

Leadership Monitoring

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PROJECT DESCRIPTION

The OHRID Institute for Economic Strategies and International Affairs, Skopje in the period between 2007 and 2008 has successfully implemented the Leadership Monitoring Project 1. The project was saluted and accepted by the citizens and the authorities in the Republic of Macedonia, which resulted with the need for continuation of the analysis and the reports of the reform potential of the leading parties in the Republic of Macedonia. Namely, the OHRID Institute and the experts will continue the mission, to inform the citizens of the reform capacity performed by the Government of the RM. The OHRID Institute believes that the citizens should be informed by an independent body about the manner in which the Government and the competent institutions undertake the promised activities and reforms in several areas and that they should take the Government for granted for its actions.

Through the “Leadership Monitoring 2” project, the OHRID Institute will try to fulfill the same objective again, to provide the citizens of the Republic of Macedonia an objective and expert monitoring of the work of the Government. In order to include the most significant achievements of the Government in the above mentioned areas, we monitored the activities undertaken by several institutions: the Government of the Republic of Macedonia, the appropriate Ministries, various government services, bureaus, government agencies, state enterprises, the Assembly of the Republic of Macedonia, etc.

The aim of the project is in general the same, only this time with better structured strategy and possibility for decreasing the flaws which aroused in the previous one. This time, the “Leadership Monitoring 2” Project will go further, thus will focus more on the evaluation of the results and assessing the quality of the implementation and/or the risks from non-quality implementation.

The goal is to provide an overall picture of the reforms planned and realized by the Government through constructive and comparative analysis of the Action Plan of the Government and the implemented activities in the areas of the socio-economic life. The main idea is that the citizens continue to be informed in details about the political initiatives and activities of the Government, against the analysis published. To support linking the Macedonian citizens to the government, the OHRID Institute will provide the public with detailed quarterly analysis and expert reporting on the Government's activities, benchmarked against the promises made by the governing coalition. We hope that these Reports, in which expert analysis of the work of the Government and the Ministries are included, will serve as useful cognizance for reexamining its work and for its improvement.

The reports continue to monitor the progress in implementation of the programs and reforms of the coalition Government of the Republic of Macedonia by evaluating the risks from insufficient or non-quality implementation of each of the areas included in the Report.

This type of analysis and reporting should result in the following long-term effects:

- Increasing the transparency and responsibility of the Government;
- Improving the inclusion of the citizens within the work of the state institutions;
- Increasing the inclusion of the citizens in the public political discourse;
- Increased capacity for informed and active exercise of the democratic rights by the citizens;
- Creating a tool which will serve the state institutions in the continuous promotion in their work.

In the Reports, the basis to evaluate the performances of the Government is the Program for Work of the Government of the Republic of Macedonia¹, developed in 2008. Most of the content of this Program is related to the steps necessary in the election program of VMRO-DPMNE – “Rebirth in 100 Steps”, as well as “Rebirth-widened and complemented”, but there are also additions from the pre-election programs from other coalition partners. This program is the basis platform for work of the Government in its four-year mandate.

The expected outcomes and benefits from the "Leadership Monitoring 2" Project for the Macedonian society are multiple. The main expectation is that the Government accountability towards the public will be increased, as well as its measurement and evaluation and also making sure that the Government uses this reports as a tool for greater development and progress. Overall, the monitoring reports are expected to contribute to a better democratic climate and improvement in Macedonia. Furthermore, the citizens in the Republic of Macedonia will have an insight to the (none) quality of the work performed by the government, namely through the expert evaluation and analysis will be identified the (none) quality of the reform capacity and potential of the Ministries in RM.

This Report is based on the approach and analytical framework that were elaborated in the previous project for monitoring of performances of the Government of the Republic of Macedonia in the focused areas. The expert reports were developed on the basis of the general methodological framework set in the “Leadership Monitoring 2” Project where the main purpose is to monitor the reforms of the Government of the Republic of Macedonia. This report is result of the knowledge acquired from monitoring the activities undertaken by the Government of the Republic of Macedonia in particular areas.

Prior to the beginning of the process for measuring the performances, the experts with the help of the team from the OHRID Institute have created a System based performance matrix. As a base for the Matrix, the experts used the Program of the Government , as well as the Election programs of the parties which are part of the governing coalition. These matrices are powerful instruments for evaluation of the implementation of the public projects. They are used in numerous countries in the world.

¹ This program is the basic action platform of the Government it ins four-year mandate period.

As a tool for a more effective monitoring they are used by several international consulting companies as well.

As part of the “Leadership Monitoring 2” Project (as well as in the previous, “Leadership Monitoring 1”), prior to the monitoring, as well as during the project, the OHRID Institute conducts a survey-research of the public opinion for the transparency of the Government.

The expected results and benefits for the Macedonian society from the “Leadership Monitoring 2” Project are undoubtedly multiple. First and foremost, the increase of the accountability of the Government to the public, its measurement, evaluation and transparency, as well as assuring that the Government uses the reports as a tool for greater development are the added value which is expected as a result of this project. Generally, the reports from this project are expected to help in a substantial enhancement of the democratic climate in Macedonia.

Methodology

The reports from the “Leadership Monitoring” Project focus on the realized and non-realized (but planned) program activities of the Government of the Republic of Macedonia in the report period and the reforms left to be implemented. After the analysis of the reforms and the determined activities in the Program of the Government of the Republic of Macedonia, the experts give their analytical evaluation for the level and quality of the implementation and the risk of (non) implementation or non-quality implemented reforms and activities.

The notes and evaluations that have been brought out are concluded on the basis fo the information gathered from the available written and electronic materials and documents as well as from the interviews with a number of experts and people responsible in the appropriate intitsutions.

It is general and unified methodology embedded in all reports produced in the “Leadership Monitoring 2” Project. It includes the following elements, tools and procedures:

- Development of System Matrix for performance based monitoring;
- Identification of initiatives planned which, according to the System matrix, should be in the process of implementation in the reporting period;
- Development of Questionnaire for collection of information on the level of implementation of the initiatives planned;
- Interviews with representatives from the public, private and NGO sector;
- Analysis of information collected;
- Development of Risk Assessment from insufficient or non-quality implementation;
- Development of Progress Report regarding the implementation of what was planned.

Picture 1: Format of the Performace Based System Matrix

Институт Охрид

Проект-мониторинг на лидерството

Систем за мониторинг на реформите на Владата на РМ/2009

Систем за мониторинг на изведбата на Владата на РМ					
Задача	Појдовна Точка	Имплементација	Цели	Резултати	Интервенции
Г. Земјоделство					
А) Финансиска поддршка во вид на субвенции	Владата на РМ презеде обврска во периодот 2008-2012 година да обезбеди субвенции за земјоделството во износ од 400 милиони евра. Во рамките на таа програма, за 2008 година беа обезбедени 45 милиони евра, а за 2009 година 70 милиони евра.	1. Опфатени култури со финансиската поддршка 2. Воспоставени механизми за имплементација 3. Воспоставена шема за поддршка на приходи	1. да се зголеми субвенциите 2. Да се изврши транспарентен и ефикасен систем на распределба 3. да се опфатат голем број на култури 4. Да се воспостави шема за поддршка	1. Од 45 милиони во 2008 на 70 милиони евра во 2009 2. Воспоставени се механизми за распределба 3. Опфатени се култури кои се битни за извозниот биланс и стратегиските производи како пченицата и осливците и житни и фуражни култури, млекоот, грозјето, добитокот, градинарските култури, организационото производство, пчеларството, рибарството итн.	1. Зголемени субвенции 2. Зголемување на опфат на култури 3. Не е доволно транспарентен системот на распределба 4. Нема знаци за воспоставување на шема за поддршка
б) Кредитирање преку Земјоделскиот кредитен дисконтен фонд	Формирана е независна комисија во рамките на Министерството за финансии одговорна за администрирање и раководење на фондот (ЗКДФ)	1. Давање дозволи кредити	1. Подобар пристап на корисниците до ефикасности	1. Одобрени кредити 2. Намалени каматни стапки	1. Одобрени кредити – 4149 Вкупен износ: 35.200.000 евра 2. Каматни стапки од 4 до 6,3%

Picture 2: The questionnaire

Прашалник

За степенот на реализирање на Програмата на Владата на РМ во периодот (септември 2008- септември 2009) во областа на земјоделството

Корисник на бараните податоци: Институт Охрид

Давател на бараните податоци:

1. Прашања во врска со финансиска поддршка во вид на субвенции за земјоделството и подобрување на приходите на земјоделските производители

- 1.1. Кои чекори се превземени за финансииска поддршка? (чекори – време кога е завршен чекорот)
- 1.2. Каков вид на поддршка е обезбедена (доколку е обезбедена) во овој период?(вид на поддршка – кога е направена)
- 1.3. Кои чекори се превземени за подобрување на приходите?

2. Прашања поврзани со кредитирање на земјоделците

- 2.1. Кои активности се превземени во врска со давање на кредити на земјоделците?
- 2.2. Колкави износи се доделени?
- 2.3. Која е каматната стапка?
- 2.4. Колку се дадени во примарното производство, а колку во преработка?

Picture 3: Form used to assess the risk from insufficient or non-quality implementation for one of the sectors

Ризик	Сериозност	Активност за избегнување	Надлежен орган	Други информации
Р: доследно спроведување на политиките П: Неприфатње на реформите	Голема *	Доследно спроведување на политиките преку донесување на регулативи и почитување на истите.	МЗШВ	Немање на информации и податоци ја отежнуваат анализата и партнерството
Р: Да не се воведат системи за евиденција П: Намалени перформанси на секторот	Средна	Воспоставување на системите: Пазарен информативен систем, ФАДН, ИАКС и др.	МЗШВ	
Р: Слаби инвестиции во образованието, науката и советодавството П: Намалени перформанси во секторот	Голема	Формирање на фондови строго наменети за едукација, истражување и советодавство	МЗШВ	Паралелно инвестирање во знаење

The ascertainments and assessments are based on the information collected from consideration of the available written materials and documents but also from interviews with experts and responsible officials in the respective institutions.

Before starting to measure the Government performances in the period August-September 2007, the experts were using Performance Based System Matrix, initially developed by the OHRID Institute team. As a base for the Matrix, the experts used the Government Program but also the election programs of the political parties now members of the Government coalition. These matrixes are powerful instruments to evaluate the performances of public projects. They are being successfully used by many countries in the world.

SUMMARY

The pre elections in Republic of Macedonia (RM) were held in the summer of 2008. The new Government was formed on the basis of the election score. The new Program for the work of the Government was prepared and published, in which the activities and the timeline for their realization were set.

In the period of implementation, the Government did not foresee the outcomes in the economic and political plan, which happened in the first year of their mandate. This probably refers to the the strongest economic crisis in the world. Although, a little bit later than, the crisis entered in Macedonia as well. That had inevitable strong reflections and repercussions over the dynamic and the scope for realization of the program activities of the Government in RM, especially in the period analyzed in this report.

On the other hand, in the analyzed period RM was under great international and local pressure in regards to the solution of the name issue, which was internationally enforced by Greece. The name issue had strong impact on the realization of certain activities in RM, especially those on international level, who also had direct influence on the economic situation and fluctuations in RM.

The general assessment is that in the analyzed period the Government of RM realized the biggest part of the program activities. Part of them was fruitful. Other, due to the above mentioned restrictive factors did not manage to excel, thus their bigger escalation in the upcoming period is expected.

The bulk of the planned activities and measures of the Government of RM and the other state institutions were realized in the scope of the **Fiscal policy** in the reporting period. This realization contributed to a significant change and improvements in the economic ambient in the country. However, this does not result in substantial positive changes in the economy because of the intensification of the world economic crisis and the its transfer over the Macedonian economy.

Despite the positive assessments of the reforms in the reporting period, the impression that there is a lack of synchrony between the fiscal and monetary policy in the process of taking measures for preventing the crisis, in the biggest part of the analyzed period are still prevailing. The result that stems out of this policy is decreased liquidity of the entrepreneurships and increased impossibility for them to confront with the growing problems which are developed by the recession. These facts impose the need for future synchronized acting of the two policies in order to accomplish the mutual goal- taking the economy out of the recession and moving towards the prosperity track of the development cycle.

The improvement of the working ambient of the country was supposed to create conditions for the economic subject, for a more productive acting and increase of their competitiveness on the foreign markets. Nevertheless, the enhancement of the world economic crisis influenced the accomplished results of the foreign trade plan to become

significantly lower than the expected ones. The results were considerably influenced by the non-synchronized action of the fiscal and monetary policy, which resulted with sharp decrease of the foreign trade of RM. The impression is that even after the economic crisis the Macedonian economy will continue to confront with problems in **the foreign trade sector**. The problems occur mainly because of the inadequate structure of the Macedonian economy. On one hand, the economy is export-conditioned in the import of the raw materials and in the export of manufactured products for which there is no replacement in the domestic economy. On the other hand, the domestic economy is not internationalized enough. There is still lack of products, in larger scope than currently, which will be available for sale on the foreign markets.

With the realization of the program activities, namely with undertaking the three anti-crisis measures packages, the Government of RM on large scale contributed to the trade, **investment and the industry** to be protected from major damage. However, it has shown that the inherited problems in these areas and the improper structure of the national economy in the post crisis period will also face problems. Until then, it is of great importance that the appropriate institutions undertake short term measures which will remove the current problems in the three business areas. The strongest support may come from the more energetic usage of the European Investment Bank credit, the relative relaxation of the monetary policy and the rational and productive usage of the budgetary resources mainly for developing-capital aims.

The commitment of the Government of the Republic of Macedonia, i.e. its line ministries and institutions responsible for conducting activities in the field of **justice and security (internal affairs)** during the analyzed period was constant. A very important role in those spheres was played by the establishment of the Judicial Council which created the conditions for a greater depolitisation of the judiciary and its higher independence in the executive authority. Several new courts have been put into operation which contribute to the relaxation of the work of the Supreme Court. The cycle of adaptation of a great part of the Macedonian in respect to the European legislation has been completed. Nevertheless, one can notice the late application of the Law on Juvenile Justice.

The Law on Police is applied without obstacles, where the adopted respective by-laws play a big role. The Law on Internal Affairs, which introduces a career and merit system has been adopted. That system should create bigger stability and remove the long-term usual practice in the MOI in the case of a political shift, besides higher-ranked officials in charge, those who work in the professional services, too, to be redistributed in lower-ranked positions because of political motives.

With these kind of changes in those spheres, the RM is increasingly adapting to the EU requests as its future destination, however, conditions are created for a greater legal and security safety of its citizens.

In the context of the EU integration processes, it is important to be noted that in the reporting period in the area of **foreign affairs**, the Government of the RM undertook and completed a great part of the responsibilities for a membership in the EU. An increased intensity of the diplomatic activities can be noted on the side of the

Government, ministries, as well as the President of the RM, strengthening the capacity of the Macedonian diplomatic-consular representative offices, as well as intensified participation in the peace missions in NATO. Many bilateral agreements for cooperation have been signed, diplomatic relations have been established with countries which have recognized us by our constitutional name. Thus, the number of countries that have recognized Macedonia by its constitutional name reached the number of 127 out of 192 members of the United Nations. Moreover, there are still unsolved, open questions that remain in front of the country, especially with the countries from the region, which cause great consequences for the socio-political life in the country, but as well creating a potential for the whole internal-political life of the country to focus on them.

In the area of **education**, it can be concluded that in the course of the reporting period several laws have been adopted. Namely, the Government of the RM has started the implementation of the project for the redistribution of free-of-charge textbooks, it continued with the building of sport halls and new school buildings, as well as equipping the schools with computer devices. However, many inconsistencies appear in this sector, namely part of the students started the school year without any textbooks, the vouchers for the university students in the final year of studies were stopped by the Government of the RM, although they are said to be re-activated in the next school year. Dispersed studies have been introduced at many faculties, which encountered different reactions. Namely, this initiative is positive, however, full consistency is required in its fulfillment. It can be concluded that the area of education is turbulent, with clear initiatives, but it requires substantial consistency for their fulfillment.

The Government of RM accomplished numerous activities and measures which resulted with considerable development in the promotion of **the market labor and the labor relations, employment and the social dialogue**. The real situations show improvement of the results in this area, but they are not completely accomplished in compliance with the provisions.

The most serious problem the Government of Republic of Macedonia faced with in the analyzed period is the high rate of unemployment. Despite of their program determinations for significant increase of the support for realization of the political activities and measures for employment, the numbers shows that the Government of RM still cannot confront the high rate of the unemployment which is about 32 percents.

In the reporting period many activities in regards to the reforms in the pension system were implemented, namely in the part for introducing voluntary capital finance pension insurance. However, in this period it is too early to be expected positive results in the conduct of the reforms.

In the area of social protection and social inclusion in the reporting period, the Government of RM realized major part of the activities and reforms foreseen in the Program. However, major part of the activities refers to the adoption of the strategic documents and Laws, while the foreseen operation activities were not achieved in the planned intensity. The process of deinstitutionalization is moving with slower pace.

The Government of the RM, and especially the Ministry of Health , although facing big challenges and obstacles in the part of financing of the health system, are in line with the realization of the set reform tasks and projects in **the health care** that are determined in the mid-term program for their activities. As the most positively conducted activity in this area in the analyzed period can be noticed the introduction of the new manner of funding the hospital services through the system of Diagnostically Related Groups (DRG). That, undoubtedly, is one of the biggest reform steps ever conducted in the Macedonian health-care system. In the following period, one bigger challenge for the Macedonian Government shall be the actual linking of the hospital funding with the DRG system, when bigger differences will appear in the planning and realization of the budgets of the public health institutions.

For a more effective realization of that and the other started and further planned reforms and projects in the area of health protection, the Government of the RM, and especially the Ministry of Health, are recommended to act in the direction of decreasing and a complete removal in certain areas of the number of reasons that appear in the way.

Significant growth was identified in the reporting period in the area of **agriculture**. Despite the regular and intensified approval of the subsidies, the great development is achieved in the area of rural development. The Program for rural development 2007-2013 is in compliance with the IPARD Program which will enable the increase of the usage possibilities of the available funding of the Program. The institutional base for achievement of that goal is already set. In the following period a further enhancement of the administrative capacities is necessary for complete use of the resources of the IPARD funds. It is evaluated that for a complete purchase of the agriculture products in the upcoming period, certain encouragement of the market development will be necessary to be undertaken for the purchase of the products and improvement of the system for informing the farmers for the most important indicators and activities in the domain of their work.

In the reporting period (September 2008-September 2009) in the area of **transport and construction** the already started projects are in process and it is expected the implementation of new projects to be started soon. The Government has kept the consistency in the implementation of the program and the reform activities in concrete areas.

It is obvious that the pace of the undertaken reforms and the activities in all intuitions is different. The reasons for that arise from different reasons, namely the insufficiency of the quality of the personnel or the impossibility for tracking down the high intensity of the governmental activities.

The outcomes state that there is a need for undertaking capital investments in the public sector (construction- rail and road infrastructure). Taking into consideration the current unfavorable situation, it is assessed that there is a need for radical turnout in the way of managing and maintaining of the roads in RM.

Taking everything into account, the achievement of positive results can be observed in the course of the realization of the program activities of the Government of the RM. In the same time, one can note the appearance of deadlocks in the realization of

the reform activities of the Government of the RM in specific domains of its work. The biggest reason for that are the numerous present risks and obstacles that economy and other substantial areas of the social life of the country face. However, as noted in this report, in the course of the realization of certain activities, there appear internal objective and subjective obstacles. The recommendations that are given at the end of this report have the aim to efficiently remove those obstacles and risks in the upcoming period.

1. FINANCIAL SYSTEM (FISCAL AND MONETARY POLICY)

1.1. Planned and implemented activities of the Government of the Republic of Macedonia in the reporting period

1.1.1. Fiscal policy

The main activities of the Government of the Republic of Macedonia in the reporting period in the field of fiscal policy were mainly aimed at the following directions:

1) Further liberalization of the fiscal policy towards increasing its development purpose, which was manifested through the realization of the following program activities:

a) Continuation of the process of reducing the social contribution rates. In 2009, the rate for the pension insurance contribution was reduced from 21.2% to 19%, the rate for the health insurance contribution was reduced from 8.5% to 7.5%, and the rate for the employment contribution was also reduced from 1.4% to 1.2%. The aim of such measures is to decrease the financial burden of the companies and creating opportunities for release of funds to be used in stimulating production, and thus increasing the number of employed persons (reducing the number of the unemployed);

b) At the start of 2009, the system of gross salary was introduced. This means that the calculation of the whole salary of the employees includes also food allowance and allowance for commuting to and from the place of work (travel allowance). This measure should lead to protection of interests of the employees (thus they are now able to get exact calculation of the amount of their salary and of the contributions paid on various grounds to the state) and of the employers (gradual elimination of the unfair competition by those who tried to evade the payment of contributions or salaries of the employees in gross amount);

c) Directly connected to the previous is also the realization of the program determination of the Government of the Republic of Macedonia to introduce integrated collection of contributions and taxes conducted by the Public Revenue Office (PRO). The realization of such measure, as aforementioned, is to the benefit of the employees and employers, as well as to the benefit of the state budget because this provides uninterrupted and regular inflow of funds in the budget;

d) In order to stimulate foreign investors to reinvest their realized and undistributed profit back in the Republic of Macedonia (i.e., not to repatriate such profit back to their domicile countries), which in turn would enhance the protection of the domestic economy from the incoming recession and would further boost its growth, such foreign investors are exempted from payment of taxes on undistributed profit. However, this measure did not produce major effects, because many foreign investors, faced with financial problems of their mother companies in the domicile countries, decided to repatriate the undistributed profit back to their domicile countries and pay domestic taxes on this. This represented additional pressure (in addition to the other ones to be mentioned later) on spending state foreign exchange reserves, and even on reduction (methodologically) of the volume of FDI (foreign direct investment) in the country;

e) In order to simplify the taxation procedure for the SMEs (small and medium sized enterprises), the Government of the Republic of Macedonia introduced electronic

portals for electronic payment of taxes by expanding the capacity of the existing electronic portal for payment of taxes and by formation of a contact center that would reduce the need for enterprises to make direct contacts with the PRO employees and make in person visit to the PRO offices.

2) Other activities in the field of fiscal policy

During the analyzed period, the fiscal policy was conducted in two, diametrically opposite environments.

In spite of the initial manifestations of the global economic crisis, the Macedonian economy was marked by continued growth in 2008. Its real GDP increased for 4.9% in that year. The intensive economic activity in 2008 caused the central budget revenues to be collected according to the planned volume and pace, and even more than that. This provided some room to the fiscal policy to conduct not only the planned activities, but also to commence some other, unplanned ones. However, the last 2008 quarter introduced the effects of the global economic crisis into the Macedonia economy as well. The Macedonian economy already started to enter the recession phase. Companies and businesses suddenly were faced with serious liquidity-related problems. In order to reduce such problems, the Government of the Republic of Macedonia made decision, at the end of 2008, that companies which are faced with liquidity-related problems and have not paid yet their due taxes, contributions and other public levies would be allowed to have reprogramming of such debts, with possibility to write off the accrued interest on such debts if interested companies pay the principal of their debts on regular basis and within agreed deadlines. After the end of the deadline in which interested companies were obliged to apply in order to acquire such right, 2,807 companies applied whose overall debts amounted to more than 165 million € as the principal and about 60 million euro as accrued interest (this interest could be written off if affected companies were willing to pay the principal).

Furthermore, the package of anti-crisis measures also included the conversion of the debt of four state-owned companies into a permanent stake by the state for raising the level of competitiveness and interest in these four companies for future sale. The increase in the economic crisis, with its reinforced reflections on the Macedonian economy as well, compelled the Government of the Republic of Macedonia to adopt the second set of anti-crisis measures. The most important measures in that package, as already mentioned, included exempting companies to pay profit tax in the amount of the profit redistributed back into investment and reduction of customs tariffs for many raw materials used in the textile industry, as well as customs tariffs for the import of machines and equipment for the metal industry; the intention was to protect these two major export-orientated industrial sectors from the oncoming recession mostly evident in these two sectors of the national economy. Further increase in the recession tendencies in the economy and the ever growing lack of liquidity of companies made the Government of the Republic of Macedonia to adopt, in April 2009, a third package of anti-crisis measures (about 70). The major thrust in these measures was the decision by the Government of the Republic of Macedonia to take loans from the European Central Bank in amount of 100 million euro; this amount would be allocated to the companies through the Macedonian Bank for Development Promotion and supported by adoption of many measures intended to simply the customs clearance and faster transit of goods through the borders (see next chapter for a detailed description of such customs measures).

