the Republic of Macedonia.

<p>Indicator 3: tbd¹¹</p> <p>Baseline: tbd</p> <p>Target: tbd</p>	<p>Target: Improved ranking</p>
<p>(4) Lines of intervention (Swiss portfolio)</p>	
<ul style="list-style-type: none"> • Systemic market development, aiming to address market deficiencies and thus create jobs in particular for women and youth in three sectors: tourism, creative industries and green economy. • Vocational skills development, aiming to increase access to gainful employment for youth (VET students and unemployed) and to smoothen school-to-work transition. • Advance job-matching services and active labour market measures in order for the unemployed to better access jobs, in particular those at risk of social and economic exclusion. Special focus will be placed on Roma and the disabled as population groups that face most obstacles accessing the labour market. • Enhance competitiveness and accelerate growth of SMEs by strengthening their managerial skills, improving the quality of their products and services, expanding their domestic and international markets, and easing their access to finance. <p><i>Regional SECO programmes will have a strong focus on the following areas:</i></p> <ul style="list-style-type: none"> • Foster entrepreneurship through support to the entrepreneurial ecosystem, in particular to incubators/accelerators, to better provide services to start-ups, and increasing its attractiveness. • Private sector development. Potential areas of support are business enabling environment, skills development, access to finances and trade promotion. • Improve the macroeconomic framework through targeted support to public institutions dealing with the tax administration and financial statistics. 	
<p>(5) Resources, partnerships (Swiss portfolio)</p>	
<p>Budget: CHF 17.0 million (SDC) and CHF 4 million (SECO)</p> <ul style="list-style-type: none"> • The main implementing partners are for the time being international organisations such as Swisscontact, USAID, FibL and multilateral organisations as WB, IFC and IMF. • The main national counterparts are the Cabinet of the Deputy Prime Minister for Economic Affairs, the Ministry of Economy, the Ministry of Agriculture, the Ministry of Education and the Regional Centres. 	

¹¹ An indicator on aspects of competitiveness will be developed once the development of a new bilateral project SECO-funded project is in a more advanced stage.

Infrastructure and Environment Domain		
Domain Goal: Sustainable natural resources governance and equitable access to quality public services		
(1) Swiss portfolio outcomes	(2) Contribution of Swiss portfolio	(3) Country development outcomes
<p>Outcome statement 1</p> <p>Effective and efficient institutions and organizations in selected municipalities and regions protect the environment and reduce climate change-related impacts through improved natural resources governance.</p> <p>Indicator 1: % of municipal budgets allocated to environment and climate change-related interventions in project areas (in 21 out of 81 municipalities in total).</p> <p>Baseline: Annual municipal budget 2016 of each target municipality</p> <p>Target: Increased allocation by 4% in 10 rural/small municipalities and 5 urban municipalities</p> <p>Indicator 2: Reduction of man-made pollution to water bodies in project areas.</p> <p>Baseline: 5,175 BOD₅¹⁴ treated</p> <p>Target: 30% increase of treated BOD₅¹⁵</p> <p>Indicator 3: Contemporary forest management plans, addressing climate change mitigation and adaptation, are implemented. (ARI CC2; SDG 15)</p>	<p>(2) Contribution of Swiss portfolio</p> <p>The Swiss portfolio outcomes contribute to the country development outcomes as follows:</p> <p>By enhancing the effectiveness, coordination and technical capacities of local institutions, Regional Centres and CSOs to manage integrated water resources, management plans and implement national strategic documents, and by applying conservation approaches that link sustainable natural resources management with the local economic development agenda, environment protection will be improved and economic opportunities for the population increased. Thereby, Switzerland will contribute to better natural resources governance and enhance Macedonia's resilience to climate change-related impacts.</p> <p>Additionally, through infrastructure investments and strengthening of the technical, human and financial capacities of public utilities, Switzerland will contribute to the provision of reliable, quality and cost-covering public services related to water and solid waste for all citizens in the selected municipalities, including reducing disparities in access to these services.</p>	<p>Outcome statement 1</p> <p>Full implementation of the Laws on Water, Nature Conservation and Solid Waste in line with EU standards and requirements and international obligations.</p> <p>Source: National Strategy on Water; National Strategy on Solid Waste; National Strategy on Nature; Plan for Implementation of the Drinking Water and Urban Wastewater Directives (under preparation)</p> <p>Indicator 1: Implementation ratio (%) of the Water Framework Directive (WFD)</p> <p>Baseline: for WFD: Yearly assessment of the Ministry of Environment and Physical Planning on progress of WFD implementation for reporting towards EU: 2016 – 88%</p> <p>Target: Increase in % of WFD implementation progress</p> <p>Indicator 2: % of territory of the country under protection</p> <p>Baseline: 9%</p> <p>Target: 11.6%</p>

