

USAID/North Macedonia
Country Development Cooperation Strategy, 2020 – 2026



USAID | **NORTH MACEDONIA**



**COUNTRY DEVELOPMENT AND
COOPERATION STRATEGY**

Original Dates: September 2, 2020 - September 2, 2025

Updated on: May 20, 2024

Extended through: September 2, 2026

USAID/North Macedonia
Country Development Cooperation Strategy, 2020 – 2026

Contents

	Page
I. Executive Summary	3
a. Results Framework Graphic	6
II. Country Context	6
III. Strategic Approach	8
IV. Results Framework Narrative	17
a. Goal Statement and Narrative	17
b. DO 1: Economic Competitiveness Improved	18
c. DO 2: Youth Contributions to Society Increased	28
d. DO 3: Corruption Reduced	40
V. Monitoring, Evaluation, and Learning	46

USAID/North Macedonia Country Development Cooperation Strategy, 2020 – 2026

I. Executive Summary

The USAID/North Macedonia 2020-2025 Country Development Cooperation Strategy (CDCS) goal is “USAID Partnerships Promote a Prosperous, Well-Governed, and Resilient North Macedonia Committed to Euro-Atlantic Integration.” This goal embodies the core belief that the country must lead its own development journey by embracing Euro-Atlantic integration, promoting enterprise-driven and locally led development, and building resilience against authoritarian malign influences, especially among youth. This goal calls for USAID to engage in innovative resource partnerships¹ with country institutions, thereby challenging and empowering local stakeholders to lead and finance the country’s sustainable well-being.

Under this strategy, USAID will play a pivotal role in tackling key national needs for: (1) greater economic growth through improved competitiveness, (2) increased citizen, and particularly youth, engagement to lower unemployment and disenfranchisement, which is resulting in dramatic levels of emigration and inertia, and (3) reduced corruption that is eroding trust in public institutions and the culture of accountability. USAID’s focus on resource partnerships to address these key challenges not only fosters resilience, but also contributes to economic and democratic values. These focus areas constitute the three CDCS Development Objectives (DOs) required to assist North Macedonia to advance as a more prosperous, well-governed, and resilient country ready to lead the way forward. This CDCS was developed and finalized in early 2020 as COVID-19 became a global pandemic. USAID evaluated the social and economic challenges brought on by the pandemic and, as required in ADS 201, USAID/North Macedonia conducted a CDCS mid-course stocktaking (MCST) review in September 2023. The Mission measured progress, reviewed risks and assumptions, and discussed strategic-level challenges. The MCST also provided the opportunity to incorporate updated U.S. government priorities and strategically frame opportunities identified under leadership at Post. As a result, changes to the Results Framework were proposed and changes to the graphic on page six and corresponding narratives were finalized in May 2024.

The strategic directions, as outlined in the three DOs focus on addressing challenges related to open and accountable governance and inclusive development. The CDCS will prioritize improving economic competitiveness through enhanced productivity, European Union (EU)/regional economic market integration (including energy), workforce development, engagement of youth for inclusive development, media literacy, information integrity and resilience, and reducing corruption for open and accountable governance. This will involve a

¹ Resource partnerships are defined as formal agreements or collaborations with targeted stakeholders from the private sector, the host government, and/or civil society, mobilizing USAID and local actors’ investments, which can include financial, human capital, and/or other types of contributions. These partnerships are aimed at ensuring that local partners are in the lead in defining and advancing solutions for development.

USAID/North Macedonia Country Development Cooperation Strategy, 2020 – 2026

revised approach working directly with local partners on political processes to advance the rule of law, government effectiveness, anti-corruption measures, and transparency and accountability. The transition included handing over responsibilities to country partners, other U.S. government agencies, and donors, with programs focusing on parliamentary capacity building, elections support and reforms, and access to finance for micro-, small-, and medium-size enterprises (MSMEs), startups, farmers, and entrepreneurs. The Mission has already phased out programming related to migrant issues, media content production, and generic Civil Society Organizations (CSO) capacity building, leveraging previous investments to establish a foundation for future USAID resource partnerships. Future investments will target remaining challenges aligned with the vision embraced by USAID staff and Mission leadership.

USAID's role will be catalytic—forging country-led partnerships between the private sector, local and central government, and civil society entities. Country partners will lead, finance, and own activities with USAID facilitating co-creation, local ownership, and public/private cooperation for sustainable solutions. The Mission's approach will be clear to all partners: limited USAID funding must leverage significant domestic and other resources through direct resource mobilization at local and central level, and enterprise-driven growth to finance self-reliance. USAID's involvement will be conditional on this new type of resource partnership focused on country ownership, leadership, and investment. As the country strengthens commitment and resolves to manage its own development, increasingly sophisticated and higher-expectation cost-sharing and reforms are anticipated. USAID/North Macedonia's Development Partnership Grant Agreement (DPGA) with the Government of North Macedonia codifies and promotes greater government ownership, with a significant emphasis on enhancing private sector engagement as a cornerstone of sustainable economic development, addressing governance and corruption challenges, and leveraging the private sector's leadership in innovation, efficiency, and investment. At the end of this multi-year strategy, the Mission anticipates a significantly narrowed and focused set of activities to address key targeted last-mile challenges.

The Mission will make a strategic transition from a donor-recipient program funded by USAID to working through fewer, targeted mechanisms to engage relevant stakeholders as resource partners in realizing sustained results. By engaging in resource partnerships, including with the government as part of redefined bilateral relationships, USAID will shift staff energy to brokering and facilitating partnerships, especially those that secure joint public- and private-sector led solutions. Programs will be owned, led, and resourced primarily by local actors/institutions, where limited USAID funding leverages substantial country and other development resources in line with the Agency's localization approach. USAID will play a catalytic role, ensuring that key government, private-sector, and civil-society institutions "own," and are responsible for the development conversation; and that these stakeholders play a key role in planning, financing, and carrying out interventions with a results-driven mandate. USAID

USAID/North Macedonia Country Development Cooperation Strategy, 2020 – 2026

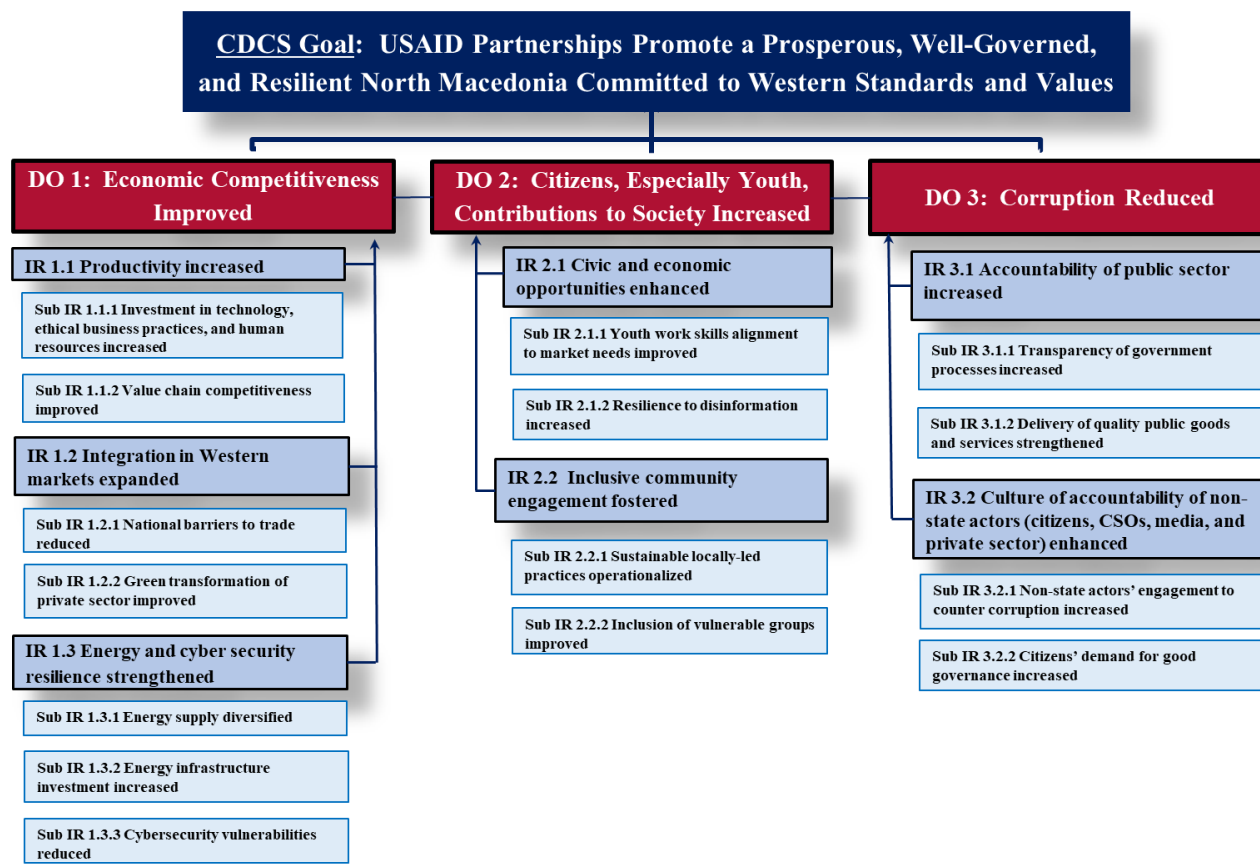
will redefine its relationship with the government by leveraging resource partnerships and enterprise-driven solutions between the government and the private sector by employing Agency Private-Sector Engagement (PSE) approaches, emphasizing the private sector's role in fostering innovation, driving economic diversity, and addressing market challenges. The Mission will also actively engage like-minded development partners to support country-partner led activities targeted to achieve country ownership. *The milestone is that country partners will lead planning, funding, and achievement of results for activities carried out jointly with USAID.*

USAID will continue to use the DPGA as a detailed formal partnership agreement with the government to secure policy reform commitments and domestic resource contributions for joint activities, along with specific budgetary commitments, mobilization of other domestic resources for agreed priorities, and joint work plans where appropriate. The Mission will employ mechanisms that reward participating entities, such as contracts under Statements of Objectives, s or Fixed Amount Awards, and will potentially consider government-to-government assistance, including advisors within key areas of government to build capacity.

The CDCS Goals and DOs are aligned with the U.S. Integrated Country Strategy (ICS) for North Macedonia; Department of State (DoS) priorities for Anti-Corruption and Transparency, Cyber Issues, Economic Prosperity and Trade Policy, and Energy; U.S. government objectives for Countering Malign Influence (CMI); the DoS-USAID Joint Strategic Plan (JSP) and EUR-E&E Joint Regional Strategy (JRS); the National Security Strategy (NSS); and the U.S. European Command's Combatant Command Campaign Plan. The table in Annex I outlines alignment of ICS Mission Goals and Objectives (i.e., CDCS Development Objectives) with the NSS, JSP, JRS, and CMI.

Updated Results Framework Graphic

USAID/North Macedonia Country Development Cooperation Strategy, 2020 – 2026



II. Country Context

In March of 2020, North Macedonia achieved two significant milestones after overcoming a protracted political crisis. First, the resolution of the 27-year name dispute with Greece led to the country's membership in NATO as its 30th member. Concurrently, the EU greenlighted the opening of accession negotiations with North Macedonia, although these are subject to conditionalities required by Bulgaria which added another layer of complexity to the path forward. In addition, the challenges identified in 2020 continued and are manifested with the modest economic growth and even further exacerbated by rampant cronyism, politicization, and widespread corruption.

The United States recognizes the next period as critical to the country's future as a prosperous ally that contributes to regional stability. The future promises to be challenging for the country, due to a disconnect among high public expectations of future EU membership, the painful reality of actual reforms needed for accession, and a stalled process that malign actors continue to use to sow discord and anti-EU sentiment, leading to destabilization of the region.

