
MACEDONIA: MAKE OR BREAK

I. OVERVIEW

While Macedonia has had a reasonably good year, the survival of the state in its present form -- a key element of stability in the fragile Western Balkans -- is still not completely assured. The country overcame political tragedy to demonstrate it could elect a new president peacefully and fairly, and it has remained calm and focused on its own issues rather than being distracted by troubles in neighbouring Kosovo, but it faces an immediate test of its commitment to the inter-ethnic compromise that cut off the incipient civil war in 2001. And both Skopje and Brussels must do better at answering questions about whether it really has a future within the European Union.

President Boris Trajkovski's tragic death on 26 February 2004, six months before the end of his term, raised a real prospect of political crisis. Growing tensions in Kosovo after the 17-19 March riots in that province added to the risk of instability. The decision of Prime Minister Branko Crvenkovski to run for the vacant presidency raised the political stakes still further.

However, the presidential election (in two stages, on 14 and 28 April) indicated that Macedonia has attained a certain level of democratic maturity and stability. The exercise was not perfect, but even if all allegations of irregularities were accurate, the result would not have changed -- Crvenkovski was elected in the second round, with over 60 per cent of the votes. No major candidate openly opposed the Ohrid Agreement, which ended the 2001 ethnic Albanian insurgency. The dominant issues related to the country's future rather than fear of spillover from Kosovo.

With a new president and a new prime minister (Hari Kostov), installed, attention is now focused on the sole remaining substantive issue from Ohrid: devolution of power to local government units. This is a decisive matter for the survival of the Macedonian

state, however. After lengthy negotiations within its coalition, the government proposed on 14 July to reduce municipalities from the current 123 to 80. Criticisms of the Albanian and Macedonian opposition parties have concentrated on proposed changes to the municipal boundaries of the capital, Skopje, and the south western town of Struga, both cases where it is perceived that ethnic Albanians would gain.

If the coalition can ride out the devolution controversy, significant challenges remain on reforming the economy and stimulating employment. The government has underperformed in these areas, preferring to pursue those responsible for shady privatisation deals under the previous administration. Deep concerns also remain about the effectiveness of the rule of law.

Macedonia's political parties remain a weak link in the democratic system. The internal struggles of the major opposition party, VMRO-DPMNE¹ and the leadership vacuum following Social Democratic Union of Macedonia (SDSM) leader Crvenkovski's elevation to the presidency illustrate that they remain more mechanisms for distribution of patronage and running election campaigns than real engines of democratic inclusion.

The application Macedonia submitted for European Union membership on 22 March is of tremendous importance for stability. The prospect of EU integration gives politicians their main motivation for pursuing reform policies and helps guarantee peaceful coexistence of the main ethnic groups. If Macedonians perceive that the EU does not really want them, they will again question their national future. Europe has made a considerable political investment in the Ohrid process and Macedonian stability; it now has the opportunity to capitalise on that investment by securing the country's future.

¹ The full name is Internal Macedonian Revolutionary Organisation-Democratic Party for Macedonian National Unity.

II. PRESIDENTIAL TRAGEDY AND ELECTION

The tragic death of President Boris Trajkovski in an accidental plane crash on 26 February 2004 marked the end of an era. During his five years, Trajkovski had been a major force for stabilisation and was widely regarded by outsiders as his country's most trustworthy politician. He played a crucial role in brokering the Ohrid Agreement, which ended the 2001 conflict, and then selling it to the sceptical and sometimes hostile public. Many wondered if his loss would damage Ohrid implementation or affect Macedonia's application for EU membership, which was to have been officially submitted on the day he died. Mounting tensions across the border in Kosovo as a result of the violence that began there on 17 March compounded the risk of instability.

In addition, once Prime Minister Branko Crvenkovski emerged as a serious candidate for the vacant presidency, it became clear that the election was to be an important test of the robustness of Macedonia's political system. Crvenkovski indicated that he would resign as prime minister if defeated, so a change in the government was inevitable. An additional risk factor came from the legal requirement that over half the electorate vote for the result to be valid, a similar requirement to the one that had caused Serbia's presidency to remain vacant since December 2002.² The turnout requirement potentially provided political forces that might wish to destabilise the country reason to encourage supporters to boycott the election and also created incentives for the government to exaggerate the turnout (and for the international community perhaps to look the other way).

The first round, on 14 April, put Crvenkovski, on behalf of two of the three government coalition partners -- his own Social Democratic Union of Macedonia (SDSM) and the Liberal Democratic Party (LDP) -- in the lead with 385,347 (42.5 per cent) of the 907,401 valid votes.³ Not too far behind with 309,132 (34.1 per cent) was a relatively obscure political figure, Sasko Kedev of the main opposition party, VMRO-DPMNE. The other two candidates

represented ethnic Albanian parties: Gzim Ostreni of the Democratic Union of Integration (DUI), which is part of the government coalition (134,208 votes, 14.8 per cent), and Zidi Xhelili of the opposition Democratic Party of Albanians (DPA) (78,714, 8.7 per cent).⁴

None of the leading candidates openly opposed the Ohrid Framework, though Xhelili, who finished last, was least enthusiastic. The more moderate of the two ethnic Albanian parties participating won the majority of the ethnic votes for the first time in modern Macedonian history.

In the second round, on 28 April, the officially recorded vote was lower but still slightly above the 50 per cent threshold.⁵ Crvenkovski became Macedonia's third president since independence with 553,522 votes (62.7 per cent) to Kedev's 329,271 (37.3 per cent). He had clearly gained about 90 per cent of the votes cast for the two ethnic Albanian candidates in the first round and thus had majority support from the two largest ethnic groups.⁶ Kedev contributed to the success of the election by resisting pressure from the former VMRO-DPMNE leader, ex-Prime Minister Ljubco Georgievski, to boycott the second round.

