

Fourth draft



Republic of Macedonia

DRAFT – ECONOMIC REFORM PROGRAM 2018-2020

PART 4 STRUCTURAL REFORMS 2018 - 2020

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4. STRUCTURAL REFORMS IN 2018-2020

4.1. IDENTIFICATION OF KEY OBSTACLES TO COMPETITIVENESS AND INCLUSIVE GROWTH

As a small and open economy, with an internal market that cannot provide high rates of economic growth for a longer period by itself, the Republic of Macedonia should rely on exports and increased competitiveness in order to respond to long-term growth challenges. With an indicator of openness¹ of 114% in 2015, it is one of the most open countries in Southeast Europe (SEE).

The Republic of Macedonia preserved macroeconomic stability during the global financial and economic crisis and the debt crisis in the Eurozone. Since the global crisis in 2008, growth has been among the strongest in the SEE region. The average growth in the period 2009-2016 is 2.2%, which is more than the regional average of 1.5%². However, in order for the living standard of the Republic of Macedonia to converge with that of the EU Member States, real GDP growth should accelerate to around 4.5%³ in the next 20 years.

Although growth in 2017 will be low, as a result of the political crisis, it is expected to increase in the next mid-term period. The recovery of the economy is expected to begin in the second half of 2017, as confidence that supports private consumption and investment is restored. The main drivers of growth are expected to be private consumption, investment and exports.

The main reasons for the relatively low growth rates in the past period are the business environment, the functioning of the institutions, the quality of human capital and the low quality of the infrastructure. At the same time, productivity is still low, primarily due to low private sector investment, low labour activity and insufficient quality of education. In addition, over the past few years, pressures have been rising due to deteriorating fiscal discipline and rising public debt. Although it has one of the lowest public debt in Europe, which accounted for 39% of GDP in 2015, Macedonia has one of the fastest growing debt, which has doubled since 2008, since fiscal policy in recent years has been used to secure stimulus for short-term growth⁴.

¹The openness indicator is defined as the sum of the imports and exports in relation to GDP

² World Bank Macedonia Policy Notes 2017

³ Ibid.

⁴ World Bank Macedonia Policy Notes 2017

Further improvement of the business environment and the conditions for growth led by the private sector are essential for maintaining growth and job creation. Macedonia has made significant progress in improving the business environment and the country ranks 11th out of 190 economies according to the World Bank's Doing Business 2018 report. Despite the improvement of business regulations, domestic firms continue to face difficulties. Domestic firms have difficulty accessing loans and collecting claims, and are also burdened with various forms of unpredictable and ad hoc inspections that impose financial and non-financial costs⁵. Research by the Economic Chamber of Macedonia shows a continuous downward trend in the return of value added tax (VAT), as well as difficulties for the companies to fulfil the obligations for settling debts in accordance with the Law on Financial Discipline. The weakening of governance, frequent changes in laws and their unequal implementation also pose difficulties for the domestic business sector. The implementation of business regulations is not always the same and balanced between domestic and foreign investors, creating an uneven work field. The existence of an informal sector creates unequal conditions for companies that are paying taxes and social contributions and adhere to the legislation. Bank lending is the main source of funding for companies in the country. Although this has increased in recent years, SMEs continue to see access to finance as a major challenge in their operations. Alternative sources of funding are at an early stage of development, they could benefit from strengthening of the legal framework, in particular factoring activities, which can be an important alternative to bank financing for SMEs.

To further promote regional and international integration, improvements are needed in trade facilitation. Additionally, while government policies for attracting FDI had some success, i.e. they led to increased sophistication of exports and creation of new jobs in production, there is room to further increase of the links between FDI and the domestic economy. The capacity of domestic SMEs to further integrate international markets is limited as a result of the relatively low management, financial and technical capacity.

Although Macedonia is a regional leader in trade policy and trade facilitation, there is room for improvements in transport and logistics that can improve trade performance by making the delivery of goods easier, faster and safer. Cross-border bottlenecks must be overcome in order to reduce costs and time for transport, which will directly contribute to the competitiveness of companies. Macedonia is a landlocked country and is particularly dependent on a well-developed transport network. One of the main challenges of the country is to reduce the distance to the export markets and reduce transport costs arising from the poor condition of transport corridors and large delays at border crossings.

The electricity supply in Macedonia mainly relies on lignite power plants, which constitute more than 50% in total production. On the demand side, Macedonia ranks among the most energy-intensive economies in the Balkans due to the combination of energy-intensive industries (iron and steel, mining, cement), poorly isolated buildings and inefficient electrical appliances in households. According to the Global Competitiveness Report, although the overall quality of Macedonia's electricity supply is the highest in the SEE6 region (67 out of 168 countries), it still lags behind the EU member states. It is necessary to work on improving the supply side in combination with increasing energy efficiency and reducing distribution losses. Macedonia's integration on the regional energy market is necessary through investments in energy transfer and institutional development that will support market participation.

Macedonia's agricultural sector is fragmented, poorly equipped, and uses obsolete technology. Around 30% of the country's arable land is not cultivated and only a fifth of the area with irrigation facilities is actually irrigated.

⁵ Ibid.

The latest indicators of the European Innovation Ranking List (2017) still categorize Macedonia as a "moderate innovator" compared to the other European countries. This ranking stems from the poor performance (below the EU average) in relation to several key indicators, although there is a steady progress in relative performance, by 10.4% between 2010 and 2016.⁶ The Fund for Innovation and Technological Development provides opportunities for innovation and technological development of companies; however, capacities for absorbing grants for research, development and innovation should be developed, increasing cooperation between academic institutions and companies and increasing readiness for investment. Companies are more focused on buying new technology or innovative solutions.

Solid growth and active labour market policies in recent years have helped to reduce unemployment. Macedonia is the only country in the region where the employment results are constantly improving from 2009. Employment grew by 2.5% in 2016 and by 2.7% in the first half of 2017. Most of the newly created jobs are linked to government-supported employment programs in trade, transport and manufacturing sectors. The unemployment rate dropped to 22.8% in the first half of 2017, which is the historically lowest rate. However, the reduction in unemployment is partly explained by the low participation rate in the workforce, which was around 57% at the beginning of 2017, the lowest rate since 2012. However, youth unemployment and long-term unemployment remain high at 46 and 81%⁷, respectively.

Attracting FDI resulted in some 17,000 new jobs, but foreign companies face a shortage of skilled labour in all sectors. Limitations related to skills are considered to be the most important challenges related to the labour force in Macedonia. Human capital is low and declines as measured by educational attainment and health indicators. The latest results of the International Student Assessment Program (PISA) suggest that the quality of primary education and the relevance of the market in secondary education have deteriorated.

Growth in recent years has helped to reduce poverty largely due to the fiscal stimulus, which raises concerns about the viability of these gains. As a result of solid growth and improved labour market outcomes, Macedonia experienced a decline in poverty in the post-crisis period (2009-2016). Despite the significant reduction in poverty in recent years, nearly 100,000 people still live in extreme poverty in Macedonia. The current design of the social transfers is quite uneven and inadequate, and, as such, contributes to the deepening of inequality in the society. As regards the social protection services, it has been established that they are not tailored to the individual needs of end users, and that they should be provided in the community through further implementation of the process of deinstitutionalization, decentralization and pluralization.

4.3. ANALYSIS AND STRUCTURAL REFORM BY AREAS

4.3.1. PUBLIC FINANCE MANAGEMENT

Joint Conclusions of the Economic and Financial Dialogue from 2016 and the Economic and Financial Dialogue from 2017 -Public Finance Management Reform Program; Prioritization of public investments according to clear policy objectives; greater transparency of the criteria for selecting investments and their impact on economic growth and fiscal movements.

The Public Finance Management Reform Program 2018 – 2021 was drafted taking into account the recommendations of the Public Expenditure and Financial Reform Report according to the Public Expenditure Financial Accountability methodology, the SIGMA Report based on the monitoring of the implementation of the public administration principles including public

⁶ European Innovation Scoreboard 2017

⁷ Labour force survey, SSO 2016

finances⁸, the WB Public Expenditure Review⁹, the IMF's Mission Report under Article 4¹⁰ and EC Progress Report¹¹.

A consultation process with relevant stakeholders was organized on September 19, 2017, therefore the draft program was published on the website of the Ministry of Finance¹². The Program is expected to be adopted by the Government by the end of the year.

The program envisages improvement in several segments of public finance, such as: strengthening and implementation of a mid-term budget framework including budget planning, introduction of an integrated information system for public finance management, improvement of the compliance, efficiency and effectiveness of the public procurement system, modernization of the tax system and improving tax collection, increasing the quality of customs procedures and services, further improving the public internal financial control and the effectiveness of external audit.¹³

One of the areas in public finance is the public procurement system, which regulates the use of public funds by public (state) authorities, in order to obtain the necessary resources from external, commercial sources. The tendency and purpose of the regulated process of using these funds is to achieve a fair process, fair participation of the business sector and best value for money.

This topic is relatively new, but it is extremely important due to the fact that the public sector, i.e. the state, spends a large share of the national budget through public procurements, and therefore it is necessary to introduce mechanisms that demonstrate transparency, competitiveness, economy and non-discrimination and enable the achievement of the best value, in the procurement of goods and services.

The Law on Public Procurement (PPL) is based on the EU public procurement directives that were in force at the time of its adoption (2007). The European Commission reports, as well as the SIGMA reports, confirm that "the PPL is generally in line with the EU legislation".¹⁴ However, since the adoption of the PPL, the compliance with EU requirements has not been improved, on the contrary, the level of compliance has been reduced by frequent amendments, in particular, from 2013 onwards. The frequency, nature and the scope of amendments may affect the legal certainty. On the other hand, this trend also reflected a very active interest of national authorities on the importance of public procurement legislation that, if coordinated constructively, could contribute to future strategic reforms.¹⁵

In the past period, it was acted upon part of the remarks from the Report of PEFA 2015 and SIGMA 2016, regarding the introduction of new functionalities on the website of the State

Another area within PFM is effective internal control in the public sector that is the essence of good governance of national funds, as well as European funds, which requires internal control to provide the necessary guarantees for achieving an optimal price and quality ratio in a lawful, financially responsible, ethical and appropriate manner.

⁸<http://www.oecd-ilibrary.org/docserver/download/5jm0xw47v6f7-en.pdf?expires=1482240711&id=id&accname=guest&checksum=1C97E0A6161202E211BFA2CADF076D90>

⁹<http://documents.worldbank.org/curated/en/895641468269982851/pdf/Macedonia-PER-2015-Revised-for-Submission-Final-clean.pdf>

¹⁰<https://www.imf.org/external/pubs/ft/scr/2015/cr15242.pdf>

¹¹https://ec.europa.eu/neighbourhoodenlargement/sites/near/files/pdf/key_documents/2016/20161109_report_the_former_yugoslav_republic_of_macedonia.pdf

¹² <http://finance.gov.mk/mk/node/6626>

¹³The part referring to the medium-term budget framework, fiscal rules, budget planning, data availability according to ESA 2010 can be found in point 3.7 Fiscal management and budget framework

¹⁴ Report. Review of the Public Procurement System. SIGMA. April 2016.

¹⁵ Final report on performance audit. SAO. 26.04.2017.

The Law on Public Internal Financial Control, adopted in 2009, and its bylaws, were a good legal framework in the past years that regulated the internal financial control in the public sector in the Republic of Macedonia pretty well. However, the serious challenges facing the country, linked to the increase in the complexity, dynamics and interdependence of global economic, political and social processes, require dramatic changes in various spheres of socio-economic relations, especially in the public sector. Thus, the expectations of the changes and the taking of the necessary measures are closely intertwined with the public administration system and the reform of the public administration that is becoming a global issue related to the adjustment of the needs of the rapidly changing world.

Although the regulations in this area are generally good, they must undergo a full reassessment in order to increase managerial accountability through the use of modern management methods and measurement of efficiency, effectiveness, cost-effectiveness and transparency, and increasing the capacity of the administration in risk management and providing a guarantee that significant risks will be managed properly, that is, the efficient functioning of the control will be ensured.

Measure 1: Harmonization of the Public Procurement Legal framework with the Aquis

Description of measure

This measure aims to harmonise the Law on Public Procurement with Directive 2014/24/EU, Directive 2014/25/EU, Remedies Directive 2007/66/EC and EU Directive on Defence and Security Procurement. Namely, the existing review procedure system prescribed by the Law on Public Procurement is based on, and implements, certain elements of the Remedies Directive, but several additional elements remain to be implemented, such as alternative penalties.

