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Integrated Country Strategy

Macedonia

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1. Chief of Mission Priorities

Ever since Macedonia's independence from Yugoslavia in 1991, the United States has supported Macedonia's goal to be a prosperous, stable, and inclusive multi-ethnic democracy. We see Macedonia's future firmly embedded in the West and in Euro-Atlantic institutions, including NATO and the European Union, and we share this strategic vision with Macedonia's leaders and citizens across all ethnic and political divides. We see Macedonia as a steadfast partner for the United States, working with us to promote democracy and the rule of law, economic prosperity, and regional security.

Over the past 25 years, the country has faced significant challenges to fulfilling this vision. These include: economic dislocation and war among neighboring countries in the 1990s; a 27-year dispute with Greece over its name, which blocked entry into NATO and the EU; an armed inter-ethnic conflict in 2001; and, recently, a two-year political crisis fueled by corruption, weak democratic governance, and poor rule of law. The United States, along with our European allies, has helped Macedonia's leaders and people respond to each crisis and maintain their strategic orientation. Now Macedonia has a historic opportunity. The country has emerged from its political crisis with a new commitment to enhancing democratic governance, rule of law, and free media. Citizens are demanding accountability and transparency from their government and their representatives. Parliament has passed new legislation and reforms to address key democratic shortcomings. As the government implements these reforms, political behaviors and norms are slowly changing.

The United States, the EU, NATO, and our allies recognize the next period as critical to Macedonia's future as a prosperous Western democracy. This month, Macedonia signed an agreement with Greece to resolve the name dispute, which deals with sensitive issues and faces opposition in both countries. This agreement is a potential game-changer for Macedonia and the region, as it opens the door for the country to join NATO and open EU accession talks as early as 2019. Mission Skopje will seize this opportunity by focusing on three priorities.

Integration in NATO and the EU: We will work with Macedonia and our allies to lock in its membership in NATO and to launch EU accession negotiations. In the short term, this will require sustained diplomatic engagement to facilitate implementation of the name agreement with Greece and build resilience against malign influence, particularly from Russia, that seeks to undermine Macedonia's NATO aspirations. Seventy-five percent of Macedonia's citizens and all major political parties support its Euro-Atlantic future, a factor that sustains the political will to move forward. We will also work with Macedonia's defense institutions so that it can be a stronger ally. This includes implementation of its 2018 Strategic Defense Review, spending increases that meet NATO's two-percent target, and sustained contributions to Alliance missions such as Resolute Support. Likewise, we will boost Macedonia's capacity to combat terrorism and transnational organized crime, prevent radicalization to violence, especially among vulnerable youth, and secure its borders – all while fostering cooperation with its neighbors.

Strong democracy and rule of law: We will help Macedonia strengthen its commitment to democracy, the rule of law, equality, and individual liberties – the fundamental values of Western alliances and institutions. Macedonia’s recent political crisis revealed significant deterioration of rule of law, transparency, media independence, and other elements of democratic governance, which eroded citizens’ trust in its public institutions. The new government has shown a strong commitment to reforms and achieved some initial successes in addressing weaknesses identified by the EU, the United States, and others. It inherited a public administration hobbled by cronyism and politicization, which discouraged professionalism among public servants; it will take many years to overcome entrenched norms and translate new laws or regulations into daily practice. U.S. assistance, in coordination with that of other donors, will focus on strengthening rule of law institutions, combating corruption, encouraging civic participation in accountable and transparent government, and promoting media independence. At the same time, we will continue to help build cohesion among Macedonia’s youth who still live predominantly in communities divided along ethnic lines and with low levels of trust.