Every Macedonian election since independence in 1992 has generated controversy, and the 2004 presidential poll was no exception. Even before the campaign formally began, the State Electoral Commission (SEC) rejected the candidacy of Ljube Boskovski, a radical nationalist (formerly of VMRO-DPMNE and interior minister in the Georgievski government) on the grounds that he did not satisfy residence requirements.⁷ Boskovski urged his supporters to boycott the election in protest but unlike in Serbia, the Macedonian public was not

² Boris Tadic was elected president of Serbia in June 2004, after the 50 per cent turnout requirement had been removed; see ICG Europe Briefing, *Serbia's Changing Political Landscape*, 22 July 2004.

³ There were 1,695,103 registered voters, and 935,373 votes cast (55.2 per cent) of which 27,972 (3 per cent) were invalid.

⁴ In the September 2002 parliamentary elections, the SDSM/LDP coalition won 41.2 per cent of the votes; VMRO-DPMNE, 25.1 per cent; the DUI, 12.2 per cent; and the DPA, 5.4 per cent. Other Albanian parties gained 4.5 per cent, and other parties that did not contest the presidential election, 11.3 per cent.

⁵ 912,605 votes were cast (53.8 per cent) of which 29,812 (3.3 per cent) were invalid, leaving 882,793 valid, 25,000 less than in the first round.

⁶ In the second round of the 1999 election, the late President Trajkovski, who was the VMRO-DPMNE candidate, probably received an even greater share of the ethnic Albanian vote but fewer ethnic Macedonian votes than his SDSM rival.

⁷ A presidential candidate must have resided in the country for at least ten of the fifteen years prior to election day. Another potential candidate, the DPA leader Arben Xhaferi, chose not to run because of questions on this point.

prepared to go down that road. His failure to mobilise support is a good indication that there is relatively little backing for extreme Macedonian nationalism.⁸

Following the first round, the DPA filed sixteen complaints and VMRO-DPMNE eleven (consolidated to eight by the SEC) concerning alleged irregularities at 113 of the 2,973 polling stations. The SEC rejected the complaints on various grounds. The OSCE/ODIHR Election Observation Mission criticised the SEC for not sufficiently explaining its reasoning and for not consulting all evidence in many cases but the Supreme Court upheld its decisions.⁹

On balance the assessment of the OSCE/ODIHR mission was positive, namely that the election was "generally consistent with OSCE election related commitments" though there had been "serious irregularities" in certain parts of the country. Although the campaign was conducted in a "calm and orderly manner", and the electoral procedure was proper and efficient, the OSCE/ODIHR cited proxy voting, ballot box stuffing and intimidation in some regions. The SEC response was that these were no worse than in previous elections;¹⁰ indeed, the 2004 poll was much cleaner than the 1999 presidential election (which was won by VMRO-DPMNE with assistance from the DPA). There is general agreement that the biggest problem was not organised fraud by parties but family voting, especially in the rural areas.

In any case, Crvenkovski's margin of over 220,000 votes was much greater than the potential impact of all the alleged irregularities combined. There is more cause for concern over the 50 per cent participation threshold, which was crossed by only 65,000 votes, but the final figure declared by the SEC is consistent with its reports of partial turnout during the day. It seems probable, therefore, that the result was fair.

⁸ After the election, Boskovski was stripped of his parliamentary immunity, and an arrest warrant was issued over his alleged role in the shooting of one Indian and six Pakistani illegal immigrants in March 2002. Boskovski later fled to Croatia.

⁹ "Statement of preliminary findings and conclusions by the OSCE/ODIHR Election Observation Mission on the second round of the presidential election in the Former Yugoslav Republic of Macedonia (28 April 2004)" Available at www.osce.org/odihr/index.php?page=elections&div=reports&country=mk.

¹⁰ ICG interview with the SEC chair, Stevo Pendaroski, July 2004.

There remain potential problems with the process. The government needs to address the concerns raised by the OSCE/ODIHR mission before the October 2004 local elections. It should also remove the potential landmine of the 50 per cent turnout requirement for the presidential election (as has recently been done in both Montenegro and Serbia).

The SEC operates out of a small room off a corridor of the parliament, with no permanent secretariat and no budget outside the immediate election period. Legislation to improve this situation was passed in July 2004 but has not yet been implemented. The international community should be ready to assist, both by funding the electoral administration if necessary and by lending credibility to the local elections through a strong observer mission.

Following Crvenkovski's election, Hari Kostov, who had been interior minister since 2002, became the new prime minister. He had successfully overseen police reform, including integration of ethnic Albanian recruits, though he was less successful in reducing the crime rate. He is not a party member but is generally regarded as closest to Crvenkovski's SDSM. There was no other major change in the government (apart from then appointment of Siljan Avramovski of the SDSM as Kostov's replacement in the interior ministry). The SDSM is expected to elect its new leader in September 2004.

III. NO SPILLOVER FROM KOSOVO

The crisis in Kosovo after the violence of 17-19 March 2004¹¹ and its possible influence on Macedonia's security situation is a matter of serious concern, given that the 2001 troubles were closely linked to the situation there. However, for the time being it seems that Macedonia has managed to avoid infection from the unsettled situation to the north. Coming as they did so soon after Trajkovski's death, the March events received much less attention in the Macedonian media than they would have otherwise. All political parties condemned the violence.

Any new Kosovo crisis, however, could threaten the consensus for peace in Macedonia by provoking new ethnic clashes. This would certainly reinforce DPA and other hard-line Albanian parties, as well as help

¹¹ See ICG Europe Report N°155, *Collapse in Kosovo*, 22 April 2004.

the hard-line wing in VMRO-DPMNE, and thus present a real threat to the Ohrid Agreement and stability of the state. However, the Kosovo factor should not be overestimated. Macedonia's policies are governed by two priorities: membership of the EU and of NATO. All parties, including the ethnic Albanian ones, risk being marginalised should they turn their back on these fundamental priorities. Albanians in Macedonia know that they are several years ahead of Albania itself on the path to European integration and far in advance of Kosovo.