USAID/North Macedonia Country Development Cooperation Strategy, 2020 – 2026

Frequent political shifts within government negatively impacts technical expertise within the government and significantly slows reform progress. Further, the realities of required reforms at all levels of society – and a history of relying on the government or donors to take action – highlight the lack of political will and government commitment to tackle corruption and make necessary reforms. Noting that the country is vulnerable to back sliding, USAID underscores that critical strategic support will be needed for the country to truly embrace its role as a strategic partner, moving away from a traditional donor-recipient relationship.

Contextual detail:

During a review of the CDCS, Embassy Skopje leadership made the following observations which remain valid until today, outlining key predicates for a successful strategic transition of the U.S.-North Macedonia development partnership:

1. Peaceful, fair elections, followed by the smooth formation of a government that maintains the country's Euro-Atlantic trajectory.
2. Maintenance of robust U.S. foreign assistance budgets for the country, including increased resources to support a strategic transition.
3. Clear and effective messaging underlining the solid commitment of the U.S. government to the country.
4. Effective communication and coordination of U.S. foreign assistance efforts by U.S. government agencies; and
5. Flexibility, with opportunities for evaluation, built into USAID's strategy.

U.S. strategic goals for North Macedonia align with those outlined in national strategic plans and shared by the public. The United States continues to support the country's goal to be a prosperous, stable, and inclusive multi-ethnic democracy, whose future is firmly embedded in the West and in Euro-Atlantic institutions, including NATO and the EU. The following table outlines the alignment of the National Development Strategic areas with USAID's Development Objectives.

USAID/North Macedonia
Country Development Cooperation Strategy, 2020 – 2026

Development Objectives:	National Development Strategic Area:
DO1: Economic Competitiveness Improved DO2: Citizens, Especially Youth, Contributions to Society Increased DO3: Corruption Reduced	<ul style="list-style-type: none"> ● Sustainable, Innovative, and Competitive Economy ● Sustainable Local and Regional Development that Ensures Cohesion ● Rule of Law and Good Governance

Country Ownership: strengths and weaknesses. The vision of a transformed partnership between USAID and the Government of North Macedonia focuses on the strengths and weaknesses of the country's fundamentals, particularly in the context of recent developments. Recent developments have seen improved regional relationships, and media and economic openness. However, there is steady citizen fatigue and disappointment with the slow pace of reforms for an improved quality of life. Clear weaknesses in open and accountable governance and inclusive development remain prominent, along with challenges in economic, government, and civil society capacities, such as low media literacy, high youth unemployment, and inefficient use of public finances. These challenges will be addressed in the remaining strategy period, acknowledging potential socio-political fragility and economic downturns.

III. Strategic Approach

USAID’s vision for a strategic transition is that USAID will partner with country institutions to enable the country to advance Euro-Atlantic integration and promote enterprise-driven development. In general, the ways that USAID will realize its vision of a strategic transition are fivefold:

1. USAID shifts from donor-recipient relationships and engages stakeholders differently, i.e., USAID’s role is to be catalytic – forging key partnerships that link the private sector, government, and civil society, and leverage their ownership, leadership, and resources.
2. Country institutions need to own and lead the development conversation. Through resource partnerships, they will both finance and lead joint interventions and enterprise-driven solutions that have a results-driven mandate to strengthen the country’s

USAID/North Macedonia Country Development Cooperation Strategy, 2020 – 2026

resilience. Enhanced private sector engagement will be critical for catalyzing economic diversification and tackling the socio-economic issues driving youth outmigration.

3. USAID’s limited resource envelope needs to leverage local resources, and the Mission’s footprint reflects the needs to address the gaps and challenges on the path to our goal, including the Global Power Competition considerations.
4. USAID’s approach is to build broad partnerships through fewer, targeted USAID-managed activities. These partnerships will focus on strengthening the foundations for resilience and capacity for sustainable development: improved economic competitiveness, increased citizens’ and especially youth contributions to society, and reduced corruption. Partnerships with the private sector will explicitly leverage their role in enhancing economic capacity, addressing labor market mismatches, and fostering a conducive environment for economic resilience and EU and regional integration.
5. Based on the mid-course stocktaking of USAID’s strategic priorities and approaches, the CDCS will **focus on**:
 - a. improving economic capacity and competitiveness through increased productivity and EU/regional economic market integration encompassing green transformation,
 - b. energy and cyber resilience,
 - c. aligning workforce with market needs, building resilience to information manipulation, and engagement of citizens at large and especially youth for inclusive and locally led development, and
 - d. reducing corruption for open and accountable governance through digital tools and non-state actors’ action.

Overall, future investments will target fewer, key interventions in sectors where USAID assistance offers a strategic advantage.

Specifically, for *redefining the relationship with the government*, general discussions with government partners will result in agreements on the responsibilities of each party (i.e., the government, USAID, and other key players), and how to hold each other accountable to reach the intended results. To codify the vision for this new model of collaboration, the Mission intends to pursue the use of the existing DPGA, in consultation with the Prime Minister’s Office, that builds on previous Development Objective Agreements and formalizes future areas of endeavor, along with the responsibilities of the government and USAID. Through additional dialogue with line ministries, organized with leadership from the Prime Minister’s office, USAID will negotiate the role(s) it can play as a partner and catalyst, forging key partnerships among the private sector, government, and civil society to foster a prosperous, well-governed, and

USAID/North Macedonia Country Development Cooperation Strategy, 2020 – 2026

resilient country committed to Euro-Atlantic integration. USAID will negotiate new relationships as allies with the national government and local governments, as appropriate. Details would include terms of ownership, mobilizing resources, and commitments required for policy reforms and engagement of other country stakeholders. Examples of this multi-stakeholder approach will target green transformation and digitalization, where USAID will seek to work jointly with the government and the private sector, as well as coordinate with other development partners supporting these initiatives. USAID will watch for opportunities to foster the government's leadership in addressing, managing, and funding their own development challenges.

For the array of anticipated results under the CDCS, there will need to be different approaches that reflect partnership arrangements with different stakeholders. Under DO1, ***Economic Competitiveness Increased***, USAID will partner with the private sector. The private sector will lead on key elements of the interventions, though the government will play a critical role in promoting growth in production, reducing barriers to expansion into Euro-Atlantic markets. The Mission will work to ensure that a level playing field prevails in the private sector and will continue to promote benefits of Euro-Atlantic alignment. USAID will adopt modalities that explicitly leverage partnerships, facilitate investment, and stimulate/mobilize the country's public and private sector resources to support green transformation reforms. One of the key elements will be financial markets/products that promote investments to ensure that ***country*** actors and institutions are the ones expanding productivity, energy, and cyber security of critical infrastructure with a special attention to EU and national climate change strategies and measures. This key element is an essential approach to combat malign influence, reduce energy import dependence, and mitigate negative impact on the environment.

USAID is looking to accelerate enterprise-driven development and catalyze sustainability by increasing and deepening its collaboration with the private sector. USAID plans to advance North Macedonia's private sector green transformation and to induce creation of supportive systems for the country's greener economy. In these efforts, in addition to working with the private sector, USAID will robustly engage with the public sector to support green transformation reforms. The interventions will be designed to incentivize and enable MSME's and the public sector to adapt to emerging requirements of the EU Green Deal and Environmental, Social and Governance (ESG²) standards. USAID will also support the country's Clean Energy Transition by continuing the energy sector reforms and strengthening critical infrastructure cybersecurity resilience in lieu of the recent increase of cyber and hybrid attacks.

² Environmental, social, and governance (ESG) is a set of standards for how a company operates in regard to the planet and its people. ESG is important because socially conscious investors now use ESG criteria to screen potential investments.

USAID/North Macedonia Country Development Cooperation Strategy, 2020 – 2026

For DO2, ***Citizens, Especially Youth, Contributions to Society Increased***, USAID will play a catalytic role by convening an array of stakeholders, including youth groups, to work together with the private sector (the end-user of skilled youth), the government, community groups, and others to identify development priorities and solutions, jointly finance them, and take action to implement them. For youth, USAID will foster economic opportunities and opportunities for greater participation in public life in an effort to stem youth emigration and motivate those who have left to return or invest in North Macedonia's future. This approach will also help to remedy the gender imbalance among those working and address the issues of marginalized groups. USAID's strategic approach will be to foster an inclusive community environment and focus on inclusive community participation resulting in actions for positive change. USAID will support participation and representation of all community members in decision making processes. USAID will prioritize partnerships with local government, civil society, and local businesses to ensure that the interventions are sustainable and appropriate. By implementing the Localization Agenda and Locally Led Development Policy, USAID will make sure that the citizens are engaged, active, and working together across different socio-economic divisions to contribute directly to improving the quality of their lives at the local level in all communities. USAID will also engage towards establishing a robust human rights-based ecosystem, specifically tailored to address the unique needs of marginalized communities and vulnerable social groups.

Furthermore, USAID will seek agreements with country partners to develop dynamic programs linking the workplace with educational opportunities and innovation. USAID will also promote development of enterprise-driven solutions that will strengthen economic opportunities for youth, e.g., by encouraging employers to provide hands-on apprenticeship training for students and support for innovation. Thus, youth will be more prepared with the skills needed for available jobs.

USAID recognizes that youth are a critical partner and thus will also promote prosocial values among youth, including a stronger sense of responsibility and inclusiveness for their country's development. There is much that youth as individuals and in groups can do to contribute meaningfully to their own development, as well as to the quality of life of their families, communities, and country. Multiple platforms can be used to shape Euro-Atlantic-oriented attitudes and values that enable young people to lead effectively. In addition, important values for resilience require critical thinking skills, i.e., an ability to discern and act upon fact-based information. USAID will increase youth and citizen's media literacy and critical thinking skills through efforts to strengthen information integrity and resilience. Advancing this resilience, leadership, and other Euro-Atlantic values will enable young men and women to serve as change agents for self-reliance and resilience to information manipulation. Developing pro-social values among youth will likely require partnerships with the media and a multitude of economic and social platforms, local government authorities, other development partners, and,

USAID/North Macedonia Country Development Cooperation Strategy, 2020 – 2026

most importantly, with youth. Approaches in DO2 will be guided by localization, inclusive development principles, and the principles of Positive Youth Development³, where youth are seen as a critical asset. Because youth often drive the most important social movements of an era, their resilience and a Euro-Atlantic orientation is central to future self-reliance.

Under DO3, ***Corruption Reduced***, USAID will tackle the critical need for accountability, which lies at the heart of democratic governance. Accountability is an obligation to accept responsibility and account for actions. Accountability can only be achieved within a system of checks and balances that provide effective oversight of that responsibility. Accountability is based on transparency, and the rejection of corrupt practices. DO3 will focus on accountability of government institutions by strengthening the delivery and quality of public goods and services, increasing the transparency of government and private-sector processes, and decreasing the vulnerabilities to corruption and impunity of corruption at all levels. DO3 will strengthen public financial management and improve the mechanisms for collecting, allocating, spending, and accounting for resources. This is a key pillar of governance reform, essential for providing high-quality public services to citizens. A well-functioning and transparent Public Financial Management System enables an enhanced culture of accountability. It allows citizens to better monitor corruption and foster general awareness of accountability mechanisms. DO3 will also help to foster a culture of accountability among citizens. USAID will work with citizens, youth, civil society, media, and the private sector to increase their knowledge, engagement, and collaboration so they can individually and jointly act and exert pressure for greater government responsiveness in addressing corruption. USAID will support non-state actors to conduct oversight, investigate and expose corruption, hold leaders accountable, advocate for preventive measures, and take individual action to address corruption. USAID will foster collaboration to reject a growing sense of apathy toward the problem and recognize positive change.