Increased Prosperity: Macedonia will need increased economic growth to raise living standards, become a more attractive partner for U.S. businesses, sustain its bid for EU membership, and most importantly, keep its talented young people from emigrating. In recent years, Macedonia enjoyed respectable growth rates, though often fueled by growing public spending and debt. A stable currency, low inflation, and favorable borrowing rates signaled strong macro-economic fundamentals, while favorable incentives and regulations attracted foreign investors, including several U.S. companies, into free-trade zones. Business outside these zones remained hampered by burdensome regulations, punitive inspections, inadequate infrastructure, and ambition-sapping cronyism. Falling unemployment rates masked a shortage of skills needed by business, bloated public sector hiring, and large-scale emigration of young talent to other European countries. The political crisis finally took its toll on the economy in 2017, as domestic and foreign investment stalled and the GDP registered zero percent growth. Mission Skopje will assist efforts to increase economic growth through programs improving the business climate and regulatory transparency, increasing competitiveness of small businesses, diversifying the energy sector, and fostering entrepreneurship. In conjunction with the American Chamber of Commerce, we will also work with U.S. businesses to open markets, support their bids on public tenders, enforce intellectual property rights, and advocate for sound, transparent policymaking.

In addressing these priorities, Mission Macedonia will work with the government, civil society, businesses, and like-minded partners to mitigate risks, including failure to fulfill the treaty with Greece and enter NATO, malign influence from Russia, threats from ISIS-related terrorists, weak institutions and democratic backsliding, a culture of nepotism and corruption, and slow economic growth. We do so from an advantageous position. A declaration of strategic partnership, signed in 2008, provides a solid basis for bilateral relations. Public trust of the United States remains high. Our large diplomatic presence, secure facilities, flexible assistance

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programs, and experienced staff give us significant opportunities in multiple sectors and across Macedonia's society. Shared objectives and close working relationships with European allies boost our impact. We intend to build on these strengths and invest resources and political capital in the relationship. In so doing, we will enhance U.S. security and prosperity by strengthening our Western, values-based international alliances and institutions.

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2. Mission Strategic Framework

Mission Goal 1: A resilient, stable Macedonia that embraces an inclusive democracy, citizen-responsive governance, and rule of law, able to withstand malign influences.

Mission Objective 1.1: Macedonia effectively fights corruption through professional, trusted, and accountable rule of law institutions.

Mission Objective 1.2: Macedonia develops a more robust citizen-responsive government with strong democratic institutions.

Mission Goal 2: Macedonia, fully integrated into a strong and free Europe, is able to partner with the U.S. and its neighbors on transnational issues.

Mission Objective 2.1: Macedonia is a reliable partner on U.S. foreign policy objectives.

Mission Objective 2.2: Macedonia investigates and combats terrorism, and prevents the spread of violent extremism.

Mission Objective 2.3: Macedonia provides for its own security and contributes to U.S., NATO, and U.N. led international operations.

Mission Objective 2.4: Macedonia effectively combats transnational crime and secures its borders.

Mission Goal 3: Macedonia builds a strong and diversified economy, becoming more self-reliant and a more valuable economic partner for the United States.

Mission Objective 3.1: Macedonia's business climate and economic policies promote private sector growth and entrepreneurship, attract foreign investors and create jobs.

Mission Objective 3.2: Macedonia's energy sector is diversified and strong.

Mission Objective 3.3: The value of U.S. products and services exported to Macedonia increases.

Management Objective 1: Capacity of the management platform aligns with Mission growth.

Management Objective 2: Staff capabilities are increased, improving productivity and job satisfaction.

Management Objective 3: Improved life, safety, and environmental factors reduce risks for mission staff.

3. Mission Goals and Objectives

Mission Goal 1: A resilient, stable Macedonia that embraces an inclusive democracy, citizen-responsive governance, and rule of law, able to withstand malign influences.