There is a growing consensus among the political elite that delay in the decision on Kosovo's final status would be more detrimental to Macedonia's stability than the independence of that province but there is strong reluctance for the government to be directly involved in any future talks.¹² Meanwhile, the government has taken two important steps to decrease significantly any spillover from Kosovo. The first is to begin preparations for the long awaited demarcation of the Kosovo-Macedonia border. The second is the formal application for EU membership.

IV. DECISION TIME ON DECENTRALISATION LAWS

The distinguished economist Vladimir Gligorov (and also son of Macedonia's first president, Kiro Gligorov), once summed up the Balkan ethnic question in a pithy phrase: "Why should we be a minority in your state, when you can be a minority in our state?"¹³ The goal of the Ohrid Agreement is that both ethnic Albanians and Macedonians (and indeed the other groups who together make up 10 per cent of the population) should be able to regard the state as "theirs".

Initially, the agreement was opposed by a large majority of Macedonians and endorsed by a majority of Albanians but there appears to be growing support for it among the former and slightly decreasing support among the latter.¹⁴ While this dynamic strengthens

the agreement, coordinated moves for partition can be expected to resurface in the near future from radical politicians on both sides. Ethnic communities coexist in parallel rather than live together. Improved political and economic conditions are more likely to better interethnic relations than the other way around.

Ohrid stipulated a certain degree of devolution of power from the central state to municipalities.¹⁵ This had been a main Albanian demand, but as an important administrative reform in its own right, it is also considered a key element in the country's security framework and its EU prospects. Implementation of the laws on decentralisation, including the proposed Law on Territorial Organisation, is the major test for inter-ethnic relations. Quite literally, the process will either make or break Macedonia.

It is, however, also the most technically complex of the reforms mandated in the agreement. There are three main aspects: territorial division, the funding of municipalities, and the status of the capital. In December 2003 the government proposed a package of local government laws, the most important of which were on territorial organisation, financing of municipalities and self-government of Skopje. In February 2004 the package was passed at first reading by parliament. It proposes a considerable reduction in the number of municipalities, from 123 to 80, while enhancing their clout. The new municipalities are to have the power to take decisions in areas such as

Recica, Skopje, Gostivar and Struga in the spring of 2003. Published in *Kultura*, N°19/20, 30 April, 2004.

¹⁵ The relevant provisions are in Section 3 of the agreement, the second longest section of the main text (the longest is Section 6, on education and the use of languages): "3.1. A revised Law on Local Self-Government will be adopted that reinforces the powers of elected local officials and enlarges substantially their competencies in conformity with the Constitution (as amended in accordance with Annex A) and the European Charter on Local Self-Government, and reflecting the principle of subsidiarity in effect in the European Union. Enhanced competencies will relate principally to the areas of public services, urban and rural planning, environmental protection, local economic development, culture, local finances, education, social welfare, and health care. A law on financing of local self-government will be adopted to ensure an adequate system of financing to enable local governments to fulfil all of their responsibilities".

"3.2. Boundaries of municipalities will be revised within one year of the completion of a new census, which will be conducted under international supervision by the end of 2001. The revision of the municipal boundaries will be effectuated by the local and national authorities with international participation". The census was not conducted until late 2002, and the results were only published in December 2003.

12 ICG interviews with President Crvenkovski and Prime Minister Kostov, July 2004.

13 Vladimir Gligorov, "Is What is Left Right? (The Yugoslav Heritage)", in Janos Matyas Kovacs, ed., *Transition to Capitalism?* (New Brunswick, 1994), p. 158.

14 Based on field research by a team of Bulgarian anthropologists led by Antonina Zheljazkova in Tetovo, Mala

culture, primary and secondary education, health institutions, urban planning and local policing. Nine of them were to be within Skopje (with the possibility of adding Aracinovo as a tenth Skopje municipality). The capital is also to have an overall council. The average size of each municipality will be 28,000, with the largest (Kumanovo) 104,500 and the smallest 5,000.

The package also provides for a second official language in addition to Macedonian in areas where ethnic Albanians (or another minority) constitute more than 20 per cent of the population.¹⁶ In practice this means that Albanian would acquire official status in 25 of the 80 proposed municipalities (three in Skopje), Turkish in three municipalities, and Serbian and Roma in one each.¹⁷

The proposed legislation includes a law on fiscal decentralisation of the municipalities and introduces new rules for local government financing. The government plans to improve the financial capacity of municipalities by transferring 13 billion denar¹⁸ to local governments annually, in addition to the revenue they will raise locally (e.g. 100 per cent of income tax collected from craftsmen) and government grants for health care, education and culture. Local governments will also receive 1 per cent of Macedonia's VAT revenues and be able to claim and receive short-term and long-term loans

¹⁶ This is consistent with Sections 6.5 and 6.6 of the Ohrid Agreement:

"6.5. [...] Any person living in a unit of local self-government in which at least 20 per cent of the population speaks an official language other than Macedonian may use any official language to communicate with the regional office of the central government with responsibility for that municipality; such an office will reply in that language in addition to Macedonian [...]."

"6.6. With respect to local self-government, in municipalities where a community comprises at least 20 per cent of the population of the municipality, the language of that community will be used as an official language in addition to Macedonian. With respect to languages spoken by less than 20 per cent of the population of the municipality, the local authorities will decide democratically on their use in public bodies".

¹⁷ The census results are not universally accepted: opposition ethnic Albanian parties believe that the official figure of 25 per cent understates the ethnic Albanian minority; ethnic Macedonian nationalists believe that it is too high. However, the census has been accepted by all government coalition partners as the basis for negotiation, and the 25 per cent figure is consistent with other evidence from election results and school enrolments.

¹⁸ Roughly €10 million.

from both domestic and foreign banks, albeit under state supervision.¹⁹

More than 40 laws must be changed, an enormous task. However the crucial question of the new municipality boundaries must be decided by parliament before 7 August 2004 if elections are to go ahead as scheduled on 17 October. This is perhaps the most sensitive issue, because enlarging the existing municipalities by merging units will inevitably change the ethnic ratio, meaning most significantly that some Macedonian municipalities will become predominantly Albanian.²⁰

The three crucial points in the debate have been Skopje and the south western municipalities of Struga and Kicevo. The DUI insisted on enlarging the Skopje municipality by adding two mainly Albanian units, thus bringing ethnic Albanians over the 20 per cent threshold, enabling them to communicate with local institutions in the capital in their own language and giving the city bilingual status. The party also wanted to merge neighbouring majority Albanian municipalities with Struga and Kicevo, which have had local Macedonian majorities since the last round of local government reforms in 1996.