Further, an engaged private sector will take action to minimize corrupt practices, increase ethical practices, and demonstrate integrity while also demanding a more transparent and accountable system for increased economic growth and investment. Because malign influence often capitalizes on corrupt officials and opaque systems, DO3 interventions will support countering that influence.

³ Positive Youth Development (PYD) is both a philosophy and an approach to adolescent development. YouthPower Learning definition: Positive youth development engages youth along with their families, communities and/or governments so that youth are empowered to reach their full potential. PYD approaches build skills, assets, and competencies; foster healthy relationships; strengthen the environment; and transform systems.

USAID/North Macedonia Country Development Cooperation Strategy, 2020 – 2026

The DPGA will be updated with specifics of what USAID and other entities will do. The *modus operandi* will be reflected in all agreements and memoranda with the government, private-sector entities, other partners, and upcoming procurements⁴.

Furthermore:

For shifting our focus – USAID engagement will sustain its focus on economic competitiveness, including energy security and private sector green transformation, while also engaging the private sector more directly in the fight against corruption. New areas of focus will target cyber security and resilience as well as increased youth opportunity and workforce participation, with greater youth contributions to society by engendering support for Euro-Atlantic integration. Further, the Mission is focused on the promotion and protection of human rights that are equitably applied to all to ensure progress toward our development objectives is inclusive and equitable of the country’s diverse, multi-ethnic population. While not new, the laser focus on reducing corruption zeroes in on the most important bottleneck to good governance.

For shifting our approach – USAID’s milestone of country partners leading the planning, funding, and achievement of results captures the essence of the overall approach. USAID will monitor the progress of country partners in leading, funding, and achieving desired results through partnerships with USAID; USAID will also target facilitation of public-private solutions. The Mission’s approach will be clear to all partners: limited USAID funding must leverage substantial domestic and other resources. USAID’s involvement will be conditional on this new type of resource partnership focused on country ownership, leadership, and investment. Our efforts through the Local Works program and applying localization principles in existing and new programs are already generating a shift where local partners lead community and country development. Targeted actions to improve citizens’ lives in North Macedonia are mobilizing local resources and using USAID’s partial funding to close a narrow gap in resources.

New approaches will seek to enable more effective co-creation and to transform the modality from the traditional model of implementing partners to one where local actors (from public, private, and non-profit sectors) own the agenda-setting and decision-making so that development outcomes are more successful and sustainable. In addition, the Mission will use innovative financing, and mainstream more flexible approaches to procurement, to ensure that USAID can adapt to changes quickly.

⁴ Note that amendments to any existing mechanisms will be pursued to reflect the self-reliance approaches described in this CDCS.

USAID/North Macedonia Country Development Cooperation Strategy, 2020 – 2026

Lastly, the Mission will strengthen its “soft power” in working with key stakeholders and partners at a multitude of levels to influence changes in attitude, approach, and expectations; ignite a passion for innovation and a strong results orientation; and establish a common vision and strong collaboration among key stakeholders. These effects can be achieved through active dialogue and engagement, identifying ways by which USAID can most successfully cultivate and influence individuals from government and the private sector (as well as other key partners) to be Euro-Atlantic-oriented, actively engaged, and to become change agents and leaders themselves.

For addressing key challenges, the Mission will target challenges identified through lessons learned and assessments. All focus areas are central to achieving the CDCS goal, which will advance the country on its path to Euro-Atlantic integration. However, these challenges will likely need additional support after the end of the strategy period. To ensure strengthened economic competitiveness, targeted approaches to increase productivity will focus on:

- a. investment in technology, ethical business practices, and a qualified workforce with improved skills to meet market demands.
- b. expansion into Euro-Atlantic markets by reducing national barriers to trade and improving value chain competitiveness, and overall private sector adaptation to the emerging requirements of the EU Green Deal.
- c. strengthening energy security resilience through a diversified energy supply, regional energy market integration, and increased energy infrastructure investment; and
- d. strengthening critical infrastructure cybersecurity by establishing the necessary cybersecurity legal policies and frameworks, empowering organizations to identify and address cybersecurity threats, accelerating cybersecurity workforce development, and facilitating the sharing of cyber threat information.

USAID aims to increase citizen and youth contributions to society to combat disillusionment and prepare the next generation for a resilient future. This will be achieved by strengthening economic opportunities for youth and engaging the private sector in skills development and innovation to address job and workforce mismatches. Additionally, USAID will improve skills for careers and life through enhanced public voice, media literacy, social cohesion, and leadership. Public measures for youth economic activities will also be increased. Through these programs, the Mission will also help address gender economic inequalities and youth emigration issues. Lastly, to ensure that a free-market economy can work effectively, and young people can thrive as important participants in society, USAID will partner with local entities to target the corruption that thwarts a prosperous and thriving economy through more transparent processes and a stronger culture of accountability.

USAID/North Macedonia Country Development Cooperation Strategy, 2020 – 2026

To address these challenges, it is essential that USAID works closely with other development partners to leverage resources. For example, it is not so easy to set out to tackle pernicious and entrenched corruption issues, especially focusing on an approach to introduce greater transparency and accountability through collaboration between non-state and state actors. USAID plans to work closely with the Swiss, the Swedes, the EU, and the UK in this challenging area.

The Mission recognizes that the outlined DOs are ambitious but believes that the potential yield is worth the risk, as addressing these issues is of paramount importance for the country. While planning approaches to achieve these DOs, the Mission will take the time to anticipate formidable challenges, particularly because so much of what will occur will be outside of USAID's control under the new arrangements. The Mission will anticipate and watch for symptoms of vested interest in the *status quo* when working with stakeholders on key aspects of the CDCS, e.g., corruption. This will be equally true for planning and establishing potential legacy programs as laid out under each DO in this CDCS.

Key chronic problems might include the following:

DO1 –

- reduced government regulation that should be routinely examined, to reduce barriers to economic growth and competitiveness
- private sector keeping up investment in technology to achieve at least the projected growth
- consistent application of ethical business practices
- retention of qualified workers (with gender equality) to support growth
- business plans with built-in resilience to labor shortages (especially for seasonal jobs ie. agriculture, viticulture)
- keeping up with supply chain requirements to attract required technology to function with a small staffing footprint
- active, sophisticated management ready to achieve results
- willingness to implement operational efficiencies to keep per unit costs down under expansion, and seamless processes to achieve desired results on a grander scale
- private sector being informed about evolving regulations related to EU Green Deal and market trends for implementation of ESG standards
- private sector readiness to keep up with green transformation requirements by focusing on sustainable practices, enhancing energy efficiency, promoting circular economy principles, and ensuring transparent and verifiable reporting of emissions
- government preparedness and capacity to create support systems for green transformation of the economy

USAID/North Macedonia Country Development Cooperation Strategy, 2020 – 2026

- willingness of the government to implement the reforms in the energy sector and advance in adoption and implementation of EU and Energy Community requirements for regional market integration and clean energy transition
- willingness of the government to establish the cybersecurity legislative framework and governance structure to strengthen the resilience of critical infrastructure, public institutions, and private enterprises.

DO2 –

- strengthening the linkage between the training environment and the private sector to foster youth preparation based on market needs
- ensuring effective linkages to form a feeder system from the educational setting to the work environment with a feedback loop to improve quality instruction and learning outcomes
- effective partnerships among the private-sector media, media CSOs, the public broadcaster, youth organizations, and education stakeholders to enable youth to drive national discourse
- youth's active role in civil society towards addressing the challenges that affect their lives
- effective inclusion of vulnerable and marginalized groups to ensure human rights observance and societal acceptance.
- ensure inclusive community engagement and citizen action to contribute to positive change.
- effective mobilization of citizens to respond to the priorities that they have mapped and include local government, businesses, and diaspora in resource mobilization and interventions.

DO3 –

- awareness that efforts to reduce corruption will be fraught with challenges and barriers; hence the critical need to work closely with other U.S. government agencies and development partners, especially those with large planned financial outlays that will provide additional leverage for strong collaboration on USAID's (and others') anti-corruption agenda
- ensuring government is open to the degree of transparency and accountability necessary to effect permanent change and is willing to "think big"
- comprehensive engagement towards digital transformation of internal processes and provision of services by both local and central institutions.

USAID plans to: 1) continually highlight the value-added for partnership relationships, 2) focus on accountability and metrics, 3) ensure a proactive, catalytic USAID presence on teams for the key alliances established with partners, and 4) work in close collaboration with other

USAID/North Macedonia Country Development Cooperation Strategy, 2020 – 2026

development partners to develop a comprehensive, integrated set of interventions of joint strategy development. Potential legacy programs to make an enduring contribution to the country are laid out by DO in this CDCS.

IV. Results Framework Narrative

Goal Statement and Narrative

USAID’s goal for the 2020-2025, North Macedonia CDCS is that “USAID Partnerships Promote a Prosperous, Well-Governed, and Resilient North Macedonia Committed to Euro-Atlantic integration.”

The revised Results Framework (RF) developed for this CDCS positions North Macedonia to successfully navigate a strategic transition to advance its Euro-Atlantic integration goals. The goal embodies the core belief that the country must lead its own development towards a well-governed society, integrated in the Euro-Atlantic institutions. A strategic transition in the current country context means continuing to move from a traditional donor-recipient relationship to innovative resource partnerships with country institutions, thereby challenging and empowering local stakeholders to lead and finance the country’s sustainable well-being. Country ownership will build resilience against anti-Western and authoritarian malign influences, especially among youth. The revised RF draws on the mid-course stock-taking findings and the most recent EU Progress Report 2023 to stay on course for improving competitiveness, including the green transformation of the private sector and cybersecurity. It aims to expand its reach from youth to all citizens, addressing their apathy and disillusionment, while incorporating our localization efforts and investments in the inclusion of vulnerable groups. Additionally, it seeks to incorporate all non-state actors in the fight against corruption and apply modern digital tools to that end.

The goal and overall RF are grounded in U.S. national security and regional priorities as well as Agency objectives for CMKI, PSE, Climate Change, and localization, and align well with the country’s National Development Strategy. USAID’s assistance will continue to be a catalyst for progress and a tool to advance a strong democracy and growing economy, in large part by embracing youth as society’s future leaders, workers, and citizens. To address these challenges and other areas of backsliding, the Mission will ensure that the priority themes of accountability and resilience are interwoven through all efforts. USAID’s legacy will advance North Macedonia’s Euro-Atlantic integration, abilities to protect itself from malign influences, and help citizens, especially youth, to have a strong sense of responsibility for the country’s development. The DOs capture areas where Agency investments will have the greatest impact, mainly because they will be based on resource partnerships with country partners, as well as continued close inter-agency collaboration, and coordination with the EU and other DPs.

USAID/North Macedonia Country Development Cooperation Strategy, 2020 – 2026

DO1 – Economic Competitiveness Improved

DO1 Development Hypothesis Statement:

IF productivity is increased, integration in Euro-Atlantic regional markets is expanded, and energy and cyber security resilience strengthened, THEN North Macedonia will improve economic competitiveness for greater prosperity, stability, and citizen well-being, as well as resilience to malign influence.

DO1 Development Hypothesis Narrative:

While North Macedonia has made some strides in stabilizing the economy after the COVID-19 pandemic and energy crisis, economic growth in 2023 increased modestly by 1.8 percent,⁵ reflecting a slowdown in external demand and the persistent cost of living increases. This growth remains tempered by low productivity, particularly among MSMEs, which make up 88 percent of economic output, yet struggle with poor competitiveness and management capacity. The key to accelerated economic growth is through improved economic competitiveness in the private sector – the primary driver of economic activity. The involvement of the state in the private sector remains significant and has been detrimental to business in terms of regulatory frameworks, barriers to trade, lack of transparency, and uneven application of rules and regulations. Under the CDCS strategy, the Mission will use creative approaches based on resource partnerships for activities led by country partners. There is significant opportunity for economic growth within the Western Balkans and then expanding to broader Euro-Atlantic regional markets, but it requires aggressive interventions to build on modest domestic economic growth and address issues such as the inefficient use of resources in the agriculture sector.