In the summer of 2009, after seeing that one of the possibly stronger ways to deal with the crisis is providing support and incentive to the construction industry, the Government of the Republic of Macedonia decided to lower the VAT for new houses and apartments from 18% to 5%. It has been expected that such measure would stimulate the construction sector, and that this sector, being a locomotive of the economic growth of the country, would push the growth of other economic sectors as well. The effects of such measure are expected to be realized in the further period of its application.

Faced with diminishing revenues in the central budget because of poor performances of the economic operators, the Government of the Republic of Macedonia was compelled on two occasions to make revisions of the central budget (June and September 2009). The basic content elements of such revision have been reduction of the projected level of the budget from 2.6 to 2.4 billion euro, while keeping the planned budget deficit of 2.8% of the GDP. At the same time, reduction was made of all unproductive expenditures and capital projects with predominantly import component, at the expense of projects which imply engagements of the construction and other domestic companies.

Finally, the Government of the Republic of Macedonia started to deal with the permanently growing deficit, i.e., lack of funds in the budget for the realization of the planned activities by replacing this deficit through intensive and more frequent issuance and sale of government bonds. These bonds were bought mainly by the commercial banks. In a given moment, the selling rate for these bonds grew more than 9% per year; this in turn became very attractive interest rate for the banks and other economic operators interested in buying them. Such approach by the Government of the Republic of Macedonia to fill the budget deficit prompted also the National Bank of the Republic of Macedonia (NBRM) to sell its treasury bills at an annual interest rate of 9%. The issuance and sale of these two types of securities jointly caused a great problem in the economy: the economic operators being put aside from the loans that the banks could have granted them. This further aggravated their liquidity.

1.1.2. Monetary policy

The monetary policy is completely in the hands of the already mentioned NBRM (i.e. the central bank of the country). This means that in this field it would be inappropriate to make analysis of activities that are the competence of the Government of the Republic of Macedonia. Indeed, its 2008-2012 action plan does not include measures and activities that directly relate to the implementation of the monetary policy. The only thing mentioned in this context is that the Government of the Republic of Macedonia will pursue in the given period a policy of macroeconomic stability which, usually, implies maintaining the stability of the prices and the exchange rate of the denar. These are the two domains where, generally speaking, one could analyze the realization of the monetary policy in the reporting period:

a) The tendency in context of consumer prices (internationally accepted standard for measuring the inflation rate) in the analyzed period can be observed in two parts. In the first part of 2008 the inflation rate was marked by upward swing as outcome of the price increase of energy-generating sources (mostly of oil) and of food products on the global markets. It marked the period when the Republic of Macedonia was faced with imported inflation of expenditure character. The consequence of such tendencies was continuing increase of the inflation rate which rose to 10.1% per year by the end of June 2008.

In order to check the further growth of prices and to start the process of disinflation the country, NBRM, at the end of the second and in the third quarter of 2008, undertook several measures that influenced the reduction of the inflation rate. This, together with the tendency of reduction of oil and food prices on the global markets and the start of recession in the greater part of the global economy, caused gradual decrease in the inflation rate. By the end of 2008, it was reduced to acceptable (close to the projected level) 4.1% per year.

A modest increase in the inflation rate was also seen in the first five months of 2009. This was not the outcome of the aforementioned; however, in context of the growing pressure on the stability of the exchange rate of the denar when there was less and less inflow of foreign money into the country and thus spending of great amount of the foreign exchange reserves, NBRM, in the first half of 2009, increased the restrictiveness of the monetary policy. This is best seen through the increase in the rates under which the banks set aside compulsory reserves of their denar and foreign currency deposits and through the basic interest rate of such reserves (i.e., the interest rate of the treasury bills issued by NBRM) of 9% per year. This was sign also for the commercial banks to increase their interest rates; consequently, all this resulted in more expensive bank loans, and thus reducing the liquidity of the economic operators (of legal and natural persons) in the Republic of Macedonia. The outcome of such policy was reduction of their consumption, and, also reduction of the price level, i.e., growing signs of deflation.

Such deflation was present in June (1.7%), July (1.3%), August (1.4%), and September 2009 (1.47%), with tendency of further increase. According to theory and practice, conditions of continuing deflation represent far greater risk to the economy than inflation rate, let us say, of 8-10% per year. Hence, by the end of the reporting period, company executives and experts in the Republic of Macedonia started to ask that NBRM ease up its restrictiveness and so help the national economy get out of recession and deflation.

b) The exchange rate of the denar in the analyzed period was exposed to strong pressure for devaluation. The reasons for this was the smaller inflow of foreign currency (mostly, on grounds of export of goods and services and exchange of foreign currency) and the permanent outflow of foreign currency abroad (mostly, on grounds of import of goods and services). The outcome of the aforementioned was that the last quarter of 2008 and the first half of 2009 were marked by significantly higher demand of foreign currency than of its supply at the domestic forex. Such state of affairs made even stronger pressure on the exchange rate of the denar towards its devaluation. In order to prevent this, NBRM spent more than 500 million euro from the foreign currency reserves for intervention at the forex; as previously said, this in turn increased the level of restrictiveness of the monetary policy.

In the third quarter of 2009, the situation on the forex improved considerably. Because of the seasonal inflow of foreign currency due to money orders from abroad and increased exchange operations, the supply of foreign currency was (although modest) again greater than the demand of such foreign currency. At the same time, the national foreign currency reserves increased on grounds of money inflow from the issued government euro bonds and withdrawing of part (57 million euro) of the NBRM quota with the IMF. By this, the situation with the foreign currency reserves was improved considerably, thus reaching by September 2009 the amount of 1.5 billion euro. This in turn caused the pressure for the denar devaluation to be reduced instantly and created

conditions for NBRM to consider gradual easing of the restiveness of the monetary policy in the period until the end of the year, towards increasing the liquidity of the economy, and thus decreasing the bank interest rates.

c) Although as previously said the Government of the Republic of Macedonia is not directly charged with the credit and monetary policy, in the analyzed period the Government managed to undertake certain credit activities caused by the need for assistance to the economy to get out of the recession phase. The Government took loans from the EIB (European Investment Bank) for 100 million euro, that should be granted as loans to companies meeting appropriate criteria. These loans should be granted via the Macedonian Bank for Development Promotion, and with the mediation of seven business banks which additionally agreed to join this credit line with their own 80 million euro. The average interest rate is planned to be 6% per year.

Still, the realization of these loans is taking place in a rather slow manner. By the end of the reporting period, no loan was approved from these funds. The main reason for this is lack of proper projects that meet the criteria for granting loans. This means that granting such loans should take place in the forthcoming period.

1.2. What remains to be implemented (not yet implemented or not yet finished) in the analyzed period

A greater part of the program activities of the Government of the Republic of Macedonia were implemented in the analyzed period. One could notice their diversification with new measures and activities stemming from the newly created conditions for activity, being the outcome of the global economic crisis. However, dedicating higher attention to current economic problems indeed impedes the Government of the Republic of Macedonia to address the realization of the other reform activities that have been planned to be carried out or finished in the monitored period. Here, we mean mostly the continuation and finishing the processes of property denationalization and decentralization of power. The denationalization process has been done in rather slower pace than previously; this in turn has become a serious problem in the implementation of the planned increase of investment (domestic and especially foreign) in the country.

At the same time, the decentralization process has almost completely been halted. There are still 17 units of local self-government (ULS) that have not able to enter the second phase of the fiscal decentralization (this second phase involves another 68 ULS). Not finishing this process also blocks the implementation of the further reforms activities in this context, as seen in the realization of the regional economic development of ULS, their fiscal equalization, the gradual replacement of the block-donations from the central budget with new ways of financing the corresponding competencies of ULS, etc.

1.3. Evaluation of potential risks from (non)implementation or from (non)quality implementation of activities

The highest risk that the Government of the Republic of Macedonia was faced with in the implementation of its program activities in the report period was the growingly intensive ‘infection’ of the domestic economy from the global economic crisis. This is manifested by entering of the economy in the recession phase with all negative consequences mentioned above. Although the greatest economies in the world have

started to come out of the recession phase or at least have started to show some signs of recovery, the Macedonian economy even in the forthcoming period will have to be faced with the prolonged activity of the global economic crisis. This will be most strongly seen in the further presence of the non-liquidity of companies, smaller output of the industrial production, and thus leading to negative rate of overall economic growth by the end of 2009.

As result of the expected slower coming out of the Macedonian economy from the recession phase and the time lag of the positive tendencies in the economies of its major foreign trade partners (Germany, Russia, Serbia, Italy, Greece), the Macedonian economy might be facing another additional problem – increase in the number of unemployed persons (as it is already happening in the industry). If such tendency is not stopped or mitigated, in the forthcoming period this may cause the emergence of certain elements of social crisis, which will greatly engage the national budget in dealing with the appropriate consequences. This would also imply the reduction of the funds and resources to be engaged in the development activities of the economy.

Certain risk for the Macedonian economy in the forthcoming period could become (non)making a decision by EU to set a date for the start of the accession negotiations with the Republic of Macedonia. A possible negative reply from EU could slow down the inflow of FDI in the Republic of Macedonia; in conditions of insufficient financial capacity of the country, this might have a serious limitation for the successful outcome of the future program activities of the Government of the Republic of Macedonia, especially in context of restructuring and simulation of the future growth of the economy.

Finally, a serious risk to the implementation of the program and even more of the newly imposed activities and measures of the Government of the Republic of Macedonia may be the lack of synchronization between the monetary policy and the fiscal policy, whose consequences are manifested in higher level of non-liquidity of domestic companies.

1.4. Overall evaluation by the expert on implemented activities for the reporting period, with possible recommendations

Greater part of the planned activities of the Government of the Republic of Macedonia and of the other state institutions in the field of financial policy in the reporting period was implemented. In addition to the program measures, the Government of the Republic of Macedonia undertook also other measures that were originally not planned but were imposed by the current economic situation and tendencies in the country, caused by the global economic tendency and entering of the domestic economy in the recession phase. Measures and activities undertaken so have contributed to major change and improvement of the economic environment in the country. This was even recognized by the WB (World Bank) project “Doing Business,” according to which the Republic of Macedonia is ranked at third place according to the strength of the reforms needed for ‘doing businesses, and at 32nd place according to the conditions required for the operation of the companies in the country. In normal circumstances of economic activity, the improvement of the economic environment most probably would have resulted in major positive changes in the national economy. This would have been reflected mostly in drawing more FDI and through the higher rate of economic growth. However, intensification of the global economic crisis and its spillover in the territory of

the Macedonian economy has prevented the realization of such results, at least in 2009. In spite of the positive grades for the reform engagements in the reporting period, there remains an impression that, especially in the first nine months of 2009, there has been no synchronization between the fiscal policy and the monetary policy, when deciding on measures to address the crisis. NBRM, guided by its rather restrictive resolution to maintain the fixed exchange rate of the denar, conducted very restrictive monetary policy. This created illogical situation for the monetary policy to be restrictive in conditions of growing inflation (2008) and even more restrictive in conditions of longer deflation of the economy (2009). The outcome of such policy is reduced company liquidity and increased impossibility for these companies to address the ever-growing problems imposed by the recession and the existence of deflation in the economy. Such lack of any synchronization between the most important elements of the macroeconomic policy caused overall insecurity and uncertainty with most companies on the future directions of the national economic policy and turned out to be a major risk in the implementation of the future program activities of the Government of the Republic of Macedonia. This in turn imposed the need for their future synchronized action in order to achieve a common goal – that the Macedonia economy get out of the recession phase and take the right track on the road of prosperity in its development cycle. Furthermore, the Macedonian economy is faced with other two risks: the speed uncertainty in recovery of the global economy and of the Macedonian economy as well from the present crisis and the uncertainty about setting a date for the start of the EU accession negotiations, as well as joining NATO. These risks may have serious impact on the future directions and pace of the development of the Macedonian economy, whereby one would recommend high attention and rationality of the competent institutions in undertaking future measures for improvement of the conditions in the Macedonian economy.

2. FOREIGN TRADE SECTOR

One of the five strategic goals defined by the Government of the Republic of Macedonia in its 2008-2012 Work Program is to increase the economic development and the level of competitiveness of the domestic economy on the global markets. In order to realize such goals in the field of foreign trade, which in turn has impact on the growth level of the national economy, the Government of the Republic of Macedonia defined a plan of several ambitious measures and activities that should be undertaken in continuous manner during the next few years. Most of such measures have been undertaken and, largely, effectuated in the second half of 2008, when the consequences of the global economic crisis did not seriously penetrate into the different sectors of the domestic economy. However, the gradual intensification of the recession in the global economy (especially in the economies of those countries which are major trade partners to the Republic of Macedonia), as well as the speedy entering of the Macedonian economy in recession in 2009, have significantly slowed down the implementation of the planned measures and activities. Actually, current needs caused the initially planned activities in certain periods to be replaced by other measures and activities in order to make recovery from the impact of the intensified recession.

2.1. Planned and implemented activities of the Government of the Republic of Macedonia in the reporting period

The major aim of the macroeconomic policy in the analyzed period in the field of foreign trade was to improve the overall environment for the operation of the companies (domestic and foreign), in order to raise the level of their productivity and competitiveness on the global markets, and so increasing the export of goods and services with higher rates than those realized in the previous year. It was planned that this would have major impact on increasing the number of FDI in the country, bringing state-of-the-art technology in the domestic companies, increasing the quality of domestic products, increasing the level of competitiveness of the domestic products on global markets, increasing the export, higher substitution of imported with domestic products, and, finally, reduction of the trade deficit of the country and of all negative consequences that it causes.

2.1.1. Improving the business environment

Aware that the realization of the ambitious strategic goal is not possible without creating a favorable business climate in the country, the Government of the Republic of Macedonia continued the previously started activities for creating better conditions for the operation of the domestic companies. They can be reduced generally to the following:

- There was continuation of the launched reduction of the contributions for health and social insurance, in order to decrease the burden of the companies of such type of expenditures;

- There was introduction of the system of 'gross salaries' which imposed integrated collection of the social contribution, order in the payment of the salaries and contributions and this reduced the inequality of the companies (or, the privileges of certain companies) when paying this kind of obligations; this in turn created promotion of the level of competitiveness among them;

- There was decrease in many fees and levies that the domestic companies had to pay to the state institutions;

- There was reduction of many customs tariffs for the import of raw and production materials, in order to increase the level of the competitiveness of the corresponding finished products of such industries on the international market and thus stimulating the export;

- A 'one-stop shop' system was introduced for electronic applications and electronic receiving of permits for import, export, and transit of goods and services, as well as for tariff quotas (so-called system EXIM).

- Regrouping was made of the border-crossing customs inspections (taxes, phytosanitary, veterinary, border control, etc.);

- A speedy procedure for crossing of goods at the border checkpoints was launched;

- The technical basis for inspections of vehicles, when exiting, entering or transiting, was modernized and strengthened (so-called mobile customs control units performed by means of highly sophisticated vehicles of the customs administration);

- In addition to the general incentives valid for domestic potential investors, additional incentives were introduced for the potential foreign investors by means of tax exemption on undistributed profits if that is reinvested in the country;

- Procedures and time required for opening a company were shortened (three days at most) by the introduction of an electronic system for filing documents and applications;

- Implementation was made of the project 'e-cadastre' which has significantly simplified the procedure for registration of property and issuance of title deeds.

The aforementioned and other unmentioned measures and activities made, during the reporting period, the Republic of Macedonia get exceptionally high recognition from the WB Index 'Doing Business'. According to that index, the Republic of Macedonia has been ranked on the third place in the world according to the strength of the reforms that are needed for 'doing business' and on the 32nd place (for 37 places improved, since last index measurement) among all the countries in the world according to the conditions for the operation of the companies. Indeed this is a unique recognition for the significantly improved business environment, which still because of the impact of the economic crisis showed to be insufficient for the realization of more significant deeds in context of the overall economic growth, and in such framework, of the export of goods and services in the analyzed period.

2.1.2. Promotion of the foreign trade

Together with conducting reform activities as basis for improvement of the conditions for trade exchange with abroad and for increasing the level of competitiveness of the domestic products on foreign markets, the Government of the Republic of Macedonia also undertook certain activities for promotion of such foreign trade, mostly, of the export of goods and services (so-called internationalization of the economy). To this end, the Government of the Republic of Macedonia, and especially the Ministry of Economy, realized certain measures and activities that were directed towards promotion and international marketing of domestic products intended for export. Among them, the following can be singled out:

- Adoption was made of the Law on amending the law on technological industrial zones. This law generally speaking was intended for harmonization of the EU legislation and with the Rules of WTO (World Trade Organization); further regulation was made of the customs benefits for the import of equipment, etc. It is expected that its application in the forthcoming period would have impact on the increase in the FDI in the country, the level of competitiveness of the domestic companies on foreign markets, the export, and on increasing the employment;

- Agency for the Promotion and Support of Tourism was established by a separate law. The primary task of this Agency will be to make promotion of tourism on the domestic and foreign markets and the creation of new tourism-based products that will be primarily attractive for foreign tourists;

- National Strategy for Development of Tourism (2009-2013) was adopted and put into operation. The main point of this Strategy is the promotion of the tourism offers for foreign tourists, thus increasing the inflow of foreign currency in the country;

- There has been continuing implementation of the Project for granting subsidies for attracting foreign tourists via tour-operators;

- A Tourist Guide was published in several languages;

- There has been continuing application of the Strategy for the Development of the Textile Industry and National Program for Restructuring and Transformation of the

Steel Industry, as the two leading industries in the field of export by the Republic of Macedonia;

- Promotion materials were published relating to seven industrial sectors in the Republic of Macedonia that are being distributed on foreign markets by Diplomatic and Consular Missions of the Republic of Macedonia and by the economic promoters (agents) of the country abroad;

- There has been continuing promotion of the campaign 'Invest in Macedonia' in the best global media outlets;

- Promotion is also being made of the Macedonian products for export by means of the realization of the Program for Improvement of the Competitiveness of Macedonian Products and Services on Foreign Markets;

- Some of the costs of the companies, relating to the preparation of promotion materials, product design solutions, organization and participation at business forums, seminars, workshops and round tables abroad, presentation of various industrial sectors at fairs, etc., are being subsidized.

2.1.3. Implemented results in the foreign trade

The improvement of the business environment, the enhanced overall economic activity (especially in the first three quarters of the year), as well as the undertaken measures and activities in the field of economic exchange with abroad, caused in 2008 the foreign trade to be marked by progressive tendency. The national export in that year reached the all-high US\$ 3.976 billion, which is 18.5% more than the 2007 export. However, at the same time the national import of goods and services was also marked by rise. In 2008, the export of goods and services reached the level of US\$ 6.777 billion, which is 29.6% more than the import in the previous year. This rise was primarily under the strong impact of the rising process of the sources of energy (oil, electric power, coal), the food products, and the import of foreign cars. Such tendencies caused the foreign trade deficit of the Republic of Macedonia to reach all-high level of US\$ 2.801 billion, while at the same time the export was only 58.60% of the import.

The Macedonian economy entered recession somewhat modestly at the end of 2008 and more intensively in early 2009. This inevitably was also manifested in its foreign trade results. In the first nine months of 2009, the foreign trade volume was reduced by 35.6% compared to the same period in 2008. Due to reduced foreign demand, especially of metal, textile, and leather products, the export of goods and services in the first nine months of 2009 was marked by downward tendencies. By September 2009, it amounted to US\$ 1.950 billion, which is 38% less than the one made in the same period of the previous year. As result of the undertaken restrictive measures of the monetary policy and also of the general decreasing tendency in the national economy, the import of goods and services was also marked by decreasing volumes. By September 2009, the import of goods and services amounted to US\$ 3.559 billion, which is 34% less than the one made in the same period of the previous year. Such tendencies also caused decrease in the overall trade deficit volume, which by 30 September 2009 was reduced to US\$ 1.608 billion. This time, the cause for the trade deficit was not a speedy import increase, but a more intensive export decrease. All of this, together, caused the overall national export volume to be only 54.8% of the overall national import volume. The improved business environment and the still not so evident global economic crisis made FDI in 2008 reach record-breaking levels. At the end of 2008, FDI amounted to € 539.55

million, which is considered as the highest ever-recorded annual amount of FDI inflow in the country. Out of these, € 62.11 million were realized in the last quarter of 2008. However, the first nine months of 2009 have recorded rather modest FDI inflow. Certainly this has been the outcome of the problems that foreign investors have been facing in their domicile countries and companies, and, also, of the risks and uncertainty in the future tendencies of the global economy. Furthermore, the lack of funds in the domicile companies compelled most of the foreign investors in the Republic of Macedonia to repatriate previous profits made in the Republic of Macedonia back to their domicile countries, which in turn had a very strong negative impact on the overall FDI volume in the Republic of Macedonia. All of this caused by the end of June 2009 that FDI in the Republic of Macedonia amount to mere € 58.12 million. This was yet another strong impact on the volume of the foreign trade of the country both from aspect of the import input elements into the process of production and from aspect of manufacture of products with high and modern technology that would be sold on foreign markets.

Overall, the analyzed period has been marked by a trend of decreasing the economic exchange with abroad, which is one of the major reasons for the decreasing tendencies of the national GDP especially in the first three quarters of 2009.

2.2. What remains to be implemented (not yet implemented or not yet finished) in the analyzed period

The evaluation of (non)implemented activities in the field of foreign trade of the country is seriously limited because of the newly created conditions in the global, and thus in the domestic economy. The positive tendencies in the field of FDI inflow and in the field of foreign trade of goods and services in 2008, in a way, coincided with the planned activities and expectation in this context. However, the rather unfavorable tendencies in the first three quarters of 2009 have caused discrepancies between the realized activities and the planned activities and expectations of the Government of the Republic of Macedonia.

Namely, as it was mentioned above, the program determination of the Government of the Republic of Macedonia to increase the overall FDI volume was not attained in spite of the significantly improved environment for economic operation of foreign investors. The planned annual export increase of 15% also has not been realized. All of this, together, has exerted a restrictive impact on the achievement of the planned annual growth of GDP of the country for 6-8%. In spite of major results in the denationalization process of property and its registration in the cadastre, certain problems still exist relating to the definition of the character of the ownership of certain construction land regions, which turns away the potential foreign investors to make major FDI in the Republic of Macedonia. At the same time, in spite of significant improvements in the business environment in the country in this context, there are still weak points that have negative impact on the operations of domestic and foreign investors. It seems that major weaknesses among them are the increasing lack of financial discipline of and among the economic operators which appears most often as avoidance or evasion to pay debts and obligations due; another major weakness is lack of speed and efficiency in the ultimate execution of bankruptcy and liquidation proceedings against broken or insolvent companies. Such problems indeed aggravate in the end the sound financial situation of good and honest companies; this in turn also aggravates the opportunity to increase their competitiveness and their overall production and selling performances on foreign

markets. The previously announced creation of domestic or national brand products was not realized during the reporting period; thus, the Republic of Macedonia still remains without its own industrial, agricultural, or tourist brands which would make it more recognizable on foreign markets.

A factor limiting the potentials of the export is seen in the rather slow introduction of the EU quality standards. Finally, in the reporting period and especially in the first three quarters of 2009 when it was very important and needed, there was no sufficient activity by Macedonian diplomatic trade agents abroad in promoting Macedonian products, if not on the traditional, then on the alternative foreign markets.

2.3. Evaluation of potential risks from (non)implementation or from (non)quality implementation of activities

Certainly, the most evident risk in the forthcoming period for the overall Macedonian economy, and in such context also for its foreign trade, is seen in the intensity and directions of the tendency of the global economic crisis, i.e., in the speed of getting out of this crisis and starting moving along the prosperous path of economic development. It is very important when and with what certainty the major foreign economic partners of the Republic of Macedonia (Germany, Russia, Italy, Greece, and Serbia) will get out of the recession. The speed, by which the Macedonian economy will start showing positive tendencies, depends on the strength to be shown by these countries when they deal with the global crisis.