The SDSM and LDP, however, were unwilling, and negotiations stalled for more than a month. The prolonged stalemate revealed divisions within the ruling coalition to be much deeper than previously believed. Trust between the partners was jeopardised, and there was serious talk of early parliamentary elections.²¹ However, the Skopje-Struga-Kicevo problem was finally resolved on 14 July 2004.

According to the agreement, Skopje is to become 20 percent Albanian and bilingual by annexing the Saraj and Kondovo municipalities. The total of municipalities, as noted, is to be decreased from 123 to 80 and, by 2008, to 76. Struga will be enlarged by adding most of the surrounding municipalities, shifting it to an Albanian majority. Kicevo is to remain within the same boundaries, at least until 2008.²²

¹⁹ See also "Macedonian Government Approves Decentralisation Law Vital to EU Integration Chances", World Markets Research Centre (WMRC), Daily Analysis, 16 December 2003.

²⁰ The current boundaries themselves date only from 1996, when the old 34 municipalities dating from Yugoslav times were cut up into 123 new ones

²¹ ICG interview with LDP official, July 2004.

²² According to the 2002 census, Struga's population is 48 per cent Macedonian and 42 per cent Albanian; the government's

The agreement was formally adopted by the government, and parliament began its debate on 26 July. However, the opposition has put down numerous amendments to the proposed law on territorial organisation which may well make it difficult to meet the 7 August deadline.²³

While the DUI was delighted with the coalition compromise, its partners were less so. Tito Petkovski, a senior SDSM parliamentarian,²⁴ publicly opposed the agreement, accusing the party leadership of conducting secret negotiations that threatened national stability. Several LDP leaders walked out of a session of the party's executive, openly voicing their dissatisfaction. Nevertheless, both parties stressed at press conferences that they would support the agreement.

Public reaction was hostile even before the deal was finalised. Even before the government plan was officially announced, citizens voted against it in non-binding referendums organised by approximately 35 municipalities likely to be abolished under the new system. Once details were announced on 14 July, condemnation from opposition parties was swift. The leadership of VMRO-DPMNE accused the government of "treason" and betraying national interests, and called on citizens to join daily protests beginning 16 July in Skopje and several other municipalities. In the following days, protests were held in many bigger towns. Most notably, in Struga on 22 July a crowd gathered outside SDSM headquarters, trapping visiting Defence Minister Vlado Buckovski inside; seventeen people were injured when special police extracted him from the building. There was a much larger, more peaceful

proposal would make the expanded municipality 32 per cent Macedonian and 57 per cent Albanian. Kicevo is currently 54 per cent Macedonian and 31 per cent Albanian; the expanded municipality proposed by DUI but not adopted by the government would have been 32 per cent Macedonian and 59 per cent Albanian, according to figures on the government website.

²³ While Macedonian politicians have spoken of this deadline as a significant one, no great harm would necessarily result if local elections were postponed by a short period. There would be need, however, to pass legislation setting a new date for those elections. The real urgency is to resolve the dispute over the decentralisation legislation that, as has been explained, involves the last major component of the Ohrid Agreement yet to be implemented.

²⁴ Petkovski, a former speaker of parliament, was a losing candidate in the 1999 presidential election.

demonstration in Skopje on 26 July as the parliamentary debate began.²⁵

VMRO-DPMNE also declared that it would support the initiative of the World Macedonian Congress (WMC) for gathering 150,000 signatures by 25 August in order to organise a binding national referendum on municipality boundaries. Other opposition parties publicly supported this initiative, including The Third Way²⁶ and the new VMRO-People's Party founded by supporters of former Prime Minister Georgievski. According to Georgievski, "the agreement on territorial boundaries is a new form of ethnically cleansing the Macedonians from Western Macedonia". Former government supporter and parliamentarian Trifun Kostovski expressed concern that the government's proposals would promote a bi-national state rather than a multiethnic society and, inconsistent with Ohrid, apply a territorial principle for solving ethnic issues.²⁷ Despite the general assessment that the package involves concessions to the ethnic minorities, DPA leader Arben Xhaferi claimed simply that, "Albanians gain nothing from this agreement".

The government must make up a lot of ground if it is to rebuild public confidence. Making the process of redrawing municipal boundaries a matter for internal government negotiation rather than involving local or international experts politicised the issue more than necessary and gave a general impression of non-transparency and arrogance. The only actors who have influenced events have been the three coalition parties, and even they have been subject to criticism from their own members during the process. Opposition parties and those municipalities that held referenda that supported their existing boundaries reasonably feel ignored, and the new territorial organisation will start life with a legitimacy deficit.

Some critics also fear that the new boundaries are a concession to ethnic partition and would violate the Ohrid Agreement's declaration that "[t]here are no territorial solutions to ethnic issues".²⁸ This is difficult

²⁵ The organisers put participation at 50,000, the police and government at around 8,000. Most newspapers estimated some 20,000.

²⁶ The Third Way is comprised of the Socialist Party, with one parliamentarian, and the Democratic Alternative and Democratic Alliance, which are led by former ministers but not represented in the parliament.

²⁷ Trifun Kostovski is a member of the ICG Board.

²⁸ Ohrid Agreement, Section 1.2: "Macedonia's sovereignty and territorial integrity, and the unitary character of the State

to substantiate. Over half the current 123 municipalities have local ethnic majorities of over 90 per cent.²⁹ Under the government proposals, only 30 of the 80 new municipalities would have that degree of homogeneity.³⁰ While under the new boundaries, 92 per cent of ethnic Macedonians and 77 per cent of ethnic Albanians would live in municipalities where they formed a local majority, this is not a very big change from the present figures of 91 per cent and 70 per cent, respectively.