In the past decade, the business sector in North Macedonia has turned its focus to export-led growth by aligning with the EU's market standards and trading requirements as well as becoming a reliable EU partner. However, with its characteristically small and open economy, North Macedonia often faces limited trading possibilities due to a shortage of skilled labor and falling productivity. Exploring additional strategies, building strategic regional partnerships within the Western Balkan (WB6) countries will achieve a common goal of regional development and diversifying trading opportunities globally.

In light of market forces and EU policies, MSMEs must reduce carbon emissions to remain or become competitive. Between the EU Green Deal, the Carbon Border Adjustment Mechanism and other EU policies, MSME emissions within the production and delivery of products and services will become a major factor in market access and competitiveness. USAID's

⁵ Source: World Bank

USAID/North Macedonia Country Development Cooperation Strategy, 2020 – 2026

interventions may accelerate the adoption of green transformation solutions and facilitate, expedite, and mitigate the risk of investments in green transformation. Interventions will focus on investment in technologies, facilities, and solutions that reduce emissions in both production and delivery of products and services; investment in renewable energy and energy efficient upgrades; and adoption of practices and processes that reduce emissions, not only within facilities, logistics, and production, but also a supply chain practices that reduce upstream/supply chain emissions. In addition, the implementation of these EU regulations is new to North Macedonia and will require strong leadership by public sector regulatory bodies that generally lack the capacity and support structures for these processes. Beyond environmental compliance, enhancing productivity, innovation, and management practices is vital. These improvements are important not only for addressing environmental challenges but also for boosting overall economic performance, enabling North Macedonia's transition towards a high-income status while ensuring sustainability aligned with EU standards.

A DO1 priority will be to partner with the private sector to catalyze growth and stimulate productivity. There are also opportunities to adopt approaches to reduce the 27 percent gender labor gap disadvantaging women, and address indicators showing that women, youth, and ethnic minorities are more likely to be out of the labor force, unemployed, or in precarious employment, in order to strengthen the workforce and fill workforce gaps. Opportunities will be identified to catalyze moving production up the value chain – adapting to emerging market trends, pursuing high-tech opportunities⁶, and leapfrogging outdated production methods. ***For DO 1, the private sector will be in the lead***, with USAID serving as a catalytic partner to stimulate productivity and expansion into Euro-Atlantic regional markets. It will also be important to engage the government in this endeavor, particularly to grasp and embrace the importance of minimizing the barriers to business and expanded trade highlighted above. Tax incentives could be considered based on the number of employees added to the workforce. DO1 will capitalize on previous investments to promote economic growth. Increasing productivity and integration in Euro-Atlantic regional markets will counter CCP investments in the economy and technology that lead to elite self-enrichment and corruption and neutralize Kremlin-sponsored campaigns to undermine confidence in free-market systems and integration in Euro-Atlantic regional markets.

A key component of improved economic competitiveness is energy security. The country is dependent on inefficient and outdated domestic coal-fired power and imported natural gas from Russia, i.e., the country is dependent on fossil fuels for more than 80 percent of its energy consumption. Current efforts to create alternatives through renewable energy sources will be

⁶ An example of high-tech emphasis is USAID's partnership with Fx3x, an internationally recognized and Oscar-winning firm that does digital animation and visual effects, which also offers promising careers to high school students. Not only is Fx3x featured on the cover of this CDCS, but its services are also in great demand in the motion picture industry.

USAID/North Macedonia Country Development Cooperation Strategy, 2020 – 2026

important to diversifying access to and sources of energy and reducing pollution, e.g., through hydropower, solar, wind, biomass, and gas. DO1 will build on prior USAID assistance to enhance the regulatory framework for an open, transparent, and vibrant energy market, by advancing adoption of diverse energy sources and stimulating investment in energy infrastructure while making sure it is resilient to climate change. To further strengthen energy security, USAID will support integration of the electricity markets of North Macedonia with its neighbors both non-EU and EU member countries that will facilitate easier integration of the region into the Pan European energy market. USAID efforts will complement EBRD and World Bank Partnership Framework investments to accelerate a more sustainable energy mix and help the country comply with EU and Energy Community requirements. USAID will sustain support for energy security, which underpins both economic growth and citizens' quality of life. This support also counters dependence on one source in the energy sector.

USAID also identified cybersecurity, particularly of critical infrastructure, as a key priority given the recent increase in cyber and hybrid attacks, ransomware or other types of acts that obstructed provision of services. In the absence of a legislative framework and cybersecurity governance, USAID will work with the relevant institutions to establish the necessary legal foundation and start building their capacity to prevent and respond to cyber threats. To build an adequate workforce capable of responding to the ever-evolving cyber challenges, USAID will work with academia and training providers to develop cybersecurity curricula and train teaching personnel to deliver the material. In lieu of the increased number of cyber threats and actual hybrid attacks in the region, USAID will support the government to establish the necessary cybersecurity policies and frameworks, governance structures and strengthen critical infrastructure capacities to identify threats, prevent, respond and recover from potential attacks and share information with domestic authorities and international cybersecurity organizations.

Country context critical to DO1:

The country's early steps toward a market-oriented economy were successful, and the country moved to promote trade openness, privatization, and price liberalization, enabling it to move to a market economy faster than its Western Balkan neighbors. However, challenges remain in the quest to become a well-functioning and thriving market economy. Low and declining productivity of local firms, weak and politicized state institutions, and deficiencies in competition, investment readiness, and business regulation continue to pose serious challenges to economic growth. A competitive business legal framework has yet to translate into a vibrant private sector that can fully exploit the country's location and potential. The employment rate remains stagnant at 45.5 percent, and the unemployment rate reveals at 13.1 percent, with the

USAID/North Macedonia Country Development Cooperation Strategy, 2020 – 2026

youth unemployment rate declining to 25.6 percent.⁷ The private sector suffers from a small domestic market and a high degree of market concentration. Resulting resource misallocation has not pressured firms to retool by adopting new methods and technologies. The large disparity in productivity between the most and least productive firms illustrates the wide gaps in firm capabilities. The government is declaratively committed to business environment reforms to support an open, transparent economy that encourages an even playing field, and address rigidities in product, network, and labor markets to attract foreign direct investment, but has not delivered much. Opportunity remains for vibrant trade with the other Western Balkan countries, which can be expanded beyond that area to other Euro-Atlantic regional markets.

Linkages with other countries in the region, particularly on DO1:

Several Balkan countries were part of the former Yugoslavia, and there is a history of their linkages. There are opportunities for these countries to emphasize development and initiatives at the regional level. This is crucial to strengthen the countries' socio-political and economic outlook in the 2020s. Regional integration in the energy sector is especially critical, as energy flows beyond borders, and countries depend on each other's transmission capacities and markets.

DO1 Potential Legacy Plans:

The most important legacy for DO1 that USAID can develop is an enabling environment and momentum for the private sector that is independent of government and will continue long beyond USAID's presence and role as an agent of change. This environment should include: 1) mechanisms that can stimulate investment, including financing that meets the private sector's needs; 2) an array of responsive services, new laws, and regulations that support the growth and development of a robust private sector that can thrive with uncompromised rule of law; 3) a level playing field; 4) tax incentives that will support innovative practices and technology, increase productivity, green transformation, and strengthen the ability of the private sector to employ a large segment of the population; and 5) an ability to produce goods and services in a free market that can strengthen the competitive edge of the country.

Under DO1 USAID will support public and private sector alignment with EU regulatory measures and market trends, particularly the EU Green Deal and ESG standards. Our programs will underpin dialogue, policy initiatives, and institutional capacity for compliance with EU Carbon Border Adjustment Mechanism (CBAM), industry decarbonization, emission measurements, taxation, and circular economy principles. By facilitating partnerships and collaboration among government institutions, financial entities, green technology providers, academia, business

⁷ Source: World Bank

USAID/North Macedonia Country Development Cooperation Strategy, 2020 – 2026

organizations, lead firms, and MSMEs, USAID will leave a lasting legacy and can ensure that the impact endures beyond the donor’s involvement.

USAID’s support in the energy sector policy has enabled significant investment in renewable energy projects, increasing the domestic electricity generation and reducing the import dependence. USAID will continue to support the energy transition and the country’s compliance with the EU Clean Energy policies, and investment in new renewable and alternative energy projects. In collaboration with the Development Finance Corporation, USAID will explore the possibility of financing some of the strategic investment projects in the energy sector, thus leaving a lasting legacy of clean energy production and decreased use of fossil fuels.

For DO1, important priorities will be business-led initiatives, such as knowledge-sharing platforms, technology and skills transfer, and infrastructure investments to have the potential to accelerate development, enable productivity gains, and generate better quality jobs, strengthen skills, and technological advances. All these economic improvements comprise a valuable legacy of USAID’s imprint in the country.

DO1 Relevant Critical Assumptions:

Assumptions:

- The government is willing to engage in dialogue with the private sector and USAID to create a conducive environment for private-sector growth.
- The private sector is willing to invest in and lead programs to stimulate productivity.
- The private sector is ready to invest in sustainable practices, energy efficiency and circular economy principles to ensure the transition to a green economy.
- The government will promote supportive policies that incentivize green investments, penalize environmental degradation, and advance sustainability.
- The government will continue to promote investment in energy security with the current level of intensity.
- The government will adopt the cybersecurity legal framework and establish an adequate governance structure to strengthen institutional resilience.

IR 1.1 Productivity Increased

IF MSMEs introduce new technologies and innovations (including digitalization, e-commerce); education institutions, training centers, centers of excellence, and business support organizations collaborate with the private sector to develop modern training and certification programs; companies improve their financial and operational management; businesses elevate

USAID/North Macedonia Country Development Cooperation Strategy, 2020 – 2026

their interaction with the government through an evidence-based requests for policy reform; and the barriers for interregional trade and cooperation are eased and aligned with the EU Green Deal; and the value chain competitiveness strengthened through innovative and targeted solutions, THEN MSMEs will improve their productivity; the labor force will meet the private sector demands; companies will access finance and attract new investments; the regulatory framework will support the businesses' growth and green transformation and the country's regional economic integration will improve.

For North Macedonia to build a strong and diversified economy, the private sector must lead to improve economic competitiveness and seek innovative solutions to foster integration in Euro-Atlantic markets. The Mission will support local actors and institutions to lead the country's growth by strengthening the competitiveness of the private sector and by embracing opportunities for better regional economic integration and cooperation. This will be achieved through increased productivity, improved access to finance, a streamlined business enabling environment, and advanced public and private sector alignment with EU regulatory measures and market trends, particularly the EU Green Deal and ESG standards. To ensure that the private sector leads improved productivity and alignment with the EU regulations, the Mission will employ co-design and co-financing for solutions and interventions that increase productivity and investment in technology, innovations, people, and ethical business practices as well as in solutions that will ease trade barriers, increase financing and improve convergence with the EU market. Possible indicators of success may include the percentage change in productivity and the percentage change in investment in technology, innovation, ethical business practices, and human resources (disaggregated).

USAID will apply innovative procurement approaches to foster Private Sector Engagement (PSE), a results-focused and strategic partnership for sustainability. The Mission will leverage joint donor activities to stimulate increased domestic revenues and foreign investment. The Mission will work with partners through co-creation to ensure that government and private sector partners lead and resource joint activities under an ecosystem approach to address a range of development challenges and gaps; and ensure increased use of results-based financing. The Mission will prioritize complementarity with EU IPA programs, the WB Partnership Framework, and other donors.