¹⁴ Biochemical oxygen demand used as a surrogate of the degree of organic pollution of water.

¹⁵ Of which SECO 5165 t/year (baseline) and 30% increase (target) and SDC 10 t/year (baseline) and 600% increase (target).

<p>Baseline: 0</p> <p>Target: At least one regional, contemporary forest management plan in project area implemented.</p> <p>Outcome statement 2</p> <p>Sustainably managed public utilities provide all citizens in selected municipalities, including socially excluded groups, with reliable and affordable water, wastewater and solid waste services.</p> <p>Indicator 1: Population covered with improved water/sanitation and solid waste services funded by Switzerland.¹⁶</p> <p>Baseline for water/sanitation: 120,000 citizens for water/179,000 citizens for sanitation covered by improved services due to Swiss interventions in the past</p> <p>Target: 166,000 citizens for water/248,000 citizens for sanitation</p> <p>Baseline for solid waste: 0</p> <p>Target: One middle-sized town</p> <p>Indicator 2: Empowered and financially-sustainable public utilities</p> <p>Indicator 2a: % of non-revenue water</p> <p>Indicator 2b: % of cost-coverage (for operation and maintenance)/collection rate</p>	<p>Assumptions:</p> <ul style="list-style-type: none"> National and local authorities take up their leading role and efficiently implement and enforce the national strategic documents and the different laws on the environment. They push the foreseen water tariff system reform and support the work of the water regulator Citizens become more and more aware of the need for a sound environment Citizens ask local authorities for better communal services and insist more and more on their rights to adequate public services <p>Risks:</p> <ul style="list-style-type: none"> Continued low interest of the national authorities in environmental issues Continued rather meagre provision of finances for local contributions Poor operation and maintenance of the built infrastructure endanger sustainability 	<p>Outcome statement 2</p> <p>Expansion of Macedonian population covered with improved water/sanitation and solid waste services.</p> <p>Source: Plan for Implementation of the Drinking Water Directive (completion June 2017); Plan for Implementation of the Urban Wastewater Directive (completion June 2017)</p> <p>Indicator: Population covered with improved water/sanitation and solid waste services.</p> <p>Baseline for water/sanitation: 95% urban and 70% rural population covered by water service / 15% of population covered by wastewater treatment</p> <p>Target: % of urban and rural population covered with improved water/sanitation services provided by Swiss and EU funded interventions¹⁹</p> <p>Baseline for solid waste: Skopje region (approx. 800,000 people)</p> <p>Target: Skopje and Polog Region (approx. 1,100,000 people)</p>
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¹⁶ SECO Standard Indicators TO 1 BL3: 1+2; in line with SDC ARI W3+W4; SDG 6.

¹⁹ Data will be available mid-2017, after completion of the Plans for Implementation of the Drinking and Urban Water Directives.

<p><i>Baseline for non-revenue water: Public Utility Kocani 67%; Public Utility Gostivar 70%; Public Utility Delcevo 18%</i>¹⁷</p> <p><i>Target: Reduction Public Utility Kocani by 3%; reduction Public Utility Gostivar by 15%; reduction Public Utility Delcevo by 5%</i></p> <p><i>Baseline for cost-coverage (for operation and maintenance)/collection rate: Public Utility Kocani 92.9%/85%; Public Utility Gostivar 83%/63%; Public Utility Delcevo: no data available</i>¹⁸/80%</p> <p><i>Target: Public Utility Kocani 102%/90%; Public Utility Gostivar 100%/70% ; Public Utility Delcevo 100%/88%</i></p>		
<p>(4) Lines of intervention (Swiss portfolio)</p> <ul style="list-style-type: none"> • Support the implementation of integrated measures for improvement of water quality in Lake Prespa and River Strumica, including development of flood management in accordance with the EU Flood Directive. • Strengthen institutional capacities at national and local level to manage natural resources in a sustainable manner and to cope with challenges arising from climate change. • Support the application of a regional (inter-sectorial) approach for managing protected areas and potential ecosystem services. • Improve of the water/sanitation and solid waste infrastructure and management. • Provide institutional strengthening/corporate development of public utilities. • Support to public utilities in preparation for the new water tariff system. 		