If there is realization of the expected increase of demand of goods and services by the major trade partners of the Republic of Macedonia, then there will be also increase of the demand for metal, textile, agricultural, leather, and other semi-finished goods, raw materials, and products from the Republic of Macedonia, which make up the main components of the Macedonian export. On the other hand, if the crisis in these countries continues to manifest itself in other form and intensity, then this will represent strong limitation factor for the Macedonian export in the future as well. Macedonian export and import companies in the forthcoming period (until the country goes out of the recession phase) will also be faced with the problem of the restrictive monetary policy for the sake of preserving the fixed exchange rate of the Macedonian denar. A recurrent problem with similar impact may be caused by a possible lack of flow of funds in the national budget; this in turn could trigger further borrowing by the state from the banks, thus providing fewer opportunities to the private sector for more energetic credit lines for its commercial activities. Finally, a possible (non)setting the date for the start of the negotiations between the Republic of Macedonia and EU for Macedonian membership in that powerful international economic association would represent an exceptionally great risk for future tendencies in the economy, and, also for the tendencies in the foreign trade sector of the country.

2.4. Overall evaluation by the expert on implemented activities for the reporting period, with possible recommendations

Generally speaking, it can be concluded that in the analyzed period the Government of the Republic of Macedonia has undertaken or implemented most of the planned measures and activities in order to further promote the situation in the sector of foreign economic relations. This is especially valid for the constant improvement of the

business environment in the country, which in turn creates better conditions for the companies for their more productive operation and for raising the level of their competitiveness on the foreign markets. The same, in corresponding manner, could be concluded also for the measures that are undertaken for drawing FDI in the country.

However, the expansion and intensification of the global economic crisis, which inevitably had to make impact also on the Macedonian economy, caused the results realized in the field of foreign trade to be rather lower than the expected ones. Such realization was also correspondingly influenced by the lack of synchronized coordination between the fiscal and monetary policy in dealing with the recession which then entered the Macedonian economy. This also caused drastic reduction of the Macedonian foreign trade. Nevertheless, there is impression that even after the end of the economic crisis the Macedonian economy will continue to face problems in the foreign trade sector. They mostly come from the inadequate structure of the Macedonian economy. On one hand, the Macedonian economy is highly import-dependent in both the import of raw materials and semi-finished goods and in the import of finished products, for which there is not substitution in the domestic economy. On the other hand, the domestic economy is not sufficiently internationalized, i.e., export-structured. There are still no products, which could be sold on foreign markets in greater quantities than it is done now. It is rather unpleasant that the Republic of Macedonia still lacks its group of brand products by which the country would be recognized on foreign markets.

Because of such general characteristics, it would be recommended, in the forthcoming period, that competent institutions pay greater attention to the measures and manners for restructuring of the economy towards its being export orientated.

More important individual recommendations in this context could be as follows:

- increasing the percentage of added value to the products in the textile industry, which in the forthcoming period will have to face the increasing competition of Chinese textile products;
- Implementation of a Program for revitalization of the textile industry in the Republic of Macedonia;
- Implementation of the present National strategy for restructuring of the steel industry with a stronger pace than the current one;
- Drafting comparative analyses on the effectiveness of the programs for increasing the competitiveness and the export of products with higher added value;
- Intensification of the activities for the promotion of the e-trade;
- Re-examination of the results thus far from activities within the framework of CEFTA and undertaking measures for strengthening of the capacities of the economy by using the system of diagonal accumulation within this association.

Certainly, there are, in addition to the aforementioned, also numerous other possibilities for promotion of the foreign trade of the country in the forthcoming period. However, in the efforts to use them, one should always bear in mind the many limitations which at the moment the Macedonian economy is faced with. High dependence on the level and speed by which the major Macedonian trade partners will come out of the current economic crisis, the dependence on the manners and speed by which the Macedonian economy will get out of the recession and the uncertainties coming from the (non)setting the date for the start of the EU membership negotiations for the Republic of Macedonia, are the highest risks and factors of limitation which the Macedonian economy on the whole, and its foreign trade in particular, will be faced with in the period to come.

3. TRADE, INDUSTRY, AND INVESTMENT POLICY

3.1. Planned and implemented activities of the Government of the Republic of Macedonia in the reporting period

In the analyzed period, the Government of the Republic of Macedonia prepared and the Assembly of the Republic of Macedonia adopted many laws and amendments to existing laws in order to improve and harmonize these laws with the European legislation, as a prerequisite for the expected EU membership of the country. In the analyzed period, several measures were adopted for the realization of the goals set forth in the Program of the Government of the Republic of Macedonia for the period 2008-2012 in the fields of trade, industry, and investment.

3.1.1. Trade

Planned activities in the field of trade, mostly, were directed at improvement of the business climate for doing business in the Republic of Macedonia.

To that end, as basis for future proceeding in the progressive direction in trade and in other analyzed economic activities, authorities in the Republic of Macedonia adopted the Law on amending the law on one-stop shop system and on keeping trade register and register of other legal persons. At the same time, this Law provided also harmonization of the domestic regulations with the corresponding EU Directive on electronic application of documents in registers by the companies. By means of this so-called one-stop shop system, companies are able to fulfill their legal obligations on revealing company data to the general public, which must be made in a manner that is consistent with the EU law.

After completion of the first phase of the introduction of the one-stop shop system which implies its establishment, transfer of data and information on companies and their registration from courts to the newly created Central Register of Macedonia, further activities will concentrate on the process of implementation of the second phase of the one-stop shop system; this will include introduction of complete electronic solutions (software) for data entry in the following registers:

- Electronic register for on-line registration of companies,
- Electronic register for leasing,
- Electronic register for mortgage,
- Electronic register for bankruptcy,
- Integration of the Health Insurance Fund, the Pension and Disability Insurance Fund, and the Employment Agency into the one-stop shop system.

The second phase of the development of the one-stop shop system will be conducted with assistance from the project of the WB for improvement of the business environment BERIS. To this end, additional € 1.5 million have been allocated for establishment of a hardware system for preservation of the databases of the Central register of Macedonia.

Further improving the conditions for trading involves shortening the procedure for company registration (three days at the most) and implementation of a project for development of an information system for filing and receiving data in electronic form (on-line registration of companies).

In order to simplify the foreign trade, as mentioned previously, grouping of the border-crossing customs inspections was made, and the procedure for crossing the border at the border crossing points was made faster.

Similar function and goal is seen in the adoption of the Law on amending the law on customs tariffs; this provided equalization, i.e., reduction of the present customs tariff groups of similar products. The reduction of the number of tariff groups: 1) simplifies per se the customs clearance procedure; 2) brings shorter time required for conducting the customs inspections; 3) simplifies the filling in of blank forms of documents for customs clearance; and 4) reduces the room for corruption that comes from the possibility that certain types of products are placed in a category of products with lower customs tariffs. Harmonization of the domestic laws and so harmonization of the domestic business conditions with those in EU, was also made by adoption of many other laws and regulations. Thus, the Ministry of Economy is actively working on the drafting of a law that would allow registration of a so-called European Company ('Societas Europea') and on a law to change the current Law on trade companies in order to allow cross-border merger of trade companies pursuant to the EU regulations on the Societas Europea and on cross-border company merger; this in turn will enable full law harmonization of the Macedonian company law with that of the EU. The deadline to finish this harmonization would be by the end of 2009. Therefore, since the Republic of Macedonia has company registration procedure faster than that found in most of the EU member states and when the Republic of Macedonia will manage to fully establish the EU business legal framework, genuine integration between the domestic business and that of the EU will be enabled operationally as equal and competitive partners.

Amendments to the Law on trade were made twice in the analyzed period, by which: 1) daily period of restriction was imposed on selling alcohol drinks (in summer – until 21:00 hrs; and in winter – until 19:00 hrs); and, 2) correction was made of the Law on trade in context of setting the working time of gasoline stations that operate without service personnel. Namely, the former provisions of this Law set certain limitations as to the number of employees, i.e., it was provided that the owner of the gasoline stations had to hire at least one employee for every 8 hours of working time per gasoline station; this however prevented full operation of gasoline stations which will sell in the future gasoline without service personnel. The amendments were made in order to create conditions for the construction of gasoline stations which will sell gasoline round the clock, i.e., 24 hours a day, on basis of self-service and payment by cash or payment cards.

The Government of the Republic of Macedonia, assessing that there would be no better business climate in the country without higher effectiveness and efficiency of the bankruptcy proceedings, made several law amendments and other interventions in this context. Thus, in 2009 the Bankruptcy Department of the Ministry of Economy started the realization of the following activities:

- Capacity building of the Ministry of Economy in the field called 'Exit from the Market' (bankruptcy or liquidation of a company). In order to have more efficient implementation of this goal, international expert consultant was hired to be included in the capacity building process of the Ministry of Economy relating to bankruptcy proceedings;

- Adoption was made of the Rulebook on converting into cash of the assets of a company in liquidation which is applied in the usual liquidation of companies, pursuant to the Law on trade companies;

- In 2008, curriculum was adopted for course and training of candidates for bankruptcy trustee in the spirit of the newly created rules on execution of bankruptcy procedure;

- For the realization of the same goal, in September 2009 organized attendance of compulsory course for professional specialization of the already appointed bankruptcy trustees was conducted, together with a final test.

The Government makes efforts, by means of the aforementioned measures and activities, to prevent the bankruptcy procedure become an agony of many years and looting of the companies, as it was the case with many companies in the Republic of Macedonia in the last 15 years; intentions are to have their restarting by means of reorganization and finding strategic investor. In order to restart most of the bankrupt companies, a Committee has been established for faster conclusion and settlement of the bankruptcy procedures in such companies. This Committee involves law and economic experts. The task of the said Committee is to work out faster and more efficient conclusion and settlement of individual bankruptcy procedures that have lasted for many years; this in turn should enable return of workers to their former jobs and places of work. Finally, for the realization of the set goal, implementation of continuing education for bankruptcy judges and bankruptcy trustees was started.

In the mean time, a Rulebook on the form and contents of claims of the creditors in the bankruptcy procedure was drafted. This Rulebook was sent to the Central Register for further consideration and harmonization. After this consideration, the Rulebook will be made operational.

As part of the portal of the Ministry of Economy, there is website which publishes final court bankruptcy judgments, announces future sales and disposals of assets as part of the bankruptcy procedures; it also gives rather detailed information on the assets and property to be sold. This site has been operational since 2008 and it publishes all final court bankruptcy decisions; it also publishes free of charge sales notification of assets and property as part of the bankruptcy procedures. In addition to notifications for sale of asserts and property in bankruptcy procedures, this site also announces free of charge various advertisements for the sale of assets and property in liquidation procedures, if the liquidator in question delivers a corresponding advertisement to be published. Thus, interested buyers will be able on one place to have insight of all assets and properties which have been placed under bankruptcy procedure; this in turn should contribute to reaching higher selling price for such assets and properties and improvement of the financial situation of the bankrupt company.

A register of claims has been established as part of the Central Register of Macedonia. Its task and goal is to provide protection of the creditors from possible endangering of their claims during the bankruptcy procedures. Thus, an opportunity has been created to register the claims of the creditors of the moment of the creation of such claims. Creditors who will register their claims will be able to collect their claims in easier and faster manner from the bankruptcy estate of the debtor.

For improvement of the business climate in the country, the realization of the project 'Regulatory Guillotine' was extended. That project actually grew into a continuous process. In the analyzed period, attention was given to:

- Decreasing the fee paid by companies and citizens for obtaining documents, licenses, permits, approvals, etc,

- Full implementation of the principle 'silence is approval' in all laws when it is possible,

- Reduction of the number of documents and of prescribed deadlines for obtaining them,
- Reduction of red tape and discretionary power in the regulations;
- When drafting new laws and regulations, it will be compulsory to seek the opinion of the chambers of commerce in the country.

In order to have efficient implementation of the started Regulatory Guillotine which intends to reduce or eliminate barriers for doing business inherited from old laws and administrative procedures, amendments were made to 36 laws, 349 bylaws were revoked, and 14 bylaws were amended. Since January 2009, there has been realization of the principle of RIA.² This means that for all laws, except for those adopted by summary procedure, it is obligatory to make a previous impact assessment in context of their possible restriction on businesses. The RIA process enables even in the initial stage of drafting laws to make a detailed assessment of the possible economic and social impact, as well as an assessment if such proposed laws will enable reaching the set goals and solution of problems by their application.

3.1.2. Industry

One of the strategic priorities of the Government of the Republic of Macedonia is to increase the quality and competitiveness of the domestic industry, based on knowledge, innovations, and research. By a series of measures and activities, it is intended to stimulate the production of goods and services with higher added value.

In order to make harmonization with the EU Guidelines on granting state assistance for the realization of the desired goal, the Law on stimulating and assisting the technological development was adopted. Definition was made of the status of user of a zone; defining was also made of the moment when the user of the zone starts to use the taxation and customs exemptions and facilitations, as well as the exemption from paying the personal income tax even up to 100% for the next ten years.

Since it has become very clear that lack of energy could be the major obstacle for the future development of the industry in the Republic of Macedonia, the Republic of Macedonia introduced higher level of liberalization of the electric power market by adopting the Law on amending the law on energy. At the same time, on basis of a contract between the Ministry of Economy and MANU (Macedonian Academy of Sciences and Arts), MANU prepared a Strategy for development of energy in the Republic of Macedonia. This document establishes the long-term goals of the development of certain energy-producing activities, in order to get a long-term security in supplying the country with different forms of energy.

Taking in consideration the great importance of the textile and steel industry for the Macedonian economy from different aspects (volume of industrial production, export, employment), the Government of the Republic of Macedonia drafted the previously mentioned strategies for the revitalization of the textile and steel industries of the Republic of Macedonia.

Finally, in order to follow and implement the procedures and requests of NATO in the field of industrial planning (industrial production and supply), there has been introduction of a permanent activity of a representative from the Ministry of Economy in the work of NATO's Senior Civil Emergency Planning Committee.

² Regulatory Impact Assessment.

3.1.3. Investment

Drawing FDI and increasing domestic investment have been defined as two key goals in the Program of the Government of the Republic of Macedonia for the period 2008-2012. For their realization, improvement of the business climate in the country has been initiated, which was in detail considered in the previous chapter and at the beginning of this chapter. Furthermore, the Government of the Republic of Macedonia had originally planned to start the realization of several important investment projects to be financed from the central state budget and by foreign loans and donations, such as: the GEF Project on sustainable energy, whose aim is to stimulate investment for increasing the energy efficiency and greater use of renewable energy sources by eliminating or decreasing the institutional and financial barriers; Gasification of the Republic of Macedonia; offering under concession the hydroelectric power stations 'Cebren' and 'Galiste'. However, most of the planned capital investment in the country, in the analyzed period, were not realized, due to increasing problems in the state budget caused by the recession in the country as well as by the refraining of potential foreign investors to make more intensive investment in the Republic of Macedonia during the peak momentum of the global economic crisis.

Generally speaking, one can conclude that, in the analyzed period, investment (domestic and foreign) did not come close to the desired level and pace as it was planned. The major reason for this lies in the already mentioned current economic crisis, which, in the analyzed period, had intensive impact also on the real sector in the Republic of Macedonia.

3.2. What remains to be implemented (not yet implemented or not yet finished) in the analyzed period

It is evident that most of the activities planned in the Program of the Government of the Republic of Macedonia for the period 2008-2012 are being intensively implemented. Still, some of them have not been realized. This is the case with the not fully harmonized provisions of the Law on technological-industrial development zones with the European laws, and, the still unchanged provisions of the Law on trade companies that refer to issuing approval for the transactions of the interested parties and the cross-border mergers. Therefore, it remains for these activities to be completed in the forthcoming period

3.3. Evaluation of potential risks from (non)implementation or from (non)quality implementation of activities

The worldwide financial crisis has made huge impact on the global, and, so on the Macedonian economy as well. This crisis is still the greatest risk concerning the realization of the program activities and the projected goals of the Government of the Republic of Macedonia in the period to come. When the Macedonian economy gets out of the recession phase, it will it be able to get rid in the near future of the restraints put by the deflation; what will be the speed and strength by which the strongest foreign economic partners of Macedonia will be able to leave the recession phase and get moving on the prosperous path of their development; when foreign investors will be encouraged

to invest more intensively in other countries, and even in the Republic of Macedonia; what will be then the prices of energy-producing materials on the global markets – are questions that at the same time are also objective impediments and risks for the realization of the activities in such fields as trade, industry and investment in the Republic of Macedonia.

3.4. Overall evaluation by the expert on implemented activities for the reporting period, with possible recommendations

Generally speaking, the Republic of Macedonia has managed to withstand the impact of the global economic crisis as result, inter alia, of the anti-crisis measures undertaken by the Government of the Republic of Macedonia. Such general assessment for the reporting period fully coincides with the assessment made by the WB project 'Doing Business' (mentioned in the previous chapter) and the evaluations of the European Commission (EC) of things completed by the Republic of Macedonia in the section of Trade, Industrial, and Investment Policy of the Republic of Macedonia in the reporting period. These are positive signals for the future development of events in the analyzed fields of the Macedonian economy;

However, great risk in the implementation of the projected plans of the Government of the Republic of Macedonia is represented by the actual economic crisis with all its manifestations and effects on the economy. As it was previously said, the Government of the Republic of Macedonia adopted in the analyzed period three packages of measures which should have mitigated the impact of the recession on the domestic economy. However, it was shown that these measures, per se, are not sufficient to help mostly the industrial facilities, and especially to the exporting companies, since industry has been the sector hardest hit by the economic crisis in the recent period having in mind that the industry has many weaknesses and problems of structural nature deposited from earlier periods. Therefore, in all analyzed period, the volume of the industrial production has continuously been marked by negative percentage growth. In the first nine months of 2009, the volume of the industrial production was smaller for 12.4% than the one made in the same period for 2008. The negative tendencies in the industry caused reduction of the number of employed workers in the period of January-September 2009 for 6.3% compared to the same 2008 period.

The economic crisis has struck most of the companies (small, medium, and large) that operate in the field of trade and industry. This imposes the need to undertake energetic measures in the period to come to improve their liquidity. This can be most efficiently achieved by: engaging funds from the European Investment Bank in the amount of € 100 million, strengthening the role of the Macedonian Bank for Development Promotion by starting direct financing of the companies with its available capital, refraining of the Government of the Republic of Macedonia from further, more intensive cash collecting by selling government bonds thus leaving greater room for offering credit lines to companies, certain relaxing of the monetary policy leading to the fall of interest rates and all this will have a beneficial impact on trade, industry, and investment in the country; this in turn will pave the way for the national economy to gradually come out of the recession phase, etc.

By means of integrated approach of programs and policies, the Government of the Republic of Macedonia should stimulate and support the free market, as well as raising

the level of competitiveness of the products, companies and the economy on the whole, and, the internationalization thereof.

Although communication between the Government and the business sector has been improved, this communications is still at low level since the business sector is not sufficiently involved in providing opinion in the process of the adoption of strategic documents for the development of the national economy; this implies that changes are needed in such communication in the future. In addition, there is need for greater cooperation and involvement of the civil society when the Government and the business sector give opinions, analysis, and expert assessments.

4. JUSTICE AND HOME AFFAIRS

4.1. Planned and implemented activities of the Government of the Republic of Macedonia in the reporting period

4.1.1. Justice system reforms

Strengthening the independence, efficiency increase and specialization of courts in order to provide free and efficient access to justice, as well as enshrining the rule of law principle, represents the major directions and aims in the justice system reforms. An important prerequisite in this field and for the realization of the said reforms in the justice system was the very start of the work of the Judicial Council of the Republic of Macedonia (hereinafter: the Judicial Council) and the Council of the Public Prosecutors of the Republic of Macedonia (hereinafter: the Council of Prosecutors). The formation of these Councils and their independent work have created conditions for even greater political independence of the judiciary and of the prosecution, which in turn was a condition for getting a positive report of the European Commission for the progress of the Republic of Macedonia in 2009.

In 2008, the Judicial Council had 28 sessions. At these sessions, the Council, by a 2/3 majority, elected or dismissed judges, lay judges, and court presidents. In 2008 the Council elected 89 judges: 74 as judges in the basic courts and 15 as judges in the higher courts – 2 in the Supreme Court of the Republic of Macedonia, 4 in the Administrative Court, 3 in the Bitola Court of Appeals, 1 in the Court of Appeals in Gostivar and Stip, and 4 in the Skopje Court of Appeals. In the same year, the Council also elected 6 presidents of courts of different instances. In the election process of judges, the principle of equitable representation of election of judges belonging to the non-majority communities in the Republic of Macedonia, was preserved. Thus, 73.0% of the elected judges were Macedonians, 23.6% were Albanians, and 1.1% of the elected judges were Vlachs, Serbs, and Bosniaks, respectively. Of all elected judges, 57.3% were men, while 42.7% were women. In 2008, the Council determined the required number lay judges for all courts (3611 lay judges), while by the end of 2008 807 lay judges were elected.

The Judicial Council initiated in 2008 14 proceedings for unprofessional and unscrupulous execution of the office of a judge and 4 disciplinary actions. Out of 18 proceedings initiated to determine the liability of the judges in performing their job, 8 proceedings finished with the dismissal of the judges in question. In 2008 another 25 decisions were made for termination of the office of a judge: in 6 cases it was done upon the request of the judges themselves; in 15 cases it was done because the judges retired as

pensioners; in 3 cases it was because of a death of a judge; and on one case it was done because the judge in question was given a new job.

From October 2008 until the end of the reporting period, the Council appointed 38 new judges and 4 new court presidents.

One of the novelties in context of promoting higher independence and professionalism of judges is the introduction of the right and obligation of the Council to initiate procedure for evaluation of the work of the judges and of the court presidents, which stems from *the Rulebook on criteria for assessment of the work of the judges*, adopted in March 2008. During the reporting period, the Council conducted the first evaluation and grading of the work of the judges; in this context, 9 basic courts and the Skopje Court of Appeals were evaluated. After the initial data analysis, it was concluded that 80% of the judges maintain results pursuant to the criteria for quality and quantity in their work. Pursuant to *the Law on amending the law on courts budget* in January 2009, the management of the courts budget was transferred from the Supreme Court to the Judicial Council itself. This offers opportunity for better and more independent use of the budget for all courts in the country. It is noteworthy that this budget was increased for 8% in 2009 when compared to the 2008 budget. Implementation of the Law on salaries of judges further increased their autonomy.

At the start of 2008 and during the reporting period, completion was made of appointing the President of the Administrative Court and its 22 judges; full IT installations and equipping of the Court were also finished. The Administrative Court considered and decided about 3,200 cases.

Pursuant to *the Law on courts*, in the reporting period complete functionality was provided also for the Gostivar Court of Appeals, with appointed 12 judges. These judges considered and solved about 2,500 cases.

The constitution session of the Council of Prosecutors took place on 4 August 2008. At this session, election was made of its President and his Deputy; 3 working groups were also formed responsible for the addition of the bylaws.

The Council of Prosecutors, which is competent to make selection and appointing the public prosecutors in the country, in the reporting period elected 21 new prosecutors; this Council also verified the mandate of 159 prosecutors who had been originally appointed to this office in 2003 with a mandate of 6 years. Pursuant to the Law on public prosecution, the Council appointed also new 9 prosecutors in the newly created Basic Public Prosecutor's Office for Organized Crime and Corruption, which is competent to prosecute organized forms of crime and corruption committed on the entire territory of the state. The reporting period also noted the formation of a Higher Public Prosecutor's Office in Gostivar. The Council also appointed the Higher Public Prosecutor for the town of Gostivar and 4 his Deputies. It is to be noted here that the full implementation of the Law on public prosecution (which provides that in the near future prosecutors should conduct the investigation procedure, not the judges as it is still now) is conditioned by the changes (reforms) in the Law on criminal procedure.

Pursuant to the new Court Rules of Procedure, which entered in force on 1 January 2008, for the sake of impartiality in the election or appointment of judges, obligation was created for compulsory electronic registration of the cases in the courts and electronic distribution of the cases on basis of random picking of a judge. Strategy for Information Communication Technology in the Justice System was adopted. According to this Strategy, every judge and prosecutor, and all law clerks should get a computer and computer training. The Center for Information Technologies functionally

connects all institutions of the justice system. A Law Database was formed which contains more than 6,000 laws and bylaws that were adopted in the Republic of Macedonia from 1940 until 2006. This database is accessible to all officers in the justice system.

In the reporting period, the Academy for Training of Judges and Public Prosecutors continued to implement the beginners' training³ for 27 trainees from the second generation; at the same time, the Academy also continued the practical training of the first generation of trainees (which also involves 27 trainees) for a period of 10 months. The final examination of the first-generation candidates for judges and public prosecutors was conducted from 1 to 10 December 2008 before a commission established upon proposal of the Judicial Council (4 members), the Council of Prosecutors (2 members), and one examiner proposed by the Ministry of Justice. The examination consisted of two parts: theoretical and practical part – trial simulation and oral test in the field of civil and criminal procedures. All candidates finished successfully the training and acquired the position of eligible candidates for judges and prosecutors.