As for the implementation of the activities envisaged with the adoption of the Law on Public Procurement, two activities are planned: 1./ Adoption of new law that shall introduce an obligation on contracting authorities to publish their annual procurement plans and 2./ Professionalization of civil servants working with public procurement. The publication of annual public procurement plans will lead to greater transparency of the overall process in the implementation of public procurement procedures. Also, within this activity, it is planned to publish the updated versions of the annual public procurement plans. A precondition for this activity is the adoption of the new Law on Public Procurement.

Regarding the professionalization of civil servants working with public procurement, it is important to emphasize that the implementation of this activity will lead to the strengthening of the capacities of the contracting authorities and economic operators in the implementation of the Law, i.e. systemic approach in terms of organizing trainings and certification of public procurement entities, especially for the novelties provided in the new law.

The realization of this measure will provide a legal framework that will be in line with the existing public procurement and legal protection directives in the public procurement procedures.

Planned activities in 2018

- Adoption of a new Law on Public Procurement in accordance with the new directives. The Law should be adopted along with a package of bylaws that should complete the legal framework. It shall introduce an obligation on contracting authorities to publish their annual procurement plans.

Planned activities in 2019 and 2020

- Professionalization of civil servants working with public procurement

Responsible institution for implementing of activities is the Public Procurement Bureau.

Expected impact on the competitiveness/rationale of the measure

The new Law on Public procurement and the harmonization with the new directives will make it easier and cheaper for SMEs to bid for public contracts, will ensure the best value for money for public purchases and will respect the EU's principle of transparency and competition. They also will allow for environmental and social considerations, as well as innovation aspects to be taken into account when awarding public contracts, so that public procurement encourages progress towards particular public policy objectives. The new rules take a more holistic view of value for money. It is not just a question of minimizing cost, but looking at what else can be achieved through procurement. The new directives allow public bodies to promote social inclusion, innovation, and ensure the compliance of tender awards with all relevant rules and obligations. Public authorities will also provide incentives to companies to develop socially responsible products and services. Public authorities will also allow eco-innovation by using new criteria in contract notices, which place more emphasis on environmental considerations. They can require bidders not only to comply with environmental obligations, but also to deliver goods fulfilling the requirements of environmental labels. In this way, companies can make an important contribution to sustainable consumption and production.

Creating conditions for fair competition among economic operators in a great manner provides benefits to contracting authorities, as obtaining competitive bids can result in savings and rational utilization of public funds. The savings of public funds leave room for their allocation in other important fields.

Activity performance indicators:

Activity performance indicator(s):	Baseline:	Target:		
	FY 2017	FY 2018	FY 2019	FY 2020
1. Level of alignment of the PPL with the Acquis	Legislation is in force but not fully aligned with EU Acquis	Legislation is in force and fully aligned with EU Acquis	Legislation is in force and fully aligned with EU Acquis	Legislation is in force and fully aligned with EU Acquis
2. Percentage of published procurement plans of the CA	0	0	80%	100%
3. Number of educated public procurement officers for requirements introduced with new legislation*	2017- around 200 people trained for the current law; the new law is not adopted, so the number of trained people for the new law would is 0	Minimum 300 civil servants dealing with public procurement trained for implementation of the new Public Procurement Law	Minimum 300 civil servants dealing with public procurement trained for implementation of the new Public Procurement Law	Minimum 300 civil servants dealing with public procurement trained for implementation of the new Public Procurement Law

This is a regular activity of the Public Procurement Bureau, and by adopting the new law an increase is expected in the number of persons that will acquire a certificate for dealing with public procurement

Estimated cost of activities and budgetary impact

1. Adoption of a new Law on Public Procurement in accordance with the new directives will be financed by external donors: 50.000 EUR SIGMA Technical Assistance.

2. Professionalization of civil servants working with public procurement: 30.000 EUR (per year).
3. Introduction of a legal obligation to publish the annual plans of contracting authorities: 15.000 EUR.

Expected impact on employment and gender

The adoption of a new law on public procurement is expected to contribute to increase of employment opportunities, build-in safeguards with respect to the standards of working conditions, strive to support social inclusion (including persons with disabilities), social economy and SMEs, promote equal opportunities and “accessibility and design for all”.

Potential risks

Successful implementation of the new legislation depends on its effective enforcement by the contracting authorities and their readiness to capitalize on the benefits of the digital revolution, cut red tape and make procurement processes more efficient and more business-friendly to the benefit of all citizens. Despite the fact that the new law provides for the contracting authorities to publish the annual procurement plans, it is up to them to implement this provision. For that reason, in the table with indicators for 2019 there is a value of 80%, so that the contracting authorities are provided with sufficient time to align to the new legislation.

Measure 2: Improvement of Internal financial control

Description of the measure

Managers in public sector entities have full responsibility in ensuring transparent and efficient management of public resources, through setting up an effective internal control system. This system will provide sound financial management in the public sector, aimed at directing and controlling the financial effects of working in a way that supports the achievement of goals, and the funds will be spent in a lawful, correct, cost-effective, economic, effective and efficient manner. In addition, managers are also responsible for developing an efficient and effective internal control system that involves ensuring the reliability and comprehensiveness of financial reports and protecting funds from losses caused by poor management, unjustified spending and utilization.

The introduction and implementation of the principles of good governance is a difficult and long-lasting process that not only requires a change to the national legislation on financial management control and internal audit but also the culture, the way of thinking, the mentality of the leaders of the budget organizations and their employees, while the difficulties that have arisen in the past from implementation of the Law on public internal financial control should be analysed and obtain direction how to improve good governance.

Planned activities in 2018

1.1 Reassessment of policies in the area of public internal financial control

Preparation of a new strategic document "Public Internal Financial Control Policies for the period 2018-2020" (PIFC Policy Paper 2018-2020) that will ensure sustainability of the strengthened managerial accountability and improve efficiency in public financial management through strengthening internal controls, strengthening internal audit, i.e. raising administrative capacities in the public sector at all levels.

Planned activities in 2019

1.2 Full harmonization of the legal framework for internal control in the public sector with the COSO framework for internal control.

Adoption of a new Law on the system of internal controls in the public sector, which will further harmonize the regulation with the COSO framework (Committee of Sponsoring Organization of

the Treadway) in accordance with the challenges that arise in this area, and are related to the expected changes and measures that are closely related to managerial accountability and reform of the public administration.

Planned activities in 2020

1.3 Implementation of the new Law on the system of internal controls in the public sector and the new strategic document "Public Internal Financial Control Policies from 2018 to 2020" (PIFC Policy Paper 2018-2020)

Responsible institution: Ministry of Finance.

Expected impact on competitiveness /rationale of the measure

The planned public sector reforms are expected to affect the economic growth of the country in the longer term, by respecting the principles of "good governance", which basically means efficient management of public funds at all levels and production of visible values, which will contribute to creating better working conditions for the entire economy.

Estimated costs of the activities and budgetary impact

The planned activities will be supported by IPA funds.

Expected impact on employment and gender

The measure should contribute to an effective use of resources by the public sector and encouraging competition on the market that is crucial for creating better jobs. The gender equality will be respected in the process of implementation of the measure.

Potential risks

The risk in the implementation of the measures directly dependant on the success of implementation of closely related measures foreseen within the framework of Public Administration Reform Programme, Public Finance Reform Programme and measures related to fight against corruption.

4.3.2. ENERGY AND TRANSPORT MARKET REFORM

Transport market

The economic development of the Republic of Macedonia, as a small continental country, depends to a large extent on a well-developed transport network. Therefore, in order to achieve high quality regional connectivity, and thus reduce the distance to foreign markets and reduce transport costs arising from poor road conditions, in the past period, Macedonia was directed towards rehabilitation and completion of a large number of road and railway sections.

The economy in the Republic of Macedonia depends on trade. The Government is focused on infrastructure development, especially transport infrastructure, which will contribute to better connection with EU markets and access to nearby sea ports in Greece and Bulgaria. Road infrastructure is an important priority, since most goods, including exported, are transported by road traffic (85% of passengers and 91% of exported or internationally transported goods in 2014). Macedonian road network has a total of 14.182 km. Roads are classified as: highways (242 km), national roads (911 km), regional roads (3.771 km) and local roads (approximately 9.258 km). Road traffic is the key way for intercity travel, followed by railway network, which has a total length of 700 km and it is mainly used for travel along Corridor X. Road network is the main way of internal mobility and trade.

Road transport domination, especially in the transport of goods, leads to an increase in the delays at the border crossings and a reduction in the rapid flow of goods, which imposes the need for undertaking measures that will contribute to reducing the imbalance in transport by increasing the share of the railway transport.

Facilitating international rail transport by reducing the waiting time at border crossings by shortening border-crossing procedures in accordance with the one stop shop principle and strengthening the competitiveness of rail transport will contribute to increasing the competitiveness of the railway transport, and thus strengthening the competitiveness of the Macedonian economy in general.

The most important transport corridors in Macedonia are the Pan-European Corridor X, extending from north to south across the country (from the border with Serbia to the border with Greece) and Pan-European Corridor VIII, extending from east to west and connecting the port of Durres in Albania with the ports Burgas and Varna on the Black Sea in Bulgaria. Progress has been made in implementation of construction projects and projects for preparation of documentation for construction in relation to road and railway sections along Corridor VIII and X (Xd), as part of the indicative expansion of TEN-T network of Southeast Europe.

The completion of construction works along the section Demir Kapija - Smokvica will complete Corridor X as a motorway in the first half of 2018. The Corridor VIII road network is only 36% highway and requires further upgrading. The western part of Corridor VIII is currently expanding in level of highway. At present, the road connection is the only connection with Bulgaria and Albania. Railway Corridor X is fully operational.

The National Transport strategy 2007-2017 is a strategic document for the transport policy development in the Republic of Macedonia, which is updated regularly. Within the framework of the IPA instrument, in November 2016, a framework agreement for the development of a national strategy for the transport sector 2017-2030 was signed. The new strategy is under preparation and is expected to be adopted in the first quarter of 2018. The global goal of the project is to improve the economic efficiency, safety and accessibility of transport, environmental impact management and future transport activities and ensure integration with other sectoral policies. The specific objectives of the project are to develop activities addressing the weaknesses in the transport sector at the regional and national levels, including projects and policies.

Liberalization in the railway transport or the opening of the market for the entry of a new operator has not yet been implemented entirely. Namely, even in the current legislation in the Republic of Macedonia, the conditions and criteria to be fulfilled by the operator in terms of permits / certificates for the legal entity - carrier, licenses / certificates for the drivers as well as for vehicle permits / certificates are prescribed, and harmonized with the EU legislation. Under these conditions and criteria, the national carrier MZ Transport AD - Skopje is already certified as a legal entity, and the same applies to the employed train drivers as well as to the fleet owned by the Company.

The Law on Amending and Supplementing the Law on the Railway System (Official Gazette of the Republic of Macedonia No. 80/2012) provides in Article 29 that a private domestic or foreign legal entity may perform public rail transport of passengers and goods in accordance with the provisions of this law after the accession of the Republic of Macedonia to the EU. For the purpose of harmonization with the EU legislation regarding the liberalization of the railway transport and creating an environment in which the national transport company will be ready for opening the market. Ongoing is the realization of the project "Business Segmentation in Macedonian Railways Transport AD-Skopje".

Energy market

The main purpose of implementation of the EU legislation on the internal energy market is the further liberalization of the energy market towards achieving reliable operation of the energy market and creation of conditions for greater competition in the supply of energy to consumers in the Republic of Macedonia, as well as promotion of renewable energy sources and

improvement of energy efficiency. The Republic of Macedonia is poor with energy and highly dependent on energy imports. In the total amount of electricity for consumer needs in the Republic of Macedonia for 2016, domestic generation accounts for 70.77%, while imports account for 29.23%. The final consumption of electricity in the Republic of Macedonia for 2016 is 6,455 GWh (3,057 GWh for households), i.e. 26.1% share in the total final energy consumption in 2016. The total installed capacity of the power plants for generation of electricity in the Republic of Macedonia for 2016 is 2,057 MW, i.e., thermal power plants – 1,035 MW (50.41%), large hydropower plants – 584.6 MW (28.47%), combined heat and power plants - 287 MW (13.98%), small hydropower plants up to 10 MW-90.61 MW (4.41%), wind power plants -36.8 MW (1.79%), biogas power plants-5.99 MW (0.29%) and photovoltaic power plants – 16.88 MW (0.82%).