¹⁷ Figure from the ADKOM Utility Sector Analysis 2015, but it seems to be too low. The accurate figure will be identified at the beginning of the project implementation.

¹⁸ The existing accounting system of the PU Delcevo doesn't allow separation of costs for different services. This will be improved through institutional strengthening measures applied during the project implementation.

<p>(5) Resources, partnerships (Swiss portfolio)</p>	<p>Budget: CHF 22 million (SECO) and CHF 8 million (SDC)</p> <p>SECO projects are co-financed in a range of 10% of the total project budgets by contributions from the Macedonian national and local level budgets.</p> <ul style="list-style-type: none"> • The current main implementing partners are international and national organizations such as UNDP, Farmahem (with Helvetas Swiss Intercorporation), KfW (creating synergies and ensuring optimal efficiency between donors/financers working in the same areas) and private consultancy firms such as Ernst Basler Partner and Holinger AG. • The main national counterparts are the Ministry of Environment and Physical Planning, the regional centres, municipalities, the public utilities and CSOs in the project areas.
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<p>Management/performance results</p>	
<p>Outcome statement 1</p> <p>The Swiss programme remains relevant to the country context.</p>	<p>Indicators</p> <ul style="list-style-type: none"> • Contextual (particularly concerning political situation), programmatic and institutional risks and developments are closely followed and inform steering of cooperation strategy. • Annual external Context Analysis study confirms the relevance of Swiss intervention in the country by comparing the overall country results with the Swiss interventions. • Context/Conflict Sensitive Programme Management is integrated as a transversal approach in all programmes within all domains of cooperation. • Political dialogue with the new government is established based on the new strategy and corresponding processes (such as coordination) are jointly agreed upon. • Regular exchanges with representatives from the EU and other partners strengthen donor coordination and opportunities to reinforce the Government's role in coordination are seized. • Regularly updated MERV supports the programme objectives of the Cooperation Strategy. • Monitoring system with a number of monitoring tools is developed and applied to the overall Cooperation Strategy. • All project partners have regular outcome monitoring mechanisms in place and report on results on progress in social, political and economic inclusion. • The Security Management Plan, as a central tool for the security management of the Swiss Embassy, is regularly updated and enforced.

<p>Outcome statement 2</p> <p>Social, political and economic inclusion, gender equality and good governance remain at the core of the Swiss programme management.</p>	<p>Indicators</p> <ul style="list-style-type: none"> • % of socially-disadvantaged segments of the population benefit from Swiss interventions. • The principal of a geographical balance of the Swiss portfolio covering all areas of the country inhabited by ethnic Macedonians and ethnic Albanians continues to be pursued. • The principles of good governance and gender equality are reflected in the Cooperation Strategy indicators. • Awareness on the benefits of work force diversity has increased in partner organizations, especially with respect to ethnic minorities. • The Equal Opportunities Policy of the Swiss Embassy is implemented according to the existing indicators.
<p>Lines of Intervention</p> <ul style="list-style-type: none"> • Active participation in efforts and debates on donor coherence and coordination based on best practices. • Applied research and baselines in all interventions to better understand the context and how to reach out to pockets of excluded groups within the target population. • Feeding the development cooperation dialogue with the Government of Macedonia with concrete field-based best practices and lessons learned. • Participate in the dialogue on the implementation of SDGs with government partners, civil society and international actors. • Active participation in efforts and debates on rule of law, corruption and risk management as well as consistent messaging. • Fostering inclusive policy making 	

Annex 3

Monitoring System

Purpose of the Monitoring System

The Swiss Cooperation Strategy Macedonia 2017-2020 is subject to systematic monitoring in order to keep track of progress towards expected results and to allow for corrective measures if required (steering). The monitoring system observes three dimensions: the country context, the Swiss Results Framework and programme management.

