



PRESS RELEASE

10 March, 2010

Subject: Presentation of the second Report from the “Leadership Monitoring Project”

On 10th of March, 2010, the Institute of Economic Strategies and International Affairs OHRID, Skopje, held a presentation of the second Report from the monitoring and evaluation of the realization of the program activities of the Government of the Republic of Macedonia.

The presentation of the second Report covers the period November 2009 – January 2010. This report represents continuation of the second cycle of the Leadership Monitoring Project conducted and implemented by the OHRID Institute, realized in the period 2007 and 2008.

The Leadership Monitoring Project includes ongoing monitoring of the day-to-day work of the Government, benchmarking it against its campaign promises and reporting the findings to the citizens. The Report aims to provide the general public with an overall picture about the planned and realized reforms of the new Government, through monitoring based on performance, using constructive and comparison analyses in 10 areas of the public life: **fiscal and monetary policy, trade, industry and investments, foreign trade, education, agriculture, foreign policy, internal policy, health, transport and construction.**

Part of the conclusions and the recommendation that the OHRID Institute experts put into this Report are briefly elaborated in this release.

The action of the Government of RM in the reporting period was generally under a constant pressure of two factors: The world economic crisis and the international status of RM concerning the (non) solution of the problem with the name issue.

The economic subjects were mostly burdened with the activity of the world economic crisis and the recession which began to be more intensively manifested in different spheres of living and acting in the country. The worsened solvency of the enterprises, their decreased gain, the budget problems and the decreasing production are the main characteristics of the conditions in the economy in that period. However, on the basis of the concluded indicators for the achievements in the Macedonian economy in 2009 can be concluded that in the previous year it functioned relatively less injured in comparison with the bulk of the countries in Europe. It is an optimistic announcement of the gradual drawing of the economy out of the recession phase during 2010.

At the same time, the activities of almost all institutions of the Government in the analyzed period were under a great internal and external pressure for overcoming the problem with the name issue of our country that has been imposed by the Republic of Greece. That problem has a continuing effect in relation to the (non) receiving the date for negotiations of the Republic of Macedonia with the EU for its membership in that very important international community, as well as the membership of the Republic of Macedonia in the NATO alliance, with continuing consequences on the rest of the spheres of the socio-economic development of the country.

All that together had strong repercussions on the scale and dynamics of the realization of the planned program activities of the Government of RM. However, it can be generally concluded that



the bulk of them are realized in the same, not decreased pace, although their effects are not manifested in the desired dimensions because of the mentioned reasons.

The planned activities and measures of the Government of RM and the rest state institutions in the domain of **the financial policy** in the reporting period were realized. That contributed to the increase of the level of economic freedom in the country, which gained an international affirmation as well. In normal conditions of economic activity, it would certainly result in substantial positive changes in the economy. However, the further presence of the economic crisis and recession in the Macedonian economy hampered the achievement of such results.

On the other hand, the further presence of the dissonancy can be noticed between the fiscal and monetary policy in taking measures for facing the crisis. The result of that is the decreased solvency of the enterprises and their inability to face the growing problems that come out of the recession. That imposes the need for a future synchronized activity of those two policies, which shall condition for a more rapid drawing of the Macedonian economy out of the recession phase.

Of course, there are numerous risks and threats on that path. The pace in which the main foreign-trade partners of RM shall draw out of the recession, (non) receiving a date for negotiations for EU membership and (not) entering of the Republic of Macedonia in the NATO alliance are among the more substantial ones.

The improved business climate in the country had to create conditions for a more productive activity for the economic subjects and increasing their competitiveness on the foreign markets. However, the still present world economic crisis, the recession in the Republic of Macedonia and the great problems that its biggest foreign-trade partners face, conditioned for the achieved results in the foreign-trade plan to be significantly smaller than the expected ones. The result of that is the significant decrease in the foreign trade of the Republic of Macedonia. It is noticeable that even after the end of the economic crisis; the Macedonian economy shall continue facing the problems in the foreign-trade sector. They are mainly the result of the inadequate structuring of the Macedonian economy. On one hand, it is strongly import-dependant from all aspects. On the other, the national economy is not sufficiently export-structured. Those weaknesses determine the possible and required future directions of action of the competent institutions of the Republic of Macedonia on that plan.