Administrative boundaries are ultimately determined by political considerations in most countries, and this is true both of the current proposal and of the 1996 boundaries that it is to replace.³¹ All that is being proposed is that the local mayor may be of a different ethnicity, or that fellow citizens may be able to address government agencies in their own language. Of course, these issues tap into deep insecurities among Macedonians, who still fear their country could be divided by some secret deal.³²

The government has left the door open for further amendments. Defense Minister Buckovski has suggested a mirror image alternative on the Skopje-Struga-Kicevo issue: Skopje and Struga could remain within the same boundaries while Kicevo would become predominantly Albanian by virtue of including Drugovo, Oslomej and Vranesnica.³³ In any case, the final agreement must be approved by parliament, and other changes are also possible during its deliberation, though the government parties have a comfortable majority.³⁴ This also casts doubt over

whether the deadline for local elections will be met. A referendum, if called, would further delay the process.

The situation is additionally complicated by the problems within the ruling coalition. The tensions over decentralisation that threatened to split it will not be easy to overcome. Any disagreement when finalising the decentralisation package is likely to trigger another political crisis. All this makes for an extremely volatile and unstable political situation as parliament prepares to thrash out the final details of that package.

V. UNEMPLOYMENT AND THE RULE OF LAW

Once the decentralisation issue has been resolved, the government must tackle the economy and employment. Since its election in 2002, it has put little effort into economic reform, preferring to name and shame those involved in illegal privatisation deals brokered by the previous government. In the absence of other action, the result has been to reinforce the country's reputation for corruption and further discourage foreign investors.³⁵

Overall, the economy has shown steady growth since 1996 (with the exception of 2001 when output fell by 4.5 per cent due to the conflict).³⁶ It accelerated by 3 per cent in 2003, with 4 per cent GDP growth predicted for 2004.³⁷ But a very large portion of the working age population is unemployed or engaged in low productivity or occasional work; this is of great concern to both the government and the international economic institutions. The government has declared reducing unemployment one of its main priorities, and the World Bank's Country Economic Memorandum in September 2003 was dedicated to this problem.³⁸

are inviolable and must be preserved. There are no territorial solutions to ethnic issues".

²⁹ According to the census results, 48 are more than 90 per cent Macedonian, 16 more than 90 per cent Albanian, and one, Plasnica, is 97 per cent Turkish. Although the list includes Kisela Voda, the largest sub-municipality of Skopje, most of these are fairly small rural units; they total only 37 per cent of the state's population.

³⁰ 26 Macedonian municipalities, three Albanian and one Turkish (Plasnica); their population would be 32 per cent of the state as a whole.

³¹ Indeed, both the 1996 boundaries and the 2004 proposals look at least as natural as, for example, those of many Belgian communes or U.S. congressional districts.

³² In this respect, it would be very helpful if the international community were able to find a solution to the problem of the country's name. See ICG Balkans Report N°122, *Macedonia's Name: Why the Dispute Matters and How to Resolve It*, 10 December 2001.

³³ DUI leader Ali Ahmeti comes from Kicevo.

³⁴ For the legislation to pass, a majority must include at least 41 votes in favour, including more than half the votes cast by

parliamentarians not of Macedonian ethnicity. The government has 75 of 120 seats, including 16 of the 27 held by non-Macedonians, so it should not be difficult to get the legislation through if the political will is there.

³⁵ Corruption has always been significant in Macedonia, as in other transition countries; it became a huge problem under the 1998-2002 government. See ICG Balkans Report N°133, *Macedonia's Public Secret: How Corruption Drags The Country Down*, 14 August 2002.

³⁶ National Bank of Macedonia, State Statistical Office and Ministry of Finance.

³⁷ Ibid.

³⁸ "FYR Macedonia, Country Economic Memorandum: Tackling Unemployment", World Bank Report N°26681-MK.

According to the State Statistical Office, the unemployment rate for 2002 was 31.9 per cent, of which 84.5 per cent were long-term unemployed. The former rose to 36.7 per cent in 2003.³⁹ Moreover, over 70 per cent of those under 25 are said to be without jobs.

Although analysts believe that the extensive grey economy means actual unemployment is substantially lower than official data suggests,⁴⁰ the government nevertheless remains under pressure to fulfil its campaign pledge to reduce unemployment. It recently adopted a national action plan to boost employment by 3 per cent in 2004, although it remains unclear what precise measures are intended.

High unemployment is a legacy of the socialist era, and most of those without jobs are primarily young and poorly educated. Unpaid work on family farms, petty trade and other forms of casual labour have gradually compounded the problem. According to the World Bank, the government must create a supportive climate for foreign investment and accelerate free trade if it is to fight unemployment effectively. This approach is perfectly consistent with the development of strategic, medium-term goals within Macedonia's EU integration strategy. But it will not alleviate matters much in the short term.

The economy is simply not strong enough to relieve unemployment solely on the basis of jobs created by the domestic private sector and moderate GDP growth. Only committed European assistance that addresses industrial decline and rural underdevelopment can alleviate the serious problems plaguing society. Allowing Macedonians -- particularly students and young professionals -- to move more freely within the Schengen area would lend credibility to the EU's rhetorical commitments to Macedonia. Providing opportunities for seasonal work could also alleviate pressure on the domestic labour market, especially among the middle-aged unskilled labour force.

Economic restructuring affects the ethnic Albanian and Macedonian communities differently. Having been primarily employed in the state administration and publicly owned enterprises until now, ethnic Macedonians increasingly find themselves without jobs. Strengthening the private sector would diminish

the attraction of state sector jobs, which are a major source of interethnic competition and tension. Ethnic Albanians, who have been largely excluded from the state economy, have more of a tradition of relying on private enterprise and transfers from emigrants. The challenge is to integrate the grey sector into the economic mainstream.