The Republic of Macedonia has high consumption of total energy and final energy per GDP compared to the developed countries, although it has low energy consumption per capita. Using the official data from the State Statistical Office for GDP, it is estimated that the energy intensity according to the indicator total energy demand per unit of GDP is worsened by 2% compared to 2015 (332 kgoe / 1,000 euro in 2015, 338 kgoe / 1,000 euro in 2016), while according to the indicator of final energy consumption per unit of GDP, it deteriorated by 6.7% compared to 2015 (234 kgoe / 1.000 EUR in 2015, 250 kgoe / 1.000 EUR in 2016). The deterioration is due to the higher growth of the final energy compared to the GDP growth. For comparison only in the EU-28, the total energy required per unit of GDP was 120 kgoe / 1,000 euro in 2015.

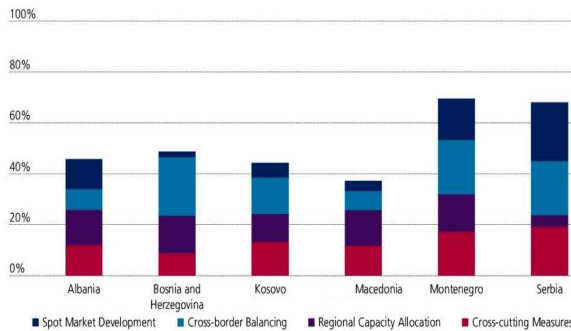
At the Summit for the Western Balkan Countries (WB6) in August 2015, the Republic of Macedonia signed a joint declaration on the establishment of the regional office for cooperation of the countries of the Western Balkans, agreeing to implement the so-called "energy soft measures" - energy reform measures that are divided in four groups: 1) spot market development, 2) cross-border balancing, 3) regional capacity allocation of capacities and 4) cross-cutting measures.

The low level of implementation stems from the non-implementation of the Energy Law in 2015, which was to transpose the EU Third Energy Package, as well as the unrealized liberalization of the electricity market, for which there are open disputes against the Republic of Macedonia by the Energy Community Secretariat. In 2015 electricity market in Republic of Macedonia should have been 100% liberalized. The Republic of Macedonia has begun the process of liberalization of the electricity market, but in 2015 the full opening of the electricity market was postponed. According to the Report of the Energy Regulatory Commission for 2016, the percentage of liberalization of the electricity market is approximately 47% in 2016.

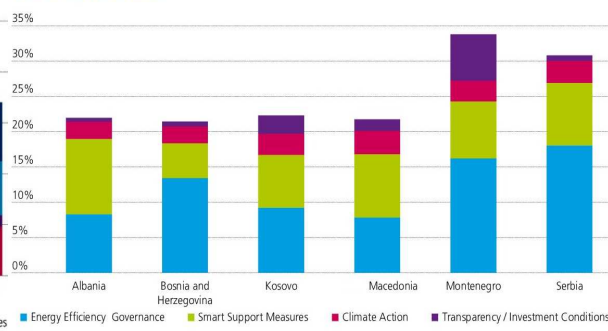
On 4th of July 2016 in Paris, within the framework of Summit for the Western Balkan Countries (WB6), the Republic of Macedonia signed the Sustainability Charter, for which the Energy Community Secretariat has prepared a detailed Plan for the implementation of measures related to: improving the governance for energy efficiency, implementing the smart support measures that improve the sustainability of energy systems, fostering climate action and fostering transparency of sustainable energy markets.

The Energy Community Secretariat publishes a monitoring report every three months, in which the Republic of Macedonia is assessed with a low level of implementation of the energy reform measures and measures deriving from the Sustainability Charter, as shown in the graph.

Overall Implementation of Soft Measures



Overall Implementation



Energy Community Secretariat's WB6 Electricity Monitoring Report 07/2017

Energy Community Secretariat's WB6 Sustainability Monitoring Report 06/2017

The Republic of Macedonia is committed to implementing the reforms in the energy sector and fulfilling the obligations arising from the Treaty establishing the Energy Community. For that purpose, the preparation of a new Energy Law and the Energy Efficiency Law on are underway, in which the provisions and obligations arising from the EU Third Energy Package, the Renewable Energy Sources Directive (new market-oriented support mechanisms) and the Energy Efficiency Directive shall be implemented, and these two laws should be adopted by the end of 2017. The adoption of the Energy Law will enable the fulfilment of the energy reform measures as well as further liberalization of the energy market towards achieving a secure functioning of the energy market and creating conditions for greater competition in the energy supply of consumers in the Republic of Macedonia, promotion of renewable energy sources and improvement of energy efficiency.

Measure 3: International rail transport facilitation

Description of the measure

In order to reduce the timing of the passage as well as the delay in crossing the Macedonian-Serbian border by shortening border crossing procedures in accordance with the principle of the one-stop-shop one-stop shop, i.e. by facilitating the procedures for cross-border crossing at one place, the Government of the Republic of Macedonia and the Government of the Republic of Serbia, represented by the competent Ministers of Transport in February 2015, signed an Agreement on the establishment of border procedures. Protocols between the relevant services from Macedonia and Serbia (police, customs, inspection services etc.) were signed in June 2016, in accordance with the European Parliament and Council Directive 2012/34 of 21 November 2012 for the creation of a single European area.

With the construction of a joint railway border crossing with accompanying contents in Tabanovce between the Republic of Macedonia and the Republic of Serbia, having in mind that over 95% of rail transport volume is transit and is carried out on Corridor X, an efficient cross border movement of passenger and freight traffic at the border crossing will be achieved by shortening the procedures for controls by the services of both countries.

The measure was proposed in the Economic Reform Program 2017-2019 and will stay further. The envisaged activities for 2016 were fully fulfilled, i.e. in October 2016, the Steering Committee for monitoring and managing of Project activities, composed of all the involved institutions from the Republic of Macedonia and the Republic of Serbia, approved and accepted the Assessment Needs Report of the official staff of the Republic of Macedonia and the Republic of Serbia and the concept design, which ended Phase 1 of the Consultants engagement.

By the end of 2016 and early 2017, the consultants worked on the need to increase the budget, i.e. in January 2017, they were allocated, additional funds in the budget and approved by WBIF. In February 2017, the first meeting (kick-off meeting) was held for Phase 2 of consultant's engagement. The consultant started with the development of the physical planning

documentation, while at the same time the Feasibility Study and the Environmental Report are being drafted. The funds for the construction of the joint border crossing are planned to be provided as an investment grant through the WBIF instrument in 2018. The construction of the crossing is planned to start in 2019 (after the selection procedure of the contractor and the supervising engineer) and it will be put into operation in 2021. By that time, the condition of the railway Corridor 10 on the territory of the Republic of Serbia and on the territory of the Republic of Macedonia will be improved. The reform will continue in 2018 and beyond.

Activities planned in 2018

Preparation of urban planning documentation, feasibility study and preparation of the main designs. The engagement of these consultants should be completed by end-2018.

Approval of the investment grant by WBIF for the construction of the joint border crossing.

Activities planned in 2019

Selection of the contractor, Supervision of the construction and signing of the contracts. Ministry of transport and communications is in charge of this activity.

Activities planned in 2020

Introduction of the contractor to the work and implementing the construction activities.

Institution responsible

The institution responsible for implementation of these activities is the Ministry of Transport and Communications

Expected impact on competitiveness /rationale of the measure

The greatest impact is expected to be in the time saving. Total travel time saved, as a result of the construction of the JBS Tabanovce may be expected to be 30 minutes out of 60 minutes per passenger train due to the fact that most controls will be done on the moving train, and 90 minutes per freight train out of 180 minutes.

Due to travel time savings as anticipated, the competitiveness of Corridor X will increase, especially for international transportation. As mentioned above more train operations (mainly freight) and more train operators may be expected to be operating on the network. The impact on competitiveness will be experienced in the medium to long term, provided indeed the JBS creates the expected time saving and other operational benefits are realized, leading to more effective railway operations between and through the two countries.

Companies performing transport activities will experience lower costs and lower transport times. This will increase amount of transport by railway, increase of profits and increased taxation on respective profits. This may bring more operators to railways, which will increase competition and may draw transport tariffs down. As a result of above two trends, the impact of the JBS of the economy will be insignificant

Estimated cost of the activities and budgetary impact

Project preparation: EUR 380.000, external donor, this cost covers 2018

Construction: around EUR 3.5 million, external donor. This cost cover 2020 and the years ahead while the construction works are completed.

Expected impact on employment and gender

The measure will contribute to increase the employment at users of this kind of transportation due to the expected incising of the volume of traffic by rail and especially in freight transport. This will improve the conditions of the transport industry for its products and raw materials in the Republic of Macedonia and abroad, as well as the transit.

The construction of the JBS will only have temporary direct impact on employment, meaning that construction workers and engineers will be employed during construction period. At present we do not have an estimate of this temporary additional employment. In Greece for example, for every 1 million Euros construction cost 6-8 employment positions are created. In this case with lower unit labour cost 20-30 positions may be created per 1 million Euros construction cost for each year of construction. The construction cost of the JBS is still not known. So far, both neighbouring countries have planned to engage additional employees on the JBS Tabanovce by retransferring from other positions within the organisations.

The current legislations in the Republic of Macedonia do not recognize gender or other kind of discrimination.

Potential risks

Political: Weak political commitment for completion of the rail JBS. Mitigation: Continuing coordination and communication with the Serbian high-level stakeholders in order to provide coordinated level of activities for completion of the rail JBS.

Implementation: The Project will be implemented by MoTC. Mitigation: Working group from the representatives of all relevant stakeholders is established for the both Countries.

Measure 4: Increasing the competitiveness of the electricity market

Description of measure

Adoption of the new Energy Law will enable fulfilment of the energy reform measures, removal of the main legal obstacles for the establishment of an organized electricity market, as well as further liberalization of the energy market. The Republic of Macedonia should adhere to a power exchange existing in some of the neighbouring countries or, if economically justified (considering liquidity and economic viability) create an own power exchange, enabling wholesale market trade. The Government of the Republic of Macedonia adopted an Action Plan for the establishment of a national organized electricity market (power exchange) and obligated JSC MEPSO to implement it, as an electricity market operator. By establishing power exchange, reliable functioning of a liquid electricity market and creation of conditions for greater competition in the supply of energy to consumers in the Republic of Macedonia will be ensured. The Energy Community Secretariat shall provide technical assistance for finding a viable and compatible solution for organizing a day-ahead electricity market and institutional arrangements suitable for coupling the national day-ahead electricity market with neighbouring markets, as well as procedures for designation of NEMO in accordance with the EU CACM Regulation. These activities will enable fulfilment of the energy reform measures from group 1.

In 2016, amendments were made to the Electricity Market Rules, which will be implemented with effect from 1st of January 2018, which establishes a national balancing market and non-discriminatory and cross-border market exchange of balancing services. The new balancing mechanism is completely market-oriented and will apply to all participants in the electricity market, which are currently not subject to balance responsibility including the incumbent public supplier JSC EVN Macedonia (private-owned company) and the incumbent generation company JSC ELEM (state-owned company). JSC MEPSO (TSO) will procure balancing services from the Balance Service Providers in national and in perspective from a regional balancing market at competitive conditions. The incumbent generation company JSC ELEM signed a Memorandum of Understanding with the Energy Community Secretariat, which will provide technical assistance for improving their electricity trading capacities and developing business strategies for managing its electricity production and trading portfolios in order to be competitive on the

electricity market, with a gradual deregulation of the generation price. This will enable fulfilment of the energy reform measures from group 2 and 4.

JSC MEPSO (TSO) signed a contract on 31st of May 2016 and became the founder and partner of the SEE CAO. Only the available cross-border transmission capacities of the internal borders of the electricity transmission system operator of SEE CAO are subject to annual, monthly and daily auctions (joint auctions). The process of coordinated distribution of the available cross-border transmission capacities on the Macedonian-Greek border was started. The distribution of the available cross-border transmission capacities at all its borders (Macedonian-Serbian and Macedonian-Bulgarian border) through the SEE CAO will be realized when the adjacent system operators join the SEE CAO. For the Macedonian-Bulgarian border, JSC MEPSO is in the process of harmonizing the common auction rules for introducing a joint auction with the Bulgarian operator ESO EAD. This meets the energy reform measures of group 3.

The responsible institutions for this measure for increasing the competitiveness of the electricity market are: the Government of the Republic of Macedonia, the Ministry of Economy, the Energy Regulatory Commission, JSC ELEM and JSC MEPSO.