Strategic partners are likely to include national and regional private-sector stakeholders, national and local governments, and the key Economic Chambers of North Macedonia. Key donors and other development partners will include the EU, WB, and EBRD; the Swiss Embassy/Swiss Development Cooperation, and the Netherlands and British Embassies.

IR 1.1 enables achievement of IR 1.2, benefits from all IRs in DO2, and contributes to IR 3.2. Achievement of IR 1.1 will foster self-reliance **commitment** through a productive private sector integrated in Euro-Atlantic markets, e.g., by improving sub-dimensions for the business

USAID/North Macedonia Country Development Cooperation Strategy, 2020 – 2026

environment, social group equality (disparity related to ethnic minorities), and the economic gender gap. It will expand the economy's self-reliance **capacity** by improving sub-dimensions for export sophistication and information, communications, and technology (ICT) use.

To support the rationale for IR 1.1, the Mission used evidence from:

- WB Country Partnership Framework 2019-23
- WB Diagnostic: Seizing a Brighter Future for All 2018
- North Macedonia EU Progress Report 2023
- ERBD Diagnostic 2019
- SME Policy Index: Western Balkans and Turkey 2019
- Stakeholder consultations 2019

IR 1.2 Integration in Western Markets Expanded

IF national barriers to trade are reduced and aligned with the EU Green Deal; and the value chain competitiveness strengthened through innovative and targeted solutions, THEN the private sector will improve its green transformation and the integration in Euro-Atlantic regional markets will expand.

For North Macedonia to be more self-reliant economically, it will need to be a more valuable economic partner in Euro-Atlantic regional markets. The Mission will support the private sector to embrace opportunities for better regional economic integration and cooperation. This will be achieved through increased productivity, improved access to finance, and a streamlined business enabling environment. The private sector will lead joint efforts with USAID, through co-designing and co-financing solutions and interventions that emerge with Euro-Atlantic regional markets integration. Potential indicators of success may include the percentage change in trade with nine regional economies in the Regional Economic Area and in the Western Balkan countries (disaggregated), and the percentage change in net exports.

USAID will explore the potential for joint activities with other USAID Missions in the region and the E&E Bureau to optimize resources for integration in Western markets. The Mission will also explore new ways to partner with the government, e.g., through Memoranda of Understanding and other tools that can frame a new relationship. The Mission will prioritize complementarity with EU IPA programs, the WB Partnership Framework, and other donor priorities.

Under the revised CDCS, USAID will put a special focus on the public and private sector alignment with EU regulatory measures and market trends, particularly the EU Green Deal and its Cross Border Adjustment Mechanism (CBAM) and ESG standards. The high emissions within the production and delivery of products and services will become a major factor in market access, access to finance, and overall competitiveness of the businesses. USAID will support the

USAID/North Macedonia Country Development Cooperation Strategy, 2020 – 2026

private sector to advance private sector green transformation focusing efforts on investment in technologies, and solutions that reduce emissions in production; energy efficient upgrade; and overall adoption of practices and processes within facilities and production. At the same time, USAID will work with relevant government institutions to create supportive systems for these processes.

Strategic partners are likely to include the national government, regional economic fora, and private-sector stakeholders such as the Macedonian E-Commerce Association, the Customs Administration, the key Economic Chambers and other relevant business associations. Other donor and development partners will include the EU, WB, and EBRD, Swedish SIDA, and the Swiss Embassy/Swiss Development Cooperation.

IR 1.2 builds upon IR 1.1, provides greater opportunities for youth benefitting from DO2, and contributes to IR 3.1. Achievement of IR 1.2 will strengthen self-reliance **commitment** to sustainable economic policy through integration in Euro-Atlantic markets, in part by building greater commitment to domestic and regional business environments and trade freedom, and it will expand self-reliance **capacity** to become more economically dynamic by improving sub-dimensions for export sophistication and ICT adoption.

To support the rationale for IR 1.2, the Mission used evidence from:

- Brookings Institution Analysis: How economic integration can increase living standards in the Western Balkans, November 2018
- North Macedonia EU Progress Report 2023
- WB Diagnostic: Seizing a Brighter Future for All 2018

IR 1.3 Energy and Cyber Security Resilience Strengthened

IF energy supply is diversified, energy infrastructure investment increased, and critical infrastructure is resilient to cyberattacks, THEN energy security and cyber resilience will be strengthened.

The Mission will build on the previous regional energy security program to assist North Macedonia to improve the security, reliability, and resilience of its energy system through legal and market-oriented reform and access to Euro-Atlantic investment and technology. North Macedonia generates only 70 percent of its electricity needs, requiring it to import the remaining 30 percent, and it imports 100 percent of its gas from Russia. Deteriorating critical infrastructure and inefficient energy use generally further weakens the country's energy security. The Mission will support implementation of the clean energy regulations to support the country's energy transition from fossil fuels. The Mission will continue to support the development of the energy market to ensure its liquidity, transparency, and capacity is

USAID/North Macedonia Country Development Cooperation Strategy, 2020 – 2026

sufficiently resilient to withstand malign pressures. The Mission will assist the government to increase investment in domestic energy generation and reduce energy dependence by providing technical assistance to conduct feasibility studies of, and establishing public-private partnerships for, energy infrastructure initiatives. The Mission will continue to support Euro-Atlantic market integration, by supporting market coupling and development of the power exchange as a lever for internal market security, competitiveness, and affordability. We will also promote opportunities for U.S. businesses, including exports of U.S. energy resources, technologies, and services. We will also collaborate with the Development Finance Corporation to explore possibilities for financing some of the strategic investment projects in the energy sector. Potential indicators of progress may include the amount of domestic energy generation by source, the percentage change in the structure of energy sources by source, and the percentage change in investments in the energy sector.

Strategic partners are likely to include the national government, ESM Power Plants of North Macedonia, the Transmission System Operator MEPSO, the North Macedonia Gas (NOMAGAS), the electricity market operator MEMO, the Energy Regulatory Commission, and private-sector investors and providers of energy. Key donors and other development partners will include the EU, WB, EBRD, and the UK Embassy.

In the area of cybersecurity, the Mission will work with government institutions to develop cybersecurity legislation and governance structure. Through support to the country's Critical Infrastructure Cybersecurity Working Group, the Mission will facilitate a collaborative environment for experts from the private and public sector to define and develop cyber policies, standards, and best practices that will empower critical infrastructure entities to protect and improve the resilience of key resources. The mission will support critical infrastructure operators and operators of essential services to develop capacities to assess risks, identify and address threats, reduce vulnerabilities, and respond to cyber-attacks. The Mission will collaborate with academia and private training providers to introduce cybersecurity curricula that will prepare the future workforce and current cybersecurity professionals to respond to evolving cybersecurity challenges. A critical element will be to establish robust information sharing networks between national and regional critical infrastructure entities that will promote coordinated and collaborative responses to threats.

IR 1.3 enables achievement of IRs 1.1 and 1.2 and contributes to DO3 by reducing corruption in the energy sector.

To support the rationale for IR 1.3, the Mission used evidence from:

- North Macedonia EU Progress Report 2023
- Energy Community Annual Implementation Report 2023 for North Macedonia

USAID/North Macedonia Country Development Cooperation Strategy, 2020 – 2026

- North Macedonia: Political Change NATO Accession, and Economic Transition, April 2019
- WB Public Sector Energy Efficiency Project Information Document, February 2019
- ERBD Diagnostic 2019
- WB Diagnostic: Seizing a Brighter Future for All 2018

DO2 – Citizens, Especially Youth, Contributions to Society Increased

DO2 Development Hypothesis Statement:

IF civic and economic opportunities for citizens, especially youth, are enhanced and inclusive community engagement is fostered, THEN citizens', especially youth, contributions to society will be increased.

DO2 Development Hypothesis Narrative:

A meager 15 percent of citizens believe that the country is headed in the right direction and support for the European Union has been on a steady and continuous decline. This degree of citizen pessimism has not been seen since the 2001 armed domestic inter-ethnic conflict. Generally, citizens report being uninterested in engaging in individual, community, or organizational action to make a change. A legacy from the former socialist governance structure, the majority of citizens still believe it is for others—the government in particular—to take action to improve the country's issues and contribute to a positive future.

Therefore, DO2 will foster an inclusive community environment where every individual, regardless of background, feels valued, supported, and empowered to make meaningful contributions to society. The mission recognizes the importance of inclusion and mutual respect in nurturing a conducive ecosystem for civic participation and economic empowerment. By adhering to localization principles, DO2 will empower local actors to take the lead in identifying and addressing development challenges in their own communities. DO2 will address the imbalance between development of urban and rural communities in North Macedonia that encourages migration either from rural to urban areas or emigration. Engaging the private sector, mobilizing funding at the local and regional levels and linking different sources of funding will lead the process of addressing the gaps in the rural areas. USAID will support local initiatives and will mobilize the local knowledge and ambitions of local communities to engage and contribute to their society.

Partnering with the private sector, DO2 will increase investments in the communities that will result in positive social impact and improved living standards for all citizens. In line with the USAID Private Sector Engagement Policy and Locally Led Development Policy, USAID will empower businesses to become recognizable drivers of locally led development, bringing them

USAID/North Macedonia Country Development Cooperation Strategy, 2020 – 2026

together with local citizens, civil society organizations, municipal authorities, and other interest groups to jointly generate ideas, develop projects, and mobilize resources to implement them. Engagement of corporate social responsibility will contribute to the establishing of effective, sustainable mechanisms for addressing community issues, thus creating more space for citizens to engage and contribute to their community. DO2 will also contribute to a conducive legislative environment that stimulates philanthropy to increase individual and corporate giving for positive change.

Youth are a particular focus of DO2 as they are the foundation of a resilient North Macedonia. They can lead the country's development, discern and confront malign influence, and, through their participation, strengthen free and open markets, democratic institutions and processes, and social cohesion. Yet they face a number of significant challenges, including a rising cost of living, limited job opportunities, and an education system that does not provide them with the knowledge and skills needed for the labor market and growth industries, e.g., high technology and knowledge industries. Partnerships that link the private sector, educational institutions, and youth to foster skills development and innovation are nascent. Close to 26 percent of North Macedonia's youth are unemployed, and many become "disconnected." They lack opportunities for professional development, social and civic engagement, and leadership roles in the economy and society. Those who are employed complain of poor pay and conditions, and many are under-employed, i.e., working in jobs unrelated to their training. Those who are unemployed and disillusioned are particularly vulnerable to manipulation. Many, including the most talented, have already left the country; and the 2019 Youth Assessment found that *over half intend to leave in the next two years* (reported equally by gender and across age groups). This reality is an imperative for working with youth up through 34 years of age. *If the country wants to stop the hemorrhage of young people emigrating for economic and social opportunities, and to entice those who left to return, it needs to invest in them.*

DO2 will tap the potential of young people up to 34 years of age to lead self-reliant lives, contributing to the economy and society. DO2 will build on previous and current USAID investments in civic education in schools, sound media content and investigative journalism, and programs to foster innovation and entrepreneurship among youth and better prepare them for the workforce. With a projected population growth of virtually zero and nearly all international assessments pointing to deteriorating human capital and acute youth out-migration as a major impediment to socioeconomic growth, USAID has a particular focus to strengthen and retain the country's major asset for the future: **youth**.

DO2 priorities are to accelerate youth contributions to society, both economically and socially. USAID will preensively engage in resource partnerships with the government (including educational institutions), private-sector enterprises, youth organizations, and youth to enable youth to increasingly contribute to society and the economy to secure a prosperous, vibrant,

USAID/North Macedonia Country Development Cooperation Strategy, 2020 – 2026

and stable future. DO2 will set in motion expanded opportunities in the private sector through innovative educational programs (i.e., internships and apprenticeships, especially with the private sector) to prepare youth for employment opportunities. USAID will also work with the government to intensify nascent public initiatives to enable youth participation in the economy and society so that they are expanded and gain momentum. Of note: In January 2020, members of parliament from all political parties passed the **Law on Youth Participation and Youth Policy** and allocated budgetary resources for public initiatives to support youth empowerment. In September 2023, a National Strategy for Youth (2023-2027) was adopted by the Government of North Macedonia. The Strategy envisages eight strategic areas including participation, information, employment, education, culture, health, entrepreneurship and security. USAID will work closely with relevant stakeholders in the area of youth employment and entrepreneurship, among others, including support to youth prior employment.