In the reporting period, several planned, as well as not planned activities of the Government of RM were conducted in the areas of **trade, industry and investments**. They were primarily directed towards improvement of the business climate in the country and creating conditions for increasing the competitiveness of the national producers, as well as promoting the investment possibilities in the country. Besides that, the assessment is that in the course of 2009, which means in the reporting period, the bulk of those activities were very little successful, and some of them were not successful at all. The basic reasons that lead towards that conclusion are among the activities of the world economic crisis which had an appropriate effect in the recession in the Macedonian economy. In addition, the inherited inappropriate structuring of the national economy was a serious restraining factor for achieving more substantial results in those areas. Because of that, in the upcoming period it will be necessary to act in the same pace in the direction of realization of the program and other activities, which at the given moment may seem necessary, with the aim of hampering new strikes on the economy on one hand, and on the other, its enabling to gradually draw out of the recession phase and taking it on a more prosperity phase of its development. It seems that the biggest challenge on that path shall be the direction and manner of further action of the fiscal and monetary policy, as well as the possible consequences of (non) receiving the date for negotiations of the Republic of Macedonia for its membership in the EU, and (non) receiving an invitation for its membership in the NATO alliance.



In the reporting period the realization of the program commitments of the Government of RM continued for implementing the activities in the field of **justice and internal affairs**. The cycle of adapting the bulk of the Macedonian to the European legislation was completed.

The late implementation of the Law on Juvenile Justice is moving with the creation of the State Council for Prevention from the Juvenile Delinquency. The Law on Police is intensively implemented in practice. The Law on Internal Affairs has been adopted, which introduces the career and merit system.

The reform of the penitentiary system with the aim of improving the conditions of the penitentiary institutions and more efficient conducting of sanctions is still not on a satisfactory level, although it can be concluded that it is hampered by the lack of financial means.

With the aim of elevating the level of the public and state security, especially for preventing the violent forms of organized crime, in the upcoming period more work should be done for renewing the work of the police officers the monitored and patrolled area. The analysis of the conditions in the reporting period emphasizes the need for enlargement of the capacities of the information-technological system for issuing personal identity cards to the citizens of the Republic of Macedonia.

In the area of **foreign policy**, the previous period was quite dynamic. The diplomatic activity of the Government, ministries, diplomatic-consular representations in the Republic of Macedonia was strengthened in the direction of promotion and achievement of the interests of the country. The priorities that the Government of RM set for 2009 regarding the European agenda were mainly fulfilled and a political dialogue and consensus was demonstrated regarding the euro-integrations of the Republic of Macedonia. According to these indicators, it can be concluded that the country in the course of the previous year achieved progress in the realization of the set objectives at the beginning of the year. Of course, there are big risks, challenges, as well as disadvantages which are mostly shown in the preparedness and the capacity of the Macedonian administration.

In the area of NATO integrations, it is positive that RM, although not given a membership invitation, still continues with reforms in the sector of defense, participates in NATO missions and is modernizing itself in a quick pace. In the reporting period, the Republic of Macedonia, after the successful completion of the 10th cycle, started the 11th cycle of the Action Plan for membership in NATO.

A big factor for the Republic of Macedonia, as previously mentioned, is the non-receiving a membership invitation for NATO and the start of the negotiations with the EU. That factor affects the overall situation in Macedonia, both on the political, security and even more on the economic plan. Steps regarding the overcoming of these obstacles and risks are recommended to be done, and also to pay greater attention to deepening and implementation of the determined reforms.

In the previous period of analysis and monitoring in the area of **education**, the scope of analyzed events did not embrace many activities. However, it can be said that those that were included did mark this area in the analyzed three months.

What can be noticed as a progress and that was mentioned in the previous report was supplying the students with free of charge school books. In the secondary schools, where students studied form scripts, things started moving in the right direction.

The increase in the budget for the needs of education and science is substantial because by financing the projects, the long period of absence of finances in this area shall be terminated. With these stimulations, RM shall encourage the scientific thought and the possibility science to contribute to the development of the country. It is necessary more time and resources to be paid to



the popularization and support of the scientific area. The additional resources and the reallocation of part of the budget for science shall contribute to the education not to be closed in the margins of the universities, but to be generally accepted and to contribute to the overall progress of the country. The projects in which scientific workers compete with ideas and programs encourage competition, and thus the quality of the scientific personnel. This project should be in the function of equal development of universities and institutions in the country, as well as in the function of support of the competition.

The fundamental and current specifications of the policies on the labor market, the pension insurance and social protection are the main reasons for a continuous conduct of numerous program and additional activities in the social policy and appropriate measures are undertaken. Some of them give evidently better results, however there are also certain activities that are fully realized in compliance with the projections.