Activities planned in 2018

- Implementation of the Energy Law
- Adoption of secondary legislation (bylaws)
- Unbundling and certification of the transmission system operator in accordance with the Third Energy Package
- Issuing of new Electricity Market Rules
- Establishing a national balancing market and non-discriminatory and cross-border market exchange of balancing services
- Adoption of Action plan for phasing out price regulation
- Common auction rules for introducing a joint auction with the Bulgarian operator ESO EAD for the Macedonian-Bulgarian border
- Procurement of technical support and provision of a trading, clearing and settlement platform
- Corporate plan for the company holding the activity-organized electricity market
- Establishment of a company (power exchange)
- Designing trading strategies, portfolios and risk management solutions, taking into account the generations in each user (production planning, consumption planning, allocation of cross-border capacities, management of bilateral, regulated contracts, forward, DAM and portfolios)
- Code of conduct (compliance with legal and regulatory requirements, for example, prohibition of insider trading, market manipulation, licensing requirements)

Activities planned in 2019

- Training and education of staff on the way of working on the trading platform
- Rules for trading, clearing and contracts
- Training of participants on the market
- Implementation of trading and clearing platforms
- Selection of a settlement bank
- Promotion of organized market, start and registration of participants on the market
- Provision of balancing services at the regional level

Activities planned in 2020

- Functioning of an organized electricity market
- Adhering to neighbouring power exchange

Expected impact on competitiveness/rationale of the measure

This measure will enable a liquid electricity market and create conditions for greater competition in the supply of energy to consumers in the Republic of Macedonia, increasing the number of companies participating in the open energy market. Further liberalization of the electricity market also has indirect effects on other economic sectors, which encourage increased productivity driven by competition in the energy sector and lower electricity prices. This improved result (lower electricity prices) positively influences, i.e. increases the GDP. Detailed overview of the benefits in millions of Euros with the implementation of soft measures in the short and medium term is given in the OECD Report on soft measure evaluation.¹⁶ in Part 3 Results of the economic analyses Table 1 – Overview of the results. All results are additional benefits in million EUR compared to the baseline scenario today (without the implementation of the respective soft measure). Y+1 is 444.28 million EUR and in Y+5 is 1.903.04 million EUR.

Estimated costs of the activities and budgetary impact

For the realization of the activities, which are related to the implementation of the new Energy Law as for the preparation of the sub, legislation technical assistance has been provided by donors and Energy Community Secretariat. Also, the generation company JSC ELEM signed a Memorandum of Understanding with the Energy Community Secretariat, which will provide technical assistance for improving their electricity trading capacities and developing business strategies for managing its electricity production and trading portfolios in order to be competitive on the electricity market, with a gradual deregulation of the generation price. For establishment of power exchange about 1 million Euros are planned, which would be provided from JSC MEPSO's own funds and donors.

Expected impact on employment and gender

Opening the electricity market positively affects employment, taking into account that the opening of new companies directly affects the opening of new jobs.

Potential risks

Delays of adoption of the new Energy can lead to delay in the opening of the market, i.e. liberalization of the electricity market.

Measure 5: Promotion of renewable energy sources and improvement of energy efficiency

Description of measure

Greater utilization of renewable energy sources (RES) and improvement of energy efficiency (EE) is one of the main strategic goals in the energy sector for the Government of the Republic of Macedonia. Improving energy efficiency and energy savings leads to a reduction in the final energy consumption, which directly affects the increase of RES share in the final energy consumption.

According to the RES Action Plan, the percentage share of RES in 2020 should be 23.9%, and in 2025 should be 25%. According to the Second Progress Report on RES, the share of RES in 2014 is 19.7% and in 2015 it is 19.9%. This percentage should be achieved through the construction of new RES plants, as well as reinforced energy efficiency measures in accordance with the RES Strategy and Energy Efficiency Strategy. In accordance with the Sustainability Charter signed within the Western Balkans Summit (WB6), the Republic of Macedonia has committed itself to

¹⁶ The OECD Report on Soft Measure evaluation regarding the electricity market's reform priorities for the Republic of Macedonia

introducing market-oriented support mechanisms for the promotion of RES (auctions and feed-in premiums), which would be acquired in a competitive and transparent manner through the implementation of a public announcement for charging the amount of the feed-in premium (leaving the current mechanism - feed-in tariffs). The new Energy Law, transposing also the RES Directive 2009/28/EC, shall prescribe the market-oriented support mechanisms for the promotion of RES and the simplified procedures for construction of new RES plants.

The Government of the Republic of Macedonia will announce a public call for awarding 3-4 locations for the construction of photovoltaic power plants with a capacity of 20-25 MW, which will provide state land with regulated infrastructure and connection to the electricity grid. The wind power plant Bogdanci (currently with installed capacity of 36.8MW) will be completed with the construction of Phase 2 with capacity of 13.2 MW and production of around 35 GWh. Also, the Government of the Republic of Macedonia will announce a public call for construction of wind power plants with a capacity of 100 MW using feed-in premium at locations for which there is already determined potential for wind energy production.

It is necessary to adopt a Strategy for the renovation of buildings by 2050, which should analyse existing policies and instruments regarding the effectiveness and should propose measures addressing the needs and barriers specific for the Republic of Macedonia. Also, it is necessary to establish and to start as soon as possible with practical operation of the Energy Efficiency Fund in order to support the faster implementation of the successful energy efficiency programs and for the improvement of the investments.

The responsible institutions for this measure for promotion of renewable energy sources and improvement of energy efficiency are: the Government of the Republic of Macedonia, the Ministry of Economy, the Energy Agency, the Energy Regulatory Commission and JSC MEPSO.

Activities planned in 2018

- bylaw regulation in which the procedures for acquiring the right to feed-in premiums will be prescribed
- preparation of tender documentation for a public announcement for charging the amount of the feed-in premium with a model of a Feed-in Premium Agreement
- publication of a public announcement
- adaptation and implementation of the Law on Energy Efficiency
- preparation of the Strategy for the renovation of buildings by 2050
- further harmonization of the relevant legislation for the application of energy services contracts

Activities planned in 2019

- realization of a public announcement and concluding contracts
- initiation of construction of power plants using RES
- Decision by the Government to determine which buildings of state bodies will be subject to reconstruction in 2019
- The Ministry of Economy will conduct initial appropriate activities for establishing an Energy Efficiency Fund.

Activities planned in 2020

- construction of power plants using RES
- Functional Fund for Energy Efficiency.

Expected impact on competitiveness/rationale of the measure

The implementation of the measure will ensure: diversification in supply, increased competition on energy markets, increased utilization of renewable energy sources, increased of domestic energy production, security and continuity in the energy supply of households and companies in the Republic of Macedonia will be ensured, reduction of greenhouse gas emissions and improvement of the general state of the environment and will help for the smooth transition of the country to low-income, competitive economy. Use of renewable energy offers important economic development benefits. Local governments collect property and income taxes and other payments from renewable energy project owners. These revenues can help support vital public services, especially in rural communities where projects are often located.

This measure is of particular importance for the economic development and social stability, the development of competition and the liquidity of the energy markets and the exploitation of economies of scale. The Republic of Macedonia, as a developing country, with the enhanced measures for energy efficiency, it is possible to significantly stimulate the economic growth. There are statistically determined indicators (study of Vivid Economics - Energy Efficiency and Economic Development, June 2013) that energy efficiency positively contributes to economic development.

Estimated costs of the activities and budgetary impact

For the realization of the activities which are related to the implementation of the new Energy Law in the section for introducing the new market oriented support schemes, preparation of the sub legislation as well preparation of the tendering procedures and model of feed-in premium agreement technical assistance has been provided (USAID, EBRD).

Activities for implementation of the new Energy Efficiency Law will be realized with the technical support from the donors. For the purpose of preparing the Strategy for Building Renovation by 2050 an indicative estimate of the necessary costs was made, which amounts to 400,000 Euros and should be provided with donor assistance. In June 2017, the Ministry of Economy submitted a request for donor assistance, but there is still no official confirmation of the acceptability of the proposed project for the preparation of the Strategy. Also in the next period donors will provide technical assistance for establishing Energy Efficiency Fund.

Expected impact on employment and gender

Jobs in renewable energy can be created directly and indirectly along the entire value chain, including in the manufacturing and distribution of equipment; or even in services like project management, installation, operation, and maintenance. The construction of power plants using renewable energy sources positively affects on the local economic development by improving the infrastructure, new access roads, transmission lines, substations. Concerning the opening of new jobs in the construction sector, construction workers and highly skilled staff are engaged. Additionally, in the course of the operation and maintenance of electricity, the plants will need additional employment. Also domestic companies from the production sector, whose production is used in the construction, are engaged.

In the industrial sector, it is also expected to engage highly professional staff with appropriate professional qualifications that will be constantly engaged in monitoring consumption and proposing new saving measures.

Potential risks

Investors in RES can face the risk of changes in the market price of electricity, which can have a direct impact on their income by using feed-in premiums.

Unless the preparation of the Strategy for the renovation of buildings is started at the beginning of 2018, there is a risk of timely implementation of all other activities. The potential

risk is also assessed by the fact that the necessary related legislation in the area of finances has not yet been harmonized for the smooth implementation of the proposed activities.

4.3.3. SECTORAL DEVELOPMENT

4.3.3.1. Agriculture sector development

Agriculture still holds an important role in the Macedonian socioeconomic fabric, with wide regional differences. Its share in the total gross value added (GVA) was 10% in 2015 (SSO) but went as high as 35% in the Southeast region or up to 20% in the Pelagonia, Polog, and Vardar regions. At the same time, its share in employment was 18% in 2015 and has been stagnant over the past years (SSO).

Job creation represents a high priority in Macedonia, and further modernization and development of the agri-food systems can generate a job creation and economic growth. Unemployment levels are high and persistent, amounting to 22.9% in 2017 (SSO), although it declined from the level of the previous decade. Youth and rural residents are among the most affected by the lack of gainful employment opportunities. They are facing unemployment rates of 53% for the 20–34 age group in 2016 (SSO).

Rural areas in Macedonia face many structural and socioeconomic challenges. Huge rural areas remain depopulated and their resources unutilized, with negative economic, social, and environmental consequences. The rural population has been stagnant over the last decade as a share in the total population, holding about 42% (SSO). Employment opportunities in rural areas are limited and dominated by agriculture as an economic sector. All these factors limit rural employment and economic growth.

Primary agricultural production remains caught in a low-productivity-low-income trap. Most agricultural producers are engaged in subsistence and semi-subsistence activities, registered as unemployed and have poor labour force mobility. The average physical size of a Macedonian farm in 2016 was 1.8 ha and 2.1 LSU (livestock size units). The value added per agricultural worker (in constant 2010 US\$) is 19127 and is 2/3 of the EU average 28621 (WDI 2016).

The Arable Land Cadastre data indicate excessive land fragmentation where the average size of a privately owned parcel is 0.22 ha, while for the state-owned it is 0.56 ha.

Widening agri-food trade deficit reflects the sector's competitive weaknesses. The country is a net agri-food importer, having had a negative trade balance for more than a decade. The agri-food trade situation continued to worsen in the last few years, in spite of an improvement in the general trade performance, overall. Only a few agri-food commodities, such as some fruits and vegetables, wine, tobacco, and lamb, enjoy a trade surplus. Yet, most processed food products are imported.

Macedonia's increased vulnerability to climate change poses additional challenges to the performance of its farm sector. Climate change is already affecting the country and its adverse impacts are likely to increase over the next decades. Increases in the mean temperatures (by 2.5°C in the summer, by 2050) and water deficits (a decline by 17% in the summer, by 2050) are the risk factors most likely to manifest in the future. (World Bank 2010).

The modernization and transformation of the Macedonian food production system is very important for increasing the competitiveness of the sector and maximizing the benefits of further integration into the EU.

The Republic of Macedonia will continue its efforts to align public expenditures in agriculture and rural development with strategic goals aimed at job creation and increasing competitiveness. The policy will also be directed towards increasing the industrial-processing capacities that will be export-oriented and will produce products with higher added value. In the

past period, only about 1% of the total rural development funding was allocated for these investments. Agricultural subsidies will be directed towards profitable and market-oriented agricultural holdings; the budget funds from the national program for agriculture and rural development will be transparent; consolidation and defragmentation of agricultural land by agriculture holding; and horizontal integration of the entities in the agri-food sector and the setting up of cooperatives.

The financial support will be increased for farmers aged up to 35 years, up to five years from the start of the agricultural activity. Young farmers under 35 will be discharged from the lease of state agricultural land in the first 3 years and state will provide increased participation in the costs for agricultural mechanization. In order to facilitate the spending of IPARD funds, the Government will introduce financial support for interest rates on loans raised from commercial banks for investments from IPARD programme. The construction of modern storage facilities and distribution centres in the production regions for specific agricultural products with the capacity of over 5,000 tons will be financed, as well as the creation and protection of products with a recognizable brand, a quality mark or mark for geographical origin.