Description and Linkages: Macedonia's democratic backsliding under the previous government drew consistent public criticism from the United States, NATO, and the EU. In 2017, the new government publicly committed to implementing reforms to enhance democratic governance, the rule of law, and a free media, and it has achieved some success. On April 17, 2018, the European Commission recommended the European Council open accession negotiations with Macedonia based on the progress achieved and sustained momentum on reforms. Despite these developments, much work remains to be done and having inherited a bureaucracy hobbled by debt, cronyism and lack of expertise, the challenges are considerable. Absent reforms under the new government, Macedonia remains vulnerable to interethnic tension, the spread of violent extremism, and outside malign influence. U.S. leadership has encouraged the progress Macedonia has made in reestablishing democratic norms and advocating for the rule of law. It is imperative that the U.S. remain engaged in these efforts. This goal supports the EUR Joint Regional Strategy Framework Goal 4: Preserve Western Democratic Principles, EUR Joint Regional Strategy Framework Goal 3: Preserve Western Democratic Principles, and the State-USAID Joint Strategic Goal 3: Promote American Leadership through Balanced Engagement.

Mission Objective 1.1: Macedonia effectively fights corruption through professional, trusted, and accountable rule of law institutions.

Justification: While Macedonia has improved bilateral relations with neighboring countries to unblock Euro-Atlantic integration, weak rule of law institutions lack capacity to deliver required reforms. Helping Macedonia to develop an effective and transparent justice sector will reduce corruption and impunity, and will restore citizens' trust in rule of law institutions. The Mission will advise, assist, and deliver projects to augment the separation of powers with functional checks and balances, to strengthen and build an effective criminal justice system, and to fight against public corruption. Failure to build a strong judiciary and anti-corruption institutions will increase Macedonia's susceptibility to malign influences while decreasing citizens' support to the pro-Western Macedonian government's Euro-Atlantic aspirations.

Mission Objective 1.2: Macedonia develops a more robust citizen-responsive government with strong democratic institutions.

Justification: After an extended period of democratic backsliding under the previous government, Macedonia now has an opportunity to rebuild its democratic institutions and makes them more resilient. The Mission will encourage and assist Macedonia to put citizens at the center of their government. Our efforts will help Macedonia institutionalize transparent government practices, increase citizen involvement and oversight of government, and promote a rigorous and independent media that can serve as a true watchdog. By strengthening democratic institutions, we fully embed Macedonia in Euro-Atlantic values and institutions and make Macedonia less vulnerable to interethnic tension, violent extremism, and outside malign influence.

Mission Goal 2: Macedonia, fully integrated into a strong and free Europe, is able to partner with the U.S. and its neighbors on transnational issues.

Description and Linkages: For the 25 years of our strong relationship with Macedonia, our goal has been to anchor Macedonia in Euro-Atlantic institutions as a capable partner in addressing regional and global issues. A 25-year dispute with Greece over the name of the country has blocked Macedonia's progress towards membership in NATO and the EU. In late 2017, both countries renewed negotiations to resolve the dispute. Progress is tentative, but the will is high. Macedonia has a unique opportunity, but the trajectory is fragile, and U.S. engagement and support are critical. Macedonia has been a steadfast contributor to international operations since 2002, sending more than 3,000 soldiers to Operation Iraqi Freedom and Operation Enduring Freedom/ISAF, and Resolute Support Mission. Macedonia also cooperates with U.S. CT efforts and is a committed partner in the Global Coalition to Counter the Islamic State of Iraq and the Levant. However, Macedonia remains vulnerable to the spread of violent extremism and malign external influence. U.S. assistance helps neutralize current and emerging threats and supports the professionalization and interoperability of Macedonia's armed forces. This goal supports the EUR Joint Regional Strategy Framework Goal 1: Strengthen the Western Alliance, EUR Joint Regional Strategy Framework Goal 3: Secure and Stabilize the Eastern and Southern Frontiers, and the State-USAID Joint Strategic Goal 1: Protect America's Security at Home and Abroad, and the State-USAID Joint Strategic Goal 3: Promote American Leadership through Balanced Engagement.

Mission Objective 2.1: Macedonia is a reliable partner on U.S. foreign policy objectives.

Justification: Macedonia is a strategic partner of the United States. For 25 years, we have worked together in support of Macedonia's aspirations of joining the EU and NATO – an aspiration supported by three-quarters of Macedonia's citizens. We share a common vision for the stability and prosperity of the region and Macedonia's support for U.S. values and foreign policy goals in international fora strengthens U.S. efforts to foster transnational security, economic growth, and leadership. Through diplomatic engagement, we will continue to strengthen the U.S.-Macedonia alliance and seek to jointly promote our shared values and goals. Such engagement will counter those malign actors that publicly oppose Macedonia's future as a NATO member and its alignment with Western democratic

principles.