Youth themselves, in line with Agency guidance to promote Positive Youth Development (PYD)⁸, must participate as equal partners. This requires that they embrace the values that underpin self-reliance; namely, by demonstrating a sense of independence, confidence in individual as well as social strength; applying a strong value system; and striving for accomplishments. DO2 will also help shape attitudes and values for self-reliance among youth and promote active youth engagement to foster a generation of youth who feel both that they are a vital part of society and can make a difference in their own futures. This will be advanced by leveraging social platforms to influence them, and then for them to influence and engage others. DO2 will also increase media literacy to reduce vulnerabilities to disinformation and political manipulation, and help the country improve information integrity and resilience. Increased media literacy and critical thinking skills are essential to the future – building resilience and reinforcing objectives to counter malign influence. They are also foundational for youths' understanding of and support for the watchdog role of the press in a healthy democracy.

To ensure inclusive contributions to society, DO2 will also focus on some of the country's most marginalized communities: Roma and LGBTQI+ populations. DO 2 will partner with these communities to co-create, co-finance, and jointly implement activities in advocacy, legislative and policy development and implementation, quality service provision, and representation and decision-making.

DO2 will partner with Roma-led organizations and communities to mobilize resources, provide opportunities for Roma to serve in decision-making roles, and hold the government accountable for addressing Roma issues and needs. By providing education and employment opportunities for Roma, USAID will contribute to creation of a new untapped workforce that

⁸ Positive Youth Development (PYD) is intended to improve the capacity of youth-led and youth-serving institutions and engage young people, their families, communities, and governments so that youth can reach their full potential.

USAID/North Macedonia Country Development Cooperation Strategy, 2020 – 2026

will increase their contribution to society. These efforts will contribute to the overall efforts to break the chain of poverty and segregation of the Roma community. In addition, DO2 will support Roma with mechanisms for human rights promotion and protection, to reduce discrimination and exclusion.

Aligned with the Agency's LGBTQI+ Inclusive Development Policy and North Macedonia's European Union integration goals, DO2 will emphasize partnership with local organizations to promote and protect the human rights of LGBTQI+ citizens and victims of gender-based violence. DO2 will advance evidence-based policies and approaches to increase awareness and inclusion of marginalized communities and strengthen state responses and protections when their rights are violated. USAID will expand the evidence base, aligning programs and policies with the experiences and priorities of LGBTQI+ individuals. USAID will tailor its programs to meet the specific needs of local LGBTQI+ communities, activists, and organizations, offering flexible funding for new partners.

Country context critical to DO2:

Activities under DO2 are starting off on a positive footing, with political will demonstrated by the government's Law on Youth Participation and Youth Policy (2020), with funding to invest in youth and address the push factors that are enticing youth to leave. The private sector has also recognized that companies need to invest in workforce development and vocational training targeting youth. During the CDCS period, USAID will foster linkages between and among youth organizations, educational institutions, private-sector entities, media entities, and government ministries and institutions to enable them to work together to develop effective partnerships (e.g., internships, apprenticeships mentioned above, practicum experiences, feeder systems, etc.) and continue investing in programs activities that will create positive opportunities and benefits for youth. At the end of the CDCS period, these country organizations will have the capacity and resources to work independently, thus allowing USAID to move away from significant youth programming.

To increase information integrity and resilience, we will empower citizens to better navigate the information landscape. Our initiative will enable the citizens, in particular youth, to evaluate the information flows in their daily life and equip them with skills to recognize disinformation and propaganda. Activities will build societal resilience by preventing the spread of, detecting, reporting, and addressing mis/dis/mal information, which will lead to their reduced proliferation and spread.

Stigmatization, discrimination, and isolation pose significant challenges for LGBTQI+ individuals in North Macedonia, primarily due to traditional patriarchal norms, inadequate legislation, limited awareness of legal protections, and a lack of political commitment. The absence of positive representation in cultural, educational, and media spheres exacerbates these issues,

USAID/North Macedonia Country Development Cooperation Strategy, 2020 – 2026

reflected in the country's low rankings in global and European acceptance indices. Women, girls, and the LGBTQI+ community are particularly vulnerable to underreported gender-based violence (GBV). Despite some legislative progress, persistent challenges exist in adequately protecting the rights of LGBTQI+ individuals and addressing GBV, as evidenced by 517 reported cases in 2023 and around 20 femicides (2020-2023), with likely underestimation due to underreporting tendencies.

Roma are the most vulnerable and disadvantaged ethnic community in North Macedonia. The [2023 Balkan Barometer](#) reveals that other groups view them as the least trusted community in the country due to the deeply rooted societal stereotypes. Roma experience numerous challenges in their daily lives due to prejudice and discrimination, which raise barriers to their social inclusion, empowerment, employment, participation in policy-making processes, and structures at the national and local level. Many government strategies and programs in the past aimed at addressing various Roma issues have not produced the expected positive effects on Roma lives. Roma primarily live in segregated communities often lacking the basic infrastructure for quality life, such as paved roads, electricity, water supply, and sewage systems.

Apathy and lack of community engagement at a local level in North Macedonia can be attributed to political instability that hinders trust and cooperation among different communities as well as socio-economic challenges such as unemployment and poverty which lead to the feeling of disconnect from civic life. Due to the emigration, especially among youth, community participation has been heavily impacted. With lack of youth to guide the forces of change and community participation, issues that can be easily resolved remain in status-quo. Some communities are disempowered and marginalized due to being excluded from the decision-making processes.

Linkages with other countries in the region, particularly on DO2:

Despite efforts to engage and empower youth in the Western Balkans since the breakup of Yugoslavia, patterns of youth disillusionment, isolation, and emigration throughout those countries have increased unabated. A 2019 report⁹ on the experiences and aspirations of youth in Southeast Europe affirmed that North Macedonia's youth face the same challenges as their peers in the region, and they share affinities with the West and desires to belong to Europe. High levels of youth unemployment and underemployment stem from economies slow to recover from the 2008 global financial crisis and educational systems that have been slow to adapt to changing labor markets. In a 2017 report,¹⁰ nearly 25 percent of the region's youth

⁹ Western European Balkans, August 4, 2019; <https://europeanwesternbalkans.com/2019/04/08/southeast-european-youth-wants-decent-future/>

¹⁰ [https://www.europarl.europa.eu/thinktank/en/document.html?reference=EPRS_BRI\(2017\)608683](https://www.europarl.europa.eu/thinktank/en/document.html?reference=EPRS_BRI(2017)608683)

USAID/North Macedonia Country Development Cooperation Strategy, 2020 – 2026

were inactive, meaning that they were not in employment, education, or training. With few incentives to stay in their home countries, emigration is a common goal. These reports highlighted that socioeconomic development could support circular migration, benefiting youth and countries in the region. But economic insecurity is not the only reason influencing youth decisions. Poor services and poorly performing political institutions and endemic corruption have bred cynicism and alienation among youth in the region. Some countries, including Albania, Bosnia and Herzegovina, and Kosovo, also struggle with the threat of radicalization and violent extremism among populations disillusioned with continued poor performance of political, social, and economic systems.

A 2023 analytical report¹¹ highlights a pervasive climate of non-acceptance towards LGBTQI individuals in the Western Balkans region, despite recent advancements in human rights. The emergence of anti-LGBTQ+ movements poses a significant threat to LGBTQ+ rights in the region and beyond. While all countries in the area have attempted to align domestic legislation with global standards, implementation and enforcement remain major challenges. Issues such as lack of political will, fear of losing votes, inadequate budgeting, low institutional capacities, and prevalent homophobic attitudes hinder the effective execution of these laws.

The discrimination and segregation of the Roma community spans across the Western Balkans and beyond. Roma face the same issues in the neighboring countries, and some on a much higher scale. There is work being done in terms of Roma inclusion in the Western Balkan countries, through regional organizations like the European Roma Rights Center and the newly formed Roma Foundation for Europe that will focus on political and economic empowerment of the Roma. There are some slight advances in the position of the Roma in society in the region, but the marginalization and discrimination still remains very high (Data from the recent 2023 Balkan Barometer).

Our results should empower national stakeholders in the education system and media to enhance youth's critical thinking and media literacy skills. This can be achieved through integrated formal and informal education and training at all levels, as well as through youth-oriented media content and news. By doing so, we aim to make youth more interested, engaged, and vocal in addressing issues that concern them.

A comprehensive inclusion of marginalized communities, including Roma and LGBTQI+, will contribute to a climate of acceptance, and further promotion and perseverance of their human rights. A legacy of systemic changes reflected through the ecosystem of access to justice and

¹¹ Attitudes towards LGBTQI+ people in the Western Balkans <https://lgbti-era.org/publications/attitudes-towards-lgbtqi-people-in-the-western-balkans/>

USAID/North Macedonia Country Development Cooperation Strategy, 2020 – 2026

service provision, coupled with community empowerment and youth engagement, will lead to a generational change in attitudes.

DO 2 Relevant Critical Assumptions:

Assumptions:

- The interest of government (at both the central and local levels) to focus on youth in a more explicit and aggressive way increases and is sustained over the long term.
- The interest of the private sector in contributing to youth engagement for economic growth is strong, collaborative, and sustained.
- Citizens, the government, and the private sector are interested in partnering with USAID to co-design, co-fund, and jointly implement initiatives.
- Continued government support, and more importantly, sufficient funding and adequate resource allocation for teacher support to continue qualitative curriculum reforms in primary education.
- Commitment to building a civil state based on mutual understanding and respect, upholding human rights of marginalized communities, including LGBTQI+ populations, continues.
- Commitment of the government to implement the National Strategy on Roma.
- Interest of the central and especially local government to engage in local development.
- Commitment of local governments to implement Roma Local Action Plans.

IR 2.1 Civic and Economic Opportunities Enhanced

IF private sector engagement in education is enhanced, public measures for youth economic activities increase, and skills for careers and life improved among youth, THEN economic opportunities for youth will be strengthened.

If youth are to play an active role in society, the limited job opportunities, and the lack of an education that prepares them with the knowledge and skills needed for the labor market and growth industries, e.g., high technology and knowledge industries, must be reversed. To counter this entrenched narrative, USAID will catalyze input from youth, private sector, government, and education actors to address the issues youth face in contributing to the economy. Resource partnerships will support economic opportunities attractive to youth, strengthen skill sets for jobs and progressive careers, and improve youth's civic engagement to promote participation and ethical conduct. USAID will partner with a wide range of local stakeholders and institutions, including the private sector, in order to foster skills development and innovation, but also to: 1) increase local ownership and co-financing of activities aimed at expanding economic opportunities for youth, and to 2) raise public awareness for the need to actively invest in youth talents and creativity to address the youth's emigration. In keeping with

USAID/North Macedonia Country Development Cooperation Strategy, 2020 – 2026

the CDCS approach, partnerships will be embedded with flexibility to quickly tap into emerging opportunities for innovative economic ventures, in order to mobilize external investment funds for innovative informal education programs that prepare youth for new careers and life.