Additional financial stimulations will be available for increasing the agricultural area and the basic herd. Increased support will be in parallel with increased objectivity and transparency in order funds to come certainly to the actual farmers and cattle farmers. At the same time, the system will be changed to speed up and simplify the procedures for granting subsidies and easier access to EU rural development funds.

In order to provide healthy food to the citizens of the Republic of Macedonia and increasing the export, the VAT rate for veterinary drugs will be reduced, the registration of EU veterinary medical products will be undertaken, new accredited methods and accreditation of the laboratories will be subsidized which are engaged in the control of food safety export and domestic market.

As reaction to the challenges with climate change, the agriculture will be distribute in regions according to the soil and climatic conditions of the areas for planned plant and animal production and lists of recommended crops and varieties will be made, taking into account the traditional production and the needs for watering. Additionally, arable land will increase by investing in hydro-melioration systems.

Regarding agriculture land, an audit will be carried out for state agricultural land already granted and categorization of the land by quality, which will depend on the value and duration of the concession. The consolidation of agricultural land will take place through the processes of exchanging parcels with or without changing their form, until the land borders are completely changed in order to obtain utilized arable land with proper form suitable for agriculture production.

A new strategy for administrative reform is proposed and will be established a Centre for Excellence that will conduct a real and independent analysis and assessment of public policies and will propose new methods and ways for improving the work of the institutions and the administration. A single electronic system will be introduced on which all state institutions will be connected. This electronic system will use all applications for providing public services that the state offers to citizens. Legislative changes will be introduced to provide short and efficient administrative procedures in order to openly announce the steps in the procedure for each procedure and which officers are responsible for managing.

Measure 6. Improving of irrigation systems

Description of measure

Overall objective of those investments is increasing of irrigated areas in the country on the level of installed capacities (144.000 ha), and gradual widening of irrigation systems to fulfil the objective irrigated land to be a half of total cultivated land (around 250.000 ha). The new capital investments in construction of dams and irrigation systems already started and will proceed in next period. Those capital investments will have direct impact over increasing of irrigated crop yields and physical agricultural production.

In order to ensure continuous and long-term investments in infrastructure for irrigation and drainage, a ten-year planning document "Investment Plan for the Water Management Master Infrastructure for the period 2015-2025" is prepared. This plan includes all envisaged investments in the water economy until 2025, divided into the following types of infrastructure works:

- Rehabilitation and reconstruction of installed infrastructure for irrigation and drainage in order to achieve their sustainability and water conservation;
- Upgrading and expansion of the existing hydro-system in order to increase the irrigated area in the country; and
- Construction of new major facilities in the Macedonian hydro-system.

Since this is a rolling measure, an overview of each project implementation is presented:

- **Construction of Dam Konsko:** Construction works on dam started during 2017. Comparing to previous year activities are progressing good, according to Contract.

- **Construction of Dam Rechani:** Construction works on dam didn't start yet because of not finished procedure of construction permit issuing. Comparing previous year, progress is made in applying procedure for issuing construction permit. We are waiting construction permit.

- **Construction of irrigation system Raven - Rechica:** Construction works on irrigation system didn't start yet because of not finished procedure of construction permit issuing. Comparing previous year, progress is made in applying procedure for issuing construction permit. We are waiting construction permit.

- **Construction of Dam on river Slupchanska:** Preparation of technical and plan documentation should be finished this year, and procedure for issuing construction permit should start next year. Tendering procedure about construction is planned for 2019. Comparing last year, progress is made and until this year documentation should be prepared.

- **Construction of irrigation system and hydro power stations (second and third stage) of Hydro System Zletovica:** Preparation of technical and tendering documentation should be finished to the end of this year. From next year will start procedure with EIB for approving loan for second and third stage of the project. Comparing previous year, progress is made and documentation should be prepared until the end of this year.

- **Construction of irrigation systems (second stage) of South Vardar Valley Project:** To the end of 2017 tender will be announced for construction of irrigation system. Comparing to previous year, progress is made and construction works should start in 2018.

- **Construction of small irrigation systems under 300 ha (IPA):** During this year, Contract was assigned with Company for preparing tender dossier for construction of 8-10 irrigation systems. Comparing previous year, progress is made and documentation should be prepared for around 3 irrigation systems during next year and construction works for them should start.

Main contractor of irrigation measure is ministry of agriculture, forestry and water economy. Financing of the measure is under Program for financial support of rural development , measure 124 – Investments in infrastructure for development of agriculture, forestry and water economy. Beneficiary of this measure, except MAFWE is and Sharing Company Water economy of

Republic of Macedonia - state owned for smaller investments in irrigation and drainage infrastructure.

Environmental Assessment, including environmental risks and opportunities, description of environmental assets, positive and negative impacts during the implementation phase and during the lifetime of the projects are prepared for all capital investment project, since that is one of the conditions for issuing construction permit.

Activities planned in 2018

- Continuing construction works on dam Konsko
- Starting construction activities on dam Rechani
- Starting construction activities on irrigation system Raven - Rechica
- Finishing technical documentation for construction on dam on Slupchanska River, and starting procedure for issuing construction permit.
- Approval of loan from EIB for second and third stage of HS Zletovica and starting tendering procedure for construction of irrigation system.
- Starting construction activities for irrigation system in South Vardar valley project – second stage
- Starting of technical documentation preparing, and construction work should start on around 3 irrigation systems (IPA)

Activities planned in 2019

- Continuing construction works on dam Konsko
- Continuing construction activities on dam Rechani
- Continuing construction activities on irrigation system Raven - Rechica
- Starting construction works on dam Slupchanska
- Continuing construction works on HS Zletovica, second and third stage
- Continuing construction activities for irrigation system in South Vardar valley project – second stage
- Finishing technical documentation preparation for construction of 8-10 small irrigation systems, and finishing construction activities of some of irrigation systems.

Activities planned in 2020

- Continuing construction works on dam Konsko
- Continuing construction activities on dam Rechani
- Continuing construction activities on irrigation system Raven - Rechica
- Continuing construction works on dam Slupchanska
- Continuing construction works on HS Zletovica, second and third stage
- Continuing construction activities for irrigation system in South Vardar valley project – second stage
- Starting new 3 years IPA financing period for construction of small irrigation systems

Expected effects on competitiveness/rationale of the measure

The implementation of the measure will increase the proportion of irrigated agricultural land from the current 4% to approximately 6% (from 20,575 to 20,575+11.700) and will also improve the existing irrigation systems. With implementation of those capital investment projects, farmers in those regions will have available irrigation water for irrigation of agricultural land and possibilities for increasing of agricultural crops yields. The measure will enable production of electricity through construction of hydropower plants, as well as provision of additional quantities of water for the hydro system "Rescue of Dojran Lake". Access to farmers to regular irrigation is expected to increase competitiveness by adoption of new varieties, diversification to higher value crops and higher yields.

Estimated costs of activities and budgetary impact

The total cost of the measure for the period 2018-2020 is 123 million Euros, of which 119.1 million Euros are from the Budget of the Republic of Macedonia, and 3.9 million Euros are non-budgetary financing.

- **Construction of dam Konsko:** 2018: 624,000,000.00 denars, 2019: 624,000,000.00 denars and 2020: 600,000,000.00 denars.

- **Construction of dam Rechani:** 2018: 313,000,000.00 denars, 2019: 438,000,000.00 denars and 2020: 310,000,000.00 denars

- **Construction of irrigation system Raven Rechica:** 2018: 323,000,000.00 denars, 2019: 323,000,000.00 denars and 2020: 141,000,000.00 denars.

- **Zletovica second and third stage:** 2018: 459,000,000.00 denars, 2019: 1,530,000,000.00 denars and 2020: 1,070,000,000.00 denars. Those are planned loan amounts.

- **South Vardar Valley second stage:** 2018: 376,000,000.00 denars, 2019: 186,000,000.00 denars and 2020: 4,000,000.00 denars. Those are planned loan amounts.

- **IPA project:** 2018: 20,016,400.00 denars, 2019: 40,032,800.00 denars, and 2020: 184,000,000.00 denars. Those are planned IPA amounts.

Expected impact on employment and gender

Building of dams will provide access to drinking water for people in those areas, flooding control downstream and industrial developments of the region through increased production of electricity leading to creation of new jobs. Improved farming will result in increased agricultural irrigation. Facilitating community small-scale irrigation systems shall promote sustainability of rural households.

It is not possible in this moment, to give an estimate of the amount of new jobs that would be created in future concerning implementation of activities.

Potential risks

Lack of financial resources, as well as a long process of obtaining the necessary permits and approvals for construction.

Likelihood predictions for occurring of potential financial risks concerning national budget as a source, are difficult to predict, since they depend of amount of money that will be distributed for financing of those projects.

Mitigating actions, if financial risks occur, will be reflected in prolong time for construction works of each project.

Measure 7: Consolidation and defragmentation of agricultural land

Description of the measure

Due to the need to overcome the unfavourable land structure that directly affects the deficient competitiveness of Macedonian farmers, in 2012 the National Strategy for Consolidation of Agricultural Land 2012-2020 was adopted, which introduces active policies for the consolidation of agricultural land. In order to provide a legal basis, the Law on Consolidation of Agricultural Land was adopted in December 2013, and five bylaws in 2014.

The expected effects of this process are the reduction of fragmentation of land parcels, their clustering, improved form of parcels for the application of modern techniques and production technologies, increased average size and providing access to new or rehabilitated irrigation systems and upgraded or newly built road infrastructure. According to the Strategy, the initial phase was completed from 2012-2014, in which basic legal and institutional conditions are laid the start of implementation of small and medium projects is envisaged. Currently, the strategic period after 2015 is in realization, which involves carrying out complex projects for

consolidation of larger areas, including investments in rural infrastructure. The implementation of the strategy in this strategic period is ensured through donor support from FAO and IPA II and funds from the budget of the Republic of Macedonia.

The ongoing land consolidation activities are taking place within the IPA 2015 project "Implementing the National Land Consolidation Program". Potential land consolidation projects to be implemented by FAO with IPA financial support are in the phase of identification during this year on the basis of a nationwide feasibility study and an assessment of the interest of landowners and other impact factors in micro locations across the country.

Activities planned in 2018

- Adopt a revised and improved legal framework for the consolidation of agricultural land
- Strengthening the capacities of the MAFWE, especially the regional units and the Sector for Consolidation of Agricultural Land exchange and identification of land parcels
- Preparation of 12 feasibility studies (analysis of the current state) of selected micro locations as potential consolidation areas
- Selection of service providers for the preparation of consolidation plans
- Preparation of the procedure and methodology for preparation of consolidation plans
- Preparation of procedure and methodology for preparation of infrastructure plans
- Training of service providers for the preparation of consolidation plans
- Training of service providers for the preparation of infrastructure plans
- Preparation of 9 consolidation plans for selected consolidation areas
- Implementation of the consolidation procedures in the pilot regions KO Konce and KO Egri

Activities planned in 2019

- Selecting new areas with potential for consolidation of agricultural land
- Continuation of the capacity building of the Ministry MAFWE, especially the regional units and the Sector for Consolidation of Agricultural Land, exchange and identification of land parcels
- Preparation of new 3 feasibility studies (analysis of the current state) of selected micro locations as potential consolidation areas
- Continuing training of service providers for the preparation of consolidation plans
- Continuing the training of service providers for the preparation of infrastructure plans
- Finalization of the consolidation in the pilot regions KO Konce and KO Egri
- Implementation of new 4 consolidation procedures
- Preparation of 4 infrastructure plans
- Preparation of the procedure and methodology for preparation of the analysis of the impact of the consolidation procedure on the environment
- Implementation of 4 environmental impact analyses in the areas where consolidation of agricultural land is carried out
- Preparation of the National Program for Consolidation of Agricultural Land
- Establishment of a system for monitoring and evaluation of the national program for consolidation of agricultural land

Activities planned in 2020

- Continuation with the strengthening of the capacities of the MAFWE, especially the regional units and the Sector for Consolidation of Agricultural Land, exchange and identification of land parcels
- Continuing the training of service providers for the preparation of infrastructure plans
- Finalization of new 4 consolidation procedures
- Finalization of 4 infrastructure plans and construction of the same

- Finalization of 4 analyses of the environmental impacts in the areas where consolidation of agricultural land is carried out
- Finalization of the National Program for Consolidation of Agricultural Land

Estimated costs of activities and budgetary impact

The total costs for implementation of the Strategy for Consolidation of Agricultural Land are provided from the funds of IPA II and FAO in the total amount of 2,561,189. EUR. In 2017, a total of 500,000 EUR will be spent, in 2018 a total of 780,594 EUR, in 2019 a total of 780,595 EUR, and in 2020 a total of 500,000 EUR.