Essential to the climate for economic growth is the credibility of the rule of law, for both Macedonians and foreign investors. In a nation-wide survey, respondents split evenly on whether or not "people are equal before the law" (47 per cent believed they were, 45 per cent not). Respondents with better education or higher income, or who were young, were more willing to believe in equality before the law; the less well-educated and particularly the unemployed were more sceptical; 85 per cent said "there are people above the law in Macedonia".⁴¹ Many Macedonians do not believe in the ability of state institutions to enforce the rule of law: 83 per cent responded that "many people get away with illegal acts these days" although 65 per cent believed in the abstract that "in the end, people cannot escape penalty for their bad deeds".

Since December 2003, the EU has had a police assistance mission in Macedonia which is intended to address this problem, at least as regards local police efficiency. It is too early to assess results fully, but the crime rate appears to have been unaffected either by the EU's aid or the efforts of former Interior Minister Kostov before he became prime minister.

VI. THE CRISIS OF REPRESENTATION

Macedonia is a typical Balkan country in terms of there being very little public trust in representative institutions. In the above survey, only 9 to 11 per cent of respondents said they valued the role of parliament, government or president, while 50 to 55 per cent thought them unsatisfactory (Appendix 2).

³⁹ Labor Force Surveys, State Statistical Office.

⁴⁰ "Macedonia economy: The population's deprivation", Economist Intelligence Unit, Views Wire, 26 April 2004.

⁴¹ The survey was conducted by BRIMA (the local branch of BBSS Gallup International) in November 2003. The respondents were asked if they believed certain groups of people were above the law. Politicians were so identified by 87 per cent, "people with the right connections" by 86 per cent; the rich by 85 per cent; criminals by 66 per cent; and the police by 50 per cent.

Ethnic Albanians are even less inclined to evaluate state institutions positively.

The most serious risk of instability in the political system at present, however, stems from the weakness of the political parties as institutions. All four major parties (two Macedonian and two Albanian) are currently threatened by internal instability.⁴²

For at least the next two years the president will be the country's most powerful figure, subject only to weak parliamentary control.⁴³ Under the constitution, the president's formal role is very limited. But Crvenkovski's power derives not only from his constitutional prerogatives but also from the fact that he was the leader of the main governing party for twelve years and served two and a half terms as prime minister. Furthermore, he has strong influence over his successor as prime minister, who has no independent political base.

Prime Minister Kostov, as noted, belongs to no party. The leadership of Crvenkovski's SDSM will remain vacant until after the local elections. The weakness of the opposition will encourage factionalism within the SDSM, especially with several months of leadership vacuum. Already, some senior figures such as Tito Petkovski have been staking out territory by opposing the decentralisation legislation.

The local elections will be another test of the strength of the two major ethnic Albanian parties, DUI and DPA. During the presidential election, the DPA campaigned on an ethnically exclusive agenda, describing the Ohrid Agreement as a failure and calling on its supporters to boycott the second round. Albanian voters rejected its agenda by almost two to one in the first round, and appear to have participated in the second round in almost the same numbers as the first. For many, the DPA is still

tainted by its association with corruption in the 1998-2002 government.

The DUI, in contrast, brought in a moderate candidate, tempered its political rhetoric and reaped the electoral benefit in the first round of the presidential election. However, this was a limited victory since it finished third rather than fourth in an election with only one winner. It appears to depend on a few key personalities -- former insurgency leader Ali Ahmeti, Transport Minister Agron Buxhaku and parliamentary foreign affairs committee chair Teuta Arifi -- and lacks a good structure on the ground. If so, the real challenge for it in the local elections will not be to get more votes than the DPA -- that appears certain, especially if the local government reforms go through -- but to find enough candidates to fill the positions available.

The opposition VMRO-DPMNE is the first major party to have changed its leadership. After losing the parliamentary elections in 2002, former Prime Minister Georgievski turned the party presidency over to the young former Finance Minister Nikola Gruevski. A power struggle between the two began almost immediately, culminating in Gruevski's victory in the choice of candidate for the presidential election, the relative newcomer KedeV. Georgievski continued to try to regain control, to the point of inciting violence at party meetings against those who sided with the new leadership. Gruevski, whose instinct is to move VMRO-DPMNE back to the political centre and avoid flirtation with extremism, appears to have gained control, for now, of most elements of the party structure. VMRO-DPMNE has suffered splits before -- seven, by one count -- but this is the first time that a figure of Georgievski's stature has challenged the leadership.

On 4 July 2004, a large group of his supporters set up the new VMRO-People's Party (VMRO-PP). Vesna Janevska, a doctor, has been appointed its vice president until a congress can elect a president. Georgievski himself did not join. The program and statute of the new party have no essential differences from VMRO-DPMNE's except that VMRO-PP allows its members to remain members of the older party.

Establishment of VMRO-PP has been generally interpreted as an effort by Georgievski to undermine Gruevski's leadership of VMRO-DPMNE. A majority of the latter's parliamentary group consists of VMRO-PP supporters. VMRO-DPMNE now faces uncertainty over the local elections. It is not clear if VMRO-PP will run a separate ticket; if it

⁴² Macedonia also has a number of smaller political parties, most of which are effectively fan clubs for their leaders (the Socialist Party, the Democratic Alternative, the Democratic Centre and the smaller Albanian parties -- the New Democratic Party and the Party of Democratic Prosperity) or satellites of SDSM and VMRO-DPMNE (respectively the Liberal Democratic Party and the Liberal Party).

⁴³ This is without precedent in Macedonia since independence. Former president Gligorov, who led the country from the collapse of Yugoslavia until 1999, was 73 when elected in 1991 and did not take a strong role in day-to-day government. The late Boris Trajkovski was generally perceived to be under the control of the then prime minister, Ljubco Georgievski, at the start of his term, but their relations deteriorated, and their party was voted out of office in 2002.

does, Georgievski retains a certain charisma that could result in a strong showing. The decentralisation process may give the opposition parties incentive to take radical positions, which could increase tensions in local VMRO-DPMNE structures, though so far Gruevski has managed to keep Georgievski away from the protests against the legislation.