The private sector can play critical roles in providing economic opportunities with competitive pay and conditions, creating innovative career pathways in partnership with educational institutions, and leveraging youths' creativity to realize increased dividends. The public sector has equally important roles to stimulate active youth participation by developing policies and initiatives that improve their lives, e.g., by ensuring that laws stimulate job creation (including internships and employment of students and part-time workers) and offering tax and housing incentives.¹² The public sector education system can also play a critical role in stimulating opportunities that lead to careers and strong life skills. Educators can foster critical thinking and media literacy, lead the revamping of vocational training with state-of-the-art content that is appealing to youth and needed for new jobs, enhance youth's soft skills, and spearhead workplace-based or practicum-type learning that meet the needs of markets. Given the significant labor gender gap and fragile ethnic cohesion, affirmative approaches are needed. Progress may be monitored by measuring the percentage change in youth aged 15-34 in the workforce, the number of businesses contributing to innovative career pathways, and percentage change in employment of trainees.

The Mission will leverage donor activities that stimulate domestic and foreign investment. The Mission will select and work with partners through co-creation to ensure that government and private-sector partners lead and resource joint activities under an ecosystem approach to address a range of development challenges and gaps; and ensure increased use of results-based financing.

Strategic partners are likely to include private-sector stakeholders such as IT businesses, government entities such as the Fund for Innovation, the Ministries of Economy, Finance, Communication, Accounting, and Transparency, the Agency for Audio and AV Media Services, educational institutions, media/social media, youth organizations and groups, U.S.-based educational programs linked with the private sector, Helvetas Macedonia, Macedonian Civic Education Center (MCEC), and the Economic Chamber of Macedonia. Key donors and other development partners are likely to include the Swiss Embassy/Swiss Development Cooperation (key partner with a related pilot underway).

IR 2.1 supports IR 1.1, mutually reinforces IR 2.2, and fosters IR 3.2.

¹² Indeed, one potential "game changer" identified in Phase II was entitled "Come Back Home!" where the country, through collaboration involving the private sector, the public sector, and donors would re-examine tax policies, fellowships, housing subsidies, tuition grants, etc., to make living in North Macedonia more attractive than living in high-priced European capitals, thereby attracting youth who have left back home.

USAID/North Macedonia Country Development Cooperation Strategy, 2020 – 2026

To support the rationale for IR 2.1, the Mission used evidence from the USAID Cross-Sectoral Youth Assessment that was conducted in June 2019. This assessment found that between 50-70 percent of youth intend to emigrate in the next 1-2 years, like many of other youth who have already left the country. Moreover, according to the latest youth-led survey on career and skills aspirations through Youth Actively Create Opportunities Activity in late 2023, there is a discrepancy between the formal education and the labor market, and the most appealing sectors to youth are: technology and IT (>20 percent), medicine and healthcare (>16 percent) and law and politics (>10 percent). Financial incentives are the dominant motivator in choosing a career, while more than 80 percent of youth believe that continuous learning and improvement are key to remaining competitive in the labor market, particularly soft skills such as communication, problem solving, and creativity. The survey showed that entrepreneurship emerges as an area of significant interest, with more than 73 percent of youth expressing interest in starting their own business. Less than 50 percent have received career counseling and guidance, and more than 60 percent of unemployed youth were familiar with the government measures for employment and self-employment. USAID will work closely with partners and stakeholders to ensure that educational programs are developed according to the labor market needs, that existing measures for employment are promoted in a youth-friendly manner and that entrepreneurship, particularly green entrepreneurship in the country, are strengthened.

Additional data was drawn from:

- Political Change, NATO Accession and Economic Transition, Economics and Security Committee, April 2019
- Carnegie Endowment for International Peace, Russia’s Game in the Balkans, February 2019 (Stronski and Heims)
- Foreign Policy Magazine, Don’t Let Russia Get Its Way in Macedonia, September 2018 (Kurt Volker)
- Youth Aspirations for Career and Skills Survey, December 2023
- North Macedonia EU Progress Report 2023
- USAID Stakeholder consultations 2019

IR 2.2 Inclusive community engagement fostered

IF sustainable locally led practices are operationalized and IF inclusion of vulnerable groups are improved, THEN inclusive community engagement will be fostered.

Inclusive community engagement is essential for sustainable development. By adopting sustainable, locally led practices and enhancing the inclusion of vulnerable groups, USAID aims to create environments where every voice is heard, valued, and empowered.

USAID/North Macedonia Country Development Cooperation Strategy, 2020 – 2026

USAID will actively involve diverse community members in decision-making processes, ensuring their perspectives are considered and their needs addressed. By empowering communities to identify their own needs, develop culturally appropriate solutions, and implement them sustainably, USAID will leverage local knowledge and resources to ensure long-term viability and effectiveness. This approach supports the country's goal of integration into the European Union.

Through targeted interventions, capacity building, and advocacy efforts, USAID will amplify the voices of vulnerable groups and ensure they have equal opportunities to participate in decision-making and take positive action for change.

USAID will explore new ways to partner with communities, the private sector, local and national government, for example, through memoranda of understanding and other tools that can frame relationships for co-financing, policy reform, and implementation of interventions. USAID may also seek new partnerships using co-creation to ensure that the priorities come from the community itself. To reduce the polarizing, divisive, and destructive effects of disinformation and political manipulation, USAID will work with national stakeholders on enhancing critical thinking and media literacy skills of youth and citizens so they can become more responsible, empathic, and active citizens and participants in a democratic society.

The pursuit of creating vibrant and thriving communities needs to prioritize meaningful inclusion of vulnerable groups including the LGBTQI+ and Roma community. The opportunity to freely express one's identity safe from discrimination, persecution, and condemnation enables further participation in all aspects of the social framework. Meaningful inclusion necessitates guaranteeing personal security and legal protection of human rights. It also requires that support services are available and there is a high level of acceptance of the vulnerable communities.

USAID will engage with vulnerable and marginalized communities and organizations led by marginalized communities to co-create mechanisms to enable their full and open participation in society. USAID will foster opportunities for further outreach and involvement of informal groups, activists, and other stakeholders. USAID will collaborate with state actors, such as law enforcement, the State Commission for Anti-Discrimination, and social service centers to ensure rights are protected and promoted, and services are provided. IR2.2 will also create new venues for safe spaces and alliances for support and greater visibility. Synergies will be ensured with new and current youth-oriented and citizen engagement programs focused on a generational change of full inclusion.

USAID/North Macedonia Country Development Cooperation Strategy, 2020 – 2026

Potential indicators of success may include percentage of launched cases in front of institutions; percentage of successfully implemented micro-grants, percentage of targeted population with positive attitudes towards LGBTQI+ issues, etc.

Indicators for success will be:

- the successful implementation of the National Roma Strategy, raising the knowledge among the Roma population of their constitutional and human rights.
- the mechanisms to report and address rights violations and the percentage of cases that have a positive resolution.
- inclusion of Roma in the state system by securing their status as citizens of North Macedonia, thus ending their stateless status.
- number of Roma that have received identification documents.
- number of Roma that have completed their primary education through the completion of primary education program and expanding it to completion of secondary education.
- number of Roma employed in companies or those who have received self-employment grants.
- number of Roma that have started to receive state services.
- number of Roma engaged in local actions in their municipalities.
- number of municipalities that allocate funds to support the implementation of activities for addressing Roma needs.

Strategic partners are likely to include local and national government entities (e.g., Ministry of Labor and Social Policy, Ministry of Education and Science, the public service broadcaster MRTV, the media regulator, and municipalities), State Commission for Anti-Discrimination, private sector, civil society, and others willing to invest in locally led practices and social inclusion. Key donors and other development partners will include UNHCR, Swiss Development Agency, Swedish Development Agency, UNDP, UNICEF, OSCE, Council of Europe and the EU Delegation.

IR 2.2 mutually reinforces IR 2.1 and fosters IR 3.1 and especially 3.2. To support the rationale for IR 2.2, the Mission Used evidence and data drawn from:

- Localization at USAID: The vision and approach
- New Partnerships Initiative Action Plans: Insights for Strengthened Partnerships, Inclusive Development, and Localization
- Local Capacity Strengthening Policy
- Local Systems: A Framework for Supporting Sustained Development
- USAID Diversity, Equity, Inclusion, and Accessibility Policy
- State Department: North Macedonia Human Right Report

USAID/North Macedonia Country Development Cooperation Strategy, 2020 – 2026

- USAID Cross-sectoral Youth Assessment (2019)
- [Balkan Barometer Public Opinion 2023](#)
- USAID LGBTQI+ Inclusive Development Policy
- Report Barometer of Equal Opportunities (Commission on Prevention and Protection against Discrimination and Macedonian Center for International Cooperation, 2023, Skopje)
- Annual Reports and Monthly Bulletins of bias motivated incidents recorded by the Macedonian Helsinki Committee at <https://zlostorstvaodomraza.com/> (accessed 2023)
- European Union Screening Report for Cluster 1- Fundamentals (July 2023)

DO3 - Corruption Reduced

DO3 Development Hypothesis Statement:

IF the public sector is accountable in terms of delivery of equitable, timely, and quality public goods and services, IF government processes function with increased transparency, IF effective mechanisms for addressing corruption are implemented, and IF non-state actors (citizens, CSOs, media and private sector) embrace a culture of accountability, playing a personal role in fighting corruption, THEN corruption will be reduced.

DO3 Development Hypothesis Narrative:

Widespread corruption stymies economic growth and social cohesion and contributes to political fragility and instability. Corruption is eroding the credibility and effectiveness of public institutions and rule of law, and it is accepted by citizens as a cultural norm. Corruption thrives in an environment bereft of rule of law, accountability, and effective administrative structures and internal controls. It also flourishes where access to resources are politicized, and where the biggest employer is the state administration, like in North Macedonia.

Recent empirical studies identify a strong effect of weak institutions and governance on emigration, particularly of highly educated and skilled workers—a significant problem in the country. Ironically, while North Macedonia scores exceptionally well in the World Bank’s Doing Business Report, it ranks poorly on corruption. Corruption is also a significant barrier to external investment. In a survey of more than 350 businesses worldwide, 35 percent of companies were deterred from an otherwise attractive investment because of the country’s reputation for corruption. The European Commission 2023 Report states that North Macedonia is in between some and moderate level of preparation in the prevention and fight against corruption, and that no progress was made in 2023. Corruption remains prevalent in many areas and is an issue of concern. The implementation of the National Strategy for the Prevention of Corruption and Conflict of Interest (2021- 2025) and the related Action Plan has been staggered with the State Commission for Prevention of Corruption (SCPC) reporting as little as 13 percent of the activities planned for 2023 were implemented in full by the end of year. Recent amendments to the Criminal Code led to reversals in trials of high-level corruption cases due to the expiration of

USAID/North Macedonia Country Development Cooperation Strategy, 2020 – 2026

the statute of limitations. Henceforth, *greater accountability and effectiveness of government institutions, strengthened by a powerful expectation of accountability among citizens and individual citizen action to fight everyday corruption, is urgently needed to reverse the entrenchment of norms that bolster and spread corruption.*

DO3 will build on previous investments to build civil society and government capacity for sharpening the focus on endemic corruption.¹³ Previous support for political processes already shifted to target political party transparency and accountability, key to countering malign influence in a society governed by political party dominance. DO3 will focus on increasing accountability, both of government institutions and among citizens, and reducing vulnerabilities to corruption through digitalization and other tools. Key DO3 priorities will be to establish new resource partnerships with the central and local government to help them improve the delivery of public goods and services, increase the transparency of government processes, and implement effective mechanisms for addressing corruption.

In addition to building upon the lessons learned from previous investments in anti-corruption and rule of law activities, DO3 activities will explicitly seek to support local efforts to buttress transparency and accountability mechanisms and reforms in a way that will cement progress and reduce backsliding. Heightened public awareness and scrutiny, implemented legislation, increased e-governance solutions, and strengthened procurement and public financial management systems will reduce the space where corruption can take place. Cementing these advances, combined with the start of EU accession negotiations, will provide concrete incentives for government institutions and political parties to advance and adhere to anti-corruption and rule of law reforms.