Expected impact on competitiveness/rationale of the measure

Enabling agricultural holdings to acquire agricultural land with a smaller number of parcels that are larger and better shaped and expand the size of their holdings will enable them to become more competitive. Improving the structure of agricultural holdings should facilitate the adoption of new agricultural technologies that will lead to a more prosperous and efficient agricultural sector. Benefits of land consolidation in EU countries include increasing farmers' gross income and reducing working time in this area. Through renewal of rural communities, land consolidation can promote social stability.

The results of various surveys and assessments of agricultural land consolidation projects show that many communities that have land consolidation show an increase in the number of jobs created. It is expected that with implementation of this measure until the end of 2020, the country will consolidate minimum of 1000 ha of arable land with expectation that the number of consolidated hectares will higher due to positive reaction based on successfully finished land consolidation projects during implementation of this measure.

Expected impact on employment and gender impact

The benefits of consolidating of agricultural land in EU countries include increasing gross farmers' income and reducing working time in this area. Through renewal of rural communities, land consolidation of agricultural land can promote social stability. The results of various surveys and estimates of land consolidation projects show that many communities that have experienced land consolidation show an increase in the number of jobs created.

The new legal framework to support the implementation of the land consolidation procedures for agricultural land, especially emphasizes the gender issue, by providing mechanisms for inclusion of women in the decision making processes by guaranteeing their rights as co-owners (registered or unregistered) of agricultural land.

Potential risks

Long process of implementation of consolidation procedures, and institutional and organizational readiness of the other state institutions and respected institutions in charge to accept and support the required procedures for implementation of consolidation of agricultural land. The risk of a lack of trust based on bad experience in the past will be addressed by a transparently driven land consolidation process with the enrolment of all participants in the consolidation area. Committing to the landowners consent for land consolidation output would further assist to overcome the recognized risk. The land consolidation approach that will be deployed is based on the best EU countries practices in implementation of land consolidation.

Measure 8. Agricultural cooperatives

Description of the measure

In accordance with the National Strategy for Agriculture and Rural Development 2014-2020, the project "Creation and support of agriculture cooperatives" is planned, which will improve the structure in the agriculture sector, improve the market position of the farmers, increase their

negotiation power in relation to the wholesale buyers, as well as getting lower prices for the raw materials, machinery and investment assets. The project will extend the support for the association of the farmers in agriculture cooperatives, i.e. creating and functioning of the agriculture cooperatives, through the following measures and activities:

- Elimination of the legal and administrative barriers for the creation and the successful functioning of the agriculture cooperatives;
- Providing an advisory and financial support for the initiatives to create agriculture cooperatives, and their continuous monitoring in the initial period after their establishment to reaching optimal functionality;
- Establishment of a system for continuous training of managers who are going to manage the agriculture cooperatives, in terms of improving their marketing, organizational, communicative, and managing capabilities, and
- Organizing a national media campaign for promoting the economic partnership of the farmers.

In the "Program for financial support of the rural development for 2017 a measure is planned for the "Economic association of agricultural holdings for joint agricultural activities", where funds are granted for support of investment for the following sub-measures:

- creation and functioning of agriculture cooperatives registered in the Registry for agriculture cooperatives at the Ministry;
- assistance for insurance premiums, not exceeding 70% of the costs for insuring of the agricultural cooperatives of small size, and 80% for agricultural cooperatives of large size, and
- investment for purchasing agricultural machinery amounting to 90% of the total purchase cost.

In the Registry of agriculture cooperatives there are 39 registered agriculture cooperatives, of which 7 are cooperatives of a large size, and the other 32 are cooperatives of a small size, with a total capacity of 1,130 ha agriculture land, 1000 bee families, 450 cattle, 200 goats and 250 sheep. This measure continues with implementation from the previous year, so the planned activities have limited implementation, due to the economic and political situation in the country.

Activities planned in 2018

- Encouraging the process of market-oriented association of farmers in agricultural cooperatives. (MAFWE responsibility)
- Providing continued financial support for cooperatives (continuation of the implementation of the previous period). (MAFWE responsibility)
- Support for investments in processing, finalization and marketing of agricultural products. (IPA grant)

Activities planned in 2019

- Providing continued financial support for cooperatives (continuation of the implementation of the previous period). (MAFWE responsibility)
- Support for investments in processing, finalization and marketing of agricultural products. (IPA grant)

Activities planned in 2020

- Support for acquisition of Protected labels of quality of the agriculture and processed products. (MAFWE responsibility)
- Providing continued financial support for cooperatives (continuation of the implementation of the previous period). (MAFWE responsibility)
- Support for investments in processing, finalization and marketing of agricultural products. (IPA grant)

Expected impact on competitiveness/rationale of the measure

Establishment of agricultural cooperatives is an opportunity for development of farms by promoting economic partnership in form of agriculture cooperatives, that through joint production, sale and marketing of their products, will strengthen their market role, increase competitiveness and efficiency, increase individual income of the farmer, and moreover will provide for qualitative production, assured sale and higher profits. As a result, the objective of horizontal integration of the entities involved in the sector of food production basically is oriented towards agricultural cooperatives as the most suitable way for improvement of supply chain of agricultural products.

Estimated costs of activities and budgetary impact

The total cost of the implementation is 6,265,000 EUR. 2018: 2,645,000 EUR, 2019: 1,060,000 EUR and 2020: 2,560,000 EUR.

- Encouraging the process of market-oriented association of farmers in agricultural cooperatives and Providing continued financial support for cooperatives (continued implementation of the previous period): 845,000 euro in 2018, 1,060,000 euro in 2019 and 1,060,000 euro in 2020 from the state budget.
- Support for investments in processing, finalization and marketing of agricultural products: 1,800,000 euro for 2018 and 1,500,000 euro for 2020 from external donor.

Expected impact on employment and gender

Development of agricultural cooperatives will additionally contribute to the community by increasing and retaining jobs in agriculture and processing industry, environmental protection, retaining life and culture in rural areas.

At this moment, 39 persons are employed as managers of the existing cooperatives. It is expected that this number will be doubled with the employment of staff for machinery operation if we take into account new investments in modernization of agriculture production. Also new cooperatives will emerge so the number of the employees will be even higher.

Potential risks

Capacity - The limited capacity of cooperatives prevent modernization of production practices of members and transfer of new technologies into production. Through appropriate changes in regulations for granting of state agricultural land, to give priority to agricultural cooperatives when applying for.

Fiscal policy - The status of individual agricultural producer is supported by fiscal policy through VAT (reduced rate) and personal income tax (paying 2% or completely exempted from paying) and is in a better position from the members of a cooperative. Proposing changes in the legislation in order to provide fiscal exemptions for members in cooperatives.

Social Security - solution should be provided for overcoming existing shortcomings in the implementation of social policy in terms of loss of social insurance compensations in case of unemployment of the members of the cooperative.

4.3.3.2. Industry sector development

Analysis of the state of play in the Industry sector shows that obstacles are related to:

- 1) Slow restructuring of the sector following deindustrialization of the 1990s and 2000s. In this regard it is noticed that low level of capacity utilization and industrial production exist, as well as the insufficient investment in the sector.
- 2) The current state support system is identified as fragmented, unsynchronized, insufficiently transparent and lacking adequate evaluation mechanisms for the promoting investments and

exports. Also, the state aid often discriminates either smaller privately owned production companies or too much state aid is granted to FDI projects on a non-transparent manner.

3) Limited knowledge transfer between universities and industry, which results in little or no co-operation between the research institutes and industry.

4) Limited investments in human resources, which results in a lack of adequately skilled workforce for the industrial sectors, identified as obstacle in the sector, but tackled through reforms and measures related to the education and skills¹⁷.

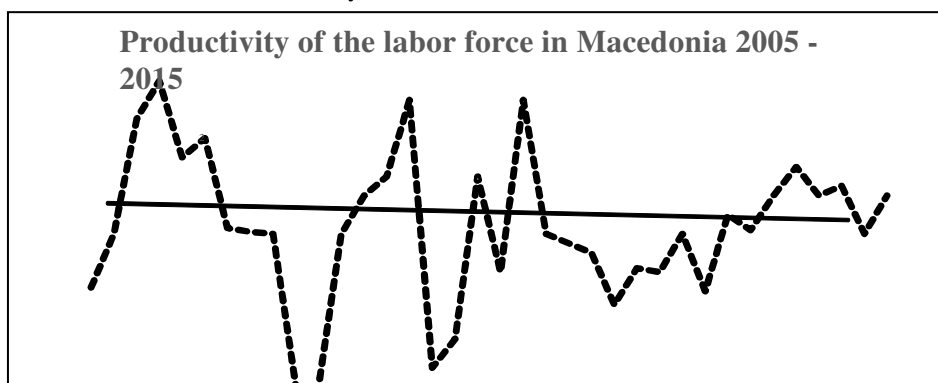
5) Lack of institutional support to environmentally friendly industrial production is evident through usage of outdated “dirty” technology in place; low number of eco-standards implemented/certificates issued and insufficient financial support provided (lack of subsidies/tax incentives) to invest in improvements.

The industrial policy of the government of Macedonia in the period 2007 – 2017 was a combination of 1) the policy for attracting FDIs, 2) the policy for creation of competitiveness of Macedonian economy and 3) the policy for supporting certain branches of the manufacturing sector. Within that framework, attracting FDIs was a “flagship policy” and in terms of the structure of budgeted funds was massive, whereas the situation regarding the other two policies was the opposite.

Efficiency of budget spending and the outcomes of the policies are diverse. There are some positive effects in the period 2010 - 2016 where over 200 million EUR of FDI have been attracted and around 10.000 workers were employed. However, the overall effects are not so implying, considering the budget cost of over 220 million EUR in total. Therefore, the measures for improving the support system for industrial development are necessary. In this regard, the increase of efficiency of budget spending and addressing of all problems mapped in the previous period is needed.

One of the positive effects of industry supporting activities in the period 2005-2015 reveals that structural changes of Macedonian industry were driven by the structure of the budget expenditures. Huge part of the capital investments was devoted to construction, hence the share of that sector in the value added of GDP grew rapidly; the share of manufacturing grew very slightly, as is the case with the tourism.

Chart 1. Productivity of the labour force in Macedonia 2005-2015



Source: NBRM

The structural changes within the manufacturing sector were driven by the activities of the attracted FDIs, but the alleged effects of increased technological upgrading and innovation in domestic companies are negligible. The chart 1 shows the long-term decreasing trend of the overall labour productivity of Macedonian labour force.

¹⁷ The measures 19 and 20 of the ERP 2018 – 2020 are covering part of the efforts.

When it comes to export, it is evident that the total export increased, as well structural changes appears (“revealed comparative advantages”), which in high extend are driven by the exports of attracted FDIs. Contrary of this, domestic companies/sectors have actually lost their advantages; the net effect of increased exports (of chemical products, machinery and transport equipment) for Macedonian GDP is extremely low. In this regards, the expected multiplier effect of cooperation of FDIs with domestic companies is extremely low (less than 1 %); very few of the FDI projects have established sustainable cooperation with domestic business partners.

Measure 9: Supporting activities for attracting FDIs and investments by domestic companies

Description of measure

The national legislation contains the principle of equal treatment of the domestic and foreign investment companies, but in practice the support was more extensively ensured for the FDI projects. Thus, the newly proposed Economy growth plan is reinforcing the equal treatment of domestic and foreign investors and its implementation. The priority of this measure is given to increase domestic private investments, efficiency, productivity and competitiveness of the private sector, which is in line with the Government Working Programme 2017-2021, as well as the national Competitiveness Strategy and its Action Plan 2016-2020. Also, strengthening of the activities for attracting FDIs is part of the measure.

Planned activities in 2018

The activities for implementation of this measure will focus their intervention in the attracting foreign direct investment, support of investment by domestic companies, and support of “brown-field” investments. More precise, the following activities are envisaged:

Activity 1: Introduction of legal, financial and organizational framework for implementation of support activities.

Activity 2: Support of new FDIs and domestic companies that will invest in new (green-field¹⁸) investment in addition to the existing “support package” (tax and tariff exemption) implemented for investments projects in the zones.