Party reform is the missing element in consolidation of Macedonia's democratic political system. Most donors are relatively uninterested in political parties as opposed to institutional or policy reforms -- political parties are often perceived as a necessary evil instead of a major instrument for democratic change. Generational change is much more difficult when party leaders are so young (Crvenkovski was born in 1962, Georgievski in 1966, Gruevski in 1970).⁴⁴ While the situation is hardly one that is unique to the country, the lack of democratic accountability within Macedonian parties, exacerbated by the power given to the presidents by internal statutes, means that they have become mere political machines that build loyalty through providing public jobs to their followers.⁴⁵ The fact that leadership change is associated with violence and instability encourages politicians to build up their own security resources by organising private small armies.

Ohrid implementation is an important goal but it should not be the only one for the international community. Increasing the capacity of government institutions is only part of a wider picture. As well as bureaucracy-building, donors should look at constituency-building. Only active and constructive constituencies represented by adequate political parties can become genuine democracy agents.

There is now a chance. The leadership of VMRO-DPMNE and the new leadership of SDSM, will have to prove themselves on their own merits, rather than rely on charisma or past achievements as Georgievski and Crvenkovski were able to do. But European governments and institutions have tended to leave the development of political parties to others (not just in Macedonia), rather than assign this serious priority.⁴⁶

⁴⁴ In fact, Macedonian political party leadership has reflected the least change of any former Yugoslav republic.

⁴⁵ For example, the statute of VMRO-DPMNE allows the party president to "terminate the enacting of decisions and other acts of the Executive Committee and of other bodies and entities within the Party" (Article 22).

⁴⁶ The U.S. Agency for International Development does have a political party assistance program in Macedonia, carried

VII. THE EU PROSPECTIVE

Macedonia's announcement in 2003 that it would submit its application for EU membership was met with a distinct lack of enthusiasm from member states and institutions. Once it became clear that the Macedonians were determined to press ahead, however, the EU came round to a weary acceptance, and the Irish presidency prepared to receive the formal application from then Prime Minister Crvenkovski on 26 February 2004. However, just as the event was scheduled to begin, news reached Dublin of President Trajkovski's fatal plane crash, and the ceremony was postponed to 22 March.

Senior EU representatives said they welcomed the application. High Representative for the Common Foreign and Security Policy (CFSP) Javier Solana described it as "as a signal of remarkable achievement as well as a sign of hope for the whole region". The Special Coordinator of the Stability Pact, Erhard Busek, called it another indication of the determination of the countries of the region to integrate into Europe. President of the European Parliament Pat Cox (who appeared to have been favourably impressed by a visit to Skopje in October 2003) commented that "the country's goal of membership and path to Europe is a vision which is shared by the European Parliament".

On 17 May 2004, the EU Council of Ministers asked the European Commission to prepare an opinion (the so called *avis*) on the application. In the case of Croatia it took the Commission almost a year to complete this but it is expected that the process for Macedonia will take somewhat longer. Foreign Minister Ilinka Mitreva described the decision as "recognition of the progress made so far, as well as an impetus for future hard work".

The Macedonian authorities will be asked to complete a comprehensive questionnaire that European Commission President Romano Prodi will present in Skopje in September 2004. It will include more than 3000 questions on a wide range of issues relating to the political system, economy, legislation, administration

out by the National Republican Institute, but it is rather a small element of its overall democracy and local governance strategy. European donors have done very little; three of the German political party foundations have offices in Skopje but these are much more concerned with policy development than with internal party democratisation.

and social affairs. To respond will require significant extra resources in a public administration that is already weakened by the consequences of the general politicisation of state structures and the burdens of implementing the Ohrid Agreement.

The EU *avis* will be structured around the so-called Copenhagen criteria, established in 1993 to assess the capacity of the former Communist countries of Central and Eastern Europe for EU membership.⁴⁷ On the basis of a positive *avis*, Macedonia could be granted candidate status in late 2005, even if the launch of negotiations proper might take more time. Allowing Macedonia to take the next step would detach the country from the complex issues of the state union of Serbia and Montenegro and Kosovo's future status. It would also have a positive demonstration effect on the other countries of the Western Balkans, as has the Croatia *avis*. Practically, it would mean an enhanced level of access to EU funds and publication of annual Progress Reports, rather than the current Stabilisation and Association Reports, by the European Commission. If the local government reforms are passed, there would appear to be no doubt about Macedonia's fitness to meet the Copenhagen political criteria; indeed, in a sense the EU should be prepared to recognise institutionally its own considerable political investment in the Ohrid process as well as the country's achievement in pulling back from the brink of civil war in 2001.

Nevertheless, Macedonia is still a weak state threatened by the low capacity of its institutions and the low trust of its citizens in those institutions. Its policy process is controlled by powerful special interests, and the non-democratic nature of its political parties is at the centre of the crisis of

political representation. Negotiations with the EU will create incentives for a professional civil service, so it can be expected that, as in other transition countries, key sectors of the state administration will improve their performance.

Whereas the outcome of the *avis* process will depend almost entirely on domestic developments, external factors will influence the EU timetable. At least three questions remain open. First, whether the Western Balkan countries will join the EU individually or in groups; secondly, whether the EU will commit itself to enlargement in the framework of its next major budget exercise (the financial perspectives for 2007-2013); thirdly, whether the EU's new constitution will be ratified and come into force.

The EU's 2003 Thessaloniki declaration on the Western Balkans has been seen as a signal that there will be no group enlargement for the five states⁴⁸ and that each will be considered on its own merits. However, the most recent enlargement was launched in 1993 on the same basis but the final outcome was membership in groups. Integrating the Western Balkan countries into the EU one by one might create problems rather than deliver solutions for the region as a whole. A lesson learned from the recent enlargement was that the individual approach has its limits. Nevertheless, it seems unlikely that all five Western Balkan countries will enter the EU together.⁴⁹ Macedonia can hope to benefit from Croatia's success and perhaps come in with it; alternatively there is a danger of it being grouped with the countries that have not yet applied for membership.