The reporting period also noted the realization of the practical training of the second generation of candidates. On the very day of 15 September 2009, the start of the 5-month training for beginners marked the commencement of the training for the third generation of candidates, which consists of 17 such candidates.

In addition to the beginners' training for candidates for judges and prosecutors, the Academy also delivers training for continuing professional specialization of officers already working in the judiciary, the prosecution, and the Ministry of Justice. To this end, in 2008 a total number of 273 trainers were engaged: 177 domestic and 96 foreign experts were hired. The Academy conducted the training for newly appointed judges for the recently created Administrative Court and the Gostivar Court of Appeals. In the 1 January – 31 December 2008 period, the Academy, on its own or in cooperation with other institutions, conducted 221 seminars or 2,289 hours on the whole. The very lack of system for management of human resources within the Ministry of Justice slowed down the realization of hiring of candidates who finished the training at the Academy: for about 50% of the total vacancies in the basic courts and about 50% of the total vacancies in the basic public prosecutor's offices; it was planned that these vacancies were to be filled by eligible candidates who underwent training at the Academy within a year upon training completion. Greater portion of the first generation candidates who passed the final examination for judges and public prosecutors were hired for these jobs, which in turn offers greater independence and impartiality in the justice system. The Academy makes efforts to change the laws by which greater statutory guarantees would be provided that formally eligible candidates indeed will be hired, i.e., selected for judges or prosecutors. In accordance with the 2009-2010 Academy program and the 2009 Annual Calendar, there has been continuation of the training on the aforementioned relevant topics and fields that are important in the application of the substantive laws and of the adjective laws, and, especially for the changes in the national and international regulations and practice.

Special accent has been placed on the changes made in the national criminal legislation, especially on the new role of the public prosecutor leading the pretrial procedure and the trial judge during the proceedings.

³ The training started on 15 September 2008 and was scheduled to last for 5 months.

Adoption was made of *the Law on amending the law on notary service*.⁴ The main intention was to eliminate certain weaknesses that were contained in the former laws, to strengthen the security of legal relations and so to raise the responsibility of the public notary to report cases of corruption (prevention of abuse and illegal transfer of denationalized land, as it was in the court processed cases ‘Sheepfold 1’ and ‘Sheepfold 2’). In the reporting period, there was continuation of the reform of the penitentiary system in order to improve the conditions in the prisons and to bring about more efficient execution of the sanctions that are still below the level of international standards. Several reconstructions are being made in most of the prisons, in order to improve the conditions for the stay of the convicts, such as: the ‘Idrizovo’ prison in Skopje, then other prisons located in Skopje, Kumanovo, Tetovo, Strumica, etc.

The Strategy on the reform of the criminal law has been adopted in order to have its harmonization of the law of the EU. It is to be noted that such reforms are made with rather slow pace. Agreement on cooperation with the EUROJUST was also signed and then ratified in April 2009. Ratification was also made of the Additional Protocol to the European Convention on Mutual Assistance in Criminal Matters, and of the Hague Convention on Taking Evidence Abroad in Civil and Commercial Matters; this will allow improvement of the law provisions in the international judicial cooperation.

Law amending the Law on enforcement⁵ was also adopted. The amending law is intended to correct certain legal inconsistencies. In this context, the number of enforcement agents was increased from 61 to 132. They are distributed in 11 regions in the country.

The Law on Mediation started to be implemented in this reporting period.

The expert analysis of the conditions pinpoints to the need to introduce higher controlling and supervision function over the enforcement agents, the notaries public, and the mediators as such.

The enactment of the Law on Juvenile Justice was postponed from January 2009 to June 2009. This postponement was the result of the need to redefine the competence of the court chambers for administering justice to minors. The deadline for the establishment and start of the work of the State Council for the Prevention of Juvenile Delinquency was also postponed. The establishment of this council was provided for also by the respective law.

4.1.2. Activities by the Ministry of Justice in combating corruption

Priority of the Government (including the Ministry of Justice and the Interior Ministry) is zero tolerance for corruptive activities. It is to be noted that the inter-ministerial cooperation in combating organized crime and corruption happens more frequently and is reaching a more satisfactory level when compared to the past.

The Law on Surveillance of Communications, the Law on Conflict of Interest, and amendments to the Criminal Code (on confiscation of property and assets), the Law on management of confiscated property, property gains and items seized in criminal or misdemeanor procedure provide good legal basis in combating this type of crime. The Agency for Management of Confiscated property was established and in mid 2009 started its operation.

⁴ ‘Official Gazette of the Republic of Macedonia’ No. 86/08.

⁵ ‘Official Gazette of the Republic of Macedonia’ No. 08/08.

The current Macedonian legislation contains most of the recommendations made by CoE GRECO (Group of States against Corruption), but the recommendation that relates to revocation of the immunity of the MPs.

Basic Public Prosecutor's Office for Organized Crime and Corruption was established with powers to prosecute organized forms of crime and corruption in the entire territory of the state. In greater part of the reporting period, the State Commission for Prevention of Corruption was exposed to constant criticism by the opposition parties due to the assessment that the actions undertaken by this Commission are selective and biased in favor of the officials of the ruling government coalition, which, according to the opposition parties, took part in criminal activities and that the Commission does not follow and act upon the reports and recommendations made by the State Audit Office. It is to be noted that in the reporting period, the basic courts have sentenced former senior government officials to prison sentences, including a former PM, deputy PM, and a mayor.

The Government Action Plan for Combating Corruption in the 2007-2011 Period has identified the concrete problems and relevant measures and activities that ought to be made by different ministries, administrative bodies, and other authorities, in order to attain a rather comprehensive approach in combating corruption.

4.1.3. Police reforms

The Law on Police provides the legal basis for the police reforms. This Law was enacted on 11 November 2007. For its successful implementation, full redefinition of the present bylaws and drafting of new ones, coming out of this Law, were made. Furthermore, for its timely implementation, the Department for Legal and Personnel Affairs of the Ministry of the Interior drafted an Action Plan on the implementation of activities on drafting regulations. This Action Plan provides for activities implementation of the laws regulating to the work of the Ministry of the Interior in three segments, such as: a) drafting of bylaws stemming from the Law on Police; b) drafting of bylaws that stem from the process of harmonization of domestic laws with the standards and regulations of the EU; and, c) drafting of bylaws that stem from the completion of the process of police reforms.

The Department for Legal and Personnel Affairs of the Ministry of the Interior prepared all these bylaws within the deadlines as provided for in the said Action Plan. Bylaws whose adoption is planned until 30 September still remain to be adopted as such. The adoption of the most of the bylaws relating to the Law on Police, would enable singling out the Ministry of the Interior as a political body that implements the policies of the Government of the Republic of Macedonia in the field of home affairs, while the various departments and divisions of this Ministry would assume the role of creators of standards and procedures for policing, having the obligation to conduct expert and general supervision and control over the police work, as well as introduction of civil control mechanisms for the police work. Thus, conditions were created for the establishment of a multi-ethnic police by increased hiring of female police officers. Similarly, a new community policing strategy was promoted. In order to attain such community policing relationship and promoting citizens' trust in the police force, 38 commanders of police stations have been appointed, while 4 of them were replaced on request by the local municipal council pursuant to the statutory procedure. The Law on

Interior was adopted in July 2009⁶. This Law introduced for the first time in the Republic of Macedonia the career and merits system. This system is designed to bring about greater personnel stability and so remove the usual practice in the Ministry of the Interior, in case of change in government, to dispose of or reassign not only the senior police and Ministry officials but also the officers in the various Ministry departments on political grounds. The new Law forbids police officers to assume high-political offices in the political parties. The realization of the effects from these provisions in the said Law remains to be seen.

In the reporting period, the system of Integrated Border Management (IBM) was completed; this had a great role and impact on the visa liberalization. The signing of the Readmission Agreement and the formation of the National Coordination Center for Border Management (NCCBM) created preconditions for possible visa liberalization that is expected to be applied by the end of 2009 or in early 2010

The integrated concept for securing the borders represents inter-ministerial activity of several ministries of the Republic of Macedonia. This also implies improvement of the methodology of collecting intelligence data. The Rules of Procedure of NCCBM was adopted in 2008. It regulates: the rules on coordination and activities that are undertaken by the institutions in the IBM, the procedure on mutual information exchange among the institutions, the coordination rules on state border monitoring, as well as the standard procedure for the purpose of assessment of relevant risk in IBM. Several national and international seminars and trainings for the officers of various ministries were organized for the realization of the operation of NCCBM. According to the Rules of Procedure of NCCBM, the Duty Center of NCCBM was formed. After its staffing, the center started to operate in the premises of the Ministry of the Interior on 19 September 2008; as of 1 December 2008, the center works round the clock, under the system of 24 hours per day, and 7 days per week. The Duty Center has at its disposal: systems for photography, recording, and video surveillance, with a main task of control the flow of passengers, good, and vehicles. The video surveillance is conducted in order to prevent, and, in case of happening, to evidence and repress cases of corruptive conduct at all border crossings in the Republic of Macedonia. The video surveillance is under the responsibility of the police officers, while the confirmation data are labeled as highly confidential. A copy of the video surveillance may be sent to a competent prosecution and investigation authority in manner provided by law, mostly by the Law on Criminal Procedure, in a sealed envelope with a special seal and with a warning that the evidence is the sole responsibility of the requester.

The second database is updated by the customs officers at the checkpoints on the border crossings. This database contains all data relating to the vehicles and goods, mostly cargo trucks, as well as the documentation on the character of the foods and the situation of import, export, or transit through our state. These two subsystems, for the time being, are connected by internal software which will operate until the very moment of their full interconnection, scheduled for 2010. Corresponding data is exchanged and is to be used by several ministries, which have appointed their liaison officers to this end.⁷ International police cooperation with EUROPOL was improved. To this end, preparations are being made to sign a cooperation agreement. NCB-Interpol Skopje introduced a duty

⁶ 'Official Gazette of the Republic of Macedonia' No. /09.

⁷ Ministry of Finance (Customs Administration); Ministry of Health; Ministry of Agriculture, Forestry, and Water Economy; Ministry of Environment; Ministry of Foreign Affairs; Ministry of Transport and Communications; Ministry of Defense; etc.

operation center that works 24 hours per day, 7 days per week, by which one more of the standards of the MKPO-Interpol is fulfilled.

In context of improving the technical and information potential of the Ministry of the Interior, realization of the projects for upgrading the Tetra system for the regions of Skopje and Ohrid, for introduction of a video surveillance system for the buildings of the Ministry of the Interior, for replacing the current telephone lines with IP telephony, for replacing the classical telephony network with optical one (Skopje), for upgrading of the information system and increasing the level of its protection.

4.1.4. Combating organized, violent crime and corruption

Combating organized crime and corruption remains priority of the Ministry of the Interior. In April 2009, ratification was made of the Convention against Human Trafficking of the Council of Europe (CoE). The Criminal Code was amended to include provisions on obligatory confiscation of assets belonging to perpetrators of crimes related to human trafficking. The inter-ministerial cooperation in combating organized crime is conducted with adequate capacities.

185 persons were charged for human trafficking in 2008. Out of them 160 were charged for smuggling illegal migrants, while another were charged for trafficking in minors (out of them 16 were given prison sentences ranging from 3 to 8 years).

One should also notice here the disappearance of a 6-year old girl, who has not been found yet; there is also a latent possibility that she was the object of illicit human trafficking. The Ministry of the Interior has undertaken various activities in searching and finding this girl.

A case of suspicion for corruptive conduct by a larger authorized officials of the Ministry of the Interior who used to work on a Macedonian border crossing, is being processed by a court.

Police capacities in combating computer crime and computer-related crime, such as the case of abuse of credit cards, have been increased. The Council of Europe's Convention on Cybercrime had a great influence in the modernization of the Criminal Code of the Republic of Macedonia. In accordance with our applicable law, the provisions of the Convention are directly implemented in the Macedonian justice system.

In 2008, the Department for Internal Control of the Ministry of the Interior filed 67 criminal charges against 75 police officers for 70 criminal offences; 61 officers showed elements of corruptive conduct.

4.2. Overall evaluation by the expert on implemented activities for the reporting period, with possible recommendations

The commitment of the Government of the Republic of Macedonia, i.e., of its ministries and institutions in charge of implementing activities in the field of justice and security (home affairs) in the analyzed period has been constant. The functioning of the Judicial Council of the Republic of Macedonia has created conditions for greater level of depoliticization of the judiciary and its greater independence from the Government. Several new courts have been put into operation thus easing up the caseload of the Supreme Court. Still the judiciary generally speaking is not yet depoliticized; among other things, there are certain court decisions that are subject to debates and connections between in-laws in the judiciary system, etc. What is also very important is the fact that

internal controls within the Ministry of the Interior have been intensified; although these controls are yet not sufficiently reformed, still the number of cases of spectacular arrests has declined. The process of harmonization of most domestic laws in this field with the EU laws was completed. Yet one must note here the delay in the implementation of the Law on Juvenile Justice.

In order to have unimpeded implementation of the Law on Police, all planned bylaws were adopted in the foreseen deadlines; in the same period, commanders of police stations were selected and appointed in coordination between the Ministry of the Interior and the local authorities; reappointment of 4 police stations commanders was made. Furthermore, the Law on Internal Affairs was also adopted in this period, which now introduces a career and merits system. This system should create higher stability and eliminate a usual practice of many years in the Ministry of the Interior: when there is change of government, then there is also replacement or degradation not only of senior Ministry and police officials but also of civil servants in various Ministry divisions and departments, on political grounds. Nevertheless, before such Career and Merits System was introduced, many senior officials and police officers used to be degraded by being offered low-paid or junior jobs.

5. FOREIGN AFFAIRS

This was the first reporting period in the foreign policy field which was of key importance for the diplomacy of the Republic of Macedonia. Proper representation of the country in the world, safeguarding its vital national interests, protection of interests of citizens and their national identity, as well as proper promotion of achievements of the country in all fields, were part of the primary goals and tasks of the Ministry of Foreign Affairs, as projected in the Work Program of the Government of the Republic of Macedonia. EU and NATO membership remains strategic commitments of the country, as key segments of the foreign policy. The goals set in the Government Work Plan are ambitious and require investment of exceptional efforts and clear course for their implementation. Implementation of these goals and tasks are of high importance and seek additional caution concerning risks that might come out, and, at the same time, all existing resources should be extraordinarily engaged.

5.1. Planned and implemented activities of the Government of the Republic of Macedonia in the reporting period

Pursuant to the 2008-2012 Government Work Plan, the foreign policy of the Republic of Macedonia will be committed to five strategic priorities:

- NATO membership,
- Start of negotiations with EU and EU accession,
- Visa liberalization (abolition) for nationals of the Republic of Macedonia,
- Overcoming the name issue created by Greece, and
- Promotion and enhancing economic and public diplomacy.

NATO membership – Although after completion of the 10th NATO MAP (Membership Action Plan) Cycle Macedonia did meet the criteria to be invited to join NATO, still no invitation was officially extended to the country at the 2008 Bucharest

NATO Summit. Nevertheless, Macedonia did continue its reforms in the defense sector, by proceeding with the transformation of the Ministry of Defense, army restructuring, education system modernization and training, keeping up the contribution in international operations, intensification of international cooperation, military health care system reform, increasing the equitable and fair representation of non-majority ethnic communities, and contributing to the European Security and Defense Policy. It should be mentioned that in the analyzed period there were increased intensity in international relations of the Ministry of Defense, numerous bilateral meetings of the Minister of Defense, attendance at multilateral meetings and summits, organizing and sharing international conferences, as well as visits by Macedonian peacekeepers to Iraq, Afghanistan, and Bosnia and Herzegovina. It is recommended to further intensify this international cooperation and contacts with international partners and allies, and, to pay special attention to participation in regional multilateral organizations and meetings. This is the only way to clearly articulate Macedonian position, progress, and interest in the world. In addition, it is of outmost importance to assign Macedonian military attaches at Macedonian embassies in countries that are important for Macedonia.

The Republic of Macedonia continues to make contribution to the peacekeeping missions of NATO, EU, and UN. Macedonia contributes with its own military personnel in ISAF-Afghanistan (since 2002), Iraqi Freedom (June 2003 – December 2008), ALTHEA-Bosnia and Herzegovina (since May 2007), UNIFIL-Lebanon (since May 2007). Macedonia additionally provides logistical support to KFOR-Kosovo (since July 2007). The start of the monitoring period was marked also by higher contribution to the ISAF mission for about 25% when compared to the one in 2008. Namely, the Macedonian Government made decision this year to increase the number of Macedonian peacekeepers in the ISAF mission in Afghanistan for 44%; i.e., with two platoons that will act together with the Vermont National Guard from USA. By means of significant participation in operations led by NATO, the Republic of Macedonia continues to make contributions to the preservation of the global peace and security; Macedonia meanwhile also continues to send clear signals about its consistency and support to the NATO processes and reforms that are conducted continuously.

It is very important that Macedonia adheres to the road of cooperation, improvement, and intensification of its military reforms, in order not to lose the potential that implied the risk to stop after the disappointment from not being invited to join NATO at the Bucharest Summit. The reporting period also noted the start of the reconstruction activities and modernization of the Krivolak regional army training ground for conducting real-time army drills before deployment and real-time training, identical to those found in the countries where Macedonian peacekeepers are present as part of international peacekeeping operations. It is very important that the modernization of Krivolak be made in full compliance with the NATO standards, thus eventually making Krivolak become regional army training ground for our regional partners and NATO countries. With regard to education and professional staffing, the Ministry of Defense decided to reopen the Military Academy in Skopje (the last graduation class was in 2006). This was the outcome of the Ministry need for new officers in the army. It is important to underline that experiences of the NATO countries were used in drafting the curricula; the so-called Bologna Declaration will be used in the implementation of the teaching and educational process, which in turn will also involve military academy professors from NATO countries. This will help modernize and properly staff the army

personnel. However, some solution also must be provided for already graduated officers, by their retraining or profiling.

The conversion of former military barracks and bases into apartment and office buildings marked the commencement of the project called 'Former Military Barracks for New Development'. This involves of ceding the premises of former military barracks in Debar, Ohrid, Bitola, Dojran, Gevgelija, and Strumica. Part of the premises in the main military base in Skopje 'Ilinden' and of the barracks in Skopje Municipality of Aerodrom will be also ceded. The intention is to convert the former military barracks into education and culture institutions, business centers, etc. This involves ceding of an area of hundreds of hectares which will additionally used as construction land for new buildings, schools, homes and day-care centers for the aged, shopping centers, business and community centers, etc. Greater part of the military barracks' area have been included in the general town plans as gray zones; however, in the future by preparing new and detailed town plans, these areas will be converted and adapted to the wishes and intentions of future investors. It will be very import in the future to see that proper procedure be used in making selection and decisions to the end users of these construction land areas and ultimately have transparent implementation of these procedures; it will be very important also to see what real benefits would be brought to the local and community development by the entire process.

In the field of European integration processes, the Republic of Macedonia made significant engagements in the reporting period and worked towards progress and implementation of all required criteria given by the EU as conditions that have to be met in order to get invitation to join the EU; they are better known as the Eight Benchmarks set forth by the EC (European Commission) in March 2008. In March 2009, the European Parliament (EP) adopted the Resolution on the progress of the Republic of Macedonia and demanded that the process of setting a date for the start of the negotiations for the EU membership be speeded up.

In 2009, the Republic of Macedonia sent its special representative to the EU headquarters. This is of great importance for realization of successful coordination with the Macedonian Mission in the EU and so gives a clear sign for the dedication of the Macedonian Government to the European integration processes. This action helps strengthen the capacities of the Republic of Macedonia in this very crucial period, which in turn would bring about better results taking in consideration the need for greater and continuing Macedonian presence in the EU.

One of the most important issues and of the key program goals of the Government was to have full liberalization of the visa regime with the countries of the Schengen zone; to this end, best efforts were made to meet the main technical criteria in the shortest deadline possible. On 15 July 2009, the Republic of Macedonia finally was given the go-ahead for the visa liberalization. The EC gave recommendations to abolish visas for Macedonia, Serbia, and Montenegro as of 1 January 2010. The visa liberalization process for the Western Balkans is fully supported by the EU. Therefore, it remains for the ministers of the interior of the EU member states to make the final decision. According to most considerations, no surprises should be expected in this context, whereby the Republic of Macedonia will be able finally to eliminate the visa barrier; certainly, a high risk factor is the possibility for Greece to show its disagreement.

As part of the consular services, the Macedonian diplomatic and consular missions have started, as of January 2009, issuing visas for foreign nationals and travel papers for Macedonian nationals through the Visa Center. This center uses a new system

thus increasing significantly the level of issuance of visas pursuant to ICAO international and European standards. In context of the European integration processes, it should be noted that in the reporting period the Government of the Republic of Macedonia has undertaken and carried out most of the obligations or benchmarks for the EU membership. There is evidence of greater intensity in the diplomatic activities of the Government, various ministries, as well as of the President of the Republic of Macedonia, raising the capacity of the Macedonian diplomatic and consular missions, and, increased participation in the NATO-led peacekeeping missions. Many agreements on bilateral cooperation have been concluded; diplomatic relations have been established with countries that recognized us under our constitutional name. Thus, the number of countries that recognize Macedonia under its constitutional name was raised to 127 out of the UN 192 member states.

Relations with neighboring countries. – Some special changes in the relations with the neighboring countries have not been evidenced, except for establishing diplomatic relations with Kosovo. During the reporting period, one could note fluctuations in the attitude of Macedonia towards the neighboring countries, and of the neighboring countries towards Macedonia. One should especially note the various changes in the positions of the Republic of Bulgaria in supporting Macedonia in the European institutions depending on the daily political situation context, as well as those of Serbia, which depending on the Macedonian relations with Kosovo warms or cools its relations with Macedonia. On its part, the Republic of Macedonia should design a long-term strategy on relations with its neighboring countries and should remain consistent with it; however, by this strategy a clear message will be given about the constructiveness, peacefulness, and priority of the good-neighborly relations and regional cooperation, for the prosperity of the entire region. Certainly, in this context the national interests and care for Macedonian expatriates should not be left out.

After finishing the expert work of the Joint technical commission for full borderline demarcation, the Governments of the Republic of Macedonia and the Republic of Kosovo managed to conclude the long-expected Agreement on physical demarcation of the borderline between the Republic of Macedonia and the Republic of Kosovo. The agreement was ratified by parliaments of both states. The borderline demarcation represents a new basis for the regional stability. By this, the Republic of Macedonia has practically become the only country in the region to have fully demarcated borderlines with its neighboring countries. By finishing the borderline demarcation process and establishing diplomatic relations with Kosovo, the Republic of Macedonia has given major contribution in the promotion of security, stability, and cooperation in the region and beyond. A remark in this context would be that even this process was marked by controversy. Namely, the Macedonian side, on its part, had made an ad hoc session of its Parliament, while one of the parties in the Parliament filed a request to the Constitutional Court to assess the constitutionality of this agreement, since this party claims the agreement is unconstitutional because it violates Art. 74 of the Constitution on grounds that the said agreement does not involve border demarcation but rather change of the borderline. The debates on this agreement are still going on.

The Government of the Republic of Macedonia, in the reporting period, decided to file application versus Greece before the International Court of Justice in The Hague. Macedonia claims that blocking Macedonian membership in NATO at the NATO Summit in Bucharest in the reporting period has severely violated the 1995 Interim Agreement between Macedonia and Greece. Pursuant to the decision of the Curt dated 20

January 2009, the Republic of Macedonia submitted its Memorandum. Greece has been given a 6-month deadline (by 20 January 2010) to submit its Counter-Memorandum. The Court has left an open issue as to what procedure will be applied after that date and following consultation with the involved parties. According to the Rules of the Court, written submissions remain confidential until the eventual start of the main hearing.