Mission Objective 2.2: Macedonia investigates and combats terrorism, and prevents the spread of violent extremism.

Justification: Rising violent extremism and the draw of groups like ISIS affected Macedonia significantly beginning in 2014. Macedonia has the highest number of foreign terrorist fighters (FTFs) among its Muslim population of all the Western Balkan countries. Despite Macedonia's commitment to investigating and prosecuting extremism and terrorism, and thwarting the spread of violent extremism, institutions in Macedonia lack the capacity to fully address the country's extremism problem. Through diplomatic and programmatic engagement, the United States will enhance Macedonia's capacity to neutralize current and emerging threats to regional and global security.

Mission Objective 2.3: Macedonia provides for its own security and contributes to U.S., NATO, and U.N. led international operations.

Justification: Macedonia is a strategic partner that has consistently met NATO reform goals and contributed to multi-national operations in Afghanistan, Iraq, and Bosnia. Macedonia and its armed forces are dedicated to NATO membership and the Ministry of Defense (MoD) and the Army of the Republic of Macedonia (ARM) have implemented significant reforms with the assistance of U.S. funds. The U.S. will support further progress in Macedonia's defense capabilities. Our efforts will complement the work of the Government of Macedonia and result in increased capacities to train with and fight alongside, or in lieu of, U.S. forces in NATO or coalition operations. Failure to meet this objective would negatively impact Macedonia's stability and prosperity, risk broader regional stability, and hobble Macedonia's ability to assist the United States in defending Europe and other NATO objectives.

Mission Objective 2.4: Macedonia effectively combats transnational crime and secures its borders.

Justification: Macedonia is beginning to work more effectively with other countries to combat transnational crime and secure its borders. However, criminal organizations continue to exploit the permissive environments of this region and Macedonia serves as the crossroads of many transnational criminal organizations. The Government of Macedonia is attempting to reduce corruption within its law enforcement ranks and is promoting stronger rule of law. Embassy Skopje will continue to support positive progress through trainings, mentoring, and targeted equipment donations. If left unchecked, transnational crime has the ability to weaken Macedonian institutions, leaving the country vulnerable to poor governance, stagnation, and instability.

Mission Goal 3: Macedonia builds a strong and diversified economy, becoming more self-reliant and a more valuable economic partner for the United States.

Description and Linkages: Located on the crossroad of the north-south and east-west transportation corridors of the Balkans, Macedonia is an attractive location for U.S. vendors operating in Southeast Europe. However, the protracted domestic political crisis took its toll on the Macedonian economy. Recent economic reforms have improved the country's standing in global economic rankings but have not yielded significant improvements in terms of economic growth, new jobs, and increased income. Entrepreneurship and workforce skills are not keeping pace with the evolving market, which further inhibits growth. The new government's ambitious economic reform program favors new businesses that create jobs and show positive revenue growth. Currently, Macedonia's gas is 100 percent supplied by Gazprom, though this represents a small percentage of Macedonia's energy needs. With funding from EBRD, the government is looking to expand gas distribution to 10 cities from the existing pipeline with Bulgaria. Other plans to increase and diversify Macedonia's gas supply are still in the planning stages. As more international funding becomes available to support the new government's policies, efficient utilization and proper management will be crucial, especially on large infrastructure projects. U.S. advocacy and assistance will be important to that effort. This goal supports the EUR Joint Regional Strategy Framework Goal 2: Strengthen and Balance the Transatlantic Trade and Investment Relationship and the State-USAID Joint Strategic Goal 2: Renew America's Competitive Advantage for Sustained Economic Growth and Job Creation.

Mission Objective 3.1: Macedonia's business climate and economic policies promote private sector growth and entrepreneurship, attract foreign investors, and create jobs.