An important signal will be sent by the EU's next six-year budget cycle, 2007-2013. When the 2000-2006 budget was drawn up, there was a clear commitment to Central European enlargement both in terms of pre-accession aid and membership costs.⁵⁰ The forthcoming budget, therefore, needs to contain a clear commitment to enlargement with the Western Balkans countries. Provision only for Croatia's accession would imply a closed door for further new members until 2014 at least. The

⁴⁷ The three Copenhagen criteria are: i) stability of institutions guaranteeing democracy, the rule of law, human rights and respect for and protection of minorities; ii) a functioning market economy as well as the capacity to cope with competitive pressure and market forces within the [European] Union; and iii) ability to take on the obligations of membership including adherence to the aims of political, economic and monetary union. For a fuller discussion, see ICG Balkans Briefing, *Thessaloniki and After I: The EU's Balkan Agenda*, 20 June 2003. In 1997 the Luxembourg European Council granted all applicant countries candidate status (regardless of shortcomings with regard to the political criteria in Slovakia and Turkey) but started negotiations only with those that were considered to be functioning market economies; after a change of government in Slovakia, negotiations began with all, apart from Turkey, in 1999. Eight of the former Communist countries joined in May 2004. The remaining two, Romania and Bulgaria, are due to join in 2007.

⁴⁸ Albania, Bosnia-Herzegovina, Croatia, Macedonia and Serbia and Montenegro.

⁴⁹ If, that is, the number remains only five; it seems more likely that Montenegro and Serbia will follow separate paths toward the EU, and the ultimate status of Kosovo has not yet been determined.

⁵⁰ Admittedly this was inaccurate; the framers of the budget in 1999 expected six countries to join in 2002, not ten in 2004.

European Commission is planning to propose a single budget line for the Western Balkans and the remaining accession countries (Romania, Bulgaria and Turkey), which would be helpful; however the money involved has not yet been finalised.

Last but not least, any accession to the EU beyond that of Romania and Bulgaria, for which the 2000 Nice Treaty provided the necessary institutional adjustments, depends upon the fate of the newly adopted Constitutional Treaty. If ratified by all member states, it will come into force in late 2006 or early 2007 and open the way for further enlargements. Otherwise, there will be serious consequences for the prospects of fitting new members into the EU's institutional structures as well as for the future of the EU as a whole.

democratic development, including political party reform. It is help that the international community should be glad to give.

Skopje/Brussels, 3 August 2004

VIII. CONCLUSION

Macedonia has come a long way since 2001. It survived the double shock earlier in 2004 of the death of President Trajkovski and the violence in Kosovo. It now faces the short-term challenge of settling the decentralisation and territorial reorganisation issue and the medium-term problems of the economy and political party reform. Its long-term perspective lies in European integration.

Decentralisation is the last step in settling the legacy of the 2001. If this can be dealt with properly, the state will have consolidated itself and will be better able to withstand future shocks -- in particular, any fallout from the process of resolving Kosovo's final status.

On the whole, Macedonia has been a success story for the international community. Early diplomatic engagement by the EU, the U.S., and NATO in the 2001 crisis was crucial to defusing the ethnic Albanian insurgency before it could spiral into a wider conflict. NATO was able to deploy to help keep the peace at various moments in that year. The country has since seen the EU's first ever military deployment and a sequence of effective EU Special Representatives.

To maintain the momentum, Macedonia will need more from its friends, including specialist assistance for the municipal elections later in 2004 such as funding for administrative structures and a strong observer mission, and further aid for economic and

APPENDIX A

ABOUT THE INTERNATIONAL CRISIS GROUP

The International Crisis Group (ICG) is an independent, non-profit, multinational organisation, with over 100 staff members on five continents, working through field-based analysis and high-level advocacy to prevent and resolve deadly conflict.

ICG's approach is grounded in field research. Teams of political analysts are located within or close by countries at risk of outbreak, escalation or recurrence of violent conflict. Based on information and assessments from the field, ICG produces regular analytical reports containing practical recommendations targeted at key international decision-takers. ICG also publishes *CrisisWatch*, a 12-page monthly bulletin, providing a succinct regular update on the state of play in all the most significant situations of conflict or potential conflict around the world.

ICG's reports and briefing papers are distributed widely by email and printed copy to officials in foreign ministries and international organisations and made generally available at the same time via the organisation's Internet site, www.icg.org. ICG works closely with governments and those who influence them, including the media, to highlight its crisis analyses and to generate support for its policy prescriptions.

The ICG Board – which includes prominent figures from the fields of politics, diplomacy, business and the media – is directly involved in helping to bring ICG reports and recommendations to the attention of senior policy-makers around the world. ICG is chaired by former Finnish President Martti Ahtisaari; and its President and Chief Executive since January 2000 has been former Australian Foreign Minister Gareth Evans.

ICG's international headquarters are in Brussels, with advocacy offices in Washington DC, New York, London and Moscow. The organisation currently operates nineteen field offices (in Amman, Belgrade, Bogotá, Cairo, Dakar, Dushanbe, Islamabad, Jakarta, Kabul, Nairobi, Osh, , Port-au-Prince, Pretoria, Pristina, Quito, Sarajevo, Seoul, Skopje and Tbilisi) with analysts working in over 40 crisis-affected countries and territories across four continents. In Africa, those countries include Angola, Burundi, Côte d'Ivoire, Democratic Republic of the Congo, Eritrea, Ethiopia, Guinea, Liberia, Rwanda, Sierra Leone,

Somalia, Sudan, Uganda and Zimbabwe; in Asia, Afghanistan, Kashmir, Kazakhstan, Kyrgyzstan, Indonesia, Myanmar/Burma, Nepal, Pakistan, Tajikistan, Turkmenistan and Uzbekistan; in Europe, Albania, Armenia, Azerbaijan, Bosnia and Herzegovina, Georgia, Kosovo, Macedonia, Moldova, Montenegro and Serbia; in the Middle East, the whole region from North Africa to Iran; and in Latin America, Colombia and the Andean region.

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August 2004

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