The support will be granted as following types of financial support:

Activity 2.1. Support for newly created jobs and newly created jobs with higher salaries, where the amount of financial support will depend on the amount of the salary for the new jobs;

Activity 2.2. Support for permanent business cooperation of FDIs with domestic companies, where business cooperation with domestic companies will be measured according to the share (percentage) of the total inputs of products/services supplied from domestic (Macedonian) companies.

Activity 3. Support acquisitions and reviving of firms under insolvency or liquidation. The measure envisages providing grant reimbursement of 10% of the amount used for purchasing company under insolvency or liquidation. The funds will be reimbursed after the restarting of a factory.

Activity 4. Support for targeted investments. This activity envisage support for investment projects with huge impact upon the development of some industrial branches and/or sectors of Macedonian economy, or which will likely lead towards inclusion of domestic firms in international value chains. To achieve this goal the government will devise a list of potential investment projects, which will be offered to potential domestic or foreign investors with

¹⁸ “Greenfield investment” includes new facilities on new locations, or new facilities within existing locations (production sites) of companies.

additional financial support. In this context, for attracting FDIs with total annual revenue higher than billion dollars, additional types of support will be created.

Planned activities in 2019

Activities envisaged for 2018 shall be continued in 2019 as well.

Planned activities in 2020

Activities envisaged for 2018 and 2019 shall be continued in 2020 as well.

Expected impact on the competitiveness/rationale of the measure

The measure shall lead to more competitive economy. The expectations will be fulfilled through various activities referring to FDI support and creation of linkages with domestic investment projects and businesses, as well as the investment of effort and finances for creation of high paid jobs. Boosting the cooperation between FDIs and domestic companies, shall also lead to expansion of the supply chain. It is also expected that expansion of the supply chain will lead to internationalization and increased capabilities for export of domestic companies (and capacities in some cases). Overall, the measure will contribute to the development of the economy by increasing the competitiveness lead by the stable companies with solid balance sheets and positive results.

Estimated cost of activities and budgetary impact¹⁹

The base for costs estimate are budget spending in the previous years. The indicative amount planned for the measure shall not exceed 20 million EUR per year or in total 80 million EUR for the duration of the measure in 4 years.

Expected impact on employment and gender

Despite recent positive trends, high unemployment remains the most important drawback of Macedonian economy. It is even more notable in terms of youth unemployment and unemployment of highly educated (qualified) young labour force (young qualified citizens of Macedonia very often migrate abroad for seeking employment with higher salaries). This measure is designed to encourage employment of high skilled labour force to high quality and well paid jobs. The continuous monitoring of the implementation of the program will unveil the needs for future enrichment of measures for achieving success in this respect. As a comparison, previously, for 10 years of implementation of supporting activities around 10.000 jobs were created by the FDIs.

Potential risks

A major potential risk in the implementation of this set of activities is the possibility of excessive fruitless budget spending. This risk is reduced through allocation of sustainable caps on budget allocations for each separate activity. The monitoring of the achievements during the implementation and forthcoming cost-benefit analyses will demonstrate the need and possibility for increasing or decreasing the allocations in following years.

Measure 10: Support for Investments

Description of measure

One of the main principles of the newly proposed Economy growth plan is to boost the Macedonian economy and its growth. Through the measure the systems for support of domestic companies shall be improved in order to make them more competitive in foreign markets, and primarily in the Western Balkan region. Certainly, efficiency and effectiveness (value for money) of budget spending should be leading principle. The ratio of the measure is to support the entities capable to increase private investments, efficiency, productivity and competitiveness of

¹⁹ A budget spending simulation is carried out which will show the exact data necessary for budgeting the measure. The result are expected in the second half of November 2017

the domestic private sector. The measure is in line with the Government Working Programme 2017-2021, as well as the national Competitiveness Strategy and its Action Plan 2016-2020.

Planned activities in 2018

The activities for implementation of this measure will focus their intervention in the support of investments by domestic companies, creation of more strong linkages for technological cooperation domestic companies and FDIs and with scientific and R&D institutions and universities (clustering), stimulation of innovation and technology modernization. More precise, the follow activities are envisaged:

Activity 1: Introduction or improvement (revision) of the legal, financial and organizational framework for implementation of support activities.

Activity 2: Support scheme for investment for growth. Through this activity the companies increasing the number of employees and total operational revenues above the average number of employees in the previous 3 years will be incentivised.

Activity 2.1: Small support scheme for growth of SMEs. Through this activity the SMEs will be incentivised for: obtaining quality certificates to support the tendency of growth (As HACCP, HALAL, ISO, etc.); purchasing equipment and specific software; covering the costs of training and professional development of employees for continuous improvement of knowledge and skills; incentives to initiatives/projects that works on improving the access to finance for SMEs by promoting this alternative way of financing.

Activity 3: Support for transfer and/or establishment of R&D and innovation departments in companies established in the country. This activity introduces incentives for innovation activities and R&D in Macedonian companies through a range of incentives (reimbursement of 20% of salaries of workers engaged in the R&D centres, reimbursement of 30% of value of the new equipment for the R&D centres).

Planned activities in 2019

Activities envisaged for 2018 shall be continued in 2019 as well.

Planned activities in 2020

Activities envisaged for 2018 and 2019 shall be continued in 2020 as well

Expected impact on the competitiveness/rationale of the measure

Overall, the investments in innovation and R&D, as well as in the contemporary technologies are very low both on the side of the public and private sector. Those aspects are usually well supported by public resources as the progress is seen as public good for the society. The measure shall address the low investments in the above areas, as well as to introduce incentives for the private sector to invest in the technological development. Increased investment in research and development will lead to greater possibility of companies for innovation and technology readiness. This have effects on companies productivity, profitability and competitiveness at domestic, but most important at foreign markets, thus will influence export potentials as well.

Estimated cost of activities and budgetary impact²⁰

The base for costs estimate are budget spending in the previous years. The indicative amount planned for the measure shall not excide 5 million EUR per year or in total 20 million EUR for the duration of the measure in 4 years

Expected impact on employment and gender

Expected direct impact of this measure is employment of highly skilled labour force, and support of the employers with reimbursement of 20% of salaries of those workers. Moreover,

²⁰ A budget spending simulation is carried out which will show the exact data necessary for budgeting the measure. The result are expected in the second half of November 2017

wider effects are expected having in mind that the improved R&D and innovation of companies most probably leads to greater revenues and therefore better possibilities for new investment and opening new jobs. This measure also contributes to retaining the young highly educated people in the country and lowering the impact of brain drain.

Potential risks

Companies readiness to undertake such an investment is one of the risks envisage for the implementation of this measure. Therefore, this measure is seen compatible to the measures implemented by the FITD (Measure 16 of the ERP 2018 – 2020).

Measure 11: Export promotion and growth of exports

Description of measure

The domestic market is relatively small and does not offer sufficient potentials for growth of the economy. Therefore, the alternative for growth is seen through expanding the export of domestic companies and their access to foreign markets. In terms of success for growth of exports, analyses shows that domestic companies lack support for product innovation and diversification, for finding suitable business partners in other countries, for presentation of their production on foreign markets and support for carrying the burden of higher costs associated with exports. The gaps identified shall be addressed through different activities:

Activity 1: Financial support for exporters, incentives for companies that will increase their exports for at least 10% above the average of the previous 3 years. Additionally if the export is to the Western Balkan countries the financial support will be increased by additional 10%.

Activity 2: Export credit, guarantee and insurance support. This activity envisages expanding and widening the support offered by the Macedonian Bank for Development and Promotion to the companies by creating adequate types of export support instruments.

Activity 3: Support for finding partners and penetration to new foreign markets. Under this activity support will be provided for presentation of companies on trade fairs in other countries, business and political missions to foreign countries, B2B meetings, analyses of foreign markets, product certification according to the needs of foreign markets. The implementation of this activity is in line with the mission of the Enterprise Europe Network that helps businesses to innovate and grow on an international scale, and the efforts do not exclude any support to companies.

Planned activities in 2019

Same as the activity 1, 2, and 3 from 2018

Planned activities in 2020

Same as the activity 1, 2, and 3 from 2018

Expected impact on the competitiveness/rationale of the measure

Export is directly linked with the capacities of companies to invest and grow. Therefore, supporting activities within this reform measure will facilitate and straightforward the process of export for domestic companies. Moreover, expanding export is expected to lead to expanded market, which will lead to economy of scale and therefore providing bases for more competitive prices i.e. boosting the competitiveness of domestic production.

Estimated cost of activities and budgetary impact²¹

Considering previous yearly budget spending it is planned that this measure will be amounted at a level of no more than 5 million EUR yearly or 20 million for 4 years.

²¹ A budget spending simulation is carried out which will show the exact data necessary for budgeting the measure. The result are expected in the second half of November 2017

Expected impact on employment and gender

This reform measure will introduce better export environment for domestic companies, which will result to increased production as explain above (see expected impact on the competitiveness) resulting in new investment in production capacities as well as creation of new jobs and employment.

Potential risks

Timely secured funds from both side, government and businesses and functionality of the institutions (including the ability to manage and deliver the funds, knowledge of employees etc.) for new export related instruments, is seen as one of the risk although without great impact having in mind that the main implementer of this reform policy measure is envisage to be Macedonian Banks for Reconstruction and Development which has wider experience in managing credit funds. Moreover, the risk is even more lowered by linking the measures to result oriented approach, i.e. supporting healthy and well standing export oriented companies.

4.3.3.3 Services sector development

The services sector of the Macedonian economy has the highest share in GDP with over 50%. The sector registered growth of 3.9% in 2015, whereas the highest contribution to the growth was recorded in the wholesale and retail trade with real growth rate of 7.3%. The services sector also employs the highest number of employees in the economy with a share of over 50% in 2015. Within the service sector the mayor activities supported through the years are related to either digital society and creative industries²² and fast growing service industries as tourism.

Tourism and hospitality

Named in 2013 as one of Lonely Planet's top ten destinations, Macedonia has good tourism potential, but is starting from a relatively low base. Capital city Skopje and UNESCO-protected Ohrid remain the key tourist attractions in the country, complemented by traditional Balkan villages and diverse communities, and ski resorts such as Mavrovo and Popova Sapka. Yet, the total contribution of travel and tourism to the country's GDP, employment, and total capital investment in 2014 was relatively small (5.2 percent, 4.7 percent, and 2.2 percent, respectively) in comparison with other countries in the region (WTTC 2015)

The sector faces a series of challenges in order to fully realize its potential. The key challenges include: (i) the enabling environment: which refers to business environment, coordination and implementation of tourism policy and enabling conditions such as categorization of facilities, ensuring quality standards, licensing, ease of access to finance and knowledge and skill of workers, etc.), air access; (ii) the offer: including the promotion and positioning of the offer, visitor information, product development specially the low level of quality continuity of services, site and destination management; and (iii) development/ shared value: data collection, linkages between stakeholders from same and from similar sector, as well as linkages on destination level, and private sector engagement. These challenges have been well articulated in a number of diagnostics over the years, and various international organizations (including World Bank Group, USAID, UNIDO, Swisscontact, GIZ and European Commission), all also active in the sector.

The importance of the tourism sector is emphasized in national and regional strategies, yet there is a need for better dialogue and public sector coordination in implementation. The sector's policy framework comprises the National Tourism Strategy 2009-2015 (and its thematic sub strategies); the Law and Strategy for Regional Development 2009-2019; the Programs for Regional Development 2010-2015 for each of the eight planning regions; and the Program of the

²² The specific measure for creative industries from ERP 2017 - 2019 is not proposed for the ERP 2018 - 2020 because there are some delays in the implementation. However, the creative industries are supported by various means in general by the national institutions.

Government of Macedonia for the period 2017-2021. Macedonia is in the process of developing its new national tourism development strategy with action plan for the period up to 2021. One of the key findings from the analysis of the current situation, which reflects the approach to planning and management of tourism development in the country, is the low level of execution and achievement on actions set in the previous strategy for 2009-2013.

Arrivals, Overnight Stays and Main Markets

In 2016, foreign and domestic arrivals generated almost 2.46 million overnight stays in Macedonia. In the period January - December 2016, compared to the same period last year, the number of tourists increased by 5.0%: the number of domestic tourists increased by 4.8%, while that of foreign tourists increased by 5.1%. In the period January - December 2016, compared to the same period last year, the number of nights spent increased by 2.8%: the number of nights spent by domestic tourists increased by 3.6%, while those by foreign tourists increased by 1.7%.

In the period January - December 2016, compared to the same period last year, the number of tourists increased by 5.0%: the number of domestic tourists increased by 4.8%, while that of foreign tourists increased by 5.1%. In the period January - December 2016, compared to the same period last year, the number of nights spent increased by 2.8%: the number of nights spent by domestic tourists increased by 3.6%, while those by foreign tourists increased by 1.7%.