Economic diplomacy. – The Ministry of Foreign Affairs of the Republic of Macedonia, in context of implementation of one of its strategic priorities – promotion of the country abroad and increasing FDI in Macedonia – plays great role also in the promotion and coordination of the foreign economic policy and foreign economic activities. What is important for the Republic of Macedonia is to have further intensification and promotion of cooperation with the multilateral economic organizations and specialized agencies for financial and technical cooperation in order to better present the Republic of Macedonia. In supporting this is also the expansion of the network of honorary consuls of the Republic of Macedonia abroad. Likewise, the Republic of Macedonia has thus far sent many economic promoters abroad, who should intensify the international economic cooperation with the Republic of Macedonia. Their work has already been considered in the former chapters of this report. In the analyzed period, Agreement framework on cooperation between the Republic of Macedonia and the UN for the 2010-2015 period was signed ('UNDAF 2010-2015'). This framework was the outcome of the one-year cooperation, coordination, and harmonization between the Government agencies and the UN agencies resident in Macedonia. The framework provides for project support to the Republic of Macedonia in delivering the goals of the Millennium Development for sustainable development in the forthcoming period, in several fields such as: environment protection, local government, social protection, SME development, strengthening civil society, etc.

5.2. What remains to be implemented (not yet implemented or not yet finished) in the analyzed period

The process of European integration involves all Macedonian citizens; they should be informed about every important stage in the European integration processes and so be actively involved in debates about them. In order to inform the citizens about the pros and cons of the European integration processes, the Government of the Republic of Macedonia adopted the Communications strategy in order to carry out several information campaigns that will inform the general public about the obligations and advantages of being a member of the EU. This strategy was conducted in the last two years. However, in addition to information campaign, there is need also for other, more interactive models for informing and holding debates with the citizens, especially ones that will involve the civil society. Likewise, one should be careful and re-examine the economic sustainability and size of the budgetary funds spent for this. With regard to reconsideration of the economic viability of certain Government projects, one should also take in due consideration the efficiency of the Macedonian 'economic diplomats' in circumstances of financial crisis, not only concerning the Macedonian national budget but also in relation to the real possibilities of drawing FDI in circumstances in which presently the foreign companies do operate. According to the Program and the Strategic Plan of the Government, the Ministry of Foreign Affairs has been provided to issue new biometric passports to the nationals of the Republic of Macedonia residing abroad, pursuant to the applicable laws and bylaws and in full coordination with the Ministry of

the Interior. According to the said Strategic plan, this activity practically should have been put into operation during 2009; however, the project on mobile stations for taking biometric data and issuing biometric passports also through the diplomatic and consular mission of the Republic of Macedonia has not been practically commenced. Indeed the Ministry of Foreign Affairs did announce for 2009 a project to make an additional Ministry web site (www.missions.gov.mk) intended only for the Macedonian diplomatic and consular missions abroad to be found on one place. Needless to say, in these modern times, this is one of the most important means of communications for the promotion of the Macedonian interests, culture, and activities abroad; one should also note that it is of utmost importance to create this website as soon as possible and also to update and improve the contents of such planned website.

Pursuant to the Government Decision on provision of foreign currency for purchase or construction of buildings for the Macedonian diplomatic and consular missions abroad, several buildings were purchased in the September 2007-June 2008 period for this missions; however, this process, although planned for 2009 as well, has been stopped on grounds of the financial crisis and smaller budgetary funds.

Concerning the work of the Ministry of Defense, the transformation of the military health care system remains to be finished; equitable and fair ethnic representation in the Ministry of Defense and the army also should be completed.

5.3. Evaluation of potential risks from (non)implementation or from (non)quality implementation of activities

The regional cooperation, as part of the global processes of integration has become condition and need, without which the positive progress would be unconceivable. This cooperation marks the processes of building greater security in international context and further promotion of the economic development in the region. In today's modern world, no country is able to realize its national interests by itself, without having well-grown cooperation with other countries and the feeling of existent interdependence at international level. Hence, in global integration processes, the countries are referred to finding collective mechanisms for dealing with the challenges, while many domestic issues are given international character. Concerning the visa liberalization, one can say that the Republic of Macedonia is on the right track; the country has fulfilled the required criteria and so has become regional leader. Potential question might be whether Macedonia would be assessed under the merit system (i.e., there would be recognition of Macedonia as regional leader and of its timely fulfillment of the standards) or the country would be forced 'to travel in a group', i.e., Macedonia, in spite of the achieved results, would have to wait for the other countries in the region to advance as a group. Additional risk would be noted if the Macedonian institutions decide that it would be enough to achieve the visa liberalization and to slow down the required reforms for the start of the negotiations with the EU. Nevertheless, it should be taken into account that the visa liberalization, however long desired, certainly cannot be replacement for integration into the European system of values and free market. The name issue remains to be the only impediment in the European integration processes. Even the EC was very clear about the start of the negotiations: the Macedonian reform potential is very strong. Macedonia indeed fulfilled all benchmarks; however, what remains is the very name issue with the south neighboring country. In December 2009, the Government of the Republic of Macedonia will be on the agenda of the EU, which will then decide if there would be start

of negotiations and if this would be conditioned by the solution of the name issue. The name issue negotiations continue; both sides remain dedicated and so it is expected that both sides would cooperate and contribute in reaching a mutually acceptable solution. Potential risks can be identified in the outcome of the forthcoming Greek elections, in the conduct of the Greek Government in front of the EC just before the EC should make the decision, and even in the manner of conducting the negotiations.

5.4. Overall evaluation by the expert on implemented activities for the reporting period, with possible recommendations

Integration of Macedonia into the EU and NATO remains to be the major strategic commitment of the Government of the Republic of Macedonia. At the same time, implementing of the assumed international obligations remains to be high on the agenda of the Macedonian diplomacy. Indeed, the Republic of Macedonia will have to demonstrate that it is prepared, in spite of the financial and foreign policy limitations, to dedicate sufficient time, resources, and energy to finish the already started reform engagements. Furthermore, Macedonia will have to invest much more in its human resources and additionally to promote itself as reliable partner on the international stage; this in turn will enable Macedonia to improve its positions and better to articulate its state interest. What is very important in this context to make progress is also to involve the NGO sector in the debates, i.e., the priorities of the country. Furthermore, it is necessary to enhance the capacities of our diplomatic missions in the major countries and to pay higher attention to the training and activities of the Macedonian representatives abroad: ambassadors, consuls, economic and other promoters, since they represent and create the image of Macedonia abroad. The Macedonian diplomacy suffered because of late sending of diplomats and ambassadors in the diplomatic vacancies as outcome of disagreements about their appointments last year. The harmful consequences, although major efforts were made to mitigate them, can still produce their reverberations. Therefore, there is urgent need to properly staff and complete the Macedonian diplomatic network and to activate this network as soon as possible. In the meantime, care should be taken for the professional standards and to establish meritocracy in this field. As previously mentioned, positive steps have been undertaken in strengthening the capacity of the Macedonian diplomacy (defense, economic, consular). It is also recommended to follow this tendency by raising the budget of the Diplomatic Academy, providing professional international training, etc. However, one should also take due consideration of the importance of connecting and promotion via the electronic media outlets (Internet, interactive websites, etc.). The foreign policy of the Republic of Macedonia continues to be burdened with domestic processes. This foreign policy needs to be qualitatively enhanced; to this end there is need to finally create all domestic preconditions, mostly a national consensus about the priorities of the Macedonian foreign policy, and to provide for resources for successful implementation of such policy – reduction of the influence of the domestic interparty disputes and building and promoting unity in the presentation of Macedonian foreign policy priorities. Of great importance in the reform process is not to carry out reforms under pressure and with very high pace, since there might appear risks of quality reduction, insufficient level of information and lack of general public debate among the experts, NGOs, and the citizens.

Macedonia should proceed with actions and policy by which Macedonia will show and prove that it wants to be a partner and ally to Greece. In case the Republic of

Macedonia fails to be cautious in relation to its foreign policy and does not continue the activities of establishing good-neighborly relations, then the name issue could make the April 2008 scenario repeat itself. Namely, of utmost importance for the Republic of Macedonia is the preparedness that should be shown in the discussion and to manifest need to separate the name issue from the European integration processes. The Government of the Republic of Macedonia should proceed with the efforts and insisting that these two separate topics be considered separately. The risk in this field is again blockade, this time, in the European integration processes. Among other things, of greatest importance for the Government of the Republic of Macedonia is to continue strengthening the relations and ties with the foreign strategic partners and with other countries that share the value commitments which the Republic of Macedonia strives for. The Government of the Republic of Macedonia must in a very wise and concentrated manner work in the forthcoming months and quickly cope with the newly created circumstances, whatever they are, in order to remain consistent with its strategic determinations and goals.

6. EDUCATION

Based on the analytical matrix for performance monitoring, research and interviews conducted with the competent institutions, it could be said that this 2009 year was marked as turbulent in the education field. Namely, some of these turbulences did take place as indirect outcome of the financial crisis and, at the same time, of the replacement of the competent minister in this field – the Minister of Education.

6.1. Planned and implemented activities of the Government of the Republic of Macedonia in the reporting period

With regard to the initiatives of laws in this period, one could note certain changes and steps forward. The Assembly of the Republic of Macedonia, during the last 9 months, adopted several education laws, among which is the Law on amending the law on higher education. This amended law precisely defines the engagement of a full-time university professor who has less than 5 years to retire. Namely, this law regulates the right of such professor to teach at a higher-education institution for one academic year, if no candidate, who meets the required conditions, applies for the post after a vacancy notice has been posted in accordance with the law.

The Law on amending the law on textbooks for primary and secondary education was also adopted. This amended law gives exact definition of the use of professional and vocational literature and magazines for children in the primary and secondary schools. Inter alia, the amended law also regulates the procedure for writing and preparation of a script for future textbook.

The Law on amending the law on establishment of the IT University provides precise definition of the terms of the various departments and schools established at this IT University. Then the newly enacted Law on primary and secondary education textbooks provides, as of the 2009/2010 academic year, that all textbooks used in first, second, third, and fourth grade in the primary schools should be distributed free of charge for all pupils. Each complete set of textbooks for primary school grade instruction (1-4 grades) will be used by two generations of pupils; it is planned that every set of textbooks to be used in individual subject instruction in higher grades (5-8) of the primary

education and in the secondary education will be used by three generations of pupils. Namely, in the last 11 years reforms have been made only in the system of the 4-year secondary vocational education, but not in the system of the 3-year secondary vocational education. Pupils in the 3-year secondary vocational school use textbooks approved by the local school PTA or hand-made scripts. Indeed, the Ministry of Education and Science should announce a public tender for the preparation and printing of the required textbooks; however since there is new concept of the 4-year secondary education, there is need to prepare new curricula, syllabuses and even new textbooks as such. Some of the textbooks which were supposed to be distributed came out very later and so the pupils had to start the new school year without the necessary textbooks. New IT University was opened in the town of Ohrid. It is expected that the University would be one of the few specialized IT schools in SEE (South East Europe) and the best in the Balkans. The Boston University, the 4th biggest private university in the USA and in the top 50 in the world, will open on 25 January 2010, for the first time in Macedonia, IT postgraduate studies. In 2009, 113 schools were reconstructed costing more than 600 million denar. Construction was started of 7 new schools, while 5 newly built schools were opened. The Project for school reconstruction and building new sports halls continues. In order to provide more foreign books translated in Macedonian, the Government has started a project to make translation of 500 professional and science books for higher education, books written and used by the best and most eminent universities in the USA, the UK (United Kingdom), France, and Germany. The project has been implemented with rather good pace. The translated books have been distributed to all public institutions, libraries, schools and universities in the country. At the same time, the Ministry of Education and Science continues its process of higher education dispersion, thus making the higher education become closer to all students. Namely, in the analyzed period the Government opened an Electrical Engineering Faculties in Radovis and Sveti Nikole (as well as Faculty of Agriculture), all being part of the University in Stip. Additionally, IT studies have been opened in the town of Kriva Palanka, as part of the Faculty of Natural Sciences and Mathematics of the Skopje University 'Cyril and Methodius'. The Faculty of Agriculture in Skopje opened its first dispersed studies of tobacco production and processing in the premises of the Tobacco Institute in Prilep. For the economic studies in the town of Struga, where only 25 applicants have been enrolled, the necessary minimum quota was not met. Therefore, because of the low number of enrolled students, the financial management studies did not start at all. The enrolled students therefore started their studies in Skopje. Even the Tetovo University opened its dispersed classes in other towns such as Kumanovo, Gostivar, Struga, Kicevo, and Skopje. However, the Government failed to provide on time the premises, teaching aides, as well as the minimum staff to support these dispersed university classes. Furthermore, not all necessary university teachers have been hired to deliver the necessary lectures. While the very idea to disperse the university studies and classes from being over-concentrated in the capital city of Skopje and enabling mobility and economic activity in other towns in the Republic of Macedonia and assisting students who do not reside in Skopje is good per se, the implementation of such idea has not followed the projected track. For the first time, the Republic of Macedonia, following the example of all EU member states, has got its own National Agency for European Programs and Mobility for managing the funds of the programs: 'Lifelong Learning' and 'Youth in Action'. The Agency is a public institution established by law passed in the Macedonian Parliament. The goal of the Agency is promoting and implementing the European education programs in the

Republic of Macedonia. Beneficiary of the programs can be: pupils, university students, teachers, professors, trainers, and other staff who are involved in any segment of the education process, then companies and other legal entities, chambers of commerce, business associations, RD ('Research & Development') centers, as well as associations of citizens and foundations. The programs, appropriate for the beneficiaries, are as follows: 'Comenius' – for primary and secondary schools, 'Leonardo da Vinci' – for secondary vocational schools, 'Erasmus' – for universities, 'Grundvig' – for all adults who have incomplete education and are willing to continue it. Namely, this year donation was made of the first 7 grants to the beneficiaries of the grants program. Financial support of 70000 euro was provided for these grants for pilot projects in the program 'Youth in Action'. Jan Figel, Commissioner for Education, Training, Culture and Youth in the EC, provided the funds.

6.2. What remains to be implemented (not yet implemented or not yet finished) in the analyzed period

The activities that marked this year also involved the introduction of religious instruction as facultative subject in the primary schools. The Government of the Republic of Macedonia introduced religious instruction in the 2008-2012 programs as part of the tools for modernization of the curricula. This was supposed to be a facultative subject intended to help the process of building true values. However, the Macedonian Constitutional Court suspended the provision which allowed organizing religious instruction in primary schools. The Court gave explanation that this was contrary to the Constitution which clearly provides for the separation between the state and the religious communities, i.e., that this violated the right and freedom of religion of the citizens. On the other hand, the Government of the Republic of Macedonia discontinued the campaign to grant vouchers as part of the project 'Macedonia – Country of IT Professionals'. In the last two years, university senior students who would enroll by 15 November in the last year of study were given by the Government vouchers to buy computers. Vouchers were distributed to full-time students at state and private universities in Macedonia. In 2008, the Government spent 2.5 million euro for this purpose, since vouchers worth 250 euro each were donated to 10,200 university senior students. In 2007, the said project involved the distribution of 12,222 vouchers, while a single voucher was worth 12,300 MKD. The cancellation of this segment of the project 'Macedonia – Country of IT Professionals' was explained by the Government on grounds of the economic crisis and the redistribution of the funds from the national budget. The students showed their anger by staging public protests. What also made commotions in the education system in the Republic of Macedonia were the dismissals of many primary and secondary school teachers. It concerned part-time teachers whose service contracts were not renewed. Namely, only those teachers with less than 5 years of work experience were to be dismissed, since their contracts ended and there was no need to re-hire them. This problem also involves the issue of school decentralization and school finance (budgets), however this should not be reason for involvement of politics and partisanship in the educational system. The introduction of free-of-charge Internet access in students' dormitories is a project to be carried out by the Education and IT Ministries. The implementation of this project has been postponed for the next year.

6.3. Evaluation of potential risks from (non)implementation or from (non)quality implementation of activities

The vary facts shown in this Report indicate that the state university education is threatened by dangerous quality decline – by the fact that in the future there will be graduated people who finished their studies at universities and faculties lacking quality instruction. Namely after opening all those dispersed studies, there are not enough professors, so professors from the existing state universities in Skopje and Bitila mostly will be used to do the teaching in Kicevo, Gostivar, Berovo, Kriva Palanka, etc. This will also bring the risk of lowering the instruction quality even at the existing or other faculties. In connection with this, the private universities reacted by claiming that suppression was made of the private educational sector since the new state universities and faculties will offer places for future students far more than the annual number of high school graduates in Macedonia, while professors at the state universities may not teach at the same time also at private universities.

Some of the risks and influence by these dispersed studies are:

- If sufficient number of potential students fail to apply, then there is risk for these dispersed studies to ultimately get closed while enrolled students will be left with uncertainty where and how to continue the concrete studies.
- The small number of students bears the risk that the costs per enrolled student would be too high in order to have any economic justification for such dispersed studies.
- The inadequate teaching staff would reduce the quality of the studies.
- The inadequate equipping and incomplete infrastructure (lack of administration, proper premises, teachers, teaching aides and equipment, Internet connection, computers, etc.) can have serious consequences on the quality of these dispersed studies.
- Students from Skopje or Tetovo, cities that already have universities, will enroll at the new, dispersed faculties in other towns because of smaller level of completion and there will be lower probability that all quotas offered for new students will be filled .

In spite of the initiatives for reforming the curricula pursuant to the principles of the so-called Bologna Process, the general impression is that the quality of the initial education is still at low level and is not adjusted to the needs of the new competences. Inadequate education and insufficient practical work at such faculties produces insufficiently qualified teachers and professors; this in turn later has a counter effect and is then reflected through low quality in the education system. The insufficient implementation of the Bologna Process can lead to confusion and unwanted consequences in course of the next few years. The case of appointing an acting rector at the Tetovo University shows us that partisanship and politics have deeply penetrated into the field of education and universities which are institutions with guaranteed autonomy. Namely, one can conclude from recent events that the State University in Tetovo serves as some kind of battleground for the struggles among the political parties. Among other things, the mass dismissals of teachers at the very start of the school year evidenced the political manipulations done by the political parties. Manipulation done by both the ruling and opposition parties and mutual accusations do not serve the interests of the dismissed teachers, their pupils, and the education process in general. The government measure to provide all primary and secondary pupils with free-of-charge textbooks, as of the 2009/2010 school year pursuant to the Law on textbooks, should be commended;

however, it is recommended that this measure be implemented consistently and efficiently. Otherwise, there is high risk as to the quality of education given to the pupils who spend mostly their classes in copying or dictation done by their teacher.

6.4. Overall evaluation by the expert on implemented activities for the reporting period

The Government should undertake urgent steps to create the necessary conditions for normal functioning of the dispersed studies with all the required standards. This will help achieve the set goal that ‘the professor goes to the student, and not the student to the professor’, which directly or indirectly will motivate the interest of the young people to enroll at universities. Highly educated young people should become, in time, a comparative advantage for the country in order to draw FDI and so reduce the unemployment rate and increase the growth rate. The new curricula and syllabuses for the lower grades in the primary education were prepared late, with very short deadlines, and started slowly to be implemented. Conclusions point out that the implementation of the new concept of the primary education has started without adequate preparation and so this concept has caused confusion in schools, with the teachers and pupils. It is necessary to have fast and efficient dealing with all inconsistencies of the new curricula and their good-quality realization. The experience from other countries shows that preparation of such projects lasts very long, that is costs a lot of money and requires a clear strategy and strategic leadership based on sustainable studies.

Financing remains to be the major obstacle to the modernization of the Macedonian (higher) education. The Macedonian higher education seriously suffers from small investment from the private sector, which in turn restricts the prospects for development of the universities. Revenues of higher education institutions from donations, grants, private companies, business, or associations are very low and insignificant. Most of these revenues actually do come from the tuition fees paid by the students. There is need for more scholarships from the private companies, then to have more internship programs, and to continue building partnership between the Macedonian and foreign universities. Stronger efforts must be made to completely root out all political influence on the education system and any partisanship of the professors and other university staff. It is also important to raise the level of the very professors, i.e., their professional and academic specialization, to provide opportunities for academic upgrading, professional further training, attending international conferences and workshops, and regular publication of their works in domestic and foreign academic, and science magazines.

7. SOCIAL POLICY

7.1. Planned and implemented activities of the Government of the Republic of Macedonia in the reporting period

7.1.1. Labor market, employment policy, and social dialogue

One of the more important reform projects of the Government of the Republic of Macedonia in the reporting period were the amendments made to the Law on salary payment in the Republic of Macedonia enacted in December 2008. The amendments

introduced the system of payment of gross salaries pursuant to the model of payment of salaries as applied in most countries in the world.

The same importance was also seen in the amendments made to the Law on contributions from compulsory social insurance enacted in May 2009. These measures and amendments let all citizens get their health care insurance directly from the Fund for Health Care Insurance of the Republic of Macedonia. This allows more room in the work of the Employment Agency of the Republic of Macedonia to focus more on the active employment measures for unemployed persons actively seeking job, thus excluding those unemployed persons who register themselves at the Agency only to be covered by state health care insurance and not ultimately to find any job.

In order to provide for more effective mechanisms to address the issue of illegal and undeclared workers, the December 2008 amendments to the Law on employment and insurance in case of unemployment introduced obligation for the unemployed person to deliver a written notice to the competent state inspection authority if such person is hired by the employer without any written service contract.

In early 2009, amendments were made to the Law on employment and work of foreigners. The aim of these amendments was to speed up the procedure for issuance of corresponding types of work permits for foreigners and increasing the validity period of certain work permits, as well as to cut the deadlines that certain state institutions use in the decision-making process of such permits. The approach by the Government of the Republic of Macedonia, in implementing active programs and measures for employment that was launched in 2007 by adopting the first annual Operative plan (OP) for active employment programs and measures, continued also in 2008 and 2009. This was done by adopting and implementing OP for these two years. The 2008 OP programs and measures involved 6,882 job seekers. To this end 276 million MKD were spent. Of them, 82 million MKD came from the national budget. In January 2009, the Government of the Republic of Macedonia adopted the 2009 OP. The 2009 OP included inter alia also 3 new programs by expanding the target groups together with the most vulnerable groups in the labor market: young people under 27 years; persons who are chronically unemployed for a longer period of time; parentless children; disabled persons; single parents; single parents with 3 and more children; young single parents under 27 years; couples with 3 and more children; parents with disabled children; senior unemployed persons (55-64 years); unemployed persons who lost their job due to company bankruptcy or liquidation, and redundancy; victims of domestic violence; and Roma. The first 2009 national budget revision earmarked additional 150 million MKD for the introduction of the Program for organizing public works, as one of the measures by the Government of the Republic of Macedonia to mitigate the dire effects of the economic crisis. This measure started to be implemented in July 2009, whereby monthly engagement was made of about 4,800 beneficiaries to perform public works. The Project for self-employment by loans has been part of the active programs and measures for employment financed by the National budget. This project helped in 2008 1,984 unemployed persons legalize their informal or undeclared business or start a new one. 386 million MKD were spent to this end. This project continued to be implemented in 2009 as well, with planned 2,000 new jobs. On 30 January 2009, the Government adopted the 2009-2010 National action plan for employment (NAPE). This plan contains the expected goals and scheduled activities that have positive impact on employment, such as: creation of a more competitive business environment and simulation of the private initiative; promotion of a better entrepreneur climate and creation of favorable environment for SMEs; implementation of employment

policies; promotion of access to new jobs; active and preventive measures in the labor market; better connection of the needs of the labor market; etc. The reporting period marked the completion (in April 2009) of the third stage of the EU-funded project 'Technical assistance for supporting the employment policy'. As part of that project, realization was made of trainings and other activities for administration capacity-building for effective planning, implementation monitoring, and evaluation of the employment policies; a 'model of services' (manual) was prepared that describes the individual services that the employment departments at the Employment Agency should offer to their clients: the employers and the job seekers; trainings were carried out on how to prepare local employment action plans; introduction was made of the ISCO88 system for job classification; cooperation was enhanced between the government institutions and organizations of social partners (labor unions and associations of employers) through bilateral meetings and attending joint trainings and through active involvement of the social partners in drafting the 2009-2010 NAPE; the Strategy for raising the awareness about the new employment policy measures was drafted and implemented. The December 2008 amendments to the Law on labor relations established institutional and procedural framework for solving misdemeanors in the labor field. Pursuant to the new law provisions and solutions, the Misdemeanor commission and the Commission for mediation in labor misdemeanors were formed and started to operate; likewise, a Misdemeanor commission and Commission for mediation in misdemeanors relating to safety at work and healthy working conditions also began to operate in order to help implement the provisions of the Law on safety at work and healthy working conditions, adopted in 2007.