DO3 will be an important area in which to build safety valves for early identification of backsliding, with aggressive plans for mitigation. This is an area where other U.S. government entities, such as the Department of Justice, DoS's Bureau of International Narcotics and Law Enforcement Affairs and Public Affairs Offices, and even the Peace Corps can play a role in supporting government entities or non-state actors' (citizens, CSOs, media and the private sector) involvement in embracing a culture of accountability.

Country context critical to DO3:

Corruption in the country is an enormous and costly problem at every level. It is a significant concern in the public sector, with a large proportion of the population considering Parliament, police, public officials, and particularly the judiciary and political parties very corrupt. It is so endemic that it also plays out down to the individual level, taking the form of bribes that could

¹³ An accountability strategy must address **both** 'vertical' systems of accountability, i.e., where citizens hold institutions accountable, and 'horizontal' accountability, i.e., when state institutions engage in mutual scrutiny to correct abuses of office.

USAID/North Macedonia Country Development Cooperation Strategy, 2020 – 2026

be money, gifts, or favors. Corruption is enabling debatable investments in the economy and technology that entrench corrupt practices and deter domestic and foreign investment and economic growth; it is also creating openings for campaigns to undermine confidence in democratic and free-market systems and integration in Euro-Atlantic alliances and markets such as NATO and the EU. Fortunately, there are other significant development partners, focused on fighting corruption, and significant collaboration is anticipated on this broad based and critical issue.

Linkages with other countries in the region, particularly on DO3:

The political and economic development of the countries in the Balkan region has long been affected by forces outside the region, including malign influence. Corruption across the Balkans is a serious concern and has impeded EU accession process. North Macedonia tied with Albania as last in the Transparency International's Corruption Perception Index. Other Balkan countries are within 1-2 points of one another, meaning that corruption levels are generally high and even across the region. Given that the Balkan countries are anxious to join the EU, which requires concrete results in combating high-level corruption as a key condition for accession, certain forces are reportedly going to great lengths to pull these countries into their sphere of influence. These concerns have been documented by various international reports, which have raised major concerns among EU officials on the enlargement process. The Balkan countries must meet social, political, and human rights standards as fundamental qualifications for joining the EU. The green light to open accession negotiations reflects commitment to reform, which will need to be sustained since their social and political life is deeply beset by corruption.

DO3 Relevant Critical Assumptions:

Assumptions:

- Weak political will on the side of the government to build accountability, address corruption, and strengthen rule of law.
- Individual public sector regulatory institutions are champions against corruption.
- EU accession negotiations will continue during the CDCS timeframe.
- The populace is willing to overcome apathy and be an active participant in fighting corruption.
- The country is open to a digital transformation for optimum transparency and reduced vulnerabilities to corruption.
- Other donor partners will be willing to work with USAID to reduce corruption and increase accountability.
- USAID, and the broader Embassy community, will project clear and consistent messages on the priority of reducing corruption.

USAID/North Macedonia Country Development Cooperation Strategy, 2020 – 2026

IR 3.1 Accountability of Public Sector Increased

IF delivery of quality public goods and services is strengthened, transparency of government processes are increased, and vulnerabilities to corruption are reduced, THEN accountability of the public sector will increase.

Recent empirical studies identify a strong effect of weak institutions and governance on emigration, particularly of highly educated and skilled workers—a significant problem in the country. USAID can play a catalytic role by enhancing government functioning, coordination, transparency, and accountability within state entities, and by employing diverse partnerships and innovative approaches. USAID will promote merit-based recruitment, reduce and bring the discretionary powers of officials into public knowledge, foster ethics and integrity standards, support institutions to address corruption instances, and expand transparency through digital services. USAID will emphasize a central and local-level focus on digital transformation to decrease corruption opportunities, supporting key institutions and processes. Collaborating with accountability institutions, USAID will develop comprehensive strategies for adopting digital solutions in priority sectors like healthcare and civil service management, aiming to improve efficiency, effectiveness, and interinstitutional communication while reducing corruption in service delivery.

Further, USAID will play an important role with local governments to help them operate with appropriate macroeconomic management, efficient resource allocation in alignment with national priorities, budgets executed as planned in a timely way, strengthened internal controls and improved procurement practices, effective control and oversight, and greater transparency. Additionally, USAID will enhance digitalization and institutional interoperability in municipalities by helping them increase own-source revenues through improved tax systems, digital services, and e-governance.

Potential indicators of progress may include the percentage change in municipalities with improved public financial management reporting requirement systems, the percentage change in surveyed citizenry satisfied with municipal government services, and the percentage change in citizens who have access to on-line budgeting and planning documents.

USAID will explore a policy reform agreement within the DPGA, and Memoranda of Understanding with local governments, to ensure appropriate adoption and implementation of policies and regulations, accountable public expenditure, and a commitment to a system of checks and balances. The Mission will also use existing mechanisms to strengthen consultation and coordination with other Development Partners to optimize investments. We will actively seek new partners through innovative procurement tools, such as co-creation, SOOs, BAAs, and APSS.

USAID/North Macedonia Country Development Cooperation Strategy, 2020 – 2026

Strategic partners are likely to include national government ministries, e.g. finance, local self-government, the State Audit Office, the State Commission for Prevention of Corruption, other mission and regional USAID programs operating in the Western Balkans, municipal governments, and the Association of Local Governments (ZELS). Key donors and other development partners will be the EU and WB, the British Embassy, the Swiss Development Cooperation, and the Netherlands Embassy MATRA Fund. Particular attention will be paid to collaboration with the many donors in this critical space.

IR 3.1 mutually strengthens IRs 2.1, 2.2 and 3.2, supports IR 1.1, and strengthens capacity for IR 1.2 (governance rankings by the WB are especially low in political stability, accountability, and rule of law, and are identified as key constraints to doing business in the country).

To support the rationale for IR 3.1, the Mission used evidence from:

- USAID Anti-Corruption and Integrity Activity 2022-2023
- USAID Partnership to Combat Corruption Activity 2022-2023
- North Macedonia EU Progress Report 2023
- WB Diagnostic: Seizing a Brighter Future for All 2018
- Stakeholder consultations 2019

IR 3.2 Culture of Accountability among Non-State Actors (citizens, CSOs, media and the private sector) Enhanced

IF non-state actors (citizens, CSOs, media and the private sector) embrace a culture of accountability, demanding engagement of the government while also playing a personal role in fighting corruption, THEN corruption will be reduced.

The culture of accountability among non-state actors will increase engagement to counter corruption and demand good governance. This IR will support CSOs, investigative journalists, the private sector and citizens in rejecting the country's culture of corruption. By fostering a culture of awareness, integrity, and accountability—while fostering opportunities and encouraging action to address corrupt practices—non-state actors can both individually and jointly act on and exert pressure for improved government responsiveness and effectiveness in addressing corruption. This IR will promote partnerships and facilitate dialogue between civil society, media, the private sector, and state institutions with the aim of developing and implementing effective anti-corruption policies and measures. It will work closely with IR 3.1 mechanisms to support collaboration among state actors, institutions, and citizens to collectively address vulnerabilities to corruption and act on it when it occurs.

There is also an extensive base of experience on the use of community monitoring mechanisms supporting community knowledge and advocacy for accountability, including community scorecards and social audits. USAID will explore the possibility of linking such community

USAID/North Macedonia Country Development Cooperation Strategy, 2020 – 2026

monitoring potential for community accountability to transparent procurement and public financial management systems. Heightened public awareness and scrutiny, implemented legislation, increased e-governance solutions, and a strengthened system will reduce the space where corruption can take place. DO3 will foster the concept that corruption should be treated as a crime, and not as a concept. Importantly, USAID will bring the private sector more directly into the fight against corruption and foster collaboration and partnerships to leverage their investments and advocacy to significantly reduce opaque governmental processes and procedures to minimize opportunities for large-scale and petty corruption.

USAID will actively seek new partners, using co-creation, through innovative procurement tools. USAID will require country partners to lead and fund joint efforts. For example, the Mission will seek partners willing to use their platforms to reach out to citizens, such as through social media and consultative groups. The Mission will also seek partners to catalyze citizen involvement in fighting corruption. In addition, the Mission will explore partnerships with communications firms that can support multiple platforms to effectively influence citizens.

Strategic partners are likely to include the government, private sector, civil society, media, and others willing to invest in shaping citizen attitudes, values, and practices for countering corruption, communications experts and firms, and citizen organizations. Key donors and other development partners will include the EU and WB, the British Embassy, the Swiss Development Cooperation, and the Netherlands Embassy.

IR 3.2 strengthens IRs 3.1 and 2.1 and 2.2, and strengthens capacity for IRs 1.1, 1.2, and 1.3. To support the rationale for IR 3.2, the Mission used evidence from:

- Results of the USAID Civic Engagement Project
- Bridge activities from the Anti-Corruption and Integrity activity
- WB Diagnostic: Seizing a Brighter Future for All
- Stakeholder consultations 2019

V. Monitoring, Evaluation, and Learning (MEL)

USAID will be employing an intentional and continuous approach to increase the Mission's capacity to monitor and evaluate progress toward achievement of CDCS DOs, as well as to collaborate, learn, and ensure iterative adaptation during CDCS implementation.

Monitoring Performance Management:

USAID will revise the Performance Management Plan (PMP) based on the revised Results Framework. In addition to redefining and replacing PMP indicators, USAID will organize more frequent MEL workshops with the implementing partners to focus on outcome level results.

USAID/North Macedonia Country Development Cooperation Strategy, 2020 – 2026

The substantive changes and the inclusion of additional indicators on climate change, green transformation of the private sector, cybersecurity, and private sector engagement will be tested during the portfolio review exercise in the fall and will feed into the annual Performance Plan and Report. We will also monitor several contextual indicators at the DO level, as well as compiled indicators at a regional level that show relative progress as compared with other countries in the region. In addition, within the Local Works program, aligned with the overall strategic approach, USAID will use a Geographic Information Systems (GIS) as one of the methods to monitor performance.

Evaluations:

Assessing progress during the CDCS implementation will be consistent with USAID's Evaluation Policy, including the requirement for at least one performance evaluation per Intermediate Result (ADS 201.3.6.5). USAID will exercise an option to focus on specific themes rather than just examine individual activities given that our DOs intertwine and reinforce each other. Our Evaluation and Assessments Plan will be revised as part of the PMP, and USAID will ensure that information from the Evaluation and Assessments Plan is included in the Evaluation Registry of the annual Performance Plan and Report. At the strategy level, USAID will conduct a final assessment intended to inform development of USAID's subsequent priorities and strategic transition.

Learning:

USAID will enable Collaborating, Learning, and Adapting (CLA) among Mission staff, implementing partners, country stakeholders, and donors throughout the life of the strategy. USAID will develop a CLA plan as part of the Mission PMP. The following principles will guide the Mission's CLA approach: a) balanced portfolio management in which reviews and learning will take place around DOs; b) as envisioned, the DOs reinforce each other; therefore, the collaboration across DOs will be optimized; and c) the PMP will include milestones and other indicators specifically selected to alert the Mission if shifts among different scenario trajectories are taking place. The PMP will identify context monitoring and other sources to learn and adapt the Mission's evolving role and relationship in the country and may include the following indicators: established and strengthened partnerships, resources leveraged, and effective collaboration with other donors and government. All these inputs will be used to adjust DO implementation. USAID will revise its learning questions related to specific focus areas in the PMP, and the evaluation scopes of work. To better ensure sustainable results and increased commitment, the Mission will consider the following in its learning agenda to be assessed throughout the CDCS: 1) How does the Mission facilitate the private sector, citizens, and the government working together organically? 2) How can USAID better engage with new partners and identify possibilities for innovative development financing without proliferating management units? 3) What are the most effective tools or approaches for inclusive engagement of citizens to demand transparency and fight corruption?