Justification: Stringent government regulations, unequal treatment of foreign investors and domestic SMEs, underdeveloped financial markets, poor corporate governance, underdeveloped infrastructure, lack of a qualified workforce, weak foreign direct investment, and very high brain-drain hinder the private sector's development and growth in Macedonia. The economy is poorly diversified, not very competitive, and predominantly based on low value-added production processes. Entrepreneurship and workforce skills are not keeping pace with the evolving market, which further inhibits growth. In response, the new government has adopted an ambitious economic reform program that focuses on economic growth and job creation through increased financial support to companies, improved public private dialogue and more stable business environment. Beginning in June 2017 with the change of government, Macedonia began to take steps to abandon the previous practices of corruption and cronyism, political interference in business, selective implementation of business regulations, and misuse of public resources. The USG will support local actors and institutions build prosperity in Macedonia by strengthening the competitiveness of the country's micro, small, and medium sized enterprise (MSME) sector through enhanced support services, improved access to finance, and a more streamlined business environment.

Mission Objective 3.2: Macedonia's energy sector is diversified and strong.

justification: Macedonia's domestic electricity generation covers only 70 percent of its needs, requiring import of the remaining 30 percent, while in the case of gas 100 percent is imported from Russia through Bulgaria. Deteriorating energy infrastructure, inefficient energy use, and a lack of energy supply diversity continue to lower the security and reliability of the energy supply. Despite the large potential of solar and wind energy, Macedonia is using only a small fraction of it. The government passed a new energy law in early 2018, adopting directives under the EU Energy Community's Third Energy Package. Full implementation of the new law will be crucial to reforming the energy sector. Macedonia's government is committed to building a country-wide natural gas distribution network, as well as a new interconnection to alternative sources of gas supply. U.S. government support will advance energy sector reforms that are in compliance with the EU and Energy Community requirements. It will also facilitate investment in upgrades of existing and development of new generation capacities, primarily in increased utilization of renewable sources, as well as diversification of supply sources and better integration in the regional energy markets. USG support will make the energy sector more resilient to external shocks and reduce its import and single supplier dependence.

Mission Objective 3.3: The value of U.S. products and services exported to Macedonia increases.

Justification: Macedonia is an emerging market and has made progress on improving its economy over the past two decades. The World Bank's Doing Business 2017 report ranked Macedonia as the 10th best. It has an open economy that welcomes both foreign direct investment and trade and falls into the category of middle-income with a per capita income of \$5,256 in 2016. Total trade for Macedonia in 2016 was \$11.5 billion with the U.S. as its 13th largest trading partner with \$276.1 million (U.S. exports were \$45.9 million).

4. Management Objectives

Management Objective 1: Capacity of the management platform aligns with Mission growth.

Justification: Strategic planning of mission personnel and space allocation has not kept pace with periods of rapid growth at the Mission nor properly considered the continued operation of USAID, which was supposed to downsize before the New Embassy Compound was built in 2009. To operate at maximum efficiency, the management platform must be realigned to current mission characteristics and keep pace with any growth that may occur in the near future.

Management Objective 2: Staff capabilities are increased, improving productivity and job satisfaction.

Justification: Mission Macedonia benefits from an effective, productive, and highly competent staff. Due to the Mission's excellent reputation as an employer and a constrained local labor environment, turnover is very low. Consistent with this, few opportunities for advancement are available for LE Staff. To continue benefiting from the Mission's excellent employees and keep them motivated, it must improve its ability to create professional opportunities and rewards for strong performance.

Management Objective 3: Improved life, safety, and environmental factors reduce risks for mission staff.

Justification: Macedonia has a history of civil unrest, ethnic violence, and conflict. Environmental hazards such as earthquakes, floods, and very high levels of air pollution pose high risks for danger and illness. Skopje's infrastructure is poor and its institutional capacity to handle crises is weak. As a result, the mission must maintain a high state of readiness in case of conflict or disaster. In a polluted environment, the embassy must be a community leader in greening initiatives which also create cost efficiencies for the USG.