In accordance with the provisions of the 2007 Law on safety at work and healthy working conditions, the Council for safety at work and healthy working conditions was established and started to work, after some delay, as government advisory expert body for issues relating to safety at work and healthy working conditions. In accordance with the said Law, 6 bylaws were adopted in the reporting period for the sake of domestic laws harmonization with the EU Directives. Pursuant to the previous of the Law on peaceful settlement of labor disputes, in 2009 the Council for peaceful settlement of labor disputes was formed as government body that deals with peaceful settlement of collective and individual labor disputes, with appointment and professional training of labor mediators and labor arbitrators, etc. The August 2009 amendments to the Law on employment of disabled persons were made in order to introduce greater protection of the labor rights of disabled persons working in private, government-subsidized companies for employment of disabled persons, enhance the level of control mechanisms in the supervision of the restricted spending of funds from the Special fund for improvement of the employment and working conditions for disabled persons, and increase the level of the fine in case of violation of the corresponding law provisions.

Another relevant legislation novelty in the reporting period was making amendments to the Law on labor relations enacted in September 2009, with provisions on 'Psychological harassment at the working place (a.k.a. mobbing)'. All these provisions forbid any type of psychological harassment at the working place and also provide for the protection and conditions of the working place for the person that initiated proceedings to protect himself from psychological bullying at the working place, as well as for the person who serves as witness in such proceedings.

In order to promote the social dialogue, in March 2009 agreement was reached to establish a Joint consultative committee for the Republic of Macedonia with the

European Economic and Social Council; this agreement involved the Federation of Trade Unions of Macedonia, the Confederation of Free Trade Unions, the Confederation of Trade Union Organizations of Macedonia, MOST, and the Macedonian Center for International Cooperation. Upon consultation with the social partners, draft amendments were proposed for the Law on labor relations; these amendments will settle the issues of representativeness of the trade unions and the employers' associations, by means of establishing objective criteria for representativeness and procedure for its determination.

7.1.2. Pension and disability insurance

The reporting period was marked by numerous activities related to implementation of the reforms in the pension system by the introduction and promotion of the capital financed pension insurance.

Thus, April 2009 was marked by making amendments to the Law on mandatory fully funded pension insurance; these amendments increased the percentage of money that pension funds may invest abroad from 20% to 30%; then the amendments provided greater opportunities for investing the funds in shares, documents of holding stakes, and other securities that are issued by foreign companies and banks; diversification of funds when investing them and greater choice of companies in investment of funds from the mandatory pension funds by the companies; the role of the guardian of the assets was transferred to the commercial banks; etc.

This period also saw the continuation of the activities to form the Third Pillar of the pension system. In order to promote the voluntarily fully funded pension insurance, i.e., the so-called Third Pillar, and inform the general public on this, several educational and informational activities were conducted in the reporting period. The first two voluntary pension insurance funds started to operate in this period: the first license was issued in May 2009, and the second license in August 2009 for management of voluntary pension funds and provisional permit for management of voluntary pensions fund. The Law on contributions from mandatory social insurance (pension and disability insurance, health care insurance, and unemployment insurance) was enacted in October 2008. This Law defined new social contribution rates, with tendency to decrease in 2009, 2010, and 2011; this in turn set the basis for integrated collection of all three contributions from the mandatory social insurance. Hence, as of January 2009, the PRO will be the only institution to collect the social contributions. The year 2009 also noted the important novelty of reducing the rate of the contribution for the pension and disability insurance from 21.2% to 19%. The amendments to the Law on pension and disability insurance of November 2008 regulated setting aside money for the Solidarity Fund of the pensioners which is accumulated from the contribution paid by pensioners; it was also regulated that the Fund for Pension and Disability Insurance of the Republic of Macedonia should service the payment of funeral allowance, with full participation of the associations of pensioners in the process of disposal and management of the funds as contributors to the Solidarity Fund; the intention was to provide proper and efficient servicing of this Solidarity Fund and also provide equal treatment of all pensioners.

Finally, the latest amendments to the Law on pension and disability insurance coming into force on 1 January 2009, harmonized this Law with the existing Law on contributions from the mandatory social insurance. This harmonization abolished the possibility that a pensioner could be again employed and still receive certain part of his

pension, with payment of pension and disability insurance contributions on higher basis than that of other employees.

7.1.3. Social protection and social inclusion

One of the most important changes in the social protection legislation was the adoption of the new and reformed Law on social protection in June 2009. This offered new statutory solution for furthering the social protection policy. The new Law on social protection has introduced for the first time the statutory solution for transition from passive use of the social assistance towards activation of the beneficiaries of social assistance through their engagement in public works, performance of seasonal jobs, and other temporary work. In this context, their right to social assistance is not suspended depending on the period of such working engagement,

As part of the social protection reforms in the reporting period, the SPIL Project (Social Protection Implementation Loan) continued to be implemented which is financed by a WB loan and corresponding budgetary funds by the Republic of Macedonia. This project included also activities to establish integrated information system for administering the social benefits and for financing operations of the centers for social work (CSW) and the Ministry of Labor and Social Policy (MLSP); to this end the required hardware equipment was bought, while the software application remains to be prepared in the forthcoming period.

One of the more relevant novelties in the field of social protection concerning cash aid is the Project on conditional cash transfers. In order to implement that project, in September 2009 the Government of the Republic of Macedonia adopted the Program on conditional social protection cash benefits. This would provide cash benefits to pupils who have enrolled and do attend regularly secondary school on full-time basis. The program has the goal to increase the number of persons attending secondary schools. This benefit is intended for pupils coming from households that are entitled to receive cash welfare, or such right is temporarily deferred while being engaged in public works. The funds for the project implementation have been received through a WB loan in the amount of US\$ 25 million for the September 2009 – March 2014 period. Pursuant to the priority goals defined in the National strategy on deinstitutionalization of the social protection system for the 2008 – 2018 period, in the reporting period the process of deinstitutionalization was implemented in order to enable faster integration and resocialization of mentally handicapped persons. 22 persons with medium and severe mental handicap were accommodated in 7 housing units in Kisela Voda, Lisice, Negotino, and Demir Kapija. In that period a small group home was opened for children without parents and parental care in Berovo. In this context, there was also increase in the number of day care center for deinstitutionalization social protection. In addition to this, the Government continued the implementation and expansion of the Project ‘Soup Kitchens’ in order to provide warm meals for the needy persons. Thus in the analyzed period 4 new soup kitchens were opened in these municipalities: Centar, Caska, Debar, and Zletovo. This raised the overall number of beneficiaries to 3,479 served in 35 nationwide soup kitchens. The reporting period noted the following more important activities related to social inclusion. Action plan was adopted on preventing and addressing the issue of sexual abuse of children and pedophilia for the 2009-2012 period and National coordination body was established to monitor the implementation of the plan. A National coordination body to monitor the implementation of the National strategy on protection

of victims from domestic violence for the 2008-2011 period, was formed; there was implementation of a multi-sector training on working with victims of domestic violence involving 20 professionals from different fields (social services, health care, police, NGOs) in order to have concerted action in concrete cases of family violence; Action plan was adopted to implement projects on construction of access ramps for disabled person in public buildings and institutions. For the purpose of providing equal opportunities, the following important programs/projects took place: Program on 'gender-sensitive budgeting', the Program 'Support to commissions on equal opportunities for women and men in units of local self-government', the Project 'Training of lawyers and staff member of the Ombudsman's Office on the UN Convention on elimination of all forms of discrimination of women and its facultative protocol', and the Project 'Preparation of analysis of relevant laws and civil diaries to overcome the unequal treatment and accession of Roma, especially Roma women, to state institutions.'

The reporting period noted also the implementation of activities, measures, and policies that are connected with the National strategy on demographic growth; the aim of this strategy is to slow down the rate of population reduction and creating conditions for sustainable demographic growth, reduction of regional demographic disparities, support to family and family values, and increase in the life quality of the population. In context of social protection, the strategy provides implementation of several activities, measures, and policies. Those measures that were put in operation by the amendments to the Law on childcare as of 1 January 2009, can be singled out as more important in the analyzed period. They relate to improving the system of financial support by one-off allowance for every newborn baby with elimination of the income census in enjoying this right and introduction of a new right in the field of childcare – parent allowance for having child (for 2nd, 3rd, and 4th child), and provision of a minimal pension for those women which gave birth and brought up 4 or more children provided such women are not entitled to regular pension.

7.2. What remains to be implemented (not yet implemented or not yet finished) in the analyzed period

Comparing planned and implemented activities in the analyzed period point out that the following planned activities were not carried out in that period:

- Implementing the Program on harmonization of domestic labor legislation with the EU legislation,
- Adoption of a Law on labor inspection so that it would be harmonized with the Law on misdemeanors, with the ILO (International Labor Organization) standards, and the EU Conventions;
- Preparation of a software application for social benefits (in progress),
- Making shorter procedure for child adoption and introducing a new model for most suitable child adopter – electronic selection of adopter,
- Adoption of a Law on social housing (drafting of the law is in progress),
- Adoption of a National program for development of social protection and National strategy for combating poverty and social inclusion in the Republic of Macedonia (drafting in progress),
- Adoption of multidisciplinary protocols to deal with street children (in progress),
- Amendments to the Law on employment and work of foreigners, which will reduce required documentation for obtaining personal work permit for self-

employment of foreigners, as well as to the procedures to enact a new 'Rules on procedure of registration and termination of jobs done by foreigners' and 'Rules on procedures of issuance of work permits and form and contents of special types of work permits',

- Adoption of a Law on antidiscrimination (in progress in the Parliament),
- Ratification of the Council of Europe Convention on the Protection of Children against Sexual Exploitation and Sexual Abuse;
- Implementation of reforms in accordance with international instruments, such as the UNICEF Convention on the Rights of the child.

7.3. Evaluation of potential risks from (non)implementation or from (non)quality implementation of activities

The insufficient administrative capacity and limitation of the financial resources still remain to be the major risks that hinder or rather delay the implementation of the activities and policies in the field of social protection or even exert influence on the quality of their implementation as such. Indeed, the present economic crisis means significant risk or challenge in the implementation in most of the foreseen activities.

7.4. Overall evaluation by the expert on implemented activities for the reporting period, with possible recommendations

7.4.1. Labor market, employment policies, and social dialogue

It is to be noted that in the reporting period the Government of the Republic of Macedonia conducted many activities and measures and made important progress in the promotion of policies on labor market and labor relations, employment and social dialogue which come out of its Employment Program. The actual situation show improvement of the results in this field, and that they have not been fully implemented in accordance with the schedule.

The state policy on reduction of social security contributions in the 2009-2011 period is one of the major policies that serve to improve the situation in the labor market. If, let us say, the difference from reduction of the contributions goes ultimately to the employer, then this in turn would produce an effect in fall of the labor price; so this would produce employment rate reduction and transfer of the workers from the informal to the formal employment sector. If, by any chance whatsoever, the employer decides that this difference should go in the pocket of the workers (which rarely does happen), then the contribution reduction would effectuate better workers' standard.

The most serious problem that the Macedonian Government had to cope with in the reporting period was the high unemployment rate. In spite of the Government program commitments for major increased support to the active employment policies and measures, nevertheless bare figures do show that the Macedonian government still is not able to successfully deal with the high unemployment rate, which is about 32% of the able population. Indeed such circumstances show that the scope and level of active measures and programs that have been implemented in the last period in context of continuing increase in the number of beneficiaries of such measures and programs, as well the higher financial resources at annual level, have failed to produce major impact in mitigation of the high unemployment rate. The present crisis certainly also contributes to

such state of affairs, because in recession period it is not realistically to expect higher employment rate in the economic sector.

7.4.2. Pension and disability insurance

In the reporting period, realization was made of many activities towards completion of the reforms in the pensions system in the segment relating to the introduction of the voluntary fully funded pension insurance. The positive outcome for the reforms will influence both the individual and the state. The new system will contribute to increasing the income of the citizens on one hand and providing long-term solvency of the pension system, reduction of public expenditure in the segment of the pension system, growth of the financial market and the strengthening the investment capacity on the other hand; this together will result in economic growth.

Nevertheless, it would be premature in this period to expect positive results from pension reform implementation. Indeed the delay in implementation of such reforms has additionally contributed to postponement of the time period when the outcome of such reforms would be visible.

7.4.3. Social protection and social inclusion

In the field of social protection and social inclusion in the reporting period, the Government of the Republic of Macedonia has implemented most of the activities that have been planned in its relevant Program. Nevertheless greater portions of such activities do relate to the adoption of strategic documents (i.e., strategies, action plans, programs) and amendments to or even adoption of completely new statutory solutions. In the corresponding field, while on the other hand the operative activities, planned in the strategic documents and policies, have not attained the foreseen intensity; delay has also been noted in the adoption of certain law provisions, bylaws and even strategic documents.

The deinstitutionalization process has taken a rather slow pace; in the social inclusion context, the Government has been working on drafting and adoption of many strategic documents and concrete activities for their realization.

The problems relating to the capacity of the state administration and limitations of the financial resources, as well as the insufficient coordination among various institutions, do indicate that they will continue to be the main challenge for the Government of the Republic of Macedonia.

The present situation in the field of social protection and social inclusion shows that, in spite of the efforts made by the Government of the Republic of Macedonia in this context, there remain still many challenges and problems that ought to be solved in the period to come. Public works should be connected to acquiring certain skills that will make the recipients of social benefits more attractive in the labor market. It is needed for the private sector to become increasingly involved in the programs for productive engagement of recipients of social benefits. There is also need to have higher involvement of professionals from the centers for social work and of all other concerned parties in the entire process of creating policies and in assessment of the produced results. There is also need to have software link among such centers to exchange data and information concerning social protection, employment, social security and insurance, and to have also inter-sector connection among the competent ministries for the sake of more

efficient implementation of the social policy. Finally, it is necessary to secure also proper level and volume of the capacity of the administration to solve the accumulated problems in this field.

8. HEALTH CARE SYSTEM

‘Healthy nation and developmental economy’ is part of the program of the Government of the Republic of Macedonia that relates to the development of the health care system and of the reforms in the health care system which are planned to be implemented in the 2008 – 2012 period. The program has been divided in 4 parts. The first part is dedicated to the commitments of the Government of the Republic of Macedonia to retain the values and merits which the health care system in the Republic of Macedonia is founded on; the second part refers to the guidelines of the Government of the Republic of Macedonia relating to financing the health care system; the third part refers to improving personal and preventive health care services; and the fourth part of the program relates to planning new investment cycles in the health care system.

This report presents the level of the implementation thus far of the program determinations concerning different parts of the program. In this context, due attention is paid to the possible risks in non-application of certain activities and presentation is given of general picture of the situation in the health care system.

8.1. Planned and implemented activities of the Government of the Republic of Macedonia in the reporting period

8.1.1. Values of the health care system

The major values and merits of the health care system are defined by the Macedonian Government to be the basic characteristics of the European health care systems, such as solidarity, equality, and inclusion of the people in the decision making process. Indeed the very contents of the Program made by the Government of the Republic of Macedonia indicates that the Government will try to keep up, intensify and further promote these European values and merits in all aspects of the organization of the health care system in the Republic of Macedonia.

In the present implementation of that part of the program, the Government of the Republic of Macedonia indeed shows great concern to protect the poverty-stricken segments of the population and the vulnerable groups from further financial costs that refer to their health care. Such example has been noted in the recent amendment made to the Law on medical insurance. These amendments have paved the way for all unemployed persons and persons who are not medically insured on any grounds whatsoever, to be included in the health care system. Thus, the Macedonian Government has really tried to offer greater access to the medical insurance system for the entire population residing in the Republic of Macedonia. Additionally, the Government has been undertaking measures to reduce the private costs of insured patients for their hospital treatment by providing all the required medicaments and disposable medical materials.

8.1.2. Medical insurance and financial sustainability

The second segment of the government programs contains growth projections and commitments to preserve the system of social security and medical insurance, projections on reduction of the rate of contribution for the medical insurance, as well as increasing the budget of the state-run Fund for Health Care Insurance of the Republic of Macedonia.

As part of the taxation system reform, the Government of the Republic of Macedonia has projected and implemented reduction of the rate used in payment and collection of all social security contributions, including the contributions for the medical insurance, starting from 9.2% in 2007 through cascade-like decrease to 7.5% in 2009 and the final 7.0% in 2010. The Government of the Republic of Macedonia has launched this reform expecting that reduction of rate of social security contributions would not produce a negative impact on the budget of the state-run Fund for Health Care Insurance of the Republic of Macedonia; this has showed to be partially true. Nevertheless, it is important to note that no tendency has been realized in increasing the budget of this Fund, so that the impartial evaluation of the effects from such reform will have to be monitored in the period to come. Greater problem would represent the already announced reduction of transfer of funds from the national budget to that of the Fund; this indeed shows there are objective risks in the financial sustainability of financing health care services.

The Government of the Republic of Macedonia announced that introduction of the new manner of financing by means of the so-called diagnostically related groups (DRG) will enable fair and efficient manner of distribution of financing of state-run hospitals, as well as proper evaluation of solvent hospitals. Implementation of such reform is the outcome of integrated and intensive efforts made by the Ministry of Health, the Project Coordination Unit, and the Fund for Health Care Insurance of the Republic of Macedonia in the last 3 years. In context of the reforms intensively undertook in 2008 and 2009, the Government of the Republic of Macedonia was fully dedicated to implementing that program promise. Results thus far indicate that all general and specialized hospitals, as well as the university clinics, make records of all treated cases by means of the system of DRG. The system of recording (coding) was implemented after intensive trainings for teams of all hospitals in direct cooperation with the Fund for Health Care Insurance of the Republic of Macedonia. Provision was made of specially developed software (the so-called grouper) and such application is downloadable on the website of the said Fund. All hospitals are now obliged to regularly code all hospitalized cases and send such reports directly to the Fund.

Initial results have shown high level of inaccuracy in collected data; this is mostly the outcome of the process of adaptation and inadequately efficient control. Still, enhanced controls by the Fund for Health Care Insurance of the Republic of Macedonia in the third quarter of 2009 have contributed to major improvement of recording and data that are collected from providers of medical services. Such collected data, through the system of DRG, will enable the Fund for Health Care Insurance of the Republic of Macedonia to become truly strategic purchaser of health-related services. This in turn will replace the present manner of financing the medical institutions that is input based, towards a system of financing that is output based.

8.1.3. Preventive and personal health care services

The Government of the Republic of Macedonia has foreseen important promotion of preventive services through transformation of the institutes for health prevention into modern institutes for public health.

In 2008, the Macedonian Government made important step forward towards improving the preventive public health services. Pursuant to the program commitments, amendments were made to the Law on health care whereby the then Republic Institute for Health Care and its regional affiliated offices were transformed into Institute for Public Health and regional centers for public health. Nevertheless, these changes have not been followed by corresponding statutory support in segment of future financing of the public health care system and by prevention improvement at national and local level through investment in HR (Human Resources); this may appear as possible risk in the overall successful implementation of such program commitments.

In context of prevention, it is important to underline that the Government of the Republic of Macedonia has continued implementation of preventive programs such as 'Health for everyone', as well as introduction of mandatory HPV immunization for all girls between 9 and 26 years of age.

The Government also made major efforts to prevent or downsize the pandemic of the flue H1N1. Introduction was made of strong preventive measures at all border crossings; heat-sensor cameras were installed in order to register all persons entering the territory of the Republic of Macedonia and having increased body temperature and flu symptoms. Efforts are being made to supply 800,000 vaccine shots that should meet the needs and demands of most of the population who would be infected by such type of flue. It is expected that vaccine process will start in November and December 2009.

Likewise, the Government of the Republic of Macedonia has announced the start of giving subsidies for the in Vitro Fertilization and Other Assisted Reproduction methods (IVF) through the Fund for Health Care Insurance of the Republic of Macedonia. That novelty was implemented with great initial success by concluding cooperation agreements with 3 accredited private hospitals, as well as the state-run Gynecology and Obstetrics Clinic at the Medical Faculty on Skopje. The Fund for Health Care Insurance of the Republic of Macedonia actually fully finances the first three attempts of a couple to have a child by means of the IVF method in the four medical institutions that have signed such agreements. According to initial information, implementation of all cooperation agreements is being conducted with satisfactory results. In 2009, the Fund for Health Care Insurance of the Republic of Macedonia earmarked funds for 1,550 IVF attempts. Out of them, 76% of the planned finds were spent by 30 September 2009.

In the primary health sector, the Government of the Republic of Macedonia announced its intention to raise the role of personally chosen primary health care doctors, as well as to open medical specialization for future family doctors. The Fund for Health Care Insurance of the Republic of Macedonia raised the value of the so-called capitation point for 5 MKD; however, in this context no analysis was made on the distribution of risk from visiting a doctor by gender and age groups. This practically caused linear raise which is not directly linked to the success in the work of different categories of doctors in the primary health care system.

After a corresponding period of preparation, in October 2009 cooperation agreement was concluded between the Skopje Medical Faculty and the London Imperial

College concerning family medicine studies and specialization. Implementation of such study reform will take place in several stages. The first stage will involve training of a group of 10 doctors specializing in family medicine who have already commenced their 3-year specialization studies in October 2009. The second phase will involve further training of present doctors in the primary health care system; finally, the third stage will be completed by opening a Family Medicine Department at the Skopje Medical Faculty.

8.1.4. Investment in the health care system

In its program, the Government of the Republic of Macedonia plans to make new investment in the health care system in context of improving infrastructure, purchase of new and state-of-the-art medical equipment, introduction of new IT, and, maintaining constant investment in the HR working in the health care system.

After the 2007 successful implementation of full computerization of the Fund for Health Care Insurance of the Republic of Macedonia and all its local offices through the Project on management of the health care sector funded by the WB, opportunities were created for implementation of the planned project to introduce personal electronic health care card. The Ministry of Health commenced implementation of a project that provides for full refurbishing and equipping of a central room for data collection, and planning full computer installations in all public medical institutions. Complete realization of the project on computerization of the public health care system is scheduled to be completed in 2010.

The government program also foresees additional investment in further development and functional integration of the university clinics and investing in the construction of a new Emergency Center as part of the existing Clinical Center complex. In 2009, the Ministry of Health intensively worked on the implementation of the so set program commitments, whereby certain projects suffered some changes and re-adaptations, as in the case of the transformation of the City Hospital in Skopje into an Emergency Center, instead of its planned integration within the University Clinics in Skopje.

The Republic of Macedonia signed a loan agreement with the CoE Development Bank worth 45 million euro. These funds are earmarked for renovation of many public health institutions, including the University Clinics in Skopje. The Ministry of Health has formed a new Project Unit whose aim is to implement all those activities agreed upon with the aforementioned bank. Feasibility study was made. The renovation of public health institutions should start in early 2010.

The Ministry of Health also started in 2009 the transformation of the Military Hospital in Skopje into a city hospital for the needs of the city of Skopje. This project, in addition to great financial resources, will require additional investment in the HR segment.

According to the Program 'Healthy nation and developmental economy', investing in the health of the citizens of the Republic of Macedonia has direct contribution to the economic development of the country. The program underlines the need for higher responsibility and role of the state in provision of all necessary conditions for healthy life as well as for speedy recovery of patients. Likewise emphasis was made on the role of the individual and his personal responsibility for own health as well as for other's health.

The ultimate goals of the announced changes that the Government plans to carry out on long and sustainable term is to reduce private health-related costs of the citizens opening opportunities for additional health care insurance, as well as recognition of the influence and role of the private medical sector. The Government of the Republic of Macedonia foresees that the implementation of its program will raise the role of the patient as the focal point of all actions within the health care system and that this will gradually make our the health care system come closer to the modern health care systems in Europe.

8.2. What remains to be implemented (not yet implemented or not yet finished) in the analyzed period

The Government of the Republic of Macedonia announced starting a process of democratization in running the Fund for Health Care Insurance of the Republic of Macedonia by establishment an Assembly of Medically Insured Persons. The aim of this program intention was to increase the transparency in the work of the Fund for Health Care Insurance of the Republic of Macedonia, and the role of the medically insured persons in the distribution of the collected revenues from the social security contributions. Although the final deadline for implementation of this commitment was January 2009. Nevertheless, in spite of the recent amendments to the Law on on health insurance, such announced change was not part of the proposed amendments to the said law.

Non-implemented program commitments include preparation of the Master plan for transformation and development of hospitals. This plan was to foresee the future planning and development of hospitals, which in turn would have provided detail prediction of future investment, avoiding thus possibility of doubling or overlapping of financing and of increasing costs. Additionally, such plan would enable also greater regional medical cooperation among local hospitals located in a same region (for instance: Bitola, and Prilep; Ohrid, Struga and Kicevo; Kocani and Stip).