The high unemployment rate (about 32 percent) is still the most serious problem that the Government of the Republic of Macedonia is facing. Certain justification for that condition, at this time, can be the contra-cyclical movement of the number of unemployed persons (usually when the economy comes out of the recession, the unemployment is increasing or is not decreasing). The problem of non-accuracy of the data for the number of unemployed persons that are presented by the competent state institutions is still noticeable.

In the pension and disability insurance, in the analyzed period, the trend of improving the conditions for capital financed pension insurance continued. At the same time, certain measures were taken for protecting and improving the social status of the pensioners. In the domain of social protection, certain program strategic documents and legal solutions were adopted in the appropriate area. The operational activities determined by them, are expected to be realized in the upcoming period.

The problem with the capacity of the administration and the restraints of the financial resources, as well as the insufficient coordination between institutions show that they shall still be the main challenges for the Government of RM in the realization of the activities in the area of social policy.

The recession that embraced the Republic of Macedonia had especially negative effects on the **health system** in the country. It is emphasized in the possibility the health system to face financial problems as a result of the decreased budget of the Health Insurance Fund (HIF) on one hand, and the increase in the number of insured persons, decreased transfers from the budget and appropriately increase in the number of health services on the other. That caused the need for a more careful planning of the investments in health that represent additional financial expense, and that do not have clear profiling of the type and scope of services offered to the population. At the same time, the acceleration of the process of autonomy of the general hospitals is needed, which aim is to transfer the principles of corporative and entrepreneur behavior in the work which is typical for the private sector in the public health, through which better conditions for work and greater competitiveness would be created for the public and the private health care. The need for finalizing the plan for development of the hospital system in RM is still present, which together with other measures that were offered in the report for the previously analyzed period are necessary to be undertaken with the aim of stabilizing the conditions in health.

The most important activity in the reporting period in the area of **agriculture** was the accreditation of the Paying Agency, which is expected in the upcoming period to give great support to the farmers in the use of financial means offered by the budget, credit or other types of means from the pre-accession IPARD funds. Moreover, the strengthened activities and measures were noticeable for improving the financial condition of the farmers through increasing the scope



of subsidies from the state budget and from the credit supplies granted by the corresponding government agencies. In that direction, the activity of the on-time buy-out and the payment of the tobacco from the 2009 harvest was positive.

General expert assessment is that in order to have conditions for a functional market orientated agriculture, the policies for agricultural and rural development should be consistently implemented. The rules should be adopted and implemented in practice as well. Before taking further steps on that plan, it is necessary a more serious analysis to be done on the particular activity. Besides the direct financing of the agriculture, investment is necessary in human capacities, knowledge, science and in their development. The absence of that approach can turn into a serious threat and in a longer term to get the Macedonian agriculture back besides the great financial support of that sector from the Macedonian economy.

The continuation of the implementation of the programmed measures and activities in the area of construction and transport is noticeable in this reporting period as well. The realization of certain previously started project continued or the realization of new ones started in different domains of this area of economy. On the other hand, because of different reasons, some of the projects are not realized fully, or are realized late in respect to the previously determined dynamics. That was mostly affected by the global economic crisis and the national recession. The construction companies almost did not have work abroad. It was, in some part, compensated with the newly opened projects on the domestic market, where the country was the biggest investor. In addition, significantly weaker results can be noticed in the area of transport in respect to the previous period, which is mostly a result of the decreased scope of means for investment in that area and of the strength of the recession that was affecting the payment ability of the economic subjects using the transport services.

It can be evaluated that the area of construction and transport shall be exposed to numerous risks in the upcoming period. Having in mind its importance as a locomotive of the total economic growth of the country, the need is imposed in the upcoming period for the competent institutions to undertake further measures for encouraging this extremely important area in the national economy.

Thus, the Government of RM in the reporting period as well undertook and conducted numerous measures and activities that are part of its program for work. Some of them were completely realized, some of them are started, and the rest are late with their realization. Regarding the strength of the activity of the world economic crisis and the recession in the Republic of Macedonia, it can be said that it is understandable that the undertaking and realization of the planned projects are not possible to be constantly on-time and complete. Besides the objective, there are also subjective reasons for that. Some of them can be located in the insufficient quality of the reforms and the insufficient capacity of part of the state institutions. Those are the main areas that should be paid attention to in the future with the aim of finding out the weaknesses and their adequate and on-time removal. The same aim is within the numerous recommendations given in this report.