

# **AHMETI'S VILLAGE**

## **THE POLITICAL ECONOMY OF INTERETHNIC RELATIONS IN MACEDONIA**

*ESI Macedonia Security Project  
Supported by the Foreign Ministry of Switzerland*

Skopje and Berlin  
1 October 2002

## EXECUTIVE SUMMARY

This report explores the political economy of ethnic relations in Macedonia – the “other conflict” of diminishing resources and collapsing lifestyles which so often goes unnoticed.

It looks at a region of 52,000 people in Western Macedonia, inhabited by 50 percent ethnic Albanians and 40 percent ethnic Macedonians. Like much of Macedonia, Kicevo (Albanian: *Kercova*) has a deeply rooted tradition of ethnic coexistence. There has been no communal violence in this region for decades, and it remained peaceful even at the height of last year’s fighting. Yet it exhibits a diversity of economic and social patterns among its communities which seems programmed to generate inter-ethnic suspicion and fear.

Zajas, “Ahmeti’s village”, is a rural municipality of some 10,000 inhabitants in the Kicevo region. It is the home of the guerrilla leader turned party politician, Ali Ahmeti, who led the uprising that brought the country to the brink of civil war in 2001. The Macedonian state is largely absent from the daily lives of the people of Zajas and other rural Albanian areas. There is almost no official employment and little infrastructure. The local economy is fuelled entirely by remittances. By conservative estimates, ethnic Albanian migrants from Kicevo working in the US and Europe send home more than €16 million annually – more than the total salaries paid to Kicevo’s ethnic Macedonians in the public sector and former socially owned enterprises.

The majority population in the town of Kicevo are ethnic Macedonians. Their lives are shaped by the crisis of the industrial society created by Yugoslav socialism. Macedonian households have seen their living standards collapse over the past two decades. Local industry has long since stopped hiring, and the public administration is under pressure both to downsize and to make space for more minority representation. There is almost no new private sector in the ethnic Macedonian parts of Kicevo, with the exception of a few small construction firms, shops and cafés. The employment crisis is likely to deepen and each job that disappears pushes another household into poverty.

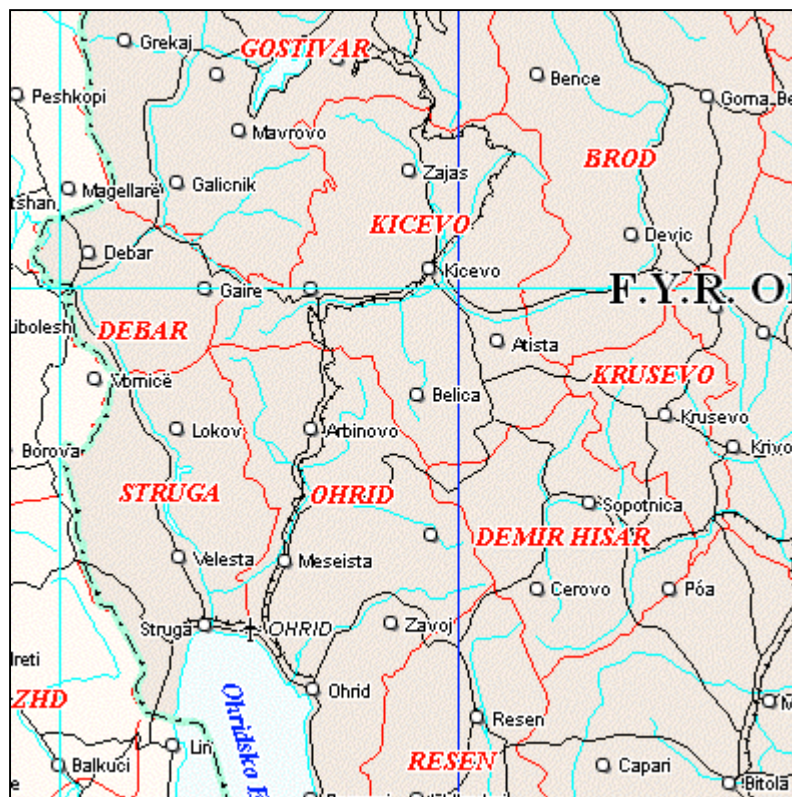
Inter-ethnic relations in Kicevo are framed by this paradox. As the primary beneficiaries of four decades of industrial development, ethnic Macedonians have been left cruelly exposed to its rapidly declining fortunes. The exclusion of Albanians from the socialist sector and the benefits it offered have forced them to seek out economic strategies, chiefly labour migration and small-scale trade, which have left them better equipped to survive the collapse of the socialist system. However, the weakness of the Macedonian state is as much a constraint on the development of the Albanian community as it is for the Macedonians. Diaspora wealth funds consumption and trade in Kicevo, but very little in the way of productive investment. Large sections of the Albanian community remain trapped in a cycle of underdevelopment, particularly in the rural areas.

These divergent experiences explain the very different perceptions among the two communities as to *how* the Macedonian state is failing, and who is paying the price for its failure. Despite its relative prosperity, the Albanian viewpoint is coloured by a lifetime’s experience of exclusion. Albanians are struggling to access a system of state-sponsored benefits which has all but disappeared. For their part, ethnic Macedonians feel under siege, both socially and economically, and experience Albanian demands as a direct threat to their position. In this environment, the struggle for control over diminishing public resources easily takes on an ethnic colour, giving the Macedonian political economy its highly combustible nature.

It is tempting to think that the hardest part of achieving sustainable peace in Macedonia has already been achieved. However, the analysis in this report suggests otherwise. Both for the Macedonian political elite and for the international community, many of the most difficult issues must be tackled in the coming period.

The key provisions of the General Framework Agreement of August 2001 (the Ohrid Agreement) – equitable representation of minorities in the public administration, language rights and the strengthening of local government – will require an ambitious programme of restructuring institutions and redistributing public resources. With Macedonia under pressure to rein in public expenditures, this will inevitably be seen as threatening by the ethnic Macedonia community, particularly when it comes to sharing public-sector employment.

For the nascent common European foreign and security policy, Macedonia has been a model for how a concerted intervention can contain a conflict, turning a crisis into a diplomatic success. To build on this, however, the European Union will have to develop a credible programme not just to implement the provisions of the Ohrid Agreement, but also to address the structural causes of ethnic conflict. Only a serious commitment of European assistance which addresses the problem of industrial decline and rural underdevelopment can alleviate the dangerous dynamics which currently shape Macedonian society. The battle for stability in Macedonia is far from being won. It is in places like Kicevo and Zajas that Ohrid implementation must begin to make a difference in people's lives.



*The Kicevo region in Western Macedonia*

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## I. INTRODUCTION

Most travellers in Macedonia pass through Kicevo, on the road from Skopje to Ohrid via Tetovo. But many of them will barely notice the town, let alone the intense social drama of contemporary Macedonia which is being played out in this region.

Entering the Kicevo region from the north, the traveller first reaches the village of Zajas, home to the guerrilla leader turned party politician, Ali Ahmeti. The uprising led by Ahmeti brought the country to the brink of civil war in 2001 and his new party, the *Democratic Union for Integration*, has since emerged as the Albanian community's pre-eminent political force. On the left-hand side of the road stands the house of his uncle, Fazli Veliu, who formulated the ideology of the Kosovo KLA and the Macedonian NLA from his diaspora home in Switzerland. The village of Zajas has no real centre, just a scattering of cafés and shops along the main road. The old iron-ore mine of Tajmiste lies to the right, but has been shut since the mid-1990s. A sign on the left points the way to the region's largest employer, the thermal power station in Oslomej.

At the outskirts of Kicevo town, the traveller enters the heart of the region's industrial zone, with all the premier companies of the socialist era lined up along the road like pearls on a string. Taking the turn-off from the main road into Kicevo, the traveller enters via the main street, Liberation Boulevard, which divides the town into two distinct quarters: the Muslim (mainly Albanian but also Turkish) on the left and the ethnic Macedonian on the right. What makes the basic pattern so visible is that, during the summer months, the Albanian quarter is much more lively. Along the left-hand stretch of the main shopping street, Aleksandar Makedonski, the shops and cafés are doing a lively trade. On the ethnic Macedonian end, customers are sparse. Most of the building projects on Liberation Boulevard are Albanian financed, including the former socialist-style shopping mall which is being converted into a reception centre for Albanian weddings.

Continuing along the main road, the visitor passes a defunct furniture company and the large grain silo of the bakery, Zito Karaorman, before reaching the empty fields of the former agricultural co-operative which mark the edge of the urban area. Another few minutes drive and the traveller is in the ethnic Macedonian village of Drugovo, where the entire municipal administration is housed in a red, temporary-looking shelter and the windows of the local office of the republican ministry of justice are broken. Next comes the small, visibly impoverished village of Izvor, with its textile company and a fish farm. And then Kicevo is behind her – apparently just another unremarkable Macedonian backwater.

What the traveller hurrying through Kicevo may have missed are the complex social dynamics between two communities pursuing very different development paths, and the profound implications of this story for the future of the country.

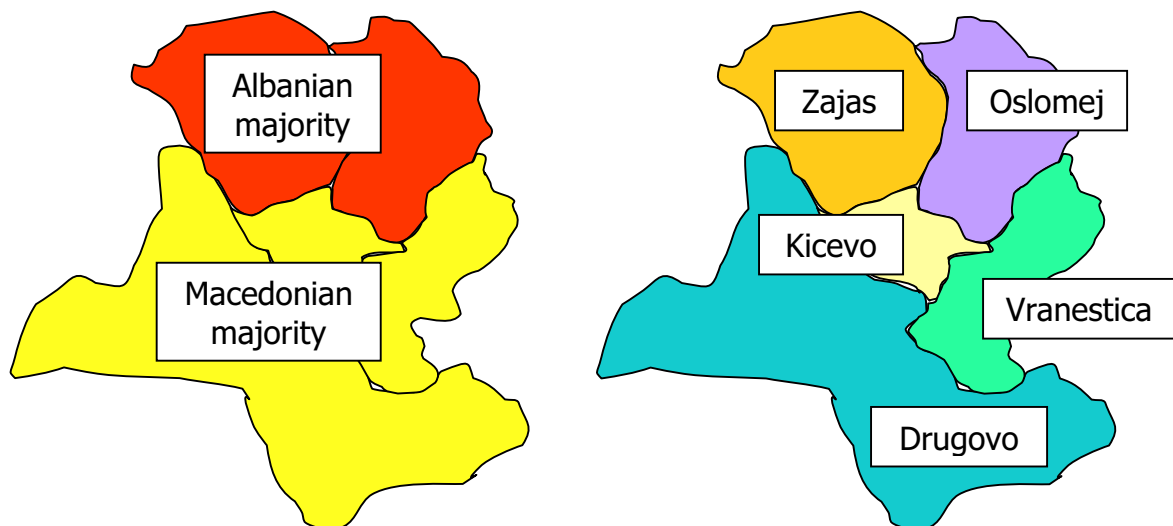
There has been no communal violence in this region for decades, and it remained peaceful even at the height of last year's fighting. Like much of Macedonia, Kicevo has a deeply rooted tradition of ethnic coexistence. Although Macedonians, Albanians, Turks and Roma live largely separate lives, there are countless areas where they interact. The VMRO mayor was elected in 2000 with the support of Kicevo's Muslims. For years now, the municipal gazette has been published in two languages, and the high-school has approximately equal numbers of Albanian and Macedonian students.

But the story of Kicevo is central to last year's Macedonian conflict in a much deeper way. This region of 52,000 people contains an extraordinary diversity of social and economic patterns. Its different ethnic groups are undergoing deep social changes which are pushing them along widely divergent paths. It is a pattern of development (and decline) which seems programmed to generate inter-ethnic suspicion and fear.

This study of economic and social life in Kicevo is written to explore the political economy of ethnic tension in Macedonia – the “other conflict”<sup>1</sup> of diminishing resources and collapsing lifestyles which so often goes unnoticed by international observers and threatens to undermine the important diplomatic achievements of the past year.

It is also written to explore the difficulties which lie ahead in implementing the Ohrid Agreement of 2001, which brought to an end the insurgency led by Ali Ahmeti. If the Ohrid Agreement is to be the instrument which pulls the country back from insecurity, it is in places like Kicevo, which have not succumbed to political instability, where it must have its greatest impact. Understanding these obstacles, and finding ways to overcome them, will be key to the success of the new Macedonian government, and to ensuring effective support from the side of the international community.

Kicevo Region: ethnic profile  
and post-1996 municipal boundaries



<sup>1</sup> European Stability Initiative, *The other Macedonian conflict*, Discussion Paper, February 2000: [www.esiweb.org](http://www.esiweb.org).

## II. CONTEXT

The West Macedonian region of Kicevo (in Albanian Kercova), home to 26,000 ethnic Albanians, 21,000 ethnic Macedonians, 2,500 ethnic Turks and 1,300 Roma, is a mirror of contemporary Macedonian society.<sup>2</sup> Driving through its villages, strolling its streets, visiting its factories and talking to its people brings one face to face with a society in the midst of a social and economic revolution.