Country context monitoring looks at the political, social, economic, and environmental development of Macedonia and how it affects the Swiss portfolio. Monitoring of the Swiss Results Framework assesses progress in achieving expected results of Swiss interventions, including the transversal themes. Programme management monitoring focuses on the efficiency and effectiveness of the Embassy and compliance with management and aid principles.

Monitoring instruments

Different monitoring instruments are used to monitor the three dimensions:

	Dimension	Monitoring Area	Instrument	Periodicity	Responsibility
1.	Country context	Overall country context relevant for the Swiss CS	MERV Context Watch	Annually: August-September	Embassy External
2.	Swiss Results Framework	Swiss portfolio outcomes and project outcomes/ outputs	Results Monitoring Matrix	Annually: September	Embassy/Project organizations
		Country development outcomes	Context Watch	Annually: August-September	External
		Transversal themes	Results Monitoring Matrix	Annually: August-September	Embassy
3.	Programme management	Embassy efficiency and compliance	Operational Planning	Annually: January	Embassy
			Equal Opportunities Assessment	Annually: December	Embassy

The first dimension – the country context – is monitored by the Monitoring System for Development-Related Changes (MERV). Additionally, the Context Watch is used for assessing the relevance of the Swiss Strategy to the context developments and the progress towards related country development results.

To monitor the second dimension – the Swiss Results Framework – a Results Monitoring Matrix is used. With this instrument, project and programme developments are monitored (i.e. ‘Swiss portfolio outcomes’ and project outcomes/outputs) including the transversal themes.

Two instruments are used to monitor the management dimension: the Operational Planning and the Equal Opportunities Assessment. The Operational Planning allows for monitoring of the operational side: day to day supervision of the implementation of projects and programmes. The Equal Opportunities Assessment monitors the implementation of the equal opportunities principles as defined in the Swiss Embassy Equal Opportunities Policy.

The Cooperation Strategy Monitoring System and its instruments will be continuously revised and further elaborated, enabling clear focus on domain results. As a consequence, awareness for sector development objectives increases and translates into programme and project design working towards stronger impact on policies.

Annex 4

Indicative Budget Allocation

Cooperation Strategy Macedonia 2017-2020

Domain	Indicative disbursements planned 2017-2020					
	SDC Mio CHF	in % of total	SECO Mio CHF	in % of total	Total SDC & SECO Mio CHF	in % of total
Democratic Governance	22.5	48.4%			22.5	32.3%
Employment and Economic Development	15.8	34.1%	3.0	13%	18.8	27.1%
Infrastructure and Environment	7.4	15.9%	20.0	87%	27.4	39.5%
*Other Interventions	0.8	1.6%			0.8	1.1%
Total budget allocation 2017-2020	46.5	100%	23.0	100%	69.5	100%

* without office management costs, incl. small actions/global credit

Cooperation Strategy Macedonia 2017-2020

Domain	Indicative commitments planned 2017-2020					
	SDC Mio CHF	in % of SDC total	SECO Mio CHF	in % of SECO total	Total SDC & SECO Mio CHF	in % of total
Democratic Governance	24.2	48.4%			24.2	31.8%
Employment and Economic Development	17.0	34.0%	4.0	15.4%	21.0	27.6%
Infrastructure and Environment	8.0	16.0%	22.0	84.6%	30.0	39.5%
*Other Interventions	0.8	1.6%			0.8	1.1%
Total budget allocation 2017-2020	50.0	100%	26.0	100%	76.0	100%

* without office management costs, incl. small actions/global credit

Annex 5

Map of Macedonia



Annex 6

Scenarios

The following table presents three different possible trends for the Macedonian development context. The most likely trend is an **opportunistic state with an externally-driven reform process**, thus presenting a continuation along current development trends.