The Government of the Republic of Macedonia announced complete transformation of the hospital sector by drafting and adoption of the Law on autonomy of general and specialized hospitals. Although this law was prepared in 2008, its adoption has been postponed. The aim of this new law would be to bring greater spirit of entrepreneurship, as well as new opportunities for the state-run hospitals. Such reform-minded concept is complementary with the new management principles in running hospitals; these principles should significantly raise the quality of the work done, improve the attitude and relationship towards patients, and introduce a system of proper work evaluation of the people employed in the public health care system in the Republic of Macedonia.

Still one cannot note progress in the promotion of the palliative care of old and feeble people in the country with greater role of the medical house call practice.

8.3. Evaluation of potential risks from (non)implementation or from (non)quality implementation of activities

Postponement of reforms in managing the Fund for Health Care Insurance of the Republic of Macedonia leads inevitably to minimizing the role of contributors of social security contributions in the decision-making process on how to distribute the revenues

that are collected by this Fund. One can locate here the greatest risk to the present and future functioning of the health care system of the Republic of Macedonia.

The analyzed period also noted lack of functionality of the present management system of the Fund for Health Care Insurance of the Republic of Macedonia. Thus, certain decisions which had been previously made by the Management Board of the Fund for Health Care Insurance of the Republic of Macedonia (for instance, the discontinuation of the positive list of government-paid medicaments) were later revoked by the Minister of Health; this then led to a public confrontation between the said Minister and the Fund Director who later had to leave his office. The present management structure of the Fund, where payers of social security contributions are represented by their representatives in the Management Board of the Fund, is insufficiently transparent. This could lead to potential direct pressure and influence by incumbent politicians in the distributions of the funds collected from the insured contributors. Indication for such conclusion has been the implementation of the Government Project on free-of-charge health care insurance for all citizens. This Project has been implemented by the Government without at the same time providing additional money to the Fund from the national budget in view of now greatly increased medical expenses for everyone in the country. This has only added further risk to the possible successful outcome of the Project. On the other hand, the medically insured people (as the group of greatest contributors to the revenues of the Fund) were never consulted on the manner of collecting and spending these funds. This has created a situation of increased number of medically insured people and greater need to deliver medical services for all of them, on one hand, and lower health care budget on the other; this might indicate a rather serious threat to the financial sustainability of the overall state health care system in the country.

Although planned in the various Government programs, the introduction of autonomy in the work of general and special hospitals has yet to see the light of day. The postponement of this intended process, which is directly complementary with the introduction of the DRG system, could possibly invoke high risks in certain segments of hospital management. Contrary to the expectations that the said autonomy would introduce entrepreneurship spirit in the state health care system, its postponement will prolong the present autonomy of the hospitals in making decision on hiring medical staff, promoting their operation, as well as in using and directing the funds that these hospitals get, regardless if investments or hospital annual budgets are in question.

Additional risk to the successful outcome of the reforms in the health care system is seen in the official announcement by Government officials of projects that lack careful planning, so that such projects are difficult to carry out, are postponed, or even are not implemented at all. Such example is the purchase of medical equipment and machines the implementation of which has been going on for more than two years; this leaves room for doubts as to the successful outcome of this project. This also relates to the announced Project on transformation of the Skopje Military Hospital lacking any clear time frame, precise analysis of the costs and of required investments in certain segments, especially costs relating to the projected medical staffing. Similar untreatment has been given to the formal announcement of opening a coma department as part of the present Gerontology Institute in Skopje. Although that project was publicly announced by formal opening of the premises to be equipped with the new designated medical machines, it has been almost stopped. There is no trace whatsoever of the similarly widely publicized Project on PPP (Public Private Partnership) in medicine, and especially of the Project on dialysis.

Possibly reason to postpone certain projects is seen in the current economic crisis which has had a direct impact on the public health care system in the country as well. Reduction of the social security rate, coupled with lower transfer of money from the national budget for the Fund for Health Care Insurance of the Republic of Macedonia have thus caused lower revenues of this Fund. Thus, the total revenues of the Fund in 2008 amounted to 20.5 billion MKD, while the 2009 revenues were decreased to 19.7 billion MKD due to national budgetary cuts. The second 2009 national budget revision provided further cuts to the overall revenues of the Fund. According to statements by Government officials, there will be further national budget cuts in 2010 for the revenues of the Fund by 5%. Smaller revenues of the Funds are not followed by reduction in the type and volume of services that are bought from the public medical institutions; there is also no reduction in the medical staff or medical institutions so financed. This actually means that the public medical institutions are compelled to produce more services with less resources, which certainly can have grave consequences on the quality of rendered services or to make the patients spend more private money for disposable medical material that cannot be presently provided for by the state health care system.

8.4. Overall evaluation by the expert on implemented activities for the reporting period, with possible recommendations

The Government of the Republic of Macedonia, and especially the Ministry of Health, although faced with great challenges and restriction in financing the state health care system, have adhered to the implementation of the set reform tasks and projects in the health care system that have been defined in the mid-term program activities. Because of the complexity of the reform process and lack of precise information, there is no possibility to make overall evaluation of the results in the foreseen reforms in the present stage of their implementation.

The introduction of the new manner of financing the hospital services by means of the aforementioned DRG system is signed out as the best-implemented activity in this period during the analyzed period. Indeed this is one of the biggest reform steps forward that have been to date undertaken in the Macedonia state health care system. Although this reform has not been fully completed, one should underline the fact that most activities in this context have been finalized in very short time period (2007-2009), as opposed to many other countries where such system was introduced within 7 to 10 years on the average.

The Government will face greater challenge in context of the actual connection of the financing of the hospitals with the DRG system, when great discrepancies will appear between the planned budgets and actual paid expenditures by the state medical institutions. Initial analyses show that there will be many hospitals whose budgets will have to be cut for the sake of other hospitals which will require increased budgets in accordance with the work done during the year. The final impact of such reform will be later shown by means of integration of the DRG system computer applications with the informatics systems of the hospitals and the Fund for Health Care Insurance of the Republic of Macedonia.

Together with the implementation of the planned program activities, the Ministry of Health has started in 2009 a completely new reform-based approach in its work by establishment of the Committee for health care promotion. Although this process has been applied with evident transparency and inclusion of many stakeholders that operate

within and around the medicare system, nevertheless there is impression that the Committee plans new activities incompatible with the ongoing Government medicare Program. Therefore, it would be necessary in the upcoming period to make direct connection between the Government Program and new activities undertaken by the said Committee.

It is to be recommended that the Government should be very careful in the forthcoming period in the presentation of the policies it intends to pursue, while their public presentation should be conducted at the moment when related projects are about to be completed.

Ultimately one would recommend, for the sake of high level implementation of already started and future planned reforms and projects, that the Government and particularly the Ministry of Health act towards reduction, and in some points, towards complete elimination of the said threats and risks that pop up on that road.

9. AGRICULTURE

The three Government agriculture priorities in the 2008-2012 period are as follows:

- Building efficient agriculture sector that would be competitive and would contribute to the further economic growth of the country;
- Higher revenues and better living standards of farmers;
- Higher competitiveness of the Macedonian farming for its ultimate EU integration.

By the end of 2010, Macedonia will be part of the integrated regional market which would be made up of the 27 EU members, ex-Yu countries, Turkey, Ukraine, and Moldova. The total population would amount to 600 million. Enhancing Macedonian capacities to appear in such regional market will be the main point of the growth of its farming sector in the period to come. This also is another yet ground to conduct further reforms in the state institutions in charge of agriculture, by passage of proper measures to help farmers and food processors in the private sector and in the agribusiness, for the sake of raising the level of competitiveness of Macedonian farm products in foreign markets. Given the fact that state resources at disposal to support such agribusiness initiatives will continue to be restricted, accession to existing and new donations and funds especially from the pre-accession EU assistance will be of major importance.

9.1. Planned and implemented activities of the Government of the Republic of Macedonia in the reporting period

By defining agriculture as very important economic and business sector the growth of which greatly also contributes to the growth of the overall national economy, in the reporting period the Government of the Republic of Macedonia decided upon and conducted many measures and activities aimed at agribusiness promotion. Some of the more important include.

a) Financial support in form of subsidies for the agribusiness

The Government has assumed the obligation in the 2008-2012 period to provide subsidies to the agribusiness in the amount of 460 million euro. As part of such program, in 2008 45 million euro were provided; 70 million euro were secured in 2009. This is a huge step forward in the provision of financial support to the farmers and agribusiness companies. Hence, there also comes out the challenge for all these stakeholders to find ways and mechanisms for the distribution of these funds and resources.

Government subsidies relate to most of the farm products, as highest price per product unit. In this context, involvement is made of crops that are essential for the national export and represent strategic food products, such as wheat and other cereals and forage crops, milk, grape, cattle, garden crops, greenhouse production, beekeeping, fishing, etc. The reporting period did not note signs of gradual transfer of the subsidies into a scheme for income support that is independent of the production itself, as in the EU and pursuant to the obligations coming from the WTO membership. The Ministry of Agriculture, Forestry and Water Management (Ministry of Agriculture) still does not have any information (perhaps even this is not publicly accessible) on establishment of functional integrated system of administering, monitoring, and control of the agribusiness support policy, in compliance with the EU requirements.

b) Credit lines through the Agriculture credit discount fund

The Agriculture credit discount fund should be able to offer better access to short- and long-term credits for farmers, as well as to SMEs whose main activity is processing and export of farm products. The interest rates for the end users if such credits that are transferred via commercial banks are subsidized by the Government, so that the overall value of the rate is as lower as possible for the end users. The interest rate for the primary farming production is 4% per year and 5% for the processing and export of the primary farm products. If credits are given via savings banks, then these interest rates for the end users would be 6%, i.e., 6.5% per year correspondingly. The Fund is autonomous department within the Ministry of Finance. Its credit portfolio was as follows as of 15 May 2009:

No. of approved credits	4,149
Total value of such credits (euro)	35,200,000
Fund refinancing (euro)	2,600,000

Most credits for **the primary agricultural production** were used for investment in new foil tunnels for truck farming, planting new vineyards, and purchase of milk cows and calves for breeding.

Most credits intended for **farm products processing** were used for the purchase of modern equipment and technology improvement, investment in quality premises and building for storage of finished products, buyout of raw materials, and for package and labeling materials, etc.

c) Farmland policy

The process of distribution of farmland and concluding corresponding lease agreements continued in 2008 and 2009 as well. The Ministry of Agriculture is the responsible institution to create and implement such farmland policy. Establishment is in progress of systematized register of farmland, i.e., formation of Integrated administrative control system, formation of System for identification of farmland plots in few chosen plot municipalities after aerial photography and interpretation of the orthophoto materials. This project has been supported through the Project 'ASAP' – Agriculture Strengthening and Accession Project (conducted by joint cooperation between the WB and the Macedonian Government), which aims to enhance farming and country accession to the EU IPA funds – Component I (Strengthening the administrative and management capacity of the Ministry of Agriculture in accordance with the requirements for accession of the Republic of Macedonia to the EU), then for the purpose of organizing tenders for aerial photography and data processing, and for purchase of the required equipment and software and their installation and testing. To this end, it has been planned by the end of 2009 to pass several bylaws stemming from the Law on agriculture and rural development that will govern the corresponding area, as well as to pass a bylaw on establishment and data exchange as part of the Agriculture market information system.

d) Upgrading the farmland structure and quality of Macedonian farmsteads

Pursuant to the Government 2008-2012 Program, it is necessary to carry out concentration (by becoming larger) of the farmland plot and have modernization of the domestic agribusiness.

The 2009 main activities in this context include: better state farmland management, expansion of the farmland market with better transparency and efficiency, concentration of the otherwise fragmented farmland, and its better protection pursuant to the Law on farmland. Though one could note some activities, still there is no evident progress in this context.

Similarly, little has been one to strengthen the capacity of the state administration to implement the system of state farmland distribution and establish information system for this.

In 2008, 12 public advertisements were published to distribute 44,000 hectares of state farmland; 10,000 hectares were distributed and 1,200 state farmland lease agreements were concluded. Additionally Agenda on regions was drafted, regions intended to be announced in 2009 as areas of state farmland for lease. Preparations were also made for the start of the Project on redistribution of farmland supported by the Dutch Government. At the same time, implementation has been made of activities from the second phase of the Project on establishment of a National system for monitoring and management of vineyards (to have been finished by May 2009) in the Republic of Macedonia. This system will be integrated into the Registry of farmland in the entire country, and at the same time will be a basis for further development of this sector. As of August 2008, registration was made of 14,000 hectares of vineyards mostly located in the Tikves region.

The system of registration of farmland plots was supposed to expand from the pilot municipalities in the entire territory of the county. The single Registry of farmsteads should be updated regularly, and, at the same time, integration is made of the other

registries in the Ministry of Agriculture: the System of animal identification and registration, the Registry of vineyards, and the System of farmland plots identification and registration. The analyzed period also foresaw the finalization and putting in operation of the agriculture information system. Preparations for a fully functional agriculture system, which in support has also automated system for IT, have reached their progressive phase. One could also see progress in the policy of raising the quality of farm products. National registration of appellations of origin and geographic indication has started to be implemented. The Law on quality of agricultural products has not been passed, nevertheless drafting of this new law has entered an advanced phase.

e) Raising the income of farmers

A sum of 63.9 million euro was distributed from the national budget as direct support to farmers in 2009. This involves a basic scheme for unemployment benefit whose level was raised for certain circumstances, payments of premiums for chosen strategic farm crops and farm cattle, and other payment schemes such as for insurance, and for horizontal support for specific groups of farmers or regions. In order to qualify for any of these schemes, farmers must be entered in integrated registries of farmstead. In this segment, direct support measures (subsidies) have been implemented pursuant project pace, however results from measures for higher competitiveness are still missing (higher yield, lower costs, and better quality and marketing); likewise measures to change present production methods with intensive and more profitable crops have not showed desired results.

Almost nothing has been done in context of prevention and maintenance of traditional production as brand of the rural environment, with due respect for the value and importance of those systems for the living standard of the local population. Supporting non-traditional products with export potential, which generate higher income with limited resources including organic production for which the country has excellent potentials, is rather a debatable campaign and action, especially if one takes in consideration the problems that certain farmers and cattle breeders have had, as that in the case of owners of ostrich farms. Nevertheless, there is evident progress in organic production, while results are also present.

Measures to promote non-farming activities (tourism, handicrafts, arts, presentation of culture and natural values), via direct support to starting business, giving advisory services, making institutional and law changes (especially relating to the control and certification system for organic origin), i.e., rural development measures, have failed to produce major results. Although a complete program on rural development exists, highest interest have been shown in purchasing farm machines (tractors), which have very little in common with the aforementioned aims.

f) Raising the level of sale and marketing of farm products

In addition to previously started construction of regional centers for buyout and distribution of farm crops in Strumica and Rosoman, 2008 and 2009 should have seen the construction also of two new centers in the Gevgelija/Bogdanci and Resen regions, in cooperation with eminent foreign farm product distributor from Israel. No information is available that this has been done. It is well known that the Croatian company 'Agrokor'

has not invested any money so far in the construction of the planned centers on grounds of the global recession.

The established joint venture company ‘Agriland’ for buyout and export of farm product, in cooperation with the Israeli company ‘Soli’ should have started its operation in 2008; but even by the end of the reporting period this has not been done. Likewise, no realization has been made of the announcement to start the work of a state shareholding company managed by two experienced foreign nationals (from France and the Netherlands). No transformation has been made of the PE (Public Enterprise) Agricultural Exchange into Commodity Exchange planned to take pace in 2008, although there exists a basis for development of sustainable and efficient information system in the field of agriculture. The pilot system on price information has been operative, although its adjustment to the appropriate EU standards has yet to be done.

The legislation provides for the basic institutional preconditions for functional Farm Accountancy Data Network (FADN), although this FADN has not been fully adjusted to the EU requirements. No law has been adopted on state assistance yet. The current measures in that context differ somewhat from the EU regulations in certain areas.

Almost nothing has been done to strengthen the market connections and cooperation between farmers and companies processing farm products.

g) Capacity building of organizations of farmers

These organizations should be able to provide a wide variety of services to their members in order to improve the farmers’ production technologies, management, purchase of raw materials, packaging, sorting, calibration, transport crediting, providing or using information, doing marketing, etc. Certain inconsistencies also appear in laws and bylaws, especially with regard to the opportunities to have the so-called Common Market Organization (CMO). It is necessary to change the corresponding laws so that this concept could be successfully explained and carried out practically. There is still no organization of agricultural producers in the context of the EU concept of CMO.

h) Optimal use and management of natural resources in ecologically sustainable manner

Planting of at least 5-7 million new trees every year has been conducted properly. This campaign, that has been conducted in 2008 and 2009, can be considered successful and be recognized as stimulating for both the public, private and NGO sectors.

Actions by the competent institutions to clean the local irrigation canals and drainage ditches have continued; this helped solve the problem of flooding the farmlands and local inhabited places and create conditions to use new irrigated farmlands.

There has been evident progress in the reconstruction and maintenance of the existing irrigation network and in restoration of the once deserted local canals, by proper use of the funds for capital investment and from foreign donations, as well as by increasing irrigated areas in the country. Little has been done in the segment relating to the promotion of production systems that integrate the aspects of soil protection as a rather slowly renewable resource and of water itself.

i) Capacity building of public institutions and increasing quality of services in the agriculture sector

1) Ministry of Agriculture, Forestry, and Water Management

The reform of the Ministry represents initial activity within the institutional reforms in the agriculture sector. Only functionally structured and highly professional institution can be leader in changes and in other segments in the sector, especially in circumstances of accelerated integration of the country in the international trade and political structures.

A law was adopted that defines the operative procedures of the State Agricultural Inspectorate. This includes also responsibilities for coordination of the pre-accession assistance intended for agriculture and rural development.

Further staffing was conducted of the various Ministry departments and agencies. However, the Ministry human resources still are not sufficient in order to address present and future responsibilities.

Another concern is the very Ministry capacity to maintain and expand the register of vineyards and other management instruments.

2) Education and research in agriculture and rural development

Much has not been done in this context, in addition to opening a Faculty of Agriculture as part of the University 'Goce Delcev' in Stip, as well as opening several dispersed studies by this and other universities in few towns. Conditions for better access by farmers to modern technology of production, by enhanced cooperation with the RD sector and corresponding advisory agencies, have not been improved. Funding the RD activities, by enabling greater commercialization of services beyond those defined as public good, was only announced, without making concrete measures to implement this. The focus on informal education and lifelong learning in the sector of agriculture and rural development is still in its inception phase.

3) Advisory services: Agency for the Promotion of Agricultural Development

Advisory agencies should provide efficient flow of information to farmers and transfer of know-how from RD centers to farmers themselves.

The above Agency expanded the provision of advisory services by opening local dispersed offices and 'mobile and urgent' support system intended for faraway regions. The Agency task is to provide additional mobile services for people living in rural regions in form of scheduled calls and visits. These visits often take place in improved offices in village primary schools or in rural community centers. It is real challenge to enhance the capacity of the Agency HR, i.e., the advisers working there, and have better internal institutional organization.

4) Veterinary and phytosanitary services

As outcome of the recent amendments to the Rules on job descriptions in 2008, structural changes were made in the organogram of the Veterinary Administration. This should enable better functionality in the organization, efficiency, and effectiveness when implementing the policy in the domain of his Administration. Namely, two new units were introduced in the Sector for Animal Health Care, in addition to the three present ones (Unit for Animal Health Care, Animal Welfare Mobile Unit, Unit for Identification

and Registration of Animals). These two new units are: Unit for IT and Communications Support, and Unit for Veterinary Inspection.

j) Integrated policy of rural development

Most measures in the National support to rural development imply preparatory measures of support that is similar to the EU Common Agricultural Policy; these measures precede ones from IPARD (for instance, support to organization and activities for joint production by farmsteads helps define the basic form of groups of producers).

The 2009 Program on financial support for rural development implies distribution of budgetary funds of 7 million euro for implementing measures prescribed in the Government Decree that defines measures for rural development and conditions for financing which potential beneficiaries would have to meet in order to be eligible for such support.

In addition to defining national strategy and plan on rural development, Government priority is also to have accreditation of the Payment Agency, i.e., the Agency for financial support to agriculture and rural development (it will also administer the direct assistance measures – direct payments). Accreditation of the said Agency and its functionality should have been attained by early 2009. In March 2009, the Agency was nationally accredited, but in order to be able to direct and manage the EU funds designated for rural development from the IPARD components, it should also receive European accreditation. By the end of the reporting period, such accreditation has not been obtained.

9.2. Evaluation of potential risks from (non)implementation or from (non)quality implementation of activities

In order to have conditions for functionally market-orientated agriculture, there should be consistent implementation of the policies on development of agriculture and on rural development. Regulations should be passed but also to be applied in practice. Implementation of laws and regulations is the key in rapprochement of the Republic of Macedonia to the EU in the field of agriculture as well. Periodical digression from such principles can imply serious obstacle in the realization of the planned and expected activities in agriculture.

Establishing registration systems such as the Agricultural market information system, establishing integrated administrative and control system (IACS) which also includes system for identification of farmland plots, then already mentioned FADN system, make up the key tools for the Macedonian agriculture, if one wants to analyze its strength and level of competitiveness and adopt right policies and decisions at the right time.

Failing to invest in HR, knowledge and DR, in the end, could represent a setback for the Macedonian agriculture, in spite of the ample financial support to this sector of the Macedonian national economy.

9.3. Overall evaluation by the expert on implemented activities for the reporting period, with possible recommendations

Generally, it can be concluded that the September 2008 – September 2009 period was marked by agriculture events and activities that show progress in this field. In addition to granting subsidies, good progress was made also in the field of rural development.

Nevertheless, the very aim of such subsidies should not be the very price support as such per kilogram of per liter, since this manner directly encourages farmers to continue in the future as well to make farm products with rather uncompetitive prices.

The 2007-2013 Rural development program was harmonized with the IPARD Program, which in turn would enable having greater opportunities to use the available financial resources from that program. The management and control system of the IPARD funds has already been put in place, while the said Payment Agency, as well as the authority for managing these funds, has received national accreditation. Adoption of systematization of procedures for proper implementation of that program has well progressed, while administrative capacities have been enhanced. Bylaws have been passed for introduction of systems of management and control of the IPARD funds. The rural development policy has been gradually adjusted to the EU requirements.

Recommendations for further development of agriculture can be aimed at:

- Promotion and development of the market for buyout of farm products by formation of regional buyout and distribution centers (i.e., regional commodities exchange for farm products) and by supporting organizing joint market for farm products and encouraging export of these farm products,
- Transfer of latest know-how through foreign investment in agriculture, strengthening education and training (formal and informal) in this sector, and further capacity building of providers of advisory services by publish and professional institutions which will assist in better flow of information to famers as end-users. By such activities, there should be higher capacity to receive and use the IPA funds of the EU.
- Investing in information system development for better and timely analysis of market information and data, production costs, type and quantity of arable and farm land, potentials and capacities of farming, cattle breeding and alternative crops (including organic production as well).

10. TRANSPORT AND CONSTRUCTION

10.1. Planned and implemented activities of the Government of the Republic of Macedonia in the reporting period

10.1.1. Construction

Government activities in the field of construction covered several areas in the reporting period.

a) Roads

Major program activities and measures by the Government in the area of road construction and maintenance in the reporting period have included:

- Implementation of the second stage of the Project ‘Reconstruction and strengthening of bridges on the highway M-1 (E-75)’⁸ of the section Demir Kapija – Gevgelija, which has been financed by a NATO donation. The project was implemented in the planned deadline, i.e., by the end of 2008. The value of this reconstruction was estimated around 12-13 million euro. This confirmed the consistent NATO position towards the Republic of Macedonia, because the Republic of Macedonia is one of the very few countries which is not a NATO member state and still receives donations from this organization. The completion of this project has multi-complex significance for the country (economic, political, and construction).
- A new Law on public roads was adopted, as well as some of the bylaws stemming from this law.
- A consulting company had made a feasibility study on transformation of the road infrastructure in the Republic of Macedonia.
- Pursuant to the new Law on public roads, the Fund for national and regional roads became the newly established Agency for state roads.
- Adoption was made of the Annual program on construction, reconstruction, maintenance, and protection of national and regional roads in the country, which is worth 6.25 billion MKD (= 102.5 million euro). Most of this money would be spent for the construction of capital projects involving road infrastructure. Smaller portion would go for road improvement and road signalization, land expropriation, feasibility studies and design; finally, the last part will go for maintenance of national and regional roads.
- Adoption was made of a separate Annual program on maintenance and protection of national and regional roads in the Republic of Macedonia for 2009 worth 970 million MKD (< 16 million euro).
- Adoption was made of the Law on transformation of the PE for maintenance and protection of national and regional roads ‘Macedonia Road’, as well as the action plan on its transformation.
- Amendments were made to the Law on public roads.
- Adoption was made of the Law on concessions and other PPP forms. This law allows that some public roads in the country be placed under concession. The consulting company ‘Louis Berger’ made evaluation of the possible interest and profitability in context of placing under concession certain sections of the public roads in the country.
- The National strategy of the Republic of Macedonia on the promotion of the road traffic safety was prepared by the Republic council on road traffic safety⁹ which the Assembly of the Republic of Macedonia adopted in November 2008.