The social landscape of Kicevo has been shaped by the rise and fall of the industrial society created by Yugoslav socialism. In the decades which followed the Second World War, most Macedonians left the harsh, traditional life of subsistence agriculture and moved into the town of Kicevo, drawn by jobs in the new industrial sector and the lure of an urban lifestyle. Many rural areas were left completely depopulated, and the town became home to three quarters of all ethnic Macedonians in the region.

In contemporary Kicevo, one can see the remnants of this process of industrialisation lined up along Ilinden Street (also known as Industry Street) – the formerly proud companies which were once the backbone of a new industrial society. With privatisation largely complete, most of these enterprises are either closed down or clinging to a precarious existence. Of some 6,600 jobs in socialist companies in 1990, half have already disappeared and further decline is inevitable.

The local economy of Kicevo's ethnic Macedonians now depends heavily on the thousand jobs (even more than in socialist times) provided by the state-owned, thermal power station in Oslomej, part of Macedonia's electric utility ESM. There are also a number of residential construction projects funded by the public housing company in Skopje, which is headed by a former VMRO mayor of Kicevo, Ilija Kitanoski. The directors of these two public enterprises are childhood friends, and at this moment considered to be the most influential figures in the small world of Kicevo's political economy. Under the outgoing republican government, their connections in business and politics helped to sustain the remaining socially owned firms, closely linked together by a network of subcontracts.

*Table 1: Demography and ethnic structure in the Kicevo region<sup>3</sup>*

Municipality	1948	Total	1994		
			Maced. %	Alb. %	Other %
Kicevo	8,761	27,543	<b>58.55</b>	26.12	15.33
Drugovo	9,824	3,555	<b>87.43</b>	3.68	8.89
Oslomej	7,401	9,170	1.74	<b>98.16</b>	0.10
Vranestica	4,203	1,650	<b>79.94</b>	0.48	19.57
Zajas	5,949	10,055	2.79	<b>97.12</b>	0.09
<b>Total</b>	<b>36,138</b>	<b>51,973</b>	<b>40.39</b>	<b>50.22</b>	<b>9.39</b>

*Source: Census data 1948 and 1994, projected according to 1996 municipal boundaries.*

Without this continuing flow of public funds, there is no economic dynamic to be seen in the industrial sector. The ethnic Macedonian managers of the former socially owned enterprises

<sup>2</sup> Census data 1994 (which is contested by Albanians, Turks and Roma).

<sup>3</sup> Under the 1996 Law on Territorial Organisation, the former municipality of Kicevo was divided into five new municipalities. In this report, "Kicevo region" refers to the pre-1996 municipality and "Kicevo municipality" to the post-1996 municipality of the same name, made up of Kicevo town and six villages.

(SOEs) foresee a grim future. Gathered in a hotel owned by the company Tajmiste, whose iron-ore mine was shut down a decade ago, they await the arrival of a big foreign investor to regenerate the local economy (“FIAT”, suggests one; “BASF”, says another). They complain of the encirclement of their town by Albanians and the instability of the region as a whole. Under the present conditions of “fear and insecurity”, they tell each other, the most competitive enterprises with the best managers in the world would be failing.<sup>4</sup>

The economic reality which Kicevo's ethnic Macedonians now face is not merely one of stagnation, but of a slow and relentless decline. This process has generated a deep fear of social relegation on the part of urban Macedonian households, who have seen their living standards collapse over the past two decades. Their sense of insecurity is acute.<sup>5</sup> Each job that disappears pushes another household into poverty. Former SOEs have long since stopped hiring, and the public administration is under pressure both to downsize and to make space for more minority representation. There is almost no new private sector in the ethnic Macedonian parts of Kicevo, with the exception of a few small construction firms, shops and cafés.

Vesna, chief accountant of the metal-working SOE Tane Calevski, is a typical case of what economic transition has meant at household level. Until the early 1990s, her family had two incomes from SOE jobs and enjoyed the high standard of living common to the urban middle class across the former Yugoslavia. In the early 1990s, the position of her husband at the textile company Kikotex was made redundant while he was still too young to receive a pension. His severance package has long since gone. Occasionally, he finds casual work as a waiter for €5 per day. Vesna's salary is €125 per month, but is months in arrears. As Vesna explains, the most basic living costs in Kicevo come to at least €90 per month: food (€60); electricity (€15); telephone (€10); and water (€5). The middle-class privileges she once took for granted – a car, modern household appliances, an annual vacation at the seaside – are a thing of the past. Vesna's company faces a highly uncertain future, and is likely to slide into bankruptcy. If that happens, it will tip another family over the line into genuine poverty.

The new private sector is on the other side of Liberation Boulevard, and it is overwhelmingly young and Albanian. There are 184 shops crammed into the Albanian end of Aleksandar Makedonski Street, selling carpets, furniture, jewellery and wedding gowns. The shops make most of their annual turnover during the summer months, when thousands of Albanian migrants return to get married or build houses in their villages. In this period, the Albanian quarter bustles with activity, and Cadillacs and other impressive cars with Chicago and Alaska licence plates are parked along the sidewalks. Many of Kicevo's 300 private taxi drivers make a living shuttling the diaspora to and from Skopje airport. The heart of the Albanian economy is made up of traders, restaurateurs, construction workers, money changers, tradesmen and a few lawyers and private doctors.

The Albanian economic engine is fuelled almost entirely by remittances. By conservative estimates, the modern-day *Gastarbeiter* (migrant workers) send home or spend more than €16 million in Kicevo annually – more than the total salaries paid to Kicevo's ethnic Macedonians in the public sector and the former SOEs. Interestingly, the largest new private-sector employer of ethnic Macedonians in Kicevo is the textile company Himara, owned and managed by an Albanian who returned from France.

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<sup>4</sup> ESI interviews with the managers of many of Kicevo's privatised and state companies, May and June 2002.

<sup>5</sup> UNDP, *Human Development Report Macedonia 2001*, p. 11.



Kicevo's Albanians have been forced to channel their energies into this new private sector because of their traditional exclusion from jobs in the public administration and SOEs – largely the preserve of the ethnic Macedonian community. Although 50 percent of the population in the Kicevo region, Albanians hold only a third of the jobs in public administration, or 14 percent if one leaves out school teachers. Of the 1,000 workers in the power station in Oslomej, an almost entirely Albanian municipality, there are fewer than 60 Albanians. Across the rest of the former SOEs, there appear to be few Albanian workers.

Inter-ethnic relations in Kicevo are framed by this paradox. As the primary beneficiaries of four decades of industrial development, ethnic Macedonians have been left cruelly exposed to its rapidly declining fortunes. At the same time, the exclusion of Albanians from the socialist sector and the benefits it offered have forced them to seek out economic strategies, chiefly labour migration and small-scale trade, which have left them much better equipped to survive the collapse of the socialist system.

These divergent experiences explain the very different perceptions among the two communities as to *how* the Macedonian state is failing, and who is paying the price for its failure. With one foot abroad, the Albanian community sees the state as alien and unresponsive to its needs. Despite their relative prosperity, the Albanian viewpoint is coloured by a lifetime's experience of exclusion. For their part, ethnic Macedonians feel under siege, both socially and economically. The machinery of the state is growing weaker, out of touch with developments in this post-socialist, post-industrial society. As the economic privileges which once attached to control of the administration disappear, they are unable to comprehend the abrupt reversal of their fortunes.

This difference in perception helps to explain why education has become such a heated topic in Macedonian politics. Barely 10 percent of Albanians in the municipality of Zajaz have advanced beyond primary education.<sup>6</sup> For these Albanians, forced either to remain in the village or to leave the region in search of work, their lack of formal education is enduring proof of discrimination at the hands of the Macedonian socialist republic. The situation is now changing, and today there are almost equal numbers of Albanians and ethnic Macedonians in Kicevo's bi-lingual secondary school, Mirko Mileski. But change necessarily takes time, needing a generation to filter through the Albanian community.

For many ethnic Macedonians, the educational profile of Albanians is a sign of their backwardness and their inability to participate in modern society. The majority of urban Macedonians in Kicevo have acquired secondary or higher education. Their privileged access to the education system was the key to participating in the benefits of the socialist economy, in which jobs were strictly graded according to educational requirements. Now, they are baffled by the new rules of the game, in which the link between education and standards of living has been severed.<sup>7</sup> They find it incomprehensible that uneducated Albanians are in a position to purchase prestigious buildings in the centre of town. This devaluation of education is an

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<sup>6</sup> Source: Statistical Office of Macedonia, Census 1994.

<sup>7</sup> A World Bank report noted "the average rate of return to an additional year of schooling amounts to 7.6 percent, which is in the range typical of industrialised market economies": World Bank, *Enhancing Growth*, 1998, p. 58). However, this is misleading, applying only to the public sector where the state sets the salary levels by reference to education levels. It does not hold for the labour market generally, as the Bank noted in another report (FYROM *Focusing on the Poor*, 1999, p. 23): "In contrast to most countries, the private sector rewards education less than the public sector. This somewhat surprising fact is attributed to private sector growth in low skilled industries."

affront to their social status, and is all too often rationalised as evidence of criminality among the Albanians.

The director of the Oslomej power station, Blagoje Despotoski, remembers the Albanian political leader Ali Ahmeti from the time they attended the Kicevo *gymnasium*, the only source of secondary education in the area.

“He was one class below me. He was a nobody then, he knew nothing. And now he poses conditions and blackmails us. I studied at university, he did not. I cannot respect him.”<sup>8</sup>

Albanians of Ahmeti's generation intensely resented their exclusion from the education system, which at tertiary level was conducted exclusively in the Macedonian language, and during certain periods at secondary level as well. Some of the most radical thinkers, including Ahmeti's uncle Fazli Veliu, were teachers resentful of the intellectual establishment of Macedonia. Veliu taught at the Kicevo *gymnasium* before going to Kosovo and then to Switzerland. Albanians, even those who left a long time ago and only return for visits, express their frustration at the way access to education and formal qualifications was used in the past to block their careers.

There is an obvious lack of respect between the communities, which emerges time and again in conversations about the overall economic situation. Many Albanians see Macedonians as lacking initiative and unwilling to work, wedded to white collar jobs and patronage networks. Many Macedonians see Albanians as backward and prone to crime. The new wealth of their Albanian neighbours is seen not as potential investment capital or the results of hard labour abroad, but as the fruits of illicit activity. “When they see my wealth they say I am a drug dealer,” shrugs the owner of a large limousine service in the United States who, in his own words, “discovered Alaska in 1971.” The language of “rampant corruption” and “organised crime” covers just about any grievances, however diverse they may be, between the two communities.

In reality, however, the weakness of the Macedonian state is as much a constraint on the development of the Albanian community as it is for the Macedonians. Diaspora wealth funds consumption and trade in Kicevo, but very little in the way of productive investment. Large sections of the Albanian community remain trapped in a cycle of underdevelopment, particularly in the rural areas. The emigration of Albanians continues to provide the only safety valve for the pressures generated by Kicevo's failing economy. For most ethnic Macedonians in the region, there is no such escape route available.

### III. THE RISE AND FALL OF INDUSTRIAL SOCIETY

#### A. Transition and employment

Economic transition in Macedonia, in the narrow sense of the range of specific policy measures which the international financial institutions have advocated across all post-communist countries, is largely complete. The core institutions of the socialist economy, such as the payments bureau and the central planning organs, have disappeared. Privatisation of socially owned companies and banks is far advanced. Most enterprises that could attract a buyer have

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<sup>8</sup> ESI interview, June 2002. Ahmeti has in fact studied at Prishtina University.

already been sold, and although some former SOEs still operate under the protective umbrella of the state, many of them have been liquidated. New entrants into the Macedonian economy are now subject to the “discipline” of market forces.

However, for the Macedonian people, economic transition has overwhelmingly been experienced as a collapse in living standards and general rise in economic insecurity. According to the UNDP,

“transition to a market economy... has led to a massive rise in unemployment, a sharp fall in family incomes, diminution in official support services and a rise in general poverty levels – widely based and extremely troubling for a large proportion of the population.”<sup>9</sup>

Official unemployment has doubled since the beginning of the transition to more than 30 percent, cutting across all social and ethnic groups.<sup>10</sup> Nearly half of those under 30 years of age have never held formal employment, despite high levels of education. For those still employed, salaries have been compressed and are often heavily in arrears, and 90 percent feel at least some level of anxiety about losing their jobs. Social welfare programmes are failing to provide an effective safety net – 49 percent of social welfare beneficiaries report that, despite frugal lifestyles, their benefits are spent in the first ten days of the month.<sup>11</sup>

In the industrial sector which once provided the bulk of employment in Macedonia, economic transition has left most companies limping along at a fraction of their former production levels. In theory, the weeding out of inefficient enterprises should have freed up assets for more productive use in the private sector. Yet the response of the new private sector has been slow, and its employment needs remain very modest. Only the state itself has continued to provide a reliable source of employment, although the social status and standard of living attaching to jobs in the public sector are diminishing every year. For ordinary Macedonians, the question they must be asking is – transition to where?

Table 2: UNDP opinion poll in December 2000<sup>12</sup>

<i>What makes you most insecure?</i>	<b>Percent</b>
Unemployment	57.2
Low income, despite being employed	16.2
Poor social assistance from the state	6.2
Ethnic tensions	5.0
Crime	4.3
Negative influences from the international community	2.4
Negative influences from neighbouring countries	1.9
Lack of opportunities to use health service	1.7

These trends become much more palpable when one studies a place like Kicevo. The industrial jobs which once provided the backbone of the local economy have contracted by more than half, and the remainder are looking extremely tenuous. The new private sector is mainly a realm of family-run shops and cafés, with a small construction sector heavily dependent on public work contracts. Only a handful of companies have emerged which are able to offer

<sup>9</sup> UNDP *Human Development Report*, Macedonia 2001; Opinion Poll, ISPP, December 2000, p. 4.

<sup>10</sup> UNDP *Human Development Report*.

<sup>11</sup> *Ibid.*, p. 29.

<sup>12</sup> *Ibid.*, p. 121.

employment in double figures. As the productive sector contracts, the economic and social significance of the state as employer becomes more important over time, not less.

Table 3: Registered unemployed in Kicevo, Drugovo, Oslomej, Vranestica and Zajas<sup>13</sup>

Registered unemployed				No.
Male				4,969
Female				3,483
Town				5,371
Village				3,081
Unqualified workers				4,109
Semi-qualified workers				741
Qualified workers				1,228
Technicians				1,983
Higher schools and university				391
Up	to	30	years	3,541
31	to	40	years	2,412
41	to	50	years	1,431
over 50 years				1,068
<b>Total</b>				<b>8,452</b>

## B. Privatisation and its aftermath

As in the rest of Macedonia and throughout the Balkan region, economic transition in Kicevo has amounted to a painful process of de-industrialisation. A quarter of its socialist era enterprises are already in liquidation, and half of the industrial jobs have gone. Most privatised companies have been sold through a process of insider privatisation to their workers and management, who have clung to their jobs while presiding over a steady de-capitalisation of assets.

Of 32 significant state and socially owned enterprises in the Kicevo region, 13 have already been privatised, two are awaiting privatisation, nine are in liquidation and eight are to remain in public ownership.<sup>14</sup> In 1989, socially owned and public companies provided a total of 6,623 jobs. By 2002, this has dropped by half, to 3,298. There are still 490 jobs in companies waiting to be privatised, and in the post-privatisation companies, over-staffing is widespread.

Privatisation brought very little new capital investment into the socially owned sector. Only four of the 13 privatised companies were bought by external investors. None of the companies headquartered in Kicevo attracted any foreign interest, although there are two local outlets of national companies which have been sold to foreign investors: Macedonian Telecom and Stopanska Banka.

Interest from domestic investors was equally scarce. Only two companies were bought by private interests external to the company. The agricultural combine was bought by Blagoja Gjorgijovski, Kicevo's premier ethnic Macedonian entrepreneur, after it slid into bankruptcy.

<sup>13</sup> Source: Bureau for Employment (data from 31 December 2001). Note the age structure of the unemployed (41 percent younger than 30 years), qualification structure (48 percent unqualified), and geographical distribution (63 percent in the town).

<sup>14</sup> This is based on a list by the Skopje-based Agency for Privatisation, cross-checked with a large number of economic actors (enterprise directors, representatives of republican ministries) in Kicevo itself.

The other domestic investment was the purchase of one of Kicevo's two hotels, Hotel Union, by an academic and two entrepreneurs. In addition, a local outlet of the liquidated ceramic combine, the brick factory in Vranestica, was bought up by Granit, a subsidiary of one of Macedonia's former construction giants.

*Table 4: Employment in former socially owned and public enterprises*

	No. of companies	Workplaces
Socially owned and public enterprises (1989)		6,623
a. companies privatised to date	13	1,145
b. companies to remain public	8	1,631
c. companies still to be privatised	2	490
d. companies in liquidation	9	32
Former socially owned and public enterprises (2002)	32	3,298

Aside from these examples, the limited value of the enterprises on offer and the shortage of domestic investment capital has meant that economic transition in Kicevo has been a process of insider privatisation. Shares were distributed to workers, with the value offset against unpaid salaries, or were sold to managers at necessarily discounted prices, payable in instalments over many years. The process did not attract any new capital for investment or restructuring, leaving the companies to struggle on with a severely outdated capital stock. In fact, by transferring ownership to the existing workforce, the privatisation process made enterprise restructuring unlikely, as neither the workers nor the management intended to fire themselves. A law in force until 1998 determined that shares could only be traded freely within the existing workforce, while sales to outsiders needed the approval of the company board.<sup>15</sup>

The aftermath of privatisation leaves most of Kicevo's enterprises operating at a fraction of their former capacity, with heavy debt burdens and a severely underemployed workforce. As in the rest of Macedonia, the outcome has been deeply disappointing. In a report of April 2000, the IMF notes: "With the privatisation process nearing its end, the outcome has been below expectations. Internal ownership by workers and managers had widened, owing to the predominant reliance on insider privatisation... and, notwithstanding the impact of external factors, the overall financial performance of transformed enterprises failed to improve significantly."<sup>16</sup>

While privatised companies in Kicevo have sought to reduce their workforce through natural attrition and a freeze on new hires, there is still a serious problem of over-employment and inappropriate staffing structures in many of them, indicating the extent of the adjustment that lies ahead.

The management of the bakery Zito Karaorman, which currently employs 153 workers, admits that it could operate at the same capacity with less employees. In 2000, the bakery had a

<sup>15</sup> World Bank, *FYR Macedonia: Country Economic Memorandum – Enhancing Growth*, 30 November 1998, p. 18.

<sup>16</sup> IMF, *Former Yugoslav Republic of Macedonia – Recent Economic Developments*, 25 April 2000, p. 48.

turnover of €3.9 million.<sup>17</sup> By way of comparison, a private Kicevo bakery, Dime doel, achieved a fifth of this turnover (€783,000) with only 7 employees.<sup>18</sup>

The metal producer Tane Caleski, which is still awaiting privatisation, is another company which has failed to make the transition to a market economy. Ten years ago, it sold its products to the Soviet Union, Czechoslovakia and Italy. Now that it is obliged to import its raw materials at market prices, the company cannot compete with Chinese, Bulgarian or Turkish producers. Unable to find a market for its products, it is sliding further and further into arrears and may be heading for bankruptcy.

Kikoteks, a textile company, is assembling half-finished products on behalf of another producer for the German market. It has been forced to reduce its workforce by half, but with 260 employees it is still the second largest employer among the privatised companies. In the textile sector, it is forced to compete with low-cost emerging economies in the region and around the world. Across South Eastern Europe, where by world standards wage costs are not particularly low, the future of the textile industry looks bleak. A recent review of the sector in Bosnia noted that: "only those companies that are capable of sustained investment in both plant and innovative products will have a share of the international market. Commodities can be bought from low cost emerging economies in SE Asia at prices that Bosnia Herzegovina based textile producers can never hope to match."<sup>19</sup>

Table 5: Business activities of "AD Tajmiste" today, Kicevo's largest privatised company<sup>20</sup>

Area	Activities	Location	Employees
Mining	Stone-mining and separation, marble production, subcontracts with power plant (Oslomej), Feronikel (Kavadarci), Rudnik Bakar CU (Bucim), and Granit (public construction company); also active in Albania	Kicevo	150
Metal industry	Mechanical construction (aluminium, motorway guide tracks), locksmith workshops, maintenance and repair	Kicevo	65
Services	1 Hotel, 2 restaurants, 3 workers' restaurants, retail trading, repair workshop for electrical goods, 1 petrol station	Kicevo & Gevgelja	55
Agriculture	"Healthy Food": fish, apples, honey, mushrooms, meat (beef, lamb, goat); dog and pig breeding	Zajas	25
Construction	Water supply systems, canalisation, buildings	Kicevo	20 + occasional workers
<b>Total</b>			<b>315</b>

Finally, there is the case of Tajmiste, the former mining combine whose core business, the iron-ore mine itself, was closed down a decade ago. Following insider privatisation, its dynamic

<sup>17</sup> Agri Consulting VIZI, *Study for economic development of the Kicevo region*, Skopje, February 2002, p. 33.

<sup>18</sup> *Ibid.*, p. 40.

<sup>19</sup> FIPA, *Bosnia and Herzegovina Textile and Clothing Industries – Profile Report*, Sarajevo, 2002, p. 6.

<sup>20</sup> Source: AD Tajmiste (director Vladimir Toleski). Feronikel was bought by French, Bucim by Bulgarian investors.

director (who is also the biggest shareholder) has worked hard to keep the former workers' collective intact, and Tajmiste remains the largest private employer in the area. The company manages to survive through a range of entrepreneurial activities – a fish farm, pig breeding, a restaurant on the Greek-Macedonian border, a petrol station, a quarry, a locksmith, various retail outlets and workshops. With such a range of activities all operating within a web of cross-subsidies, it is impossible to gauge which are genuinely profitable – a problem which has always plagued former Yugoslav businesses.

Table 6: Kicevo's 13 privatised companies<sup>21</sup>

Company	Description of activities	Method of privatisation	Estimated employees
Tajmiste	Former mining company	Insider	315
Kikotex	Textiles	Insider	260
Zito Karaorman	Bakery	Insider	153
Granit (outlet Kicevo)	Construction	Insider	110
Izvor DOO	Textiles	Insider	75
Stopanska Banka (outlet Kicevo)	Branch office of Macedonia's biggest bank	Foreign investor	60
MK Telekom	Branch office, Telekom	Foreign investor	57
Zemiodelski kombinat Kicevo	Agricultural combine	Private local investor	45
Keramicki Kombinat Vranestica	Brick factory	Purchased by domestic company after liquidation	30
Agrokop	Trade	Insider	20
Hotel Union	Hotel and Restaurant	Private investor	15
Kicevoprom (kompani DOO)	Re-registered former trading company	Insider	4
Kicevoprom – Klanica	Slaughterhouse	Insider	1
<b>Privatised companies</b>			<b>1,145</b>

Companies can limp on for quite some time in these condition. Even after privatisation, they have retained their special relationships with state banks, their existing contracts with other public companies as suppliers or customers, and their preferential treatment by tax authorities and public utility companies. They enjoy soft budget constraints which enable them to go on operating at a loss. However, by 1998 it had become apparent that liquidity problems in the former socially owned sector were accumulating. According to the IMF, 46 percent of all Macedonian companies in the formal enterprise sector were experiencing a lack of liquidity by the end of 1998, as compared to only 17 percent in 1996. The percentage of workers employed by illiquid firms jumped from 24 to 42 percent over the same period. The IMF found that there was a general decline in the performance of privatised companies as privatisation proceeded:

<sup>21</sup> As the World Bank complains repeatedly, "little information is publicly available on the ownership or financial performance of enterprises, and what is available can be difficult to understand": World Bank, *Enhancing Growth*, 1998, p. 29. As a result, the data in this and the next table was gathered from a wide variety of sources (pension fund, outlet of economic ministry in Kicevo, municipal administrations) and then cross checked with managers of most of these companies (Tajmiste, Kikotex, Zito Karaorman, REK Oslomej, Stopanska Banka, Agricultural Combine, Tane Calevski). It is the best possible estimate available at this moment.

“Continued enterprise sector losses stemmed primarily from insufficient labor adjustment and high labor costs *in both privatized and state and socially owned enterprises...* Operating losses were mainly financed by wage arrears, and overdue obligations to suppliers, the government and banks. Although during 1996-98, wage arrears for the enterprise sector as a whole declined slightly to about 7 percent of GDP in 1998, owing to wage arrears reductions by private and state and socially-owned enterprises, they *increased further in the transformed enterprises, to about 4 percent of GDP.*”<sup>22</sup>

Most recently, the Macedonian National Bank reported that 29.4 percent of employees in Macedonia did not receive their wages in February 2002.<sup>23</sup>

The post-privatisation Kicevo economy remains heavily dependent on the continuing state sector, in particular on one company, the thermal power station in Oslomej. Together with *Fort* and *Separacija*, two companies only recently separated from the power station, REK Oslomej provides nearly a third of all jobs across the public and formerly socially owned sectors. It pays monthly salaries of €250, well above the average. With almost 1,000 employees, REK now has more workers than during the socialist period, and significantly more than required internationally to run a power station of its size. REK is also an important customer of ethnic Macedonian private construction companies. Even the conglomerate *Tajmiste* is ‘leasing’ some of its workers to REK at profitable rates. Kicevo’s managerial elite is all in agreement that, without REK, Kicevo would become an “economic ghost town”.

Table 7: Kicevo's ten publicly owned companies<sup>24</sup>

	Activities	Employees
<i>Public companies</i>		
REK Oslomej	Thermal power plant (incl. coal mines, FORT and Separator)	1,000
JP Komunalec	Public utilities (incl. Kicevo Pole DOO)	160
JP MAK Sume – Stopanstvo “Lopusnik”	Forestry	(partly seasonal) 198
ESM (outlet Kicevo)	Electricity distribution	110
JP Makedonia pat (outlet Kicevo)	Regional public utility for roads	80
Post	Post	46
Zeleznica Makedonija	Railways	25
JP za stanovanje	Construction of flats	12
<i>Awaiting privatisation</i>		
EMO – Elektromontaza Ohrid AD (outlet Kicevo)	Production of electricity pylons	177
Tane Calevski	Metal working	313
<b>All public companies</b>		<b>2,121</b>

The power station, which belongs to the republican utility Elektrostopanstvo (EMS), has therefore assumed the function not just of employer of last resort, but also of primary customer

<sup>22</sup> *Ibid.*, p. 50 (emphasis added).

<sup>23</sup> National Bank of the Republic of Macedonia, *Monthly Report 3/2002*, p. 9.

<sup>24</sup> See previous footnote.



of other struggling enterprises. By investing most of its income in salaries and subcontracts, EMS is running down its capital stock. It can continue to play this role only so long as it avoids privatisation or restructuring, and is willing to transfer the costs of its present social policies to the next generation.

### C. Ethnic Macedonians and the failure of the private sector

The path out of industrial decline in Kicevo should be the creation of a new private sector – the end goal of the economic transition strategies proposed across the region. What is so striking about Kicevo is the limited knowledge, or even apparent interest, on the part of public institutions in the development of this new sector.

According to the State Statistical Office in Skopje, there are 2,357 registered companies in the Kicevo area. Most local businessmen regard this figure as inflated, including many companies which have ceased to operate but have not been formally liquidated. A recent report by the OECD and the EBRD on private enterprise development at the national level suggests that registered firms “can be categorised as being very active, partly active and inactive in fairly equal proportions”.<sup>25</sup> Among formally registered companies in Kicevo, two thirds are trading companies, in retail or wholesale, or repair shops. Nine percent are in hospitality (cafés, restaurants and hotels) and another nine percent in transport and communication (in which taxi companies figure prominently). Another 10 percent are registered as manufacturing companies, but many of them are obviously inactive, and it is remarkably difficult to form a picture of their operations from any official source.

Among Kicevo's ethnic Macedonian community, there are only three new private enterprises with more than 30 employees: two construction firms, Bistra Drvo and Bemos, and one textile company, Osogovo. The growth of Bistra Drvo has deep roots in the socialist past. It emerged from a housing co-operative (*stambena zadruga*) established in 1985, which was licensed to sell building material at reduced tax rates to private home-builders, mainly Albanians. This evolved into the private company *Nas Dom*, now employing six workers, and a construction company, Bistra Drvo, which employs 70. Being specialised in civil engineering, Bistra Drvo depends on public contracts from local authorities and special funds for water and sewerage infrastructure.

Of companies with more than five employees, there are two bakeries, several firms selling construction material, some wholesale traders in food and beverages, a dozen taxi companies and a few of the larger bars and restaurants. There is also some employment in furniture and metalworking, two trout farms, a couple of pastry shops and some pottery.

These are precisely the kind of local businesses which could be found in the area prior to the Second World War, and which were permitted to some extent to operate throughout the socialist era as *mala privreda* (small business). According to official statistics, there were already 494 small businesses in Kicevo's “individual sector” in 1989: 285 tradesmen, 122 working in transport, 49 in trade and 38 in gastronomy.<sup>26</sup> The OECD/EBRD report points out

<sup>25</sup> OECD and EBRD in co-operation with Ministry of Economy, *Entrepreneurship and Enterprise Development in the Former Yugoslav Republic of Macedonia. Country Assessment and Action Plan*, July 2001, p. 16.

<sup>26</sup> *Statisticki godisnik na Republika Makedonija 1991*, Skopje, 1991, p. 503.

that many new businesses are “small scale, low risk and low capital-intensity operations such as petty trading”.<sup>27</sup>

Among Kicevo's ethnic Macedonians, it is difficult to see at this moment where the dynamic for substantial new private-sector employment growth might emerge. On the Macedonian end of Aleksandar Makedonski Street, the main shopping area in Kicevo town, the shops and cafés are often empty of customers, and a number of premises are boarded up. The collapse of household income in Kicevo means that retail trade offers lean pickings for the Macedonian small entrepreneurs. By extension, it serves as a very limited source of capital for new productive businesses.

The difficulty of finding investment capital and the skills profile of the workforce provide further barriers to private-sector development. In Kicevo municipality, 21 percent of the working age population never completed elementary school, while another 33 percent has gone no further than elementary school. In the rural areas, the proportion without education beyond the primary level reaches 90 percent in Zajas.<sup>28</sup> Until early 2002, the local outlet of the national Stopanska Banka was the only bank operative in the region. In 2001, it extended 16 commercial credits, totalling only €260,000.<sup>29</sup>

In short, in a place like Kicevo, private-sector growth which could make up for the employment lost in the collapse of Macedonian industrial society is not emerging naturally from the ashes of the socialist economy.

#### **D. The politics of scarce employment**

With little employment to be had in the productive sector of the economy, holding on to jobs in the public administration becomes a key priority for Kicevo's ethnic Macedonian urban middle class. The conditions in public employment are not particularly attractive. A wage freeze has been in place in recent years, and being “on the budget” no longer offers either the social status or the standard of living which it did under the old regime. However, for an important segment of Kicevo's ethnic Macedonian community, it continues to provide a means to survive, as well as some social benefits.

Those who lose their jobs often have no other form of support available. Of 8,452 registered unemployed in the Kicevo region, only 686 (8 percent) receive regular unemployment benefits. Another 1,973 of the most difficult social cases receive assistance payments from the Centre for Social Work.<sup>30</sup>

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<sup>27</sup> OECD and EBRD in co-operation with the Macedonian Ministry of Economy, *Entrepreneurship and Enterprise Development in the Former Yugoslav Republic of Macedonia. Country Assessment and Action Plan*, July 2001, p. 17.

<sup>28</sup> In Drugovo, 72.6 percent of the population has no secondary education, in Zajas 87.5 percent, in Vranestica 77.7 percent and in Oslomej 86.3 percent: Agri Consulting Vizi, Study for economic development of the Kicevo Region, p. 5.

<sup>29</sup> Source: Stopanska Banka.

<sup>30</sup> Source: Employment Bureau outlet Kicevo (as of 31 December 2001); Centre for Social Work (as of February 2002).

Table 8: Government employment in the Kicevo area<sup>31</sup>

<b>Level of government</b>	<b>Employees (estimated)</b>
Central Government	1,412
<i>Education</i>	615
<i>Health</i>	375
<i>Central Administration outlets</i>	132
<i>Police (Ministry of Interior)</i>	230
<i>Court and prosecutor</i>	60
Municipal government (Kicevo, Drugovo, Oslomej, Vranestica, Zajas)	69
<b>Total</b>	<b>1,481</b>

The public administration has been the one sector of the economy to experience modest employment growth over the past decade. There are now some 1,481 public-sector employees in the Kicevo region, of which 95 percent work in local outlets of republican-level institutions. The five municipal administrations have only 69 employees between them. The largest employer are the schools, with 615 staff, which at primary level are the only public institution offering substantial employment to the non-ethnic Macedonian population. Outside the education sector, Albanians hold only some 120 of 865 posts, or 14 percent, despite constituting 50 percent of the regional population.

With such a high proportion of employment depending on the state, it is not surprising that the politics of public employment are intense. Scarcity increases the relative value of jobs in the public sector. With public-sector jobs one of the few public goods which local politicians still have at their disposal, their apportionment within the ethnic Macedonian community is often decided along political party lines, and other ethnic groups remain at a significant disadvantage. It is also not surprising to find that pressure from the non-Macedonian communities for better representation in the public sector should be threatening to the Macedonian middle classes, who feel more under siege with each passing year.

In its "Human Development Report 2001", UNDP makes certain recommendations to address the growing unemployment problem, including "that the state activates other conventional measures directed toward the creation of new work posts, for example, public posts", and "more intensive support of the companies that are suffering losses but are vital for the state and the population. In that context, especially significant will be the policy for subvention of the salaries of the employed."<sup>32</sup>

In fact, by one means or another, these are exactly the strategies which the Macedonian state has adopted throughout the 1990s, within the limits of the resources available to it. The preservation of former public companies and the gradual expansion in public-sector employment are the government's response to the social pressures placed upon it by its primary constituency. However, at best, such policies can only hope to slow the decline of the public sector. At worst, they crowd out the development of new private employers.

<sup>31</sup> Source: Statistical Office of Macedonia, "Primary, lower secondary and upper secondary schools in the Republic of Macedonia at the beginning of the school year 2000/2001", September 2001; Pension Fund, municipal administrations, various interviews with central administration employees.

<sup>32</sup> Human Development Report, p. 45.

A number of conclusions emerge from this review of employment in Kicevo, with far-reaching implications for understanding the political economy of the area. First, for Kicevo's ethnic Macedonians, the importance of the state as employer and benefactor has continued to grow. The 1,486 jobs in public administration (including education and health care) and 1,631 jobs in public enterprises are today, more than ever, the last refuge of the urban middle class. Furthermore, they are the last remaining sectors where there is a continuing link between educational qualifications and standard of living. In addition, contracts with the state or its public enterprises are essential to the most important new businesses, particularly in the construction sector.

Second, it seems inevitable that the decline of employment in Kicevo will continue over the next few years. If the government hardens the budget constraints on privatised SOEs, liquidates the companies for which no buyers can be found, and privatises or restructures the national electricity utility and the Oslomej power station, another third of all jobs across the industrial sector could disappear overnight.

Finally, by necessary implication, it is the ethnic Macedonian community which must bear the lion's share of the costs of transition. In 1990, we estimate that 80 percent of Kicevo's public-sector jobs were held by ethnic Macedonians. It is they who have been hardest hit by job losses over the past decade, and who have the most to lose in the coming period. In this environment, it seems inevitable that the struggle for control over diminishing public resources should take on an ethnic colour. It is this dynamic which gives the Macedonian political economy its highly combustible nature.

#### IV. INTERNAL MIGRATION AND DEVELOPMENT

The migration of ethnic Macedonians from the countryside into the urban centres was the most important demographic shift of the past half century. In 1948, in the mountain areas of Drugovo and Vranestica, most people lived from raising sheep on highland pastures or subsistence agriculture. Over the next 40 years, migration into the town of Kicevo caused a decline in the rural population of 60 percent, while Kicevo town nearly quadrupled in size, from 7,000 to 25,000. In the 1980s, a fleet of buses would leave Kicevo every morning, carrying workers from their socially owned apartments in Kicevo to jobs in the power station and the mines.

Table 9: Population change in 78 villages in the Kicevo area from 1948 to 1994<sup>33</sup>

Population change	Macedonian villages	Albanian villages	Mixed villages
Growth of more than 100%	-	6	3
Growth of 33 to 100%	-	10	-
Growth up to 33%	-	2	1
Decline up to 33%	4	3	4
Decline from 33 to 75%	12	2	1
Decline higher than 75%	29	1	-
<b>Total</b>	<b>45</b>	<b>24</b>	<b>9</b>

<sup>33</sup>

Source: Census data of 1948 and 1994.

Urbanisation was a conscious policy on the part of the communist authorities, part of the process of forging a modern industrial society. It was understood as part of the nation-building process, and of catching up with the developed parts of Europe. In addition to its new industrial enterprises, Kicevo became host to a court and regional police headquarters, local outlets of various republican ministries and agencies, the regional office of Macedonia's development bank, two public utility companies, and a number of schools (including the region's only secondary school). It became the seat of a large hospital and had an important Yugoslav army barracks, housing some 4,000 soldiers.<sup>34</sup>

In addition to providing a regular income, jobs in the socialist public economy were the means to access other state benefits, including highly subsidised apartments, company food allowances and access to holiday facilities. Many households in Kicevo had two wage-earners, giving them the purchasing power to acquire household appliances and other consumer goods. The birth of an industrial society brought the amenities of a modern life-style – water and sewerage systems, asphalt roads, a shopping mall, cultural centre, cinema and football stadium. The inhabitants of Kicevo looked to other southern European countries catching up with the West during these decades – Greece, Southern Italy, the Iberian peninsula – and felt that they, too, were arriving at the modern consumer society of post-war Europe.

Today, as ethnic Macedonians grapple with the problem of Kicevo's economic decline, the notion of solving the employment problem through a return to the land is finding its way into the public debate. The most detailed study on economic development and comparative advantage in the Kicevo region in recent times, published in February 2002, came to this conclusion. According to the authors, resettlement of areas with the lowest population density in the region, Drugovo and Vranestica, "should be one of the priorities for future regional development".<sup>35</sup>

The study recognises the sharp contraction in industrial employment during the 1990s. It quotes official data revealing a dramatic collapse in *per capita* investment in the Kicevo region, which by 1999 was a mere 25 percent of the Macedonian average.<sup>36</sup> The authors note that 69 percent of the population of Kicevo have no more than primary education. Half of the unemployed, some 4,100 people, have no education at all, severely limiting the potential for developing a more complex service economy. What was therefore required, the study concluded, was a renewed focus on agriculture and natural resources. Economic development should start with greater "utilisation of natural wealth through exploitation of ore wealth (marble, coals, etc.), utilisation of wood and other forest fruits, utilisation of agricultural land and above all pastures, utilisation of water and tourism".

One traditional sector in particular is highlighted for its growth potential: sheep breeding. "Thirty to forty years ago this region had 100,000 sheep due to the favourable development conditions. Presently, this number is down to 22,000 sheep, indicating the low usage of the natural conditions of the region."<sup>37</sup> The main obstacle to the implementation of such a strategy is that people no longer live in the right places. "In certain parts of the region, where the development of sheep and cattle breeding should be developed, the density of population is very low, as is the size of the labour force". Thus, the study recommends that Kicevo adopt a policy of de-urbanisation, returning the urban unemployed to the villages their families left a generation ago:

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<sup>34</sup> At one time under the command of the Bosnian Serb Ratko Mladic.

<sup>35</sup> Agri Consulting VIZI, *op. cit.*, p. 4.

<sup>36</sup> The data is taken from the Statistical Review of Investments in Macedonia, 1998,1999 and 2000.

<sup>37</sup> Agri Consulting VIZI, *op. cit.*, p. 17.

“The development of animal husbandry in those areas should go in parallel with the revitalisation of the villages and improvement in living conditions. This should contribute to the return of a part of the unemployed population from the city to the abandoned land in the villages”.<sup>38</sup>

Curiously, this analysis overlooks the situation of the 50 percent Albanian population of the region, which continues to be concentrated in the villages and indeed owns most of the sheep. Rural depopulation is essentially an ethnic Macedonian phenomenon. Between 1948 and 1994, the population of all 45 ethnic Macedonian villages in the region declined, with 29 of them losing more than three-quarters of their population. At the same time, the population of 18 of the 24 Albanian villages continued to grow, with six of them doubling in size. Of course, employment opportunities in the Albanian areas failed to keep pace with the population growth.

The idea of reversing the trends of half a century and returning the population to the countryside is a curious reflection of this fading dream of modernisation. It is not, however, a credible strategy for development. The rural areas hold no appeal at all for an urbanised population: basic infrastructure is lacking, education and health services are underdeveloped and housing conditions are very poor.<sup>39</sup> In a recent poll, 43 percent of respondents from highland Macedonia stated that they do not have enough money for food, while another 47 percent stated that they could not afford clothing and footwear.<sup>40</sup> Forty percent of the agricultural population is at subsistence level, earning no cash income from farming.<sup>41</sup> The economic incentives to pursue agriculture are so low that in 1996, only 48 percent of all private arable land was actually in use.<sup>42</sup>

In the whole Kicevo region, there are only 10 households with more than 100 sheep, and only 16 people officially working as shepherds. When Blagoja Gjorgijovski acquired the assets of the bankrupt agricultural co-operative, he became the region's premier pastoralist, with more than 2,000 head of sheep. He is also president of the only sheep breeders' association in the region, founded in 1998 with mainly Albanian members, and plans to set up a dairy. He notes that at this moment there is neither the know-how to make quality products capable of competing with imports, nor the means to bring them to market. Already, most of the sheep's cheese produced in the region cannot be sold.

Most importantly, there is no desire among Kicevo's young urban Macedonians to return to the villages their parents or grandparents abandoned decades ago or to resume an isolated life on the high mountain pastures. Gjorgijovski has found recruitment of shepherds to be a major problem, despite offering wages which are substantially above the average. No matter how acute the crisis of industry in Kicevo, the habits of life in an industrial society remain very real.

## V. THE GLOBALISATION OF KICEVO'S ALBANIANS

In 1998, the municipal administration of Kicevo published a colourful book on the Kicevo region. The chapter on the local economy lists all the former socialist enterprises and their

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<sup>38</sup> *Ibid.*, p. 69.

<sup>39</sup> UNDP Human Development Report, Macedonia, 2001, pp. 65-67.

<sup>40</sup> *Ibid.*, p. 64.

<sup>41</sup> Institute for Sociological, Political and Juridical Research, “Strategy, Policy and Management of development of rural areas in Macedonia”, Skopje, quoted in UNDP Human Development Report, p. 63.

<sup>42</sup> *Ibid.*, p. 66.

founding directors. It also notes that, “unfortunately, the new transition process, instead of accelerating economic growth, has led to a decrease in social production”. Not one private business is mentioned. Albanians, who make up the majority of the population in the region, do not appear at all, except in a section on the Second World War.<sup>43</sup>

This lack of interest on the part of official Macedonia in what is happening on the left-hand side of Liberation Boulevard or in villages like Zajas and Oslomej explains why one of the most dramatic engines of social change in the past decade – the mass migration of Albanians to Western countries – has never figured in official thinking on local development.

The regional development strategy quoted above makes no mention of labour migration. In its 1998 report on Macedonia, entitled “Enhancing Growth”, the World Bank merely notes that “unidentified capital flows accounted for around 70 percent of the financing for the current account deficit during 1994-1997. It may be that much, and perhaps all, of the unidentified flows are unrecorded remittances or self-liquidating trade credits”.<sup>44</sup> While the significance of remittances is inescapable in the context of macroeconomic stability, their impact on regional economies is never explored.

Yet in recent European history, labour migration has been recognised as one of the most important “exogenous shocks” to a stagnant economic system. It is not long ago that the “calata dei tedeschi” (the descent of the Germans), the mass return of Italian migrant workers to their villages for Christmas, was the major social event of the year in large parts of the Italian south. As a recent study on economic growth in the past century concluded, there have been periods in recent Italian history when “emigration alone accounted for almost all the growth in real wages and GDP per capita in Italy and explains, as it does in the Irish case as well, much of the catch up with the UK”.<sup>45</sup>

“Emigrant remittances helped to monetize the southern economy: they increased saving among southern families, prompted the use of banks and facilitated greater access to credit. Emigrant remittances stimulated the market in land, while those who returned brought back with them new attitudes and tastes.”<sup>46</sup>

The recent history of socialist Macedonia is a reminder of the fact that economic development and movement of people have always been inextricably linked.

There are no accurate statistics available on Albanian emigration from Kicevo over the years. The common estimate, both by municipal officials and many ethnic Albanian citizens, is that nearly every household in rural areas and every second household in the town has at least one family member working abroad. This gives rise to a conservative estimate of at least 3,300 ethnic Albanians abroad who are supporting their families in the Kicevo area.

In the absence of hard data, one way to capture the significance of the phenomenon is to select at random a first-year class of pupils from Kicevo's *gymnasium*, Mirko Mileski, and find out where the students have ended up a decade later. The class of 1989/90 was ethnically mixed,

<sup>43</sup> Municipality of Kicevo, *Kicevo i Kicevsko*, Kicevo 1998.

<sup>44</sup> World Bank, 1998, “Enhancing Growth”, p. 5.

<sup>45</sup> Jon Cohen and Giovanni Federico, *The Growth of the Italian Economy, 1820 to 1960*, p. 45. They also note that “although scholars have always paid lip service to the importance of emigration, its causes and consequences have remained until recently largely unexplored” (p. 43).

<sup>46</sup> *Ibid.*, p. 28.

consisting of 20 ethnic Macedonians, 7 Albanians and 4 Turks. Of the 31 students, only 2 were girls (both ethnic Macedonian).<sup>47</sup>

*Table 10: Current whereabouts of Albanian, Macedonian and Turkish pupils, class of 1989/1990, Mirko Mileski gymnasium, Kicevo*

<p><i>Albanian pupils</i></p> <p><i>Sefer</i> finished secondary school in Gostivar and lives in Kicevo. He has his own taxi company ("Zajazi"), while his father works in Germany  <i>Prparim</i> is in Vienna  <i>Lulzim</i> is in Chicago  <i>Bashkim</i> who finished the gymnasium in Kicevo, is in New York  <i>Bashkim</i> works in Alaska  <i>Agron</i> is in a town close to Chicago  <i>Flamur</i>, related to Agron, is in the same town close to Chicago</p> <p><i>Turkish pupils</i></p> <p><i>Adnan</i> is in Kicevo and drives a taxi  <i>Enis</i> works in a private company in Kicevo  <i>Samir</i> is a private tradesman in Kicevo  <i>Galip</i> works in Switzerland (Fribourg/Freiburg)</p> <p><i>Ethnic Macedonian pupils</i></p> <p><i>Robert</i> works in Tajmiste  <i>Vlatko</i> works in Tajmiste  <i>Dusko</i> works in REK Oslomej  <i>Aco</i> works in REK Oslomej  <i>Orce</i> works in a bakery  <i>Zlatko</i> works in a shop for construction material  <i>Goran</i> works in a betting shop  <i>Zoran</i> has a private sector job  <i>Dalibor</i> does occasional work  <i>Maksim</i> does occasional work  <i>Beti</i> (woman) is at home</p> <p>Nine others live in Macedonia, but information on their whereabouts and employment is unavailable.</p>
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The first thing to note is how few of the Muslims graduated from the school. Four of the Albanians and all four Turks failed in the first year, choosing to leave the school rather than repeat the class. Many assert that language difficulties and a lack of encouragement from the teachers were the cause of their failure. Two were able to complete their high-school education in the neighbouring municipality of Gostivar, and others left the country immediately. Only one of the Albanian students ended up graduating in Kicevo.

A decade later, the diverging paths of the two ethnic groups emerge very clearly. Out of seven Albanians, only one remains in Macedonia (although other members of his family are abroad). Of the 20 ethnic Macedonians, all remain in Macedonia, and most are still in the Kicevo region. Four of them work in companies described in this report (the Oslomej power station

<sup>47</sup> The information in this section was generated from interviews in Kicevo, verified by asking former students to visit the families of former classmates.



and Tajmiste), four have regular employment in the private sector, and three do casual work or are unemployed. We were unable to find employment details for the remainder.

This picture is inevitably impressionistic, and it would be valuable to take a broader cross-section of students to see if the pattern holds. But it does provide a snapshot of the dominant social dynamic among Kicevo's Albanians. It also reveals another important feature: the inability of ethnic Macedonians from Kicevo to take the emigration route. Emigration tends to be a cumulative process. Its incidence is a positive function of the number of earlier emigrants who provide money, information and support for newcomers. If Kicevo's ethnic Macedonians have relatives abroad, they usually emigrated for Australia in the 1950s and no longer maintain close links with family who remained. There is no equivalent of the dense networks which Albanians have constructed between Kicevo and the outside world over the past two decades.

The diaspora phenomenon explains features of Albanian society in Kicevo which are puzzling to outside observers, particularly the ethnic Macedonians. With its high population growth, the Albanian community has a high proportion of underage dependants, which it manages to support despite an extremely limited employment base. At the same time, the Albanian quarter of Kicevo and the Albanian villages show a remarkable amount of building activity, together with a lively service sector in the centre of the town.

There are an estimated 2,000 Albanian households in the municipality of Zajas. There are 135 teachers working in the primary schools, which is the only significant source of public employment. There are seven municipal employees and reportedly 19 police officers, although before the Ohrid Agreement only 2 were Albanians. There are no outlets of the central government in Zajas except for two workers in the local registry office (*maticna sluzba*). The largest private company, Perperimi, which sells construction material, has 10-12 employees. According to official statistics, there are 155 registered shops, a restaurant, a motel employing five and a bakery which employs seven. There are 10 employees remaining in the local outlet of the conglomerate Tajmiste, but none are Albanian. In sum, it would be surprising to find that more than one household in five has a family member in formal employment.

The picture in Oslomej is very similar. As mentioned above, the power station and its various associated enterprises employ a thousand people, but only 46 of these are residents of Oslomej. There are eight employees in the municipal administration and two in the utility company, 129 positions in primary schools, 99 registered shops and small traders, a petrol station, two small companies selling construction materials and two restaurants. Due to problems with the water quality, there is no bakery for Oslomej's 17 villages. The municipality estimates that around 50 people work in sheep and cattle farming. Again, the ratio between workplaces and Oslomej's 1,900 households is hardly favourable.

Officials in the two municipalities estimate that at least 1,500 citizens of Zajas, 1,000 from Oslomej and 800 from Kicevo town are working abroad and sending home remittances to their families. There is a community of around 250 Kicevo Albanians in Alaska, and other communities scattered across the United States from Chicago to the mid-West. Others went to Western Europe, particularly Switzerland and Germany. Kicevo Albanian businessmen own limousine services in Alaska, restaurants in Wisconsin and hotels in Antalya on the Turkish coast. A significant number draw pensions from Switzerland, Germany and other European countries. In effect, Albanian Kicevo has become a suburb of Western Europe and the United States.

The diaspora community sends cash transfers, makes personal investments in real estate and spends a startling amount of money on weddings. The impact on the local economy is highly visible. Based on interviews among the Albanian community, we calculate conservatively that a typical worker abroad sends home or spends in Kicevo more than €5,000 annually, giving total transfers in excess of €16 million. This is equivalent to ten times the consolidated budget of the municipality of Kicevo, and about twice the combined annual salaries of the 3,800 ethnic Macedonians employed in the public administration and the former socially owned enterprises.

These financial flows generate a significant amount of real-estate investment. The size of many of the houses in Zajas and Oslomej is quite out of proportion with the state of the local economy. There are also a number of prestigious building projects in the Albanian quarter of Kicevo town, some of them clearly designed to meet the Albanian community's taste for expensive weddings. In the mid-1990s, diaspora money funded the construction of *Arabella*, a three-storey complex hosting shops and offices, the local television station and a large reception centre.

However, despite the aura of prosperity created by these building projects, very little of the capital inflow from the diaspora ends up in productive investment. The environment of the Kicevo region is not seen as conducive to risky capital ventures. There are many stories among Kicevo's Albanians of failed business ventures thwarted by hostile inspectors, problems in obtaining licences and building approvals, and other bureaucratic hurdles. The lack of public investment is also a significant problem. One Albanian comments, "people get used to a Swiss environment and then encounter only problems: no secure water supply, weak electricity current, roads without asphalt."

The lack of an effective state in the Albanian areas, and the subsequent poor quality of local infrastructure, has meant that the capital flows remain trapped in trade and consumption, generating little in the way of lasting wealth. Albanian shopkeepers in the town therefore remain dependent on the diaspora returning each year to spend their money over the summer months. For the rest of the year, as one carpet seller explains, "our situation is almost as bad as that of the Macedonian shops."

The lack of effective utilisation of diaspora capital must rank as the most obvious missed opportunity for lifting Kicevo out of its cycle of economic decline. The one important Albanian private enterprise in Kicevo, the textile company Himara, illustrates the potential. The proprietor, Bajram Selimi, returned from France in 1994, where he had built up his own textile company. Acquiring premises from a trade co-operative which went bankrupt in the early 1990s, he has created a company of 100 employees – the largest new enterprise in Kicevo. Himara produces exclusively for the French market, taking delivery of cloth sent by lorry from France and returning finished products, with Mr Selimi's French company acting as intermediary. Interestingly, apart from the boss himself and the chief accountant, all the employees in the company are ethnic Macedonian, mainly women who once worked for the socially owned textile company Kikoteks.

Given the dire economic circumstances, it is only among the Albanian diaspora that Kicevo is likely to find the right combination of venture capital, entrepreneurial skill and ready-made business contacts with external markets. The Albanian diaspora is therefore Kicevo's most important economic resource. As the Himara example shows, if ways could be found to mobilise it, the benefits would accrue as much to the ethnic Macedonian community as to the Albanians.

If this resource cannot be utilised, the economic prospects for Kicevo's Albanians are little better than those facing the Macedonian community. At this moment, there are 1,612 students in primary schools in Zajas and another 1,233 in Oslomej. There are no investments underway in either municipality, and no new jobs are being created. Unless a new development strategy emerges, emigration will continue to be the only path available to the new generation of Albanians.

## VI. ZAJAS AND THE ABSENT STATE

There are two rival football clubs in Kicevo. *Napredok* is the traditional club of the town, founded in the 1950s. Its home is the socialist era stadium built with compulsory contributions from citizens, and recently refurbished with new seats bought with public money. The former VMRO mayor, Ilija Kitanoski, is president of the club, which plays in the first division.

*Vlazrimi* is a mainly Albanian football club, although it has two ethnic Macedonian players, and has just been promoted to the second division. It has a brand new stadium built in the late 1990s through donations from Albanians around the world, together with voluntary labour from the local community, and its main sponsor is the wealthiest Kicevo Albanian businessman. Its impeccably kept turf displays state-of-the-art sports equipment imported from the United States. The stadium was constructed on empty public land, without building permission from the state. As one local businessman puts it, the stadium is the Albanian community's proudest collective achievement. Diaspora money helps to substitute for the state itself.

It is not in the Albanian parts of Kicevo town, however, but in the rural Albanian municipalities of the region that the absence of a state is most visible. In the newly established municipality of Zajas, home of Ali Ahmeti, the municipal administration of 7 staff is housed in a temporary-looking shelter no larger than a family apartment. With a core budget of €54,000 for a community of 10,000 people for 2002, its capacity to deliver any form of services to its citizens is minimal. The most prominent public institutions in Zajas are the primary schools, which employ 135 staff for 1,600 pupils. The central authorities of the Macedonian state are concentrated in Kicevo town, or distant in Skopje. Only 395 households receive very modest social welfare and hardly anybody receives unemployment benefits. There are only 24 km of sealed local roads in the municipality. There was no important investment in the municipality in the former Yugoslav era except the Tajmiste mine, which is now closed, and there has been almost no public investment of any kind since the end of socialism.

The isolation of places like Zajas from the Macedonian state was heightened by reforms to local government in 1995/6, which increased the number of municipalities from 34 to 123. Four new rural municipalities composed only of villages were carved out of the Kicevo region, two of which, Zajas and Oslomej, have overwhelmingly Albanian populations. The new municipalities were severed from their traditional administrative centre, and inherited almost no public institutions or infrastructure.

The new Law on Local Self-Governance left the state highly centralised. The few responsibilities of the municipalities include construction and maintenance of local roads, streets and parks, water supply and street lighting, garbage collection, the administration of markets and graveyards, and a certain degree of urban planning.<sup>48</sup> Formally all five municipalities have the same rights and competencies, exercised by a mayor, municipal

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<sup>48</sup> Law on Local Governance (Sluzben Vesnik, No. 52/1995), article 17.

assembly and local administration. However, while Kicevo employs some 45 people, the four rural municipalities have only 5-7 each. While Kicevo inherited the old municipal building, the other four municipal administrations are located in barracks or adapted buildings, often no larger than an apartment.

As a result, institutional deficiencies inherited from the socialist period have become even more acute. The health sector is one example. In Kicevo in the 1980s, the health system was scheduled for the most substantial public investment of the decade, a new hospital in Kicevo town. Construction began in 1986, but halted for lack of resources after the walls and roof had been built. In 1992, another brief period of activity saw windows installed, but the project stalled once again and the interior has never been completed. Outside Kicevo, the resource shortages are even more apparent. The Kicevo hospital operates a series of small, decentralised primary health clinics (*ambulante*), but the standard of care is extremely basic. Part of the problem is that staffing levels (and the geographical distribution of staff) have remained constant even while overall resources have declined, forcing the clinics to cut their operating expenses. As a result, some are open for as little as four hours a day.

Table 11: Consolidated municipal revenues of Kicevo, Drugovo and Oslomej in 2000<sup>49</sup>

Municipal resources	Kicevo		Oslomej		Drugovo	
	€	%	€	%	€	%
Municipal budget	145,974	9.6	85,000	48.7	70,000	24.6
Fund for local roads	80,172	5.3	65,500	37.5	-	0.0
Fund for communal services/ organisation of construction land	559,807	36.8	20,000	11.5	214,947	75.4
Public utility company	735,400*	48.3	3,900	2.2	-	
<b>Total</b>	<b>1,521,353</b>	<b>100.0</b>	<b>174,500</b>	<b>99.9</b>	<b>284,947</b>	<b>100.0</b>
From central sources	157,638	10.4	79,557	45.6	226,183	79.4

\* No data is available for the public company "Komunalec Kicevo". This estimate is based on average revenues of Macedonian municipal utility companies on a *per capita* basis (source: Local Government Reform Project).

With no local production and no urban centre, the capacity of the smaller municipalities to generate revenue to build up new institutions and infrastructure is severely constrained. In Macedonia's highly centralised fiscal system, municipal revenues depend heavily on local charges and taxes levied on construction and land acquisition, plus the revenues of the public utility companies, both of which are off-budget. As the main urban centre, Kicevo town is able to generate most of its revenue from these sources, which is used to fund infrastructure development and municipal services. In Albanian Oslomej, however, there is no commercial construction underway and very little infrastructure to generate service charges. These two sources amounted to only €24,000 or 14 percent of Oslomej's total revenues.

The lack of financial independence of rural Albanian municipalities makes them dependent on the central government, and therefore vulnerable to the unpredictability and inequities of Macedonian public spending. There are very few central resources available for local infrastructure projects. Some water projects are funded by the republican Ministry of Transport and Communications, there are regular transfers from the Fund for National and Regional Roads to municipal road funds, and certain infrastructure projects are supported by the Bureau

<sup>49</sup> Sources: municipal budgets and budgets of the respective funds.

for Underdeveloped Regions. These transfers operate in a non-transparent manner, and it is remarkably difficult to find out how they are distributed across the country.

In the area of water supply, there is a clear neglect of the Albanian villages in favour of urban and majority ethnic Macedonian rural areas. Of 27 projects supported by the Ministry of Transport and Communications in the Kicevo region from 1997 to 2001, Zajas received support for only one project, a bare 1.9 percent of the total funds spent in the Kicevo region. At 35 cents per capita, this is less than half the national average. Oslomej fared only slightly better, with five projects. Despite making up 37 percent of the population in the Kicevo region, these two Albanian municipalities received only 14.2 percent of the funding between them. By contrast, the two predominantly ethnic Macedonian rural municipalities, Vranestica and Drugovo, received 47.8 percent of the project funds, despite having only 10 percent of the region's population.<sup>50</sup>

Table 12: Funds allocated from the Water and Canalisation Programme and the Fund for National and Regional Roads to the Kicevo region, 1997-2001<sup>51</sup>

Municipality	Popul. %	Road Fund		Water and Canalisation		Total	
		€	%	€	%	€	%
Kicevo	53.0	296,817	31.2	168,333	37.7	465,150	33.3
Drugovo	6.8	176,700	18.6	150,000	33.6	326,700	23.4
Oslomej	17.6	174,283	18.3	56,667	12.7	230,950	16.5
Vranestica	3.2	114,967	12.1	63,333	14.2	178,300	12.8
Zajas	19.3	187,467	19.7	8,333	1.9	195,800	14.0
<b>Total</b>	<b>100.0</b>	<b>950,234</b>		<b>446,667</b>		<b>1,396,900</b>	

It is apparent that strengthening local autonomy in Macedonia requires appropriate resources to allow it to become effective. The practical effect of the reforms of 1995/6 was that the state as a whole largely disappeared from the smaller municipalities. In effect, the Macedonian state lost control of places like Zajas – not in the sense of security or law and order, but in the sense of being able to maintain an effective administrative presence.

In some Albanian villages, a traditional “peace council” continues to operate as an informal body unrecognised by the state. It consists of respected elders of the village who mediate on disputes between members of the community. While its authority varies from village to village, in some places it is able to adjudicate and impose compensation payments. Local views differ as to how well these informal structures function. According to some Albanians, they represent a continuation of the “*kanun*”, the traditional Albanian laws; others say they have lost their social significance. Where they continue to operate, it is in part a sign of lack of confidence in the formal legal system. According to one Albanian villager, “if one calls the police or goes to court, the result is an even greater mess.”

The high degree of centralisation of Macedonia's public institutions ensures that they have only a tenuous connection with these rural areas. The result is a startling lack of information about

<sup>50</sup> “Odluka za paspredelba na sredstvata za izgradba na vodovodi i fekalni kanalizacii vo Republika Makedonija”, years 1997-2001 (Sluzben Vesnik, Nr. 57/1997, Nr. 41/1998, Nr. 51/1999, Nr. 51/2000, Nr. 40/2001).

<sup>51</sup> Source: Fund for National and Regional Roads, “Odluka za paspredelba na sredstvata za izgradba na vodovodi i fekalni kanalizacii vo Republika Makedonija”, years 1997-2001 (Sluzben Vesnik, Nr. 57/1997, Nr. 41/1998, Nr. 51/1999, Nr. 51/2000, Nr. 40/2001) [60 Denar = 1€].

some of the most important dynamics in Macedonian society. The activities which are most important to a rural community – subsistence agriculture, small-scale trade, labour emigration – are neither subject to state authority nor benefit from public resources. They take place in a realm which is largely invisible to the Macedonian authorities.

The same dynamic holds largely true for the new private sector in Kicevo town. The regional outlet for the Ministry of Economy in Kicevo, for example, was unable to provide a list of private enterprises in Kicevo, or even identify the most significant. Its seven or so employees have no computer at their disposal, let alone a database. The Central Registry, one of the successors of the former payments bureau, receives data from every enterprise, but it is sent to Skopje for processing, and can only be accessed against a charge of €5 per unit of data, after official permission from the director. No data is ever processed or sent back to the authorities in Kicevo. As a result, there is not even a rudimentary information basis for formulating municipal economic policy.

The legitimacy of any state depends first and foremost on its capacity to deliver practical services to its citizens. It is therefore not surprising to find the Macedonian state entering into a crisis of legitimacy, which is of course most acute among the Albanian community. There is a widespread, and to a large extent justified, perception among Albanians that the state is a distant and alien presence, with no real benefits to offer in the areas that matter to Albanians.

Looking at the Kicevo region, it is apparent that this 'democratic deficit' is not an abstract problem, but a very practical question of how public institutions are organised and how public resources are distributed. Reshaping the Macedonian state so that it becomes relevant in a place like Zajaz, not merely as a police force but as a factor in social and economic development, is the major challenge ahead in overcoming political divisions. It is also a precondition for reversing Kicevo's economic decline.

## VII. IMPLEMENTING OHRID IN KICEVO

The story of the political economy of ethnic relations in Kicevo carries important implications for Macedonia as it prepares for the implementation of the Framework Agreement for Peace (Ohrid Agreement).

In Kicevo there is no war damage to reconstruct, no displaced population to resettle and no paramilitaries to disarm or disband. The Albanian language is already used in many official contexts, and the education system is bilingual. Implementation of the Ohrid Agreement must surely be easier here than in Tetovo or the northern villages directly affected by the fighting. Yet despite this, even in the Kicevo region the tools to address the grievances outlined in this report are not yet in place.

This is not a matter of symbolic politics, although symbols have a part to play. It is a matter of engaging with difficult questions about how real power and public resources are distributed in places like Zajaz, Drugovo and Kicevo.

Two developments are coming to a head in the post-election period in Macedonia. The first is the imperative of keeping public expenditure under tight control. As a result of the conflict of 2001, defence- and security-related expenditures have increased significantly over the 2000 level, and are likely to remain high for the foreseeable future. According to the IMF, "the security crisis has drastically changed the medium-term fiscal challenges faced by FYRM. Not

only have new expenditure demands emerged, but also more are likely to arise over the medium term.”<sup>52</sup>

Macedonia is coming under increasing pressure from the international financial institutions to rein in public expenditure. As the IMF writes: “In the coming years, the budget will face incipient strains on the revenue side and spending pressures in a number of priority areas. The staff encouraged the authorities to introduce from 2003, if not sooner, permanent revenue-enhancing measures... Further strengthening of expenditure management and control is also a priority.”<sup>53</sup> Options for local government reform and fiscal decentralisation are constrained by the overall requirement that any changes must be, in the language of the international financial institutions, “revenue neutral”.<sup>54</sup> This means that the creation of new institutions or services by the state must be accompanied by the downsizing of others. Redistributing scarce public resources will necessarily generate winners and losers.

The other development is a potential clash of expectations between the ethnic Albanian and ethnic Macedonian communities and leadership over the *pace* of Ohrid implementation. In the wake of recent elections fought by Ahmeti's party on the twin themes of Ohrid implementation and employment creation, Macedonia's Albanians expect to feel the impact of the peace agreement on their lives in the near future. Expectations are running high for a restructuring of the basic state architecture, a strengthening of local government, substantial investment in Albanian language education and an accelerated acceptance of Albanians into public-sector employment. Though reforms of this kind have been on the table throughout the 1990s, ethnic Albanians hope that the process will now move much faster due to the undertakings in the Ohrid Agreement and its promise that outsiders, in particular the European Union, are expected to take an active role in ensuring implementation.<sup>55</sup>

For their part, most ethnic Macedonians have never contested the need for these reforms as a matter of principle. However, against the background of a deepening of the employment crisis, particularly among the politically influential urban middle class, they are likely to demand that their political representatives protect their existing employment levels in the public sector. The abstract commitment to local government and public administration reform may come under severe challenge when it reaches the point of shifting resources (and jobs) away from central institutions in Skopje and other majority Macedonian towns. It is relatively easy to accept a formal requirement that the Albanian language is used in public institutions, but much more difficult to accept that ethnic Macedonian employees will have to make way for Albanian speakers, or that the extension of secondary education in Albanian areas will come at the expense of cuts in other areas considered essential by the ethnic Macedonian community.

One can anticipate where these strains will emerge by thinking through the politics of Ohrid implementation as they will play out in places like Kicevo. Leaving aside the parts relating to cultural identity – the display of emblems, the protection of cultural diversity – there are three

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<sup>52</sup> IMF, “Former Yugoslav Republic of Macedonia: selected issues and statistical appendix”, February 2002, p. 21.

<sup>53</sup> IMF, “Former Yugoslav Republic of Macedonia: Staff Report for the 2001 Article IV Consultation”, February 2002, p. 3.

<sup>54</sup> IMF, “Former Yugoslav Republic of Macedonia: local government financing and the reform of intergovernmental fiscal relations”, May 2002, p. 11.

<sup>55</sup> The Ohrid Agreement provides: “The parties invite the international community to assist in the process of strengthening local self-government. The international community should in particular assist in preparing the necessary legal amendments related to financing mechanism for strengthening the financial basis of municipalities and building their financial management capabilities, and in amending the law on the boundaries of municipalities.” Annex C, para. 4.

elements of the Ohrid Agreement which will have the most direct impact on life in Kicevo: equitable representation in public administration; the use of the Albanian language in dealings with the state; and the strengthening of local government. In all three areas, some progress has been made on initial legislative reforms, but the most difficult part is yet to come.

#### A. Albanians as civil servants

In addition to general provisions on non-discrimination and equal treatment, the Ohrid Agreement provides that:

“Laws regulating employment in public administration will include measures to assure *equitable representation of communities in all central and local public bodies and at all levels of employment within such bodies*, while respecting the rules concerning competence and integrity that govern public administration.”

‘Equitable representation’ is a somewhat ambiguous term, without the strict mathematical implications of ‘proportional representation’, but obviously pointing in the same direction. This vagueness increases the risk of divergent expectations on the part of the different communities. In Kicevo, leaving aside the education sector which for reasons of language is already ethnically balanced, there are now some 870 state positions. Given their weight of 50 percent in the region’s population, Albanians could legitimately lay claim to over 400 of them. This would be more than three times the number they currently hold.

Given the public-finance constraints and the demands of efficient administration, the Kicevo region could not justify achieving equitable representation simply by recruiting additional Albanians. To keep its existing employment levels, which may already be too high, it would need to reduce the number of ethnic Macedonian employees by more than a third to make way for so many Albanians.

There are a number of obvious obstacles which are likely to arise. The first concerns the number of Albanians in a position to take up posts in the public administration, given the requirement in the Ohrid Agreement of “respecting the rules concerning competence ... that govern public administration”.<sup>56</sup> In Zajas and Oslomej, only three percent of the population have secondary or university education (some 530 individuals), which is approximately the number of Albanians already employed in the public sector, mostly as teachers. In addition, it is possible that a number of these educated Albanians are working abroad in the diaspora. As the UNDP Human Development Report noted, if *all* of the Albanians with higher education were employed in the public administration across Macedonia, “the current structure of employment by ethnic affiliation would not be changed dramatically”. Albanian representation would only increase from 10.2 percent to 10.7 percent.<sup>57</sup>

Secondly, in the current environment of spiralling unemployment, any rapid dismissal of ethnic Macedonians in favour of Albanian is likely to trigger a serious political backlash. Realistically, correcting the imbalance in representation in the public administration will need to take place through the natural attrition of ethnic Macedonian employees, and a programme of positive discrimination in favour of Albanians in public-sector recruitment over many years.

<sup>56</sup> Para. 4.2.

<sup>57</sup> UNDP *Human Development Report* 2001, p. 39.



It will need to go hand in hand with improved access to higher education and professional training for the Albanian community.

In other words, it is likely to take a generation before the target of equitable representation is achieved. Ethnic Albanian leaders will have to manage the expectations of an impatient electorate, convincing them of the need to pursue their goals through incremental measures over many years, during which the administration will continue to be dominated by ethnic Macedonians. For their part, ethnic Macedonian politicians have an equally challenging job of explaining to future university graduates, in an environment where 48.3 percent of people under thirty have never been employed and the number of educated unemployed is spiralling,<sup>58</sup> that new recruitment into the public administration in the foreseeable future will strongly favour Albanians.

Table 13: Estimated public administration employment in Kicevo, Drugovo, Oslomej, Vranestica and Zajas<sup>59</sup>

Institution	Sector	Employees	
		Total	Albanian
<i>Kicevo</i>			
Municipality	Local administration	45	5
Primary schools	Education	198	60
Secondary school	Education	120	50
Centre for social works	Social assistance	16	3
Fire brigade	(Under Ministry for Internal Affairs)	N/A	N/A
Central Administration	Outlets of ministries, central funds, court, prosecutors office, cultural centre, library	180	15
<i>Drugovo</i>			
Municipality	Local administration	5	-
Primary schools	Education	24	-
<i>Oslomej</i>			
Municipality	Local administration	8	8
Primary schools	Education	129	129
<i>Vranestica</i>			
Municipality	Local administration	5	-
Primary schools	Education	9	-
<i>Zajas</i>			
Municipality	Local administration	7	7
Primary schools	Education	135	135
<i>Regional</i>			
Medical Centre	Hospital in Kicevo, plus small primary health clinics in other municipalities	375	40
Ministry of Interior (Police)	Including police stations in smaller municipalities	230	42
<b>Total</b>		<b>1,486</b>	<b>494</b>

## B. Albanian as an official language

For exactly the same reasons, the provisions on the use of the Albanian language in the public administration will take a long time to implement where they matters most, in the direct

<sup>58</sup> UNDP, *Human Development Report 2001*, p. 25.

<sup>59</sup> Source: ESI estimates based on interviews with Mayors, Pension Fund, Statistical Office.

interface between citizens and the state across the country. The Ohrid Agreement provides that:

“any person living in a unit of local self-government in which at least 20 percent of the population speaks an official language other than Macedonian *may use any official language to communicate with the regional office of the central government* with responsibility for that municipality; such an office will reply in that language in addition to Macedonian.”<sup>60</sup>

On the municipal level, any community which makes up 20 percent of the population may use its own language in dealing with the administration. The Agreement also mandates state funding for higher education in Albanian, positive discrimination in favour of the enrolment of minorities in state universities, official translations of documents used in judicial proceedings and the issuing of personal documents in Albanian.

In Kicevo, Albanian students already attend classes in the secondary school in the Albanian language. There are some measures in place promoting minority enrolment at the universities. Back in 1995, a law on local self-government stipulated the use of Albanian as an official language in municipalities with more than 20 percent Albanians, including the publication of official documents in both languages.<sup>61</sup> The official gazette in Kicevo is already published in two languages, although translation is notoriously slow.<sup>62</sup>

In practice, however, Albanians in Kicevo can rarely use their language in communications with the municipality or the central state organs, because very few of the municipal or republican employees speak Albanian. Regardless of the attitudes of local officials or their legal obligations, this problem is not going to be resolved until Albanians are represented significantly in these bodies. Thus, the issue of language ultimately equates to the question of Albanian representation in the public administration. Again, the implication is that Albanians will need to be patient in pursuing this goal.

### C. Local self government

If these two targets can be achieved only through incremental measures over many years, the chief weight of expectations will fall on the decentralisation of government to produce early, tangible results. The Ohrid Agreement sets out an ambitious legislative programme for local-government reform.

“A revised Law on Local Self-government shall be adopted that reinforces the powers of elected local officials and enlarges substantially their competencies... Enhanced competencies will relate principally to the areas of public services, urban and rural planning, environmental protection, local economic development, culture, local finances, education, social welfare, and health care.”

This will be followed by a law on local finance that will “enable and make responsible units of local self-government for raising a substantial amount of tax revenue.”<sup>63</sup>

<sup>60</sup> *Framework Agreement for Peace*, Section 6.5.

<sup>61</sup> *Law on Local Self-Government*, (Official Gazette of the Republic of Macedonia, No. 52/1995).

<sup>62</sup> There is, however, no interpretation service in the Kicevo municipal assembly and sessions are conducted exclusively in Macedonian, triggering a recent boycott by the two Albanian delegates.

<sup>63</sup> Annex B, section 2.

A new law on local government was adopted on 24 January 2002 setting out the goals of devolution, including enhanced responsibilities in urban and rural planning, local economic development, communal services, social welfare and child protection, education and healthcare.<sup>64</sup> The new law is essentially a framework law, laying out the basic principles. Some 70 individual laws will need to be modified in order to fill it with substance.

The Ohrid Agreement foresees that the next step in the process will be a census, to be carried out under international supervision by the end of 2001. This has been rescheduled for November 2002. Within a year of the census, there should be an agreement on redrawing municipal boundaries, through a consultative process involving local and national authorities "with international participation". Macedonia will have a choice between reducing its current 123 municipalities back to the 34 which existed before 1996, or finding some new configuration.

Smaller municipalities like those in the Kicevo region, with no institutional base and only five to ten employees apiece, are at present poorly equipped to assume many of the functions contemplated in the new law on local self-government, particularly education, social welfare and health care. At present, the regional structure of Macedonia's central institutions is still based around the 34 old municipalities.<sup>65</sup> There are 16 central government institutions with offices in Kicevo town. Basing devolution around the 34 old municipalities would make some of these existing institutional resources available for conversion into locally supervised bodies; any other solution would pose a major additional institution-building challenge.

The new municipalities will need adequate resources to fulfil their tasks, as well as an appropriate degree of financial autonomy. Among international organisations, the IMF has expressed most concerns about the implications of fiscal decentralisation.

"All stages of the municipal budget process (including budget preparation, execution, monitoring, and audit) are in need of some further improvements. Without additional significant institutional reforms at the municipal level (e.g., establishing comprehensive and timely reporting mechanisms on budget execution, and establishing internal audits) and human capacity building (e.g., training municipal financial officers), fiscal decentralization is bound to fail."<sup>66</sup>

The devolution process is certain to encounter resistance from those with vested interests in the present arrangements. One would expect the central administration in Skopje to fight against losing personnel and resources. In a strategy paper on local government reform in 1999, the Macedonian Ministry for Local Self-Government identifies bureaucratic resistance as one of the major potential obstacles to the implementation of the reforms.<sup>67</sup> At present, the central administration and its social security funds employ 98.5 percent of all government employees,

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<sup>64</sup> Law on Local Self-Government, 24 January 2002, article 22.

<sup>65</sup> These 16 central government institutions include the Ministry of Finance and the Public Revenue Office, the Ministry of Economy, the Ministry of Urbanism, the Ministry of Agriculture and Forestry, the Ministry of Justice, the Ministry of Interior, the Ministry of Defence, the Ministry of Labour and Social Affairs including the Office for Social Work, the Ministry of Education, the Pension Fund, the Health Fund, the Employment's Bureau, and the successors of the Payments Office like the Treasury and the Central Registry.

<sup>66</sup> IMF, "Former Yugoslav Republic of Macedonia: Local Government Financing and the Reform of Intergovernmental Fiscal Relations", May 2002, p. 9.

<sup>67</sup> Ministry of Local Self-Government, "Strategy for reform of the local self government system in the Republic of Macedonia", November 1999, pp. 18-19.

leaving a balance of only 1,441 across the 123 municipalities.<sup>68</sup> For the time being, the distribution of power is clearly in favour of the central institutions.

There are a number of essential conditions for effective decentralisation of government: the lower levels of government must have sufficient *authority* over their own affairs; they must have sufficient *financial resources* to fulfil their responsibilities; they must develop *adequate administrative capacity* to exercise their functions; and there must be adequate *accountability mechanisms* in place.<sup>69</sup> Most importantly, however, there will need to be a broad political mobilisation and sustained pressure from below, both from municipal authorities and from citizens, in order to accomplish a major shift in resources away from the central government.

As the Founding Fathers of the United States constitution well understood,<sup>70</sup> shared powers mean permanent controversy. It is a necessary part of the process that Macedonian municipalities should struggle with the centre for resources and influence, and that new practical arrangements should emerge out of that struggle. However, it is very important that this conflict not be seen in purely ethnic terms, but that ethnic Macedonian municipalities join actively in the debate. A coalition of different political interests at local level would be best placed to press for constructive reforms that strengthen the capacity of the state at local level.

To encourage such a coalition to emerge, the new government may need to rethink the current structures. The established to co-ordinate the devolution process, established in January 2002, includes 14 members, mostly from central government institutions. Only one member of ZELS, the association of municipalities, is included in the process as an 'external member'.<sup>71</sup> For real results to be achieved, there should be a much greater voice for local representatives of different ethnic groups.

Both the design and implementation of the devolution process are likely to be difficult and time-consuming. If it is not pursued energetically, it is likely to fall into the trap of the reforms of 1995-6, creating new municipal structures without transferring real resources and authority, and ultimately weakening rather than strengthening the legitimacy of the state at the local level. The new government must embrace devolution as a tool to help the Macedonian state overcome its present crisis of legitimacy by moving closer to the people in places like Zajas and Oslomej.

Once again managing expectations as to the pace of change will be critical in this area. The IMF recommends a phased approach to devolution, beginning with the transfer of less complex functions ('phase zero'), then the transfer of assets (phase 1), the transfer of decision-making powers (phase 2) and finally an increase in fiscal responsibilities (phase 3). A recent IMF assessment concludes that: "It would not be surprising if, in many sectors, it were to take 5 years to complete Phases Zero to II, if not longer."<sup>72</sup> However, these legitimate practical concerns must not provide an excuse for procrastination. The political imperative is for early action. However long the process might be, it must be seen to begin immediately.

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<sup>68</sup> Statistical Office of the Republic of Macedonia, *Statistical Yearbook of the Republic of Macedonia 2001*, Skopje 2001, p. 341.

<sup>69</sup> James Manor, *The Political Economy of Decentralization* (World Bank, Washington: 1999).

<sup>70</sup> See in particular James Madison, *The Federalist Papers*.

<sup>71</sup> Ministry of Self-Government, "Decision for establishment of a Coordinative Body for planning, monitoring, management and coordination of the reform in the local self-government system", Skopje, 22 January 2002.

<sup>72</sup> IMF, "Local Government Financing and the Reform of Intergovernmental Fiscal Relations", p. 16.

#### **D. Conclusions: beyond zero-sum politics?**

It was an impressive achievement of international conflict management to bring the protagonists from the battlefields of Northern and Western Macedonia to the negotiating table and arrive at the Ohrid Agreement. The demobilisation of the NLA, the return of displaced persons and the passage of various constitutional and legislative reforms were equally important. The conduct of elections in September 2002 without major incident, as though there had been no fighting only a year before, has cleared the way for future political change to take place within the constitutional order. In this way, Macedonia has moved away from the nightmare of another Balkan war and out of the headlines of the international media.

It is tempting to think that the hardest part of achieving sustainable peace has already been achieved. However, the analysis in this report suggests otherwise. Both for the Macedonian political elite and for the international community, many of the most difficult issues must be tackled in the coming period.

Any credible strategy must begin from the recognition that the underlying causes of insecurity – the collapse of Macedonia's industrial society, the weakness of its new private sector, the absence of a responsive state in many parts of the country – remain as acute as ever. When economic collapse becomes coupled with ethnic mobilisation, it makes for a uniquely combustible combination.

In 2001, on the eve of the conflict, Freedom House described Macedonia as “a country in transition, but one not entirely decided on its destination”.<sup>73</sup> The end point of ‘transition’ in Macedonia may be a situation where the young people of both ethnic groups face a choice between taking the escape route of emigration, or remaining behind to struggle for access to the few goods, like public-sector employment, which the state still has at its disposal. The more ethnic Albanians obtain secondary school and university degrees, the more pressure will be building up. Only significant employment growth in the new private sector or continued large scale labour migration can help to relieve these pressures.

The implications of the story of Kicevo and its many analogues across Macedonia are yet to figure in either domestic or international policy-making circles. So far, economic policy in Macedonia has overlooked the problems generated by the inequitable distribution of public resources and the unique problems (and opportunities) of the Albanian community and its private sector. For their part, throughout the 1990s international organisations preferred to argue that social and economic transition in Macedonia was going rather well, even if “despite strong policy performance, the recovery of output and employment has been slower to materialise.”<sup>74</sup>

There are a number of preconditions which need to be met before the incoming Macedonian government, with international support, can set about developing a credible development strategy. The first is that the Macedonian state needs to overcome its obvious deficit in information about what is going on in the real economy, particularly in the Albanian areas. As UNDP has noted recently:

“The lack of a precise statistical record (i.e. a record recognised and accepted by everybody) that would reflect the real dimensions of the present situation adds fuel

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<sup>73</sup> Freedom House, p. 425. It also stressed that “despite some communities’ dissatisfaction with the implementation of their rights, Macedonia is still the most tolerant society in the Balkans.”

<sup>74</sup> World Bank, *Enhancing growth*, 1998, p. vi.

to the existence of insecurity. This especially pertains to the lack of sufficient cross-ethnic data in the areas of health, social welfare, employment and the structure of the state administration, as well as lack of data regarding per capita income by municipalities.”<sup>75</sup>

This kind of knowledge is essential for understanding and addressing the fault-lines in the political economy. Such problems cannot be tackled credibly until they become visible. The census scheduled for November 2002 is a key first step towards mapping Macedonian society, but the real challenge lies in reorienting Macedonia's public institutions to be closer and more directly accountable to the people.

Generating an accurate picture of how public resources are distributed throughout Macedonia is the first step towards an open acknowledgement of the history of exclusion of the Albanian community. In a society where the majority of ethnic Macedonians (although only 11 percent of Albanians) believe that “everybody has equal rights”,<sup>76</sup> this will take some political courage. An accurate picture of economic realities and trends would also help to identify new opportunities for generating investment capital and private-sector growth in different parts of the country. The Macedonian government has a vital economic interest in learning more about the diaspora and engaging with it in serious discussions about how to clear the path for economic development. This could take the form of soliciting co-financing for infrastructure projects in places like Zajas or Oslomej, which would directly improve the conditions for private-sector growth across the whole Kicevo region.

A second precondition is that ethnic Albanian leaders acknowledge the scale and complexity of the challenges ahead. They must accept that the reshaping of the Macedonian state will have to be gradual. There is a danger point not far ahead for Ohrid implementation when the first inevitable disappointments emerge concerning the speed of institutional change. Ethnic Albanian leaders must resist the temptation to pull out of the political game and resort to extra-constitutional means. At the same time, the incoming Macedonian government must ensure that the process of change is seen to begin immediately and to yield concrete results in the field, so as to preserve the momentum which the Ohrid Agreement has achieved. There is a particular danger that the promise of strengthening local government will slip, given the political and technical challenges which lie ahead. Effective inter-ethnic co-operation of local authorities will be crucial to push this process forward.

The third precondition concerns the European Union. For Europe's nascent common foreign and security policy, Macedonia is not just one country among many. Javier Solana, Chris Patten, George Robertson and the full resources and credibility of the institutions they represent (the High Representative for Foreign and Security Policy, the European Commission, NATO) were deployed to contain the crisis of last year. Macedonia has since become the model for how a European-led multilateral intervention should function in the future.

The flag of the European Union is now at the centre of the Macedonian peace process. At the moment it is flying high. This means that the stakes for Europe are also extremely high. If European foreign policy cannot make a success of the peace process in Macedonia, on the very border of the European Union, one would hardly expect it to succeed in other areas further away from its interests.

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<sup>75</sup> UNDP *Human Development Report*, p. 92.

<sup>76</sup> *Ibid.*, p. 89.

The main risk to Ohrid implementation is its tendency, in an environment of declining public resources, to reduce to a series of zero-sum games between the ethnic Macedonian and Albanian communities. Only a serious commitment from the European Union can break that dynamic by generating opportunities for both communities to participate equally in a balanced process of development.

For the time being, the tools at the disposal of the international community in Macedonia – diplomacy, reconstruction, budgetary and balance-of-payments support – are designed for dealing with the disruptions generated by the conflict, rather than its structural causes. If the European flag is planted on the peace agreement and at diplomatic tables in Skopje, why not on construction sites and infrastructure projects in Zajas, or on programmes of industrial conversion in Kicevo?

The European Union and its member states have a great deal of experience in overcoming precisely the problems of industrial decline and rural underdevelopment which Macedonia faces. Within the European Union itself, the goal of economic and social cohesion – the accelerated development of backward areas – is pursued through a massive mobilisation of resources in the form of structural and cohesion funds, based on the principles of co-financing, credible local development strategies (based on sound statistical information) and partnership with local authorities. At present, such tools are not used in the Western Balkans, although they will soon become available to a number of new member states.

Another key area of European engagement is to develop a credible policy on labour migration from Macedonia. For the foreseeable future, the problem of youth unemployment in places like Kicevo will not be soluble without continued migration. Understanding migration not as a problem to be suppressed, but as a means of relieving pressures in local economies and generating new sources of investment capital, must be part of any Europeanisation and development strategy in Macedonia.

The European Union faces a fundamental strategic choice in South Eastern Europe: to continue to fight the fires of underdevelopment which spring up as incipient conflicts which can never be fully resolved; or to make a serious commitment to pulling Macedonia and the Western Balkans out of its development trap, dealing with the causes of instability at their source.

## **About ESI**

*ESI is an independent non-profit research and policy institute based in Berlin, with regional offices in Sarajevo, Pristina and Skopje. It was created in 1999 in recognition of the need for in-depth analysis of policy issues related to South Eastern Europe. ESI has written dozens of reports and background papers which are made available free of charge on its website ([www.esiweb.org](http://www.esiweb.org)). Besides the Chairman of the Executive Board, Gerald Knaus (also Director of Lessons Learned and Analysis Unit in Kosovo), and the Chief Editor, Marcus Cox (also Director of ESI Bosnia project), ESI has the following core staff: Kristof Bender (senior analyst for Macedonia and Serbia-Montenegro), Eggert Hardten (analyst for Bosnia and Kosovo), Verena Knaus (analyst seconded to the ESI-led Lessons Learned and Analysis Unit by the EU Pillar in Kosovo), Felix Martin (analyst for Bosnia), Marcus Brand (analyst for Kosovo) and Ulrike Grieshofer (head of Berlin office).*

*In 2002 ESI received support from the German Marshall Fund of the United States, the Swedish Government, the Swiss Government, the UK Department for International Development, the Körber Foundation, the British Government and the European Union Pillar of UNMIK in Kosovo.*

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