	<i>The authoritarian state</i> No further reforms	Realistic, most likely scenario (Status Quo): <i>The “opportunistic” state</i> with an externally driven reform process	<i>The “reformist” state</i> Genuine reform movement
Political environment	<ul style="list-style-type: none"> • Further polarisation • Nationalist and populist government • No agreement with Greece on name issue 	<ul style="list-style-type: none"> • Exclusive coalition government • Party loyalty required • Dialogue with Greece but no agreement on name issue 	<ul style="list-style-type: none"> • Inclusive government • Separation between party and state • Regional integration and agreement with Greece on name issue • Start of EU negotiations
Institutions	<ul style="list-style-type: none"> • Further government control of legislative and judiciary • Party accountability • Nepotism and exclusion 	<ul style="list-style-type: none"> • Government control of judiciary and legislative retained informally • Superficial but no structural reforms • Inflated bureaucracy 	<ul style="list-style-type: none"> • Independence of judiciary respected • Parliamentary oversight of government • De-politicization of administration
Economy	<ul style="list-style-type: none"> • Economic downturn and unsustainable debts • Pervasive corruption and growing irregularities • Increased brain drain 	<ul style="list-style-type: none"> • State influenced economy • Economic reforms promoted • Brain drain 	<ul style="list-style-type: none"> • Reforms to tackle unemployment • Obstacles in doing business removed • Further integration into European market
Social and cultural environment	<ul style="list-style-type: none"> • Ethnic differences instrumentalized by the state • Nationalism and exclusion promoted • Government-controlled media, no freedom of expression 	<ul style="list-style-type: none"> • Indifference towards socio-cultural sphere • Opportunistic approach • Limited freedom of expression, some independent media 	<ul style="list-style-type: none"> • Promotion of inter-ethnic and inter-cultural cohesion • Values of diversity and inclusion • Freedom of expression and fully independent media
Security	<ul style="list-style-type: none"> • More security incidents • Radicalization of different groups • Fight against “terrorist fighters” 	<ul style="list-style-type: none"> • Hidden security agenda • Fight against “terrorist fighters” 	<ul style="list-style-type: none"> • Collaboration with neighbouring states to divert security threats
Refugees/ Migration	<ul style="list-style-type: none"> • Refugee/migration topic faces an increasingly negative rethoric, and xenophobia increases • No solution found for the approx. 1,000 stranded refugees, they are kept in detention centres for longer periods 	<ul style="list-style-type: none"> • Refugee/migration topic used in an opportunistic way to navigate international expectations • Refugee/migration flow through Macedonia guided according to policies of other countries along the “Balkan Route” 	<ul style="list-style-type: none"> • A limited number of refugees/migrants find a favorable climate for temporary or even long term stay in Macedonia

Implications of the scenarios on the domain related working modalities:

	<i>The authoritarian state</i> No further reforms	Realistic, most likely scenario (Status Quo): <i>The “opportunistic” state</i> with an externally driven reform process	<i>The “reformist” state</i> Genuine reform movement
Democratic Governance	<ul style="list-style-type: none"> • Active promotion of human rights • Support crisis coordination within international community and government • Increase support to CSOs working with refugees and promote activities fostering social and ethnic cohesion • Intensify support to NGOs claiming democratic spaces and to citizens’ voice • Consider targeted support to media and other potential change agents 	<ul style="list-style-type: none"> • Status quo 	<ul style="list-style-type: none"> • Strengthen civil society and build constituencies • Strengthen constituency relations between MPs and citizens • Strengthen national government institutions • Enhance institutional capacities in service delivery on all levels
Employment and economic development	<ul style="list-style-type: none"> • Explore and promote private sector for support to migration management (e.g. PPPs for additional services) • Enhance business skills and entrepreneurship of selected target groups • Support the implementation of corporate governance principles 	<ul style="list-style-type: none"> • Status quo 	<ul style="list-style-type: none"> • Intensify innovative financial products development and make available for all • Enhance business and entrepreneurship skills for all • Support implementation of corporate governance principles
Infrastructure and Environment	<ul style="list-style-type: none"> • Shift to even stronger support at local level, avoid working with national government institutions • Foster alliances between environmental CBOs/CSOs to achieve critical mass for political dialogue with national level impact • Assess pressure on environment from economic downturn and develop mitigation measures 	<ul style="list-style-type: none"> • Status quo 	<ul style="list-style-type: none"> • Intensify the collaboration with national government institutions to support the implementation of the EU environmental acquis requirements • Further enhance public service delivery in the water, wastewater and solid waste sector • Support the national and local institutions to move towards a green economy through a better state of the environment, fostering economic benefits for the population in selected areas



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