⁸ International code.

⁹ RCRTS - the Republic council on road traffic safety.

- Upon finishing the required preparatory procedure, construction was started of the highway M-1 (E-75), as part of the international road Corridor 10, involving section Kumanovo-border with Serbia.
- Reconstruction of 11 road sections was started, being 300 km long and with estimate of 35 million euro. This is done with a WB loan.
- The Skopje bypass was opened, with 27 km length. It is expected that this detour will be used by heavy trucks and other transit vehicles just passing through Skopje; this in turn will reduce the traffic jam in downtown Skopje.

b) Railway

The following more relevant construction activities were made in the field of railway.

- Implementation was started of the project on reform of the PE ‘Macedonian Railways’, based on 4 studies:
 - 1) Study on provisional public services (finished activities),
 - 2) Study on access to railway infrastructure (finished activities),
 - 3) Study on rationalization (finished activities),
 - 4) Study on privatization (postponed activities).

This project is implemented with a WM loan, and according to the set plan, this should be finished by the end of 2009. Pursuant to the Law on transformation of PE ‘Macedonian Railways’, this PE was split in two new PEs: PE ‘Macedonian Railways-Infrastructure’-Skopje, and PE ‘Macedonian Railways-Transport’ AD-Skopje. The first 3 studies refer to the two newly created PEs coming out of the former common PE, while the fourth study refers only to PE ‘Macedonian Railways-Transport’ AD-Skopje.

Together with the WB, a project has been started to reorganize and modernize PE ‘Macedonian Railways-Transport’ AD-Skopje. Five subprojects will be implemented as part of this.

- Thyristor operation and modernization was performed on two six-axes locomotives (finished project),
- Modernization of four electro diesel switching locomotives (project in progress, to be finished by April 2010),
- Purchase of 36 new flat rail cars (project in progress, to be finished by August 2010),
- Social package for (re)training of workers who were dismissed as redundant (project in progress),
- Introduction of electronic paying of tickets for railway passengers (project in progress, to be finished by December 2009).

Implementation has been made of several projects related to the operation of PE ‘Macedonian Railways-Infrastructure’-Skopje.

- Modernization of Corridor 10 (overhaul was made of the lower part of the railroad tracks from station Kadina Reka to station Rajko Zinzifov near Veles; overhaul was made of the upper part of the railways tracks in 3 sections of the railroad line Negotino-Dubrovo; project was finished relating to the remote control of rail traffic from Tabanovce to Gevgelija, thus traffic will be controlled from one place, i.e., station Trubarevo; project was finished on telecommunications network involving optical cable from Tabanovce to

- Gevgelija, providing stations with equipment for railroad signalization, safety and telecommunications; etc.),
- Preparation of several preliminary projects, feasibility studies, cost-benefit analysis, and environment impact analysis pursuant of the operative program on regional development for the 2007-2009 period (measure 2.1. aimed at improving railroad infrastructure along the main SEE regional network),
 - Preparation is in progress of a preliminary project and master plan for the railroad route of Corridor 8 from Kriva Palanka to Devebar (deadline: first quarter in 2010),
 - Preparation of a study and preliminary project for section of Corridor 8 from Kicevo to the borderline with Albania (deadline: second quarter in 2010),
 - Integrated telecommunications networks for Skopje-Tetovo and Gjorce Petrov-Blace sections were completed.

c) Physical and town planning

In order to improve business conditions in the construction industry and to protect this sector from unfavorable impact of the global economic crisis, the Government adopted the following more important measures and activities.

- The VAT rate for sale of houses and apartments was reduced from 18% to 5%. In circumstances of economic crisis, it is expected that this decision would stimulate construction of apartments and contribute to fall in prices of apartments for about 13%, which in turn would help many people solve their housing problems,
- The northern stands of the Sports Arena ‘Philip II of Macedonia’ in Skopje were built and opened for sport fans in Skopje; cornerstones were laid down for construction also of the eastern and western stadium stands, thus ultimately the stadium could accommodate 40,000 spectators,
- The Law on transformation of the PE for management of housing and office space¹⁰,
- Continuation was made of the project to build state-owned apartment buildings; two such buildings with apartments for welfare cases were constructed. Apartment distribution will be conducted electronically, with electronic application, while a competent commission will enter the applications data in the corresponding software. Then announcement will be made of a public preliminary distribution of these apartments electronically. Then further control of the documentation and field check will be made with regard to the applicants, in order to make the final decision. The methodology of their distribution defines priority for those who are children without parents and parental care, and for persons who are victims of natural disasters if such applicants meet the criteria and send the required papers. The rest of the apartments will be distributed to other groups of possible tenants. The apartments have an area from 35 to 45 sq m. Future tenants will pay a rent of 20 MKD per sq m.
- It is planned to spend in 2009 about 370 million MKD for construction of water supply systems and systems of drainage ditches in 39 municipalities.

¹⁰ PEMHOS – PE for management of housing and office space.

Funds have been distributed for implementation of 51 projects, of which 30 are for construction of local water supply systems and 21 projects are for construction of systems of drainage ditches and canals.

- Implementation of reforms in the AREC¹¹ has continued. One of major problems in the past that had high impact on the operating efficiency of the local Departments for real estate cadastre was the high number of backlog. Since the start of reforms in 2005 when such backlog included 21,990 open files or cases, by the third quarter in 2009 that number was reduced to 2,645 files, with tendency that this will become a minimum number in the near future.
- The second important indicator of the efficiency of the Agency is the percentage of cadastre districts in which real estate cadastre has been established. By September 2009, cadastre relating to 91.31% of the real estate has been established.
- A new Law on construction has been proposed to the Macedonian Parliament for reading and approval.

10.1.2. Transport

The reporting period marked the implementation of the following more important activities in the transport field.

- A Turkish company has been selected to be given a 20-year concession of the AP 'Alexander the Great' in Skopje and AP 'St. Apostle Paul' in Ohrid. The company will be obliged also to build a cargo AP in Stip. The company will manage these APs for 20 years after which managements of the APs will go back to the Republic of Macedonia. The overall investment (expansion, modernization, and construction of the APs) that the foreign company would have to invest is estimated at about 200 million euro; the deadline (after initial delays) to commence these activities is 1 March 2010.
- The electronic system for distribution of the CEMP permits continued in the reporting period as well. This is a system that eliminates opportunities for influence by human factor in selection of companies applying for such permits, as well as chances for corruption.
- The Ministry of Transport and Communications has issued thus far 534 licenses for transport of passengers and goods in road traffic, of which 428 are for transport of goods and 52 are for transport of passengers. Additional 444 applications are being considered. The Ministry constantly delivers training for certification of drivers carrying passengers or goods, in accordance with the Law on transport in road traffic. 4,797 certificates have been issued to drivers for international transport and 1,973 certificates for professional competence of transport company directors. Issuing licenses for international road transport and certificate of competence for drivers and company directors has introduced standards that are compatible with those in the EU.

¹¹ AREC - Agency for real estate cadastre

10.1.3. Telecommunications

The following activities in the field of telecommunications were noted in the reporting period.

- The AEC¹² announced a public call for offers for the service of transmission of DVB-T¹³. In April 2009, the best offerer was selected (Telecom Slovenia). This company was given approval to have commencement of the operation by September 2009 and by 15 November 2009 to meet all foreseen conditions cited in the tender documentation.
- Improvement was made of the service called 'Portability of numbers, thus increasing the service efficiency. In first half of 2009, portability of more than 19,000 numbers was made.
- AEC started to work on the LRIC¹⁴ model (for fixed telephony and mobile telephony operators) to be completed by March 2010. This will define prices of interconnection among operators.

10.2. What remains to be implemented (not yet implemented or not yet finished) in the analyzed period

More important and not yet implemented or not yet finished activities in the analyzed fields during the reporting period were as follows.

- Certain bylaws from the Law on public roads (Rulebooks) that are important for smooth execution of activities have not been adopted (the deadline was within 6 months after the passage of the law).
- Deadlines from the action plan on transformation of the PE 'Macedonia Road'-Skopje have not been respected. Pursuant to that plan, all activities should have been finished by 1 September 2009 and to make entry of establishment of two new shareholding companies in the Central Registry of Macedonia.
- There has been delayed start of the project to introduce integrated electronic system for collection of road toll, i.e., modernization and improvement of collecting the road toll and of the collection service (this project has been implemented in cooperation with the WB; it should help modernize the system and improve the operation efficiently; according to the program of the competent Ministry, this project was supposed to be executed in 2007), which among other things will contribute to reduction of corruption.
- 555 km of roads still wait to be put under concession.
- No reconstruction has been made of the so-called points of accident in the national road network pursuant to the foreseen pace and the National strategy of the Republic of Macedonia on promotion of road transport safety.
- There has been a second delay in the start of concession management of the AP in Macedonia.
- Introduction of fourth mobile telephone operator has not been made (although there was announcement that a tender will be published to choose the fourth national mobile operator, this has yet to be done).

¹² AEC- Agency for Electronic Communications..

¹³ DVB-T – Digital Video Broadcasting-Terrestrial.

¹⁴ LRIC – Linux Infrared Remote Control.

10.3. Evaluation of potential risks from (non)implementation or from (non)quality implementation of activities

Major factors contributing to possible risks (individually or by synergic action of several of them) in the process of implementation of government-driven reforms in the field of transport and communications in the period to come can be some of the following:

- Delay of certain reforms and postponement of the implementation deadlines of scheduled activities, which could lead to certain slower pace or even postponement of planned reforms implementation.
- Inconsistency in efforts to make reforms and realization of some projects.
- Ambitious plans and short deadlines for realization of planned activities, which could lead to partial or non-quality implementation of planned activities.
- Lack of consultation or lack of insufficient public debate with Macedonian expert circles on certain issues and projects in mentioned areas.
- Resistance towards reforms in institutions where reforms are planned with possible reduction of employees.
- Manifested political disagreements, with potential political obstruction of reforms.

10.4. Overall evaluation by the expert on implemented activities for the reporting period, with possible recommendations

In the reporting period (September 2008 – September 2009), the field of transport and communications has noted continuing implementation of already commenced projects, and one can expect in the nearest future to see implementation of new projects. In this context, the Government has retained a consistent position regarding implementation of the projected program and undertaking reform activities in said areas.

It is apparent that the implementation of assumed reforms and activities in all institutions is not conducted with same pace. Reasons for this can include different starting positions, lack of qualified staff, or, even, lack of ability to follow the high intensity of activities by the Government.

Need is imposed to undertake large-scale capital investments in the public sector (construction sector – road and railroad infrastructure). Such infrastructure plays great role in provision of better and accelerated development of the Republic of Macedonia, since every potential domestic or foreign investor wants to have good roads and railway system, i.e., proper and good communication in order to be able to smoothly conduct his planned activities.

The successful level of economic development of a country depends on the level of development and modernization of existing transportation systems in that country. Hence, the Republic of Macedonia must make greatest efforts to validate its central position in the Balkans, mostly by finishing the construction of its national road network.

After finishing the third stage of the project ‘Reconstruction and strengthening of bridges’, in the forthcoming period the Republic of Macedonia should make efforts to continue this project by realization of its third stage (upgrading the hard surface of the road in sections of highway M-1).

In the area of roads, a new law was adopted; in addition to good points, it also has weak points, so it had to be amended. Namely, opportunity was not used at the very moment of adoption of the law to incorporate modern expert and professional solutions and provisions for certain problems. Similarly, certain constructive suggestions made by the engineering community were not taken in due consideration, which would have helped raise the performances of this law to a higher level. Major weak point is seen in the manner of financing; this has been noted in the entire period of transition, and hence there are not sufficient funds for managing, building, protection, and maintenance of roads; thus, many roads are still in poor condition.

Perhaps one can consider a positive fact that the Government appears as investor in road infrastructure (since it is clear that great public investment can stimulate the country economic development); however, what concerns is spending rather modest sum of money (less than 16 million euro) for maintenance of national and regional roads. Given the fact that roads become increasingly older and worn-out and there is increase in their length in km, such allocated funds and resource cannot meet even the minimum requirements for this purpose. If one sees back the past allocated overall sums for this purpose, then one could arrive at rather contradictory conclusion that required sums and allocated sums are in counter-proportional relationship. It is not a strong argument to say that the budget for maintenance of roads is the same as the ones in previous years on grounds of the forthcoming transformation of the road sector. In other words, there is need to impose a radical shift in the manner of management and maintenance of roads in the country when compared to the existing one.

On basis of the principle that transport is conducted in interaction of 3 factors: **driver – vehicle – road**, the National strategy of the Republic of Macedonia on promotion of road traffic safety pays due attention to the factor called road (which has an impact of 33% in traffic safety). This document proposes several measures to mitigate or eliminate weak points or deficiencies in the road network. However, one cannot but have the impression that the application of this document has been missing in recent periods.

Although on few occasions announcement was made of the intention to build roads on basis of their concessions (555 km of roads), publication of the related tender was prolonged. A study prepared by a consulting company for this purpose is not available to the public, so that expert circles are not able to express their views on this matter. In addition to the good points (elimination of state monopolies as primary aim and hence release of budgetary funds as secondary aim), such concessions can have their own numerous inconsistencies, as already shown in many such cases in the world and in the countries neighboring the Republic of Macedonia. In making such decisions that relate to longer periods and can cause great obligations for the country, one must act with greatest consideration and highest professionalism.

The publication of tender for granting concession to collect the road toll (without any obligation to build or maintain the roads) at toll stations along the Corridor 10, lacked any clearly defined obligations. Likewise, it is not clear why the WB project on modernization of the system of collecting the road toll was abandoned. Nevertheless, one should wait and see the tender results and interest of companies concerning the tender.

One of the greatest traffic problems in the country is the very traffic in the capital city of Skopje. Hence, the intention of competent authorities to solve this (preparation of Study on the traffic system in the city of Skopje) is the right thing to do; still this preparation should be intensified.

Taking in consideration the fact that in the last 18 years the level of current and investment maintenance of the railroad system in the country did not follow the level of use and of its depreciation, i.e., there was consistent lack of any major investment for this purpose, conclusion is noted that in the forthcoming period it would be necessary to intensify investment in this area. Present indicators (the fact that the present Corridor 10 railway line is single track line, which in case of major intervention would mean stoppage of traffic and speed reduction during summer to mere 50 km per hour) point out to the conclusion that there is urgent need to make more intensive interventions in greater part of the track by making greater investment. These indicators should be reflected in plans and programs of competent institutions for the forthcoming periods.

Air transport conditions are marked by problems concerning the national air carrier (safety problems, debts), decline in number of passengers (because of the global financial crisis, the new type of flue, and even because of the constant growth and expansion of the airport in Pristina), high prices of air tickets (ticket for Pristina-Zurich flight is between 110-140 Swiss francs, while ticket for Skopje-Zurich flight is between 400-900 Swiss francs, depending on the season), as well as lack of any direct air connection with airports in London, Paris, Rome, and New York. According to announcements by the Ministry of Transport and Communications, there will be no further postponement of the agreement concluded with the said Turkish company (otherwise, the bank guarantee will be activated), which in turn should contribute to improvement of conditions in the field of air transportation.

In the summer, several controls were conducted of beaches in the Ohrid Riviera and on several occasions, some beaches were closed for the general public due to lack of safety and security precautions and even lack of any lifeguards. The 2009 summer peak season unfortunately was marked, or rather blurred by several water related accidents. The sinking of the lake ship 'Ilinden' was the worst tragedy ever to happen, when 16 foreign (Bulgarian) tourists lost their lives by drowning in Lake Ohrid. This very accident revealed many weaknesses and mistakes in the water transport sector. Given the aforementioned, competent authorities should certainly undertake serious measures to prevent such and similar accidents.

Recommendations for Further Actions of the Government of the Republic of Macedonia in the Realization of its Program Activities

Republic of Macedonia is going through one of the more difficult phases in its recent socio-economic development. On one hand, it is facing its exposure in the World economic crisis, which threatens with the biggest negative dimensions ever caused by any economic crisis. It has inevitably manifested in recession in the Macedonian economy, with a sequence of successive negative effects almost in every sphere of the social living in the country.

At the same time, Republic of Macedonia has been continuously facing the enforced political problem of the request by the Republic of Greece for change of the constitutional name of the Republic of Macedonia and other changes which are immediately related to that issue. That problem has international dimensions, which in a most severe way are manifested in hampering the Republic of Macedonia to start the negotiations for European Union membership and to become a member of the NATO alliance. All that put together has far-reaching negative repercussions for the economical and the entire socio-political status of the Republic of Macedonia. In the meantime, that

creates uncertainty for the directions and dynamics for further actions of the Government of the Republic of Macedonia in different domains of its Program for work in the current mandate period. However, apart from the development of the events which, obviously, have intense international dimension, the Government of the Republic of Macedonia is recommended, in the same pace, to continue its program, and above all, its reform activities in different fields of its competence.

Probably, the highest challenge for the Government of the Republic of Macedonia in the upcoming period will be taking measures and activities for gradual drawing out of the economy from the recession phase and its complete leading in the prosperity path of development. For fulfilling that aim, a rational engagement of the available budgetary means is necessary. Initially, this means their direction towards activities that have a development character and cutting down of the current operational activities which represent irrational public expenditure. However, the best results in the field of its action in the economy will be obtained if the necessary synchronization of the **fiscal** and **monetary** policy is established in the process of taking measures and activities in their specific competences. With that kind of approach of the both leading instruments for enforcing the macroeconomic policy of the country, the authorities, to a large extent, will contribute to the solution of the numerous problems that are currently present in the foreign-trade sector. It is recommended that appropriate actions by the authorities in that field be most importantly directed towards restructuring of the economy in direction of its export orientation (its internationalization) and enhancing the competition of the domestic products at the foreign markets.

In the meantime, it is recommended that the Government of the Republic of Macedonia intensely applies the measures given at its disposal for improving the conditions in the national economy, especially in the most affected areas by the economic crisis: **trade, industry and investments**. The biggest effect can be given by rapid use of the means from the European Investment Bank, certain loosening of the monetary policy and, to the biggest possible extent, restraining of the Government of the Republic of Macedonia from further intense collection of financial means by selling state bills. Those activities and measures, almost certainly are going to widen the room for credit supply of the activities of the business, enhance their liquidity and substantially improve the overall performances of the economy.

Numerous reforms have been started and are ongoing in the field of **judiciary and internal affairs** of the Republic of Macedonia. That, to a large extent is the result of the need for harmonization of the national legislation and practices in those areas with the corresponding ones in the EU towards which the Republic of Macedonia is aiming. Thence the recommendation for continuation of the already started reforms and taking another ones leading in that direction, but which are going to improve the security, protection and safety of the citizens of the Republic of Macedonia.

Foreign policy in the Republic of Macedonia is still burdened with the internal-political processes. It should be qualitatively strengthened which requires eventual creation of all internal preconditions, and most importantly, national consensus of the priorities of the Macedonian foreign policy, as well as means for its successful realization-diminishing the influence of the internal cross-party disputes and building and promotion of unity in the representation of the Macedonian foreign-political priorities.

The integration of Macedonia in the EU and NATO still remains the main strategic missions of the Government of the Republic of Macedonia. At the same time, fulfilling the already taken international responsibilities rests highly in the agenda of the

Macedonian diplomacy. Republic of Macedonia shall demonstrate its preparedness besides the financial and foreign-political restrictions, to devote enough time, resources and energy for completing the already started reforms. In the meantime, Macedonia must invest more in its human resources and additionally affirm itself as a reliable partner on the international scene, thus improving its positions and articulating its state interest in a better way. The highly important thing in the reform process is not to apply reforms under pressure and in a fast pace because there is a risk of quality lowering, lack of information and absence of a general debate in the public between experts, non-governmental organizations and citizens. In the view of visa liberalization, Macedonia is headed in a good direction, fulfilling the necessary criteria and becoming the leader in the region. The potential question is whether Macedonia will be 'judged' according to the merit system (i.e. the leadership in the region and in fulfilling the standards on time will be recognized) or a 'group ticket' will take place, i.e. Macedonia, irrespective of the achievements, will stay and wait the other countries in the region. If Macedonian institutions decide that achieving visa liberalization is sufficient and slow down the necessary reforms for start of the negotiations with the EU, it will be an additional risk. However, it should be taken in mind that visa liberalization, although wanted for a long time, certainly cannot be a substitute for the integration in the European system of values and free market.

In the report period in the field of **education** numerous laws have been passed and huge projects have been initiated, which preparation lasts for a long period of time, costs a lot and requires clear strategy and strategic leadership which rely on sustained studies. It is recommended, all of the initiated projects to be completed through their quality and due implementation. The Government should take immediate measures for creating the necessary conditions for normal functioning of the dispersed studies with all necessary standards. Thus, the previously set objective will be reached-the professor goes to the student, and not vice versa, which directly or indirectly shall encourage the interest for studying within the young population. Highly educated youth should lapse into comparative advantage for the country for delivering foreign capital, thus affecting the lowering of the unemployment and development rate.

Passing numerous strategic documents and regulations for regulating different domains in the area of **social policy**, seems that, it represents incomplete realization of the appropriate program activities of the Government of the Republic of Macedonia in that area, if operational activities are not conducted by the competent institutions for the realization of the tasks resulting from those documents. That especially refers to the slow-down pace of de-institutionalization of the appropriate activities in the social policy, and also serious disadvantages have been noticed in the area of social protection and social inclusion. Those are areas which are recommended for bigger attention in the future by the Government of the Republic of Macedonia. Of course, the need for strengthening of the current insufficient capacity of the public administration for solution of the aggregated problems in that area should be taken into consideration.

The reforms in the area of **health care** are implemented continuously. Some of them are successful, others are not. The recommendation is the Government of the Republic of Macedonia to complete the already initiated activities in specific parts of the health care area, and especially the project Diagnostically Related Groups (DRG). In addition, huge caution is necessary because effecting that system will result in the appearance of huge differences in the planning and realizing of the budgets of the public health institutions. Moreover, it is recommended that the Government of the Republic of

Macedonia be more careful in the upcoming period in the course of the presentation of the policies that are planned to be implemented in that area, and their promotion to be when the projects are in the final phase. In the further realization of the already initiated projects, and the future ones, the Government of the Republic of Macedonia will come across numerous obstacles and risks, and thus it is recommended bigger caution in the course of that kind of activities,

Big opportunities for giving loans to activities of certain business, and especially those in the area of **agriculture**, can be found in the pre-accession funds of the EU, called IPARD. The institutional preparations for their use are finished. However, absence of wide information of the interested business and institutions for those possibilities can be noted in the area of agriculture, as well as for the preparation of the necessary (and eligible) projects for the use of those means. That determines the main recommendation of this report for taking action by the Government in the direction of strengthening the appropriate preparations for the use of those means. In the same direction is also the recommendation for widening the capacity of the institutions that provide consulting services in that direction. Further important recommendations for future action in the area of agriculture are encouraging the development of the markets for purchase of agricultural products and increasing the investments for development of the total information system in that economic area.

The general note is that **construction** can be an engine that will lead the economy in a prosperity path of development. Therefore, in the upcoming period an increase in the capital investments is recommended, especially by engaging financial means from the budget of the Republic of Macedonia. Currently, it seems that the Government of the Republic of Macedonia can effectively do that by investing in new traffic systems and modernizing the existing ones in the country. However, in the upcoming period, when the economic condition starts to improve, strengthening of the investment activities will be necessary in the rail and airway traffic, as well as areas, of which development depends the quality positioning of the country on the European traffic map, which is one of the substantial conditions for attracting direct foreign investments.

Leadership Monitoring: Report from monitoring and performance evaluation of program activities of the Government of the Republic of Macedonia for the September 2008-October 2009 period

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