	Category	2015	2016	2016, August	2017, August
Number of tourists	Domestic	330,537	346,359 (+4.8%)	266,119	283,656 (6.6%)
	Foreign	485,530	510,484 (+5.1%)	351,031	430,818 (22.7%)
	Total	816,067	856,843 (+5.0%)	617,150	714,474 (+15.8%)
Number of night spent	Domestic	1,357,822	1,407,143 (+3.6%)	1,195,597	1,247,627 (+4.4%)
	Foreign	1,036,383	1,054,017 (+1.7%)	733,682	899,588 (+22.6%)
	Total	2,394,205	2,461,160 (+2.8%)	1,929,279	2,147,215 (+11.3%)

Source: State Statistical Office

Several actions are implemented currently for the activities in the sector. The most important are Local and Regional Competitiveness Project (LRCP) – IPA funded Project and Increasing market employability Project – Swiss funded.

Measure 12: Increasing competitiveness in Tourism & Hospitality Sector

Description of measure

The country needs comprehensive approach and streamlined action in the sector Tourism where several actions are implemented over the past year and will continue in the following one. Increasing the tourism and hospitality capacities as well as improving their quality and efficiency is one of the gaps tackled by new Tourism Strategy. Moreover, all the analyses shows that tourism sector faces problems when it comes to clear and targeted promotions, capacities to absorb the incoming tourist and needs of better destination management approach.

Therefore, this measure is comprised of implementation of the two interventions:

- I. **Local and Regional Competitiveness in tourism (LRCP)** - a four-year investment operation financed with a grant from the EU (IPA II), and consists of four components. LRCP is based on a holistic approach to tourism development and destination management and will provide investment funding and capacity building to support sector growth, investment in destinations, and specific destination prosperity. The Project Development Objective of the LRCP is to enhance the contribution of tourism to local economic development and improve the capacity of the Government and public entities to foster tourism growth and facilitate destination management.
- II. **Program for increasing market employability (IME)** (first phase), supported by the Swiss Agency for Development and Cooperation. It consists of implementing activities for increasing the competitiveness of SMEs in the sector, which will contribute to

increasing the incomes of men and women, especially the youth. It is important that the focus is placed on ensuring sustainable systemic changes in the sector.

While first portion of the measure is dedicated to “unlock potentials”, the second one is building up the existing recourses in already established touristic destinations.

In more details, the LCRP will be managed as a Hybrid Trust Fund and consists of four components, one executed by the Bank and three by the Government of Macedonia. The activities in the first component will help to continue, scale up, and expand the capacity building and technical assistance activities in tourism. At the same time, the Bank’s technical and advisory assistance to sector level policies and measures that would benefit and complement the activities under the recipient-executed components. Those components will finance technical assistance, equipment, and capacity building in selected tourism destinations that are able to demonstrate sound market potential, strategic location as part of a broader ‘theme’ or itinerary, and a high development impact. Layering support in management, skills, innovation, and local planning with critical public infrastructure investments is considered the most effective approach to developing competitive and productive destinations that appeal to both private investment and consumers. The mayor part of the Project is dedicated to the investments in tourism-related infrastructure and services at destinations. Therefore, a support for large and small-scale investments at selected tourism destinations is envisaged in order to upgrade the product offer in terms of attractions, sites, and general visitor experience. The proposed sub-projects could also be implemented in partnership with civil society organizations and private sector stakeholders, including professional organizations.

The investments in infrastructure sub-projects include restoration of cultural and natural heritage sites, rehabilitation of municipal infrastructure and utilities, signposting, mapping etc. Also, Grants for enhanced tourism service-delivery and local economic impact will be provided. The grants will be available for activities that serve these objectives, helping to directly address key needs highlighted in the destination needs assessments.

Three tourism destinations Ohrid, Mavrovo and Krusevo will be assisted by IME to exploit the full potential of their historical, natural and cultural heritage through the University of St. Galen’s methodology for collaborative destination management, improved service delivery and enriched touristic offer. This will attract more tourists, which in turn will lead to economic growth and employment.

The National Agency for promotion and support of tourism and the Macedonian travel agencies will continue to promote and support the tourism sector in Macedonia through targeted promotion on international markets (road shows, farm trips, targeted fairs etc.), which should improve the competitiveness of the tourism sector on national level.

Introduction of new and upgraded services such as rescue, insurance, parking etc. will add value to Krusevo’s tourism offer and will be incorporated in the tourist offer, thus creating the basis for commercially sustainable business model and creating competitive advantage of Krusevo as paragliding destination.

Consolidation and strengthening of the tour guide sector through interactive IT platform that will have wider impact on Macedonian tourism industry. Establishing global standards in the tour guide sector (digital registry of licensed tour guides, criteria of reviewing the licenses, rating system, online reviews, etc.) will indirectly help in development and access to new markets and will support the efforts of the country to reveal new destinations for active tourism.

Activities planned in 2018

The mayor activities within LRCF shall take place during 2018:

- Establishing the Destination Management Process
- Implementation of Sub Grants under the Grant Scheme
- Implementation of activities under the World Bank executed component of the Project

IME will work on improved access to international markets (Destination Ohrid scaled up to export),

- Improved destination management in order to access international markets for paragliding (Destination Krusevo),
- Improved tour guide services and visibility of tour guides to travel agencies.

Within IME in 2017 the following activities among other were completed: The best learning opportunities in the field of tourism and hospitality services provided for the Macedonian students, Improved working standards for tourist guides in Macedonia, Improved conditions for paragliding in Krusevo, Sharing experience and knowledge, through training of tourism professionals with experience from Switzerland, Energy efficiency measures in hotels

Activities planned in 2019:

It is expected both actions to be completed in 2019. Activities are defined annually.

Activities planned in 2020

The second phase of the Increasing market employability is expected to take over from where the activities of the first phase are completed.

Expected impact on competitiveness/rationale of the measure

The Project also aims to improve the ability of destinations to increase productivity, service quality, linkages and innovation, employability, and local economic growth. Therefore, Grants for enhanced tourism service-delivery and local economic impact will be provided. The grants will be available for activities that serve these objectives, helping to directly address key needs highlighted in the destination needs assessments. Activities could include technical assistance and capacity-building (e.g. design and implementation of local supplier linkages programs, modules for competency-based skills training); technical and financial support (e.g. for tourism innovation competitions at schools or associations); soft infrastructure (e.g. equipment, ICT, training materials) or promotional activities (recruitment drives, marketing of local products, business-to-business (B2B) integration, branding and marketing activities). The grant(s) shall be available also to finance innovation undertaken by micro and small private enterprises to develop new or improved products and services in the tourism value chain; conduct marketing or business development; pursue training; purchase minor equipment; conduct minor rehabilitation of existing facilities; and other activities, excluding new construction.

The increased potential of the three tourist destinations for attracting more tourists through enhanced provision of services and enriched tourist offer will enable greater participation on the domestic and world markets leading to economic growth.

Following the trends from the recent years, the key indicators in tourism sector is envisaged to rich following targets:

- Number of tourists- continued growth by 5% on yearly bases, reaching 1.000.000 tourists by the end of 2019 (from which 50% foreign tourists).
- Overnight stays- continued growth by 3% on yearly bases, reaching 2.700.000 by the end of 2019.

Estimated cost of the activities and budgetary impact

I. The overall total indicative Budget of the intervention is 21 million EUR out of which 18 Million EUR are IPA funds topped up with National Contribution, Additional contribution of the Grantees in indicative value of 3 million EUR is also expected.

II. The first phase of the programme is being implemented from 1 April 2015 to 1 April 2019 with a budget of 6.25 million Swiss Francs. The overall budget for 2017 is CHF 1.571.591. The budget is planned annually, depending on the activities.

Expected impact on employment and gender

The expected overall social outcomes are oriented towards the local economic growth, but also towards the improved productivity, service quality, linkages and innovation, employability at local and national level.

New jobs will be created along the whole tourism value and supply chain and it is expected higher participation of young people and women. It is also expected that actions will produce spillover effect to other industries and sectors in their further growth and development (education, trade, transport etc.).

The expected impact from IME intervention in the first year is planned as follow: directly benefit 415 persons (unemployed or employed women and men) 146 people benefiting from jobs (employees) in the intervention measurement period. Total 51 companies that will benefit from the intervention.

Potential risks

Some of the potential risk, which can occur, are as follow: private sector, which is not willing to innovate and invest, despite improved investment opportunities and reduced risks as a result of the program, low level of collaboration between stakeholders (local government and businesses) due to lack of trust, destination management capacities of local stakeholders etc. In order to mitigate the risks and to established environment more favourable for implementation of the activities under this measure, a separate activities are envisage which include engaging a company for establishing destination management organization which will also work on improving the communication and collaboration channels. Moreover, both activities are monitored and regularly evaluated through Project Steering Committee which help in introducing prevention measures if need appears,

4.3.4. BUSINESS ENVIRONMENT AND REDUCTION OF THE INFORMAL ECONOMY

Improving the business environment and increasing the competitiveness of the Macedonian economy are one of the main priorities of the economic policies of the Government of the Republic of Macedonia. Through a series of measures undertaken in the past years, Macedonia has significantly strengthened its business environment, but there is still room for further improvement.

In the latest World Bank business report "Doing Business 2018", Macedonia ranks 11th among 190 economies in the world. Macedonia is best ranked in the area of Protecting minority investors (4th place), Getting credit (12th place), Starting business (22nd place), etc. However, there are areas such as Registering Property and Getting Electricity where there is room for improvement.

According to the Global Competitiveness Index 2016-2017 of the World Economic Forum, Macedonia is ranked on the 68th place among 138 countries, which is lower by 8 places compared to the previous year. Regarding the extent of development of the economy assessed by the report, Macedonia is in phase 2 Guided by efficiency, together with 30 other economies, including Albania, Bosnia and Herzegovina, Bulgaria, Montenegro, Romania and Serbia.

The report on Assessing the implementation of the European Small Business Act states that despite being a small landlocked economy, Macedonia is relatively competitive and dynamic compared to its regional competitors. The private sector mainly consists of SMEs accounting for 99.8% of the total number of active enterprises. SMEs are the dominant type of enterprises. Because of their high share in the total number of enterprises they are important source of employment, investment and significant creators of GDP. The growing number of SMEs absorbs the majority of the workforce and contributes to reducing the unemployment. SMEs contribute with 76.6% of the total employment and 66.6% of the value added. For more dynamic development of SMEs, it is necessary to obtain more diversified access to financing, more comprehensive and better targeted support and higher quality services. However, the country lacks an up-to-date National Strategy for Development of SMEs. The previous strategy referred to the period 2002-2013 and included measures and activities to support the development of entrepreneurship and competitiveness of small enterprises. The preparation of a new SMEs Strategy is in its final phase and its adoption is expected by the end of 2017.

OECD's publication Competitiveness in South East Europe: A Policy Outlook 2016 monitors the competitiveness according to 15 dimensions. Macedonia ranks very well among the region in several areas such as trade policy, digital society, innovation policy, investment policy etc. The need to further improve the business climate, attract investments and enhance the export potential are stated as important priorities in the coming period, which are essential to achieve sustainable growth led by the private sector and job creation.

According to the World Bank's indicator Rule of Law²³ which captures perceptions of the extent to which entities have confidence in and abide by the rules of society, and in particular the quality of contract enforcement, property rights, the police, and the courts, as well as the likelihood of crime and violence, Macedonia has 41.8% for 2016 on a scale from 0 (lowest) to 100 (highest level). Compared to 2015, the country registers decline in this indicator, when it amounted to 49.5%.

The practice of frequent legal and regulatory amendments in the past period has created an unpredictable environment for both domestic and foreign companies and represents a limitation / risk for foreign investors, when they are not certain that there is a predictable working environment in the country.

Fiscal and para-fiscal burden

The total tax rate in Macedonia is 13%²⁴ in 2016, being increased by 0.1 p.p. compared to 2015 (when it was 12.9%). However, this means that the total tax burden for companies remains low. The average tax rate in Europe and Central Asia is 33.1%, and in the OECD high income countries it is 40.1%. In Macedonia, it takes 119 hours to pay taxes, the shortest time compared to the countries of Europe and Central Asia where the average time is 218.4 hours, and in relation to the OECD high income countries where the average for paying taxes is 160, 7 hours. The payment of taxes is completely performed via an electronic system for paying taxes, which makes the procedure significantly simplified and cheