The Western Balkan region is ranked high on the Swiss foreign policy agenda. Vibrant economic relations, security, stability, migration and European integration are Switzerland’s key concerns and interests.

Since the early 1990s, Switzerland has been supporting transition processes in Macedonia and has developed a trusted partnership based on mutual interests. Close ties between the two countries are best documented by a sizeable Macedonian diaspora living in Switzerland which represents a promising potential for addressing a wide range of migration and development-related issues. The new Cooperation Strategy 2013-2016 is rooted in the spirit of the agreements of cooperation between the governments of Switzerland and Macedonia and was developed by the Swiss Agency for Development and Cooperation (SDC) and the State Secretariat for Economic Affairs (SECO) in close consultation with Macedonian government offices and partners such as the civil society. It represents a strong commitment to continue supporting the economic, social and political transition processes in Macedonia, building on Switzerland’s long-term presence in Macedonia and earlier achievements. Over the years, Swiss-Macedonian cooperation has grown. Today Switzerland is the sixth largest development partner of Macedonia.

Macedonia has achieved progress in political and macroeconomic stability as well as social peace. The goal of the Swiss Cooperation is to support Macedonia in addressing remaining challenges in alignment with the priorities as defined by the Government of the Macedonia for specific sectors. It focuses on three thematic domains: Economy, Water, Governance & Decentralisation. Switzerland has relevant expertise in all three domains and is confident that it can make an effective contribution to the further development of Macedonia.

The foreseen financial commitments for the period 2013-2016 amount to 85 million Swiss francs.

This document first provides an overview of recent political and economic trends and general development cooperation. It then discusses the rationale for Swiss-Macedonian cooperation before assessing the achievements and experiences of past interventions. From this, it draws implications for the new Cooperation Strategy 2013-2016, followed by an outline of the priorities and objectives for the upcoming period. It concludes with information about programme management, monitoring and steering.

Key actors on the Swiss side are the Swiss Agency for Development and Cooperation (SDC) and the State Secretariat for Economic Affairs (SECO) in close consultation with Macedonian government offices and partners such as the civil society. It represents a strong commitment to continue supporting the economic, social and political transition processes in Macedonia, building on Switzerland’s long-term presence in Macedonia and earlier achievements. Over the years, Swiss-Macedonian cooperation has grown. Today Switzerland is the sixth largest development partner of Macedonia.

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In 2014, Switzerland will chair the Organization for Security and Cooperation in Europe (OSCE). In this role, Switzerland will further engage in seeking solutions to regional security challenges and will also continue to support OSCE programmes in the region.

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

Berne, November 2012

Swiss Agency for Development and Cooperation (SDC)

Martin Dahinden
Director-General

Swiss State Secretariat for Economic Affairs (SECO)

Marie-Gabrielle Ineichen-Fleisch
State Secretary
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<th>Acronym</th>
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<tr>
<td>CIS</td>
<td>Commonwealth of Independent States</td>
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<td>FDEA</td>
<td>Swiss Federal Department of Economic Affairs</td>
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<tr>
<td>GDP</td>
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<td>GNI</td>
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<td>MERV</td>
<td>Monitoring System for Development-Related Changes</td>
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Switzerland has been providing humanitarian and transition support to Macedonia since its independence in 1992. In the last years, the Swiss Cooperation concentrated on two domains: rule of law and democracy as well as water and environment. Switzerland’s competences and complementarities with EU assistance have been major success factors and the Swiss support has been sincerely appreciated by Macedonian and international counterparts alike.

European and transatlantic integration will remain the driving forces of the country’s transition to a stable democracy and market-based economy. Challenged by citizens and civil society organizations (CSOs) to further improve service delivery and accountability, municipalities will have a key role to play therein.

Developing economic perspectives and addressing the problem of persistent high unemployment, especially of young people, women and marginalised groups, are fundamental challenges that Macedonia faces. As one of the few remaining bilateral donors in Macedonia, Switzerland has an opportunity to make a difference in the country’s economic development.

Improving the water quality of rivers and lakes and strengthening related public services directly impact citizens’ quality of life, but still represent challenges for municipalities and public utilities. Although the long-awaited Water Law was recently adopted, a lack of administrative, financial and technical capacities has prevented the Government from establishing the institutional set-up for its implementation.

The Message on Switzerland’s International Cooperation in 2013-2016 provides the overall framework for this new Cooperation Strategy. In summary the Strategy focuses on three objectives:

• Advance democratic governance at local and central levels.
• Further adjust the economic system towards a social market-based economy that creates jobs and growth.
• Enable further progress towards meeting international water standards and requirements.

In order to advance democratic governance at the local and central levels, Switzerland will expand its capacity-building support for local government authorities, i.e. in fostering inter-municipal cooperation. Switzerland will also continue its strong support for CSOs with an emphasis on constituency building to improve CSOs’ credibility and legitimacy. Interventions will also facilitate critical and constructive partnerships with the Government in order to foster the accountability of the authorities towards Macedonian citizens, as well as contribute to improved service delivery.

With regard to economic development, Switzerland will work with partners to increase opportunities for SME’s to improve their business skills and obtain financing. Moreover, based on systemic market analyses, Swiss cooperation will promote equal job and income opportunities in specific markets or sectors.

In order to further progress towards international water standards, Switzerland will support the implementation of the Water Law, in particular the enforcement of water management. In addition, Switzerland will strengthen the capacities of selected municipalities in providing communal water services, in particular waste water treatment.
Programme Implementation and Management

Gender and good governance are transversal themes of this Cooperation Strategy. Swiss interventions will continue to integrate gender and governance as crosscutting issues in all domains. In the economic domain, to reduce gender gaps, targeted initiatives will be designed and implemented. With regard to good governance, the focus will be on the principles of transparency, accountability and participation, including inter-ethnic relations.

Regional cooperation is an essential element of Swiss Cooperation strategies in addressing region-specific problems through cooperation between countries. Global and regional initiatives will encourage peer-learning and capacity building, support benchmarking, contribute to public financial management reform, and help countries adhere to international standards. Support to regional initiatives will be provided.

Switzerland will align its activities to government strategies and implementation plans as much as possible. Swiss cooperation will continue working with partners with whom trustful relationships have been built over the years. This includes governmental organizations, the EU Delegation, UN organizations, CSOs, private sector entities as well as Swiss implementing partners.

During the period 2013-2016, Switzerland’s total commitment of funds in Macedonia amounts to CHF 85 million.
In the early 1990s, Yugoslavia dissolved into five independent countries, Bosnia and Herzegovina, Croatia, Macedonia, Serbia and Montenegro, and Slovenia. In its transition towards a democratic and market-based economy, Macedonia has a mixed record. Despite relative stability and social peace, this landlocked and multi-ethnic country, with a population of just over two million, has yet to overcome many challenges.

1.1 Political Development

During its second decade of independence, Macedonia was considerably more stable than during the first ten years. Driven by the prospect of European Union (EU) accession, Macedonia succeeded in developing a fairly functional government and democratic institutions. However, partially as a result of delayed European and transatlantic (NATO) integration processes, and also due to an unresolved name dispute with Greece, reforms have slowed down. Macedonia is currently struggling to complete the transition to a democratic society and a well-functioning market economy. Clear division of powers among the government, the parliament and the judiciary are not fully in place.

Politically stable - for now

Functioning inter-ethnic relations are a major domestic factor for political and social stability in Macedonia. While currently still rather stable, ethnic tensions remain a challenge for the society.

Started in 2004 in fulfilment of the 2001 Ohrid Framework Agreement that resolved a brief armed inter-ethnic conflict, an ambitious decentralization reform process is by and large on track. Local authorities, supported by the Association of Local Self Government Units (ZELS), are keen to assume responsibility for the provision of a number of decentralized services. However, fiscal decentralization is lagging behind and disparities between different communities and regions remain considerable.

Macedonian civil society organisations (CSOs) assume an oversight function of the state and have the potential to act as drivers of change. Yet most CSOs lack strong domestic constituencies which are needed, along with strengthened institutional capacities, to ensure greater checks and balances in the democratic process.

1.2 Economic Development

Macedonia has made progress towards achieving and maintaining macroeconomic stability and building a market-based economy. Forces driving economic reform are the current Government's prioritization of economic development and the EU accession process.

In some aspects such as price liberalisation, trade and foreign exchange policies, as well as business related administrative procedures, and the development of a comprehensive strategic and regulatory framework for business environment reforms, Macedonia has reached industrialised market economy standards. However, in order to achieve greater competitiveness and higher growth, further efforts are needed in the areas of access to finance, skills development, technological advances for greater value-added production, and the implementation of the business environment reforms.

From 2002 to 2008, Macedonia’s GDP reached annual growth rates between four and six per cent. The international economic and financial crisis, however, reduced GDP growth to 1.8% in 2010 and 0.7% in 2011. In 2011, GNI per capita stood at USD...
4,730. Private transfers, mostly consisting of remittances, remained strong at 19.5% of GDP in 2011, even in times of global recession. GDP per capita in purchasing power parity is less than 40% of the EU average and one of the lowest in the region. With approximately 30% of the Macedonian population living in poverty and with the highest Gini index in the region, inequalities in the society are sizable. During the transition, income inequality has increased significantly – the Gini index rose from 22.3 in 1990 to 43.2 in 2009.

Still, the country has managed the financial crisis better than its neighbours as a result of healthy bank balance sheets, conservative credit policies and strong domestic deposits. Other important factors are a stable currency, substantial foreign exchange reserves and a moderate budget deficit.

Young, female and unemployed

Macroeconomic stability, however, has not led to job creation. The unemployment rate, officially at 32%, remains the second highest in Europe and in the Western Balkans region. Youth unemployment has reached 46%. Macedonia performs worse than its Western Balkan neighbours in terms of gender equality in the economic domain.

The private sector is dominated by small enterprises. 92% of companies, employing 43% of the formal sector workforce, have less than ten employees.

According to the World Economic Forum, the most problematic factors for doing business in Macedonia are access to finance and inefficient government bureaucracy. Also, there is a shortage of management skills and skilled labour, a key constraint for the country’s overall competitiveness and export industry.

1.3 Environment

In general, environmental indicators for Macedonia are significantly below EU levels, although on par with regional averages.

Improving water resources management, reducing air pollution and improving waste management are some of the key challenges. Weak law enforcement, limited resources at central and local levels and insufficient coordination and cooperation amongst concerned authorities render them all the more difficult to address.

Water management – a key environmental challenge

The water sector, in particular, is affected by politics. The transition from the previous system, in which costs for water services were not fully covered, into one based on full cost recovery, is slow and aggravated by low public environmental awareness.

At the same time, a number of driving forces can help shape the future of Macedonia’s environment. They include the Water Law adopted in January 2011, the mayors’ general interest and willingness to cooperate on environmental issues, an attempt by the Government to generate income from sustainable use of natural resources, as well as motivated and active CSOs.

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1 Source: IMF Staff Report for the 2011 Article IV Consultation.
2 According to the Macedonian State Statistical Office data, in 2011, the percentage of poor people in the Republic of Macedonia was 30.4% (in accordance with Eurostat methodology).
3 The Gini index measures the extent to which the distribution of income or consumption expenditure among individuals or households within an economy deviates from a perfectly equal distribution. Source: World Bank.
The Western Balkans is among the top regional priorities of Switzerland’s foreign and foreign trade policy. Swiss cooperation with the region is founded on a mutual interest in reconciliation, stability, security and trade as well as on European integration. Moreover, since the 1960s, Switzerland has been home to a Macedonian diaspora accounting for around 80,000 persons today.

Switzerland has provided ODA to Macedonia since the latter’s independence in 1992. It opened a Cooperation Office in 1996. Alongside the Swiss Agency for Development and Cooperation (SDC) within the Federal Department of Foreign Affairs (FDFA) and the State Secretariat for Economic Affairs (SECO) within the Federal Department of Economic Affairs (FDEA), the Human Security Division of the FDFA’s Directorate of Political Affairs plays an important role. The Message on Switzerland’s International Cooperation in 2013-2016 provides the overall framework for this new Cooperation Strategy. Cooperation beyond this timeframe will depend on the new Federal Law on Cooperation with Eastern Europe, which is expected to replace the current law expiring in 2017, headway in the Macedonia’s economic and democratic transition, and progress in the EU accession process.

Growing Swiss importance as bilateral aid volumes decline

EU accession-related reforms provide the general framework for international cooperation with Macedonia. Since the EU has become the major development partner, bilateral assistance from individual EU countries is declining. Current key development partners, beside the EU, are the USA, Germany, the United Nations (UN) system and the Bretton Woods institutions. Among the new emerging donors are Turkey and China.

Switzerland ranks number six among bilateral donors to Macedonia and accounts for 3% of total Official Development Assistance (ODA). Growth perspectives are favourable due to the decision of the Swiss Parliament to increase Swiss ODA to at least 0.5% of the country’s Gross National Income by 2015.

Against this background, Switzerland’s role as bilateral donor is changing and growing in importance. Besides its continued interest in supporting Macedonia’s democratisation process and increasing environmental protection, with particular emphasis on local governance and water management, Switzerland is also keen to improve economic relations with Macedonia, building on one of the country’s key priorities, i.e. advancing economic reforms.
3. Past Achievements and Experiences

During the last years, Switzerland’s policy-level and operational cooperation with Macedonia has concentrated on two domains: rule of law and democracy on the one hand, and water and environment on the other. Implementation of the first Country Strategy, adopted in 2000, was abruptly interrupted by the armed conflict in 2001, following which emergency measures were taken to cope with the challenges of a post-conflict situation.

The most recent 2009-2012 Cooperation Strategy, with an average annual budget of CHF10 million, was reviewed on the basis of a set of assessments, analysing both the country context and achievements thanks to Swiss interventions.

Over the years, Swiss-Macedonian cooperation has grown in size and gained in efficiency and effectiveness. Switzerland’s competences and complementarities with EU aid have been major success factors. Its development expertise, coupled with a long-term presence and ability to sustain and build on earlier achievements, has been sincerely appreciated by Macedonian and international counterparts.

3.1 Rule of law and democracy

The overall goal of this domain was for democratic institutions, both central and local, to gain legitimacy by achieving national objectives of integration and internal stability. It was also to improve the accountability of central and local governments to a strong civil society and involved citizens, leading to policy adjustments.

Switzerland has very actively supported Macedonia’s decentralisation goal in order to fulfil the 2001 Ohrid Framework Agreement to provide quality services to citizens and to promote democracy. Several important results have been achieved as a result of this cooperation:

Improved municipal services
- Strengthened capacity of municipal civil servants in all 85 municipalities, as well as targeted advocacy at central-level government for further decentralisation reforms, have led to improved municipal services, namely in the field of basic education, communal services and urban planning.

Innovative Community Forums institutionalized
- Benefiting from Swiss experience elsewhere, nearly half of the 84 Macedonian municipalities, which comes close to one million people, have meanwhile introduced Community Forums for consulting citizens regarding community development and budget planning. Direct citizen involvement in local-level decision-making has resulted in numerous initiatives in the areas of transparency, accountability, gender, minority rights and inter-ethnic relations.
- The Civil Society Support Programme has significantly strengthened project management capacities of selected CSO grantees. In turn, numerous civil society interventions have influenced local governance and the legal environment for social and democratic change. Upon the initiative of one of the grantees, for instance, the Macedonian Government amended the Law on Public Procurement with transparency criteria.
Support for parliament impeded by difficult political circumstances

- The establishment of a Parliamentary Institute and a Parliament Constituency Relations Network Unit as part of Macedonia’s Parliamentary Services, was intended to improve parliament’s law-making capacities and its ability to represent citizens adequately. However, difficult political circumstances are challenging the further implementation of Swiss-funded programmes in this field, despite being considered highly relevant by members of the Macedonian Parliament.

3.2 Water and environment

The overall goal of this domain was for Macedonia to make significant and acknowledged progress in meeting international standards and requirements concerning the sustainable use of water and other natural resources and the protection of biodiversity. Switzerland has been the main supporter of Macedonian municipalities in the field of water and, in particular, waste water management. Switzerland’s longstanding support has produced a number of positive results:

- Access to waste water services substantially increased
  - 270,000 Macedonians (14% of the total population) have access to waste water services. Of those, 170,000 (9% of the total population) are covered thanks to considerable Swiss investments.
  - Pollution discharged into Macedonia’s three main rivers, Kumanovska, Crn Drim and Bregalnica, has been reduced and purification of waste water has reached more than 90% thanks to three waste water treatment plants supported by Switzerland.

Successful promotion of environmental education

- Environmental education has been integrated into the Macedonian education system leading to increased awareness among principals, teachers and pupils.

3.3 Major lessons learned

While acknowledging overall progress made towards decentralization in order to fulfil the Ohrid peace agreement, local governments and civil society still depend on external support so as to assume their roles in Macedonia’s difficult transition process. Strong partnerships with local authorities, as well as with the central level responsible for promoting decentralisation, provide a sound basis for future interventions in this field. Due to challenges encountered as regards strengthening Macedonian law-making capacities, Switzerland has decided to redirect its resources, while leaving room for eventual opportunities in this area.

In the field of water and environment, Switzerland has managed to develop a portfolio consisting of interrelated components supporting infrastructure, effective management of water and natural resources and environmental awareness-raising. The aim will be to further consolidate this programme in order to enhance the overall impact of the Swiss contribution to the sustainable use of water and nature conservation.
4. Implications for the new Cooperation Strategy 2013-2016

This new Cooperation Strategy builds on continuity and capitalization of past experience as well as innovation, taking context changes into account. It focuses on a limited number of thematic domains where Swiss expertise is available and where effective interventions can contribute to fulfilling important needs. In broad terms, Switzerland will maintain support under the two existing domains of intervention, while support to economic development will be added as a third domain.

European and transatlantic integration will remain the driving forces of Macedonia’s transition to a stable democracy and a market-based economy. Challenged by their citizens’ demands, municipalities will have a key role to play in further improving service delivery and accountability.

Citizen participation in the political life of their countries, the principles of separation of powers, strong democratic institutions, both central and local, as much as provision of equal rights and non-discrimination, are prerequisites for a well-functioning democratic system and lie at the heart of Switzerland’s international cooperation priorities. Building on past positive experience in collaborating with local governments in the decentralisation process, Switzerland will further support the cooperation between local and central authorities, with special emphasis to providing conditions for equitable development. Democratization also includes the establishment and consolidation of CSOs as democratic institutions that play a role in shaping and defending group interests in central and local-level political decision-making processes as well as holding state authorities accountable for their actions. Thus, Switzerland will continue its strong support for Macedonian CSOs.

Developing economic perspectives and addressing the issue of persistent high unemployment especially among young people, women and marginalised groups, are fundamental challenges for Macedonia. The main challenges are difficulties for micro, small and medium-sized enterprises (MSMEs) to access financing, a shortage of skilled labour (including managerial skills), inefficient use of resources leading to a significant ecological footprint, and a cumbersome government bureaucracy. As one of the few remaining bilateral donors in Macedonia, Switzerland has an opportunity to make a difference by addressing these challenges. Switzerland will therefore launch a new domain in its cooperation with Macedonia, building on a number of on-going regional economic development interventions and broadly aiming to promote competitiveness and inclusiveness of the economy on a larger scale.

Improving the water quality of rivers and lakes and strengthening related public services remain major challenges for municipalities and public utilities. Although the long-awaited Water Law was recently adopted, a lack of administrative, financial and technical capacities has prevented the Government from establishing a new institutional set-up and adopting an integrated approach to its implementation. Major results achieved and remaining challenges call for a continued engagement of Switzerland as the main development partner in the water sector, in particular with regard to waste water management.
5. Priorities and Objectives for 2013-2016

5.1 Overall Goal

Switzerland supports Macedonia’s transition towards a socially-inclusive market economy and democratic political system in view of its European integration.

5.2 Domain of Democratic Governance and Decentralization

Why: Moving towards a stable democracy and effective local governance remains among the most important objectives for Macedonia. Equitable regional development - given growing disparities along economic, political, ethnic and religious lines - and decentralization are important Government priorities for the period 2011-2015.

The role of CSOs is also very important in new democratic states. A Strategy for Cooperation between the Government and Civil Society Sector was approved in 2011.

What: The overall objective of this domain of intervention is to advance democratic governance at local and central levels. The expected Swiss portfolio outcomes are:

1. Local governments and administrations are accountable and transparent. They provide efficient services to citizens. Municipal councils exercise their oversight functions and hold mayors and municipal administrations accountable; and

2. CSOs strengthen their constituencies. They make use of existing and claim new spaces and places for interactive debates on the state and future of Macedonia’s society and democracy, leading to increased accountability and involvement in the agenda setting.

How: In the current context, two drivers of change require support: local governments and civil society. Switzerland will therefore expand its capacity-building support for local government authorities and municipal councils, i.e. in fostering inter-municipal cooperation, participatory budgeting and strengthening Centres for Regional Development. Switzerland supports effective instruments such as performance-based grants, and will continue its strategic partnership with ZELS. Switzerland will also continue its strong support for CSOs. While continuing to provide competitive grants, future interventions will emphasize constituency building to improve CSOs’ credibility and legitimacy in order for these organizations to engage in a critical and constructive partnership with the Government in developing, implementing and complying with laws and policies.
5.3 Domain of Economic Development

Why: Far-reaching problems for the private sector such as difficulties in accessing finance, and a shortage of skilled labour including in management, justify a strong Swiss intervention in this domain where only few development partners are active.

Furthermore, equal economic participation and opportunities will be a special focus of this domain, addressing one of the highest gender employment gaps and youth unemployment rates in the region.

What: The overall objective in this domain is to further adjust the economic system towards a social market-based economy that creates jobs and growth. The expected Swiss portfolio outcomes are:

1. Competitiveness of the private sector is enhanced through increased possibilities for businesses to obtain financing, as well as through improved core business skills of SMEs; and

2. In selected sectors, key public and private actors enable systemic change to address market deficiencies, leading to income and job opportunities.

How: Switzerland will work with partners to develop and introduce innovative financial products, strengthen business skills of entrepreneurs and improve corporate governance practices of companies. Particular attention will be paid that the assistance provided by Switzerland directly supports the private sector, including SMEs located outside Skopje in economically less developed regions. A variety of experienced local partners exist that will be considered for implementing activities in these fields. Specific support to business environment reforms will be considered.

Equal job and income opportunities, including demand-oriented skills development, will be promoted in specific markets or sectors based on systemic market development analyses.

Swiss-funded regional programmes for economic development implemented in the Western Balkan countries will contribute to achieving the above-mentioned goals by improving access for Macedonian products and services to international markets and strengthening public financial management capacities.

In all its activities, Switzerland will apply the principles of a “green economy” in line with Agenda 21 and the EU’s growth strategy “Europe 2020”.

5.4 Domain of Water

Why: The transition from the production driven water management system to a new, consumption-based and environmentally-conscious, system has not yet been fully accomplished. In addition, municipal capacities to take charge of delegated responsibilities in delivering basic water services and managing natural resources are insufficient.

What: The overall objective of this domain is to enable further progress towards meeting international water standards and requirements (e.g. European legislation). The expected Swiss portfolio outcomes are:

1. Framework conditions for the implementation of laws on water and on nature conservation are developed, approved and in place, including enforcement of tariff structures that cover operation and maintenance; and

2. Selected municipalities are strengthened in their capacity to provide access to communal water services.

How: During the past strategy cycle, Switzerland implemented a comprehensive programme in the field of water and nature conservation and management. Numerous important and inter-linked activities in support of local water and nature resource management capacities will continue in selected geographical areas of Macedonia in line with the Law on Water, Law on Drinking Water Supply and Drainage of Urban Wastewater and the National Strategy for Environmental Investments.

(Annex 3: Results Framework)

4 Europe 2020 is the EU’s ten-year growth strategy, i.a. recognizing “green economy” as a concept that acknowledges the economic and social value of environment. As such, the concept also places itself in the wider frameworks of the Rio Principles and Agenda 21.
6. Programme Implementation and Management

6.1 Synergies
All three domains of intervention offer potential for synergies between the relevant Swiss federal offices, geographically as well as content wise. Interventions will also benefit from interactions with Swiss regional and global programmes. Migration and development will be applied as an additional analytical lens and action taken based on opportunities.

6.2 Aid Modalities
Adhering to the principles of the Paris and Accra Declarations and the Busan Partnership for Effective Development Cooperation, Swiss Cooperation will explore opportunities for joining hands with other bilateral and multilateral development partners active in Macedonia, particularly with the EU Delegation.

Switzerland will align its activities to government strategies and implementation plans where considered sound. Switzerland strives to have a balanced mix between different aid modalities:

- scaling-up of projects where potential exists;
- establish partnerships with other donors for joint or delegated implementation;
- provide budget support – in particular at local level - to strengthen institutional and administrative capacities;
- along with its capacity-building support for Macedonian partners, related investments in infrastructure will be considered.

6.3 Partners
Swiss cooperation will continue working with Macedonian, Swiss and international implementing partners with whom trustful relationships have been built over the years. This includes governmental organisations namely at the local level, UN organizations, CSOs and private sector entities. Wherever appropriate, project agreements are signed with line ministries or other authorities to stipulate the mutual contributions for achieving planned outcomes. In terms of policy development and dialogue, Switzerland is committed to developing alliances and advocating for joint donor positions.

6.4 OSCE Presidency 2014
In view of the Swiss Presidency of the Organization for Security and Co-operation in Europe (OSCE) in 2014, Switzerland will identify opportunities for addressing key OSCE topics within its domains of intervention.

6.5 Transversal Themes
Good governance and gender are transversal themes under Swiss cooperation programmes worldwide, including Macedonia.

Swiss interventions will therefore continue to integrate gender and governance as crosscutting issues in the analysis, implementation and monitoring/evaluation of its programmes and projects in all domains. In the economic domain, to reduce gender gaps, targeted initiatives to empower women will be designed and implemented.
Similarly, Switzerland will uphold its commitment to governance as a transversal subject. Besides its sectoral governance programmes, the focus will be on the principles of transparency, accountability and participation. The latter will specifically address the improvement of inter-ethnic relations.

6.6 Regional cooperation

Regional cooperation is an essential element of Swiss cooperation strategies in terms of solving region-specific problems through cooperation between countries. Global and regional initiatives will encourage peer-learning and capacity building (e.g. through the Public Expenditure Management Peer Assisted Learning Initiative (PEMPAL), support benchmarking (e.g. through the World Bank SAFE Trust Fund), contribute to public financial management reform (e.g. through the Public Expenditure and Financial Accountability Initiative (PEFA) or the IMF Topical Trust Funds in the areas of tax administration and tax policy reform), and help countries adhere to international standards. With this new Cooperation Strategy for Macedonia, support to regional organisations, such as the Network of Associations of Local Governance will be further provided. Also, in partnership with other international development partners and in areas related to the domains of the present Strategy, initiatives promoting innovative ideas and the exchange of knowledge at a regional level will be supported.

In addition, Macedonia participates in long-standing regional programmes in the fields of research, science and police cooperation and a recently launched programme on Roma inclusion which complements the regional portfolio.

6.7 Financial and Human Resources

During the period 2013-2016, Switzerland’s average annual commitment of funds in Macedonia amounts to CHF 21 million. The table in Annex 2 shows planned commitments and disbursements overall and per domain, both in absolute numbers and in percentage terms.

The Swiss Cooperation Office (SCO) in Skopje is managed by the Ambassador/Director of Cooperation and a Deputy Director of Cooperation. They are supported by a team consisting of operational, financial and administrative staff, and regional advisors.
This Cooperation Strategy is subject to systematic monitoring, the aim of which is to keep track of progress toward achieving expected results, allowing for corrective measures if required (steering).

The monitoring system observes three dimensions: the country context, the Swiss Results Framework, and programme management.

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

Different monitoring instruments are used in order to observe the three dimensions (see table) and prepare Annual Reports.

The first dimension – the country context – is monitored by the Monitoring System for Development-Related Changes (MERV). The MERV is used by SCOs to monitor on a regular basis the overall context development of Swiss partner countries. It allows timely responses to impending political changes. To monitor the second dimension – the Swiss Results Framework – a Results Monitoring Matrix is used. With this instrument, programme developments are monitored (i.e. “Swiss portfolio outcomes”). The instrument is used by SCO staff with information received from project staff. Additionally, the Context Watch is used for assessing progress towards achieving results at the country level (i.e. “country development outcomes”). The Context Watch, mandated by the SCO, is an external assessment that focuses on relevant development changes in the three priority domains and is based on a quantitative as well as qualitative data analysis. The Results Monitoring Matrix is also used to monitor the transversal themes gender and good governance.

Two instruments are used to monitor the management dimension: the Dash Board and the Equal Opportunities Policy Implementation Assessment. The Dash Board allows for monitoring the implementation of objectives related to the allocation of financial resources, aid modalities, donor coordination, human resource development and knowledge management. The Equal Opportunities Policy Implementation Assessment monitors the implementation of the equal opportunities principles as defined in this policy according to a list of indicators.

Monitoring is a core activity of programme staff and is a key aspect of their interactions with project partners. Regular exchanges allow them to generate and verify data relevant for reporting on the implementation of the Cooperation Strategy. Project partners’ inputs into the monitoring of the Cooperation Strategy are integrated into their routine monitoring. To develop adequate capacities on their side, training courses are offered.

One staff member at the SCO will be assigned to lead the monitoring process and to ensure that the necessary data is collected and analyzed in a timely manner. Overall responsibility for the regular monitoring of the implementation of the Cooperation Strategy lies with SCO management.
<table>
<thead>
<tr>
<th>Dimension</th>
<th>Monitoring Area</th>
<th>Instrument</th>
<th>Periodicity</th>
<th>Responsibility</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Country context</strong></td>
<td>Overall country context relevant for the Swiss CS</td>
<td>MERV</td>
<td>Annually: March-April</td>
<td>SCO</td>
</tr>
<tr>
<td><strong>Swiss Results Framework</strong></td>
<td>Swiss portfolio outcomes</td>
<td>Results Monitoring Matrix</td>
<td>Annually: August-Sept.</td>
<td>SCO</td>
</tr>
<tr>
<td></td>
<td>Country development outcomes</td>
<td>Context Watch</td>
<td>Annually: May-June</td>
<td>External</td>
</tr>
<tr>
<td></td>
<td>Transversal themes: gender and good governance</td>
<td>Results Monitoring Matrix</td>
<td>Annually: August-Sept.</td>
<td>SCO</td>
</tr>
<tr>
<td><strong>Management</strong></td>
<td>SCO efficiency and compliance</td>
<td>Dash Board</td>
<td>Annually: September</td>
<td>SCO</td>
</tr>
<tr>
<td></td>
<td>Equal Opportunities Assessment</td>
<td></td>
<td></td>
<td>SCO</td>
</tr>
</tbody>
</table>
## Annex 1

### Swiss Cooperation Strategy Macedonia 2013-2016 at a Glance

<table>
<thead>
<tr>
<th>Overall Goal</th>
<th>Democratic Governance and Decentralization</th>
<th>Economic Development</th>
<th>Water</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Overall Objectives</strong></td>
<td>Advance democratic governance at local and central levels.</td>
<td>Further adjust the economic system towards a social market-based economy that creates jobs and growth.</td>
<td>Enable further progress towards meeting international water standards and requirements.</td>
</tr>
<tr>
<td><strong>Country development outcomes</strong></td>
<td>1) Public service provision improved and regional economic disparities decreased.</td>
<td>1) Increased economic growth and employment.</td>
<td>1) Water and nature conservation laws, policies and implementation are further aligned to the EU standards.</td>
</tr>
<tr>
<td></td>
<td>2) Good partnerships between Government and civil society with the aim to best address the will and needs of the citizens.</td>
<td></td>
<td>2) Public water services provision expanded.</td>
</tr>
<tr>
<td><strong>Swiss Portfolio Outcomes</strong></td>
<td>1) Local governments and administrations are accountable and transparent. They provide efficient services to citizens. Municipal councils exercise their oversight functions and hold mayors and municipal administrations accountable.</td>
<td>1) Competitiveness of the private sector is enhanced through increased possibilities for businesses to obtain financing, as well as through improved core business skills of SMEs.</td>
<td>1) Framework conditions for the implementation of the laws on water and on nature conservation are developed, approved and in place, including enforcement of tariff structures that cover operation and maintenance.</td>
</tr>
<tr>
<td></td>
<td>2) CSOs strengthen their constituencies. They make use of the existing, and claim new spaces and places for interactive debates on the state and future of Macedonia’s society and democracy, leading to increased accountability and involvement in agenda setting.</td>
<td>2) In selected sectors, key public and private actors enable systemic change to address market deficiencies, leading to income and job opportunities.</td>
<td>2) Selected municipalities are strengthened in their capacity to provide access to communal water services.</td>
</tr>
<tr>
<td><strong>Transversal Themes</strong></td>
<td>Gender</td>
<td>Good governance, including inter-ethnic relations</td>
<td></td>
</tr>
</tbody>
</table>

* The main strategic framework for the Government of the Republic of Macedonia is the 2004 Stabilization and Association Agreement with the European Union.
Annex 2
Financial Planning and Commitment

<table>
<thead>
<tr>
<th></th>
<th>Planned disbursements 2013-2016</th>
<th>Planned commitments 2013-2016</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>in CHF million; incl. disbursements committed before 2013</td>
<td>in percentage of total planned disbursements</td>
</tr>
<tr>
<td>Democratic Governance and Decentralisation</td>
<td>19 -- 28% 0% 25 --</td>
<td></td>
</tr>
<tr>
<td>Water</td>
<td>9 26.5 13% 38.5% 10 34.5</td>
<td></td>
</tr>
<tr>
<td>Economic Development</td>
<td>5 5 7% 7% 6 5</td>
<td></td>
</tr>
<tr>
<td>SCO management and other costs</td>
<td>3 1.5 4.5% 2% 3 1.5</td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>36 33 52.5% 47.5% 44 41</td>
<td></td>
</tr>
</tbody>
</table>

Under this strategy, the country also benefits from regional and global initiatives financed by Switzerland. If these measures cannot be earmarked to a specific country, they are not accounted for in the financial projections mentioned above.
# Annex 3

## Results Framework of the Swiss Cooperation Strategy for Macedonia 2013-2016

### Domain of intervention 1: Democratic governance and decentralization

**Overall objective:** Advance democratic governance at local and central levels.

<table>
<thead>
<tr>
<th>(1) Swiss portfolio outcomes</th>
<th>(2) Contribution of Swiss Programme</th>
<th>(3) Country development outcomes</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Outcome statement 1:</strong> Local governments and administrations are accountable and transparent. They provide efficient services to citizens. Municipal councils exercise their oversight functions and hold mayors and municipal administrations accountable. Field of observation 1: Municipal Councils have formal participatory budgeting systems and formal expenditure review systems taking into account gender-sensitive budgeting principles. Baseline: 6 (2011) Target value: 40 (50% of all municipalities) (2016)</td>
<td><strong>Link between (1) and (3):</strong> Full implementation of the decentralization process accompanied with appropriate fiscal policies improve service provision and contribute to decreased regional disparities. Switzerland will strengthen capacities of main actors like ZELS - as a political voice of the municipalities - and the Centres for Regional Development (through Performance Based Grants (PBGs) as well as inter-municipal cooperation as management entities that contribute to effective service delivery. Switzerland will also work with the central government as the decrease of inequalities at regional level depends to a large extent on equitable distribution of resources.</td>
<td><strong>Outcome statement 1:</strong> Public service provision improved and regional economic disparities decreased. Indicator 1: Citizen satisfaction with public services provided at local level. Baseline: 55% of Macedonian citizens consider communal services to have improved (2010). Target value: 70% (2016)</td>
</tr>
<tr>
<td><strong>Field of observation 2:</strong> Regional Development Centres are more effectively implementing regional policies. Baseline: Only few larger projects (&gt;100,000 Euros) are drafted and managed by the Regional Development Centers. Initial but still insufficient coordination between local and national levels exists on regional policy. Target value: Regional Development Centres draft larger regional projects. Coordination between the municipal, regional and national level regarding balanced regional development is improved.</td>
<td></td>
<td>Indicator 2: Disparity in GDP per capita between the most and the least developed planning regions decreased. Baseline: 3.3 times Target value: not more than 2.5 times by the end of 2019</td>
</tr>
</tbody>
</table>

**Risks and assumptions:**
- Local elections in 2013 may influence the pace of the programme, but should not affect its main priorities.
- High fluctuation of elected officials in municipal assemblies; therefore, very difficult to support them as oversight bodies in an organized manner; Switzerland will support their work to become more accountable and transparent; Budget Community Forums, supported by Switzerland, are an instrument to support assemblies in becoming more accountable and transparent; Forum members’ political affiliation to be taken into account.
- Strengthening of institutional system for balanced regional development should lead to more balanced distribution of public investments across the country, which should reduce disparities in economic development.
**Outcome statement 2:**
CSOs strengthen their constituencies. They make use of the existing, and claim new spaces and places for interactive debates on the state and future of Macedonia’s society and democracy, leading to increased accountability and involvement in agenda setting.

Field of observation 1:
CSOs legitimized by constituencies assume their role independently as drivers of change and have an increased influence on reform processes.
Baseline: CSOs almost never interact with their constituencies and have little influence on reform processes.
Target value: Regular interactions between CSOs and their constituencies and political actors, and increased consultation of CSOs in policy processes.

Field of observation 2:
CSO's hold authorities accountable in regard to quality service delivery.
Baseline: Authorities make a limited and selective use of reporting mechanisms towards CSOs.
Target value: Authorities inform citizens in an increasingly transparent way on provided services and local developments, budgets and investments.

**Link between (1) and (3):**
CSOs should become a strong voice of the citizens. This role of civil society cannot be fulfilled unless the organizations are legitimate representatives of the citizens, i.e. have a constituency. Through Swiss support, CSOs will expand their outreach and improve their accountability to their constituencies. This will strengthen CSOs legitimacy as partners of the government in developing laws and policies and contribute to more accountability and improved service delivery by government towards citizens.

**Risks and assumptions:**
- CSOs lack independence from partisanship.
- Critical mass of CSOs able to build strong constituencies and act as leaders.

**Outcome statement 2:**
Good partnerships between Government and civil society with the aim to best address the will and needs of the citizens.

Field of observation:
Important law and policies are developed in consultations with civil society.
Baseline: No systematic consultation.
Target value: Systematic consultation.

Strategic document:

### (4) Lines of intervention (Swiss Programme)

For outcome 1:
- Further financial and technical assistance to local governments (mayors, municipal councils, and other local actors) to promote accountability, transparency and citizen-participation.
- Continued institutional support to the national association of local authorities ZELS to promote effective and efficient service delivery, with particular emphasis on promoting participatory decision-making processes and budgeting systems, transparency of data and balanced regional development.
- Support to the successful implementation of equitable regional development in cooperation with Regional Centres, ZELS, Ministry of Local Self-government and Ministry of Finance.
- Support the policy dialogue addressing the equitable public fund allocation mechanism, including the promotion of needs-based budgeting.

For outcome 2:
- Institutional support to CSOs to increase capacities for financial sustainability and independence.
- Support to constituency-building process through a learning and coaching process.
- Share international good practices on how to develop and claim new spaces and places.

### (5) Resources, partnerships (Swiss Programme)

Planned financial resources: CHF 25 million.

Other aspects of partnership: Potential partners for these programmes are international and local organizations. Those that will be contracted as mandates will be selected through open tenders.
## Domain of intervention 2: Economic Development

**Overall objective:** Further adjust the economic system towards a social market-based economy that creates jobs and growth.

<table>
<thead>
<tr>
<th>(1) Swiss portfolio outcomes</th>
<th>(2) Contribution of Swiss Programme</th>
<th>(3) Country development outcomes</th>
</tr>
</thead>
</table>
| **Outcome statement 1:** Competitiveness of the private sector is enhanced through increased possibilities for businesses to obtain financing, as well as through improved core business skills of SMEs.  
Indicator 1: Type and number of new financing products created and being in demand  
Baseline: 0  
Target value: x  
Indicator 2: Number of companies supported that receive a loan  
Baseline: 0  
Target: x  
Indicator 3: Number of entrepreneurs who receive training or continued education  
Baseline: 0  
Target: x  | **Link between (1) and (3):** Improved access to financing for SMEs, a more conducive business environment and expanded business skills development services should over time strengthen the competitiveness of SMEs, thereby creating jobs. Reducing systemic market failures in selected sectors/value chains will also contribute to growth and employment (i.e. youth and women).  
**Risks and assumptions:**  
- Political instability may undermine SMEs’ investment in the Macedonian economy.  
- Macedonia’s economy depends on the global economy.  
- Success in this domain depends on a sound market analysis of selected sectors and the responsiveness of key actors in those sectors.  | **Outcome statement 1:** Increased economic growth and employment.  
Indicator 1: Ranking in the WEF Global Competitiveness Index.  
Baseline: 79th  
Target value: 60th  
Indicator 2: GDP growth rate.  
Baseline: 1.8% (IV 2010)  
Target: 5.5 – 7.0 % by 2014 - 2015  
Indicator 3: Unemployment rate.  
Baseline: 31.8% (IV 2011)  
Target: less than 25% by 2015  
Indicator 4: Increased FDI inflow.  
Baseline: 300-400 million EUR in 2011.  
**Strategic documents:** Government Programme for the Period 2011 – 2015 (Section: Policies and Reforms for More Dynamic Economic Growth); Industrial Policy of Republic of Macedonia 2009 - 2020 |
**Outcome statement 2:**
In selected sectors, key public and private actors enable systemic change to address market deficiencies, leading to income and job opportunities.

**Field of observation:**
Identified market failures have been addressed and reduced.
Baseline: Several economic sectors with strong potential for growth and greater inclusion of youth and women currently face obstacles to further development.
Target value: Obstacles for further growth are identified and reduced, leading to accelerated growth and employment and income opportunities in selected sectors.

(4) **Lines of intervention (Swiss Programme)**

For outcome 1:
- The focus of Swiss cooperation will be on interventions aimed at increasing the possibilities for SMEs to obtain financing through the introduction of new financial products in the Macedonian market and strengthened business skills of entrepreneurs and governance of companies.
- Specific support to business environment reforms will be considered.

For outcome 2:
- The focus of Swiss cooperation will be on systemic market development, including demand-oriented skills development and youth employability.
- Switzerland will select priority sectors based on criteria of (a) strong growth potential, (b) attractiveness for youth and (c) inclusiveness (gender-wise).
- Selected sectors will be analysed and market failures identified in terms of rules, norms, core market and support functions. Swiss Cooperation will address these failures.
Green economy will be considered in programming.

(5) **Resources, partnerships (Swiss Programme)**

Planned financial resources: CHF 11 million.
Other aspects of partnership: Partner organizations and eventual partnerships with other donors will be explored as the preparation of the programmes progresses.

** Baselines, fields of observation and indicators will be complemented in 2013 whenever possible and meaningful**
## Domain of intervention 3: Water

**Overall objective:** Enable further progress towards meeting international water standards and requirements.

<table>
<thead>
<tr>
<th>(1) Swiss portfolio outcomes</th>
<th>(2) Contribution of Swiss Programme</th>
<th>(3) Country development outcomes</th>
</tr>
</thead>
</table>
| **Outcome statement 1:** Framework conditions for the implementation of laws on water and on nature conservation are developed, approved and in place, including enforcement of tariff structures that cover operation and maintenance. | Link between (1) and (3): Supporting the development and implementation of water management plans will contribute to the alignment to EU standards. Swiss know-how will contribute to the transition from the “government pays principle” system to a new “consumer pays principle” system. **Risks and assumptions:**  
- Environmental protection is not the first priority of the central government; however, the responsible authorities and society are motivated to address environmental challenges.  
- Financial resources for environment protection are limited; enhanced public awareness will increase pressure on authorities to allocate more resources. | **Outcome statement 1:** Water and nature conservation laws, policies and implementation are further aligned to the EU standards. **Field of observation:** Developed, approved and implemented strategies and plans for the Law on Water and nature conservation enforcement and investment. **Baseline:** 1 River Basin Management Plan drafted (2012) **Target value:** 4 River Basin Management Plans drafted (2016) **Baseline:** 0 Strategy on Nature Conservation, **Target value:** 1 Strategy on Nature Conservation (2016) **Strategic documents:** Law on Water; Law on Drinking Water Supply and Drainage of Urban Wastewater; NEAP 2 (2006-2012), National Strategy for Environmental Investments (2009-2013), Public Investment Plan (2009-2011). |
| **Indicator 1:** Number of strategic documents and plans developed by the Office for Integrated River Basin Management and approved by the respective authorities. **Baseline:** 0 (2012) **Target value:** 5 (e.g. River Basin Management Plan, monitoring plan, future investment plan) (2016) | | |
| **Field of Observation 2:** Municipalities have allocated resources for nature conservation measures in their municipal budgets. **Baseline:** 0 **Target value:** Budgets of the Municipalities from the Bregalnica region include resources for nature conservation measures. | | |
| **Outcome statement 2:** Selected municipalities are strengthened in their capacity to provide access to communal water services. **Indicator:** Percentage of population covered with waste water treatment service funded by Switzerland. **Baseline:** 8.5% out total of 13.5% (2012) **Target value:** 11.0% out of total 19.3% (2016) | Link between (1) and (3): Swiss know-how will contribute to the transition from the “government pays principle” system to a new “consumer pays principle” system. Strengthened capacities and new infrastructure allow municipalities to expand their services. Public utilities will become more efficient and able to provide sustainable and cost-effective service to their citizens. **Risks and assumptions:**  
- Financial dependency of municipalities from central government for investments.  
- Continuation of the successful collaboration with municipalities. | **Outcome statement 2:** Public water services provision expanded. **Indicator:** Percentage of population covered with waste water treatment service. **Baseline:** 13.5% (2012) **Target value:** 19.3% (2016) |
(4) Lines of intervention (Swiss Programme)

For outcome 1:
- Support to improve the institutional set-up and financial system for implementing the Water Law.
- Elaboration of River Basin Management Plans and implementation of the measures for improvement of the water quality.
- Elaboration of the National Strategy on Nature Conservation and implementation of measures for integrated nature conservation in the Bregalnica Region, including the introduction of nature conservation approaches based on the principles of sustainable natural resources management.
- Public awareness-raising.
- Supporting municipalities in including citizens in the decision-making process.

For outcome 2:
- Adoption of best practices in communal water services.
- Strengthening infrastructure capacities through targeted investments.
- Training programmes for the management of public utilities, the improvement of financial planning, human resources management and accounting systems.

(5) Resources, partnerships (Swiss Programme)

Planned financial resources: CHF 44.5 million.

Co-financing: for SECO projects about 10% of the total budget is covered by local contributions. Other aspects of partnership (joint results, complementary support): Collaboration with Kreditanstalt für Wiederaufbau (KfW) on strengthening Public Utilities in at least three municipalities.
Annex 4
Map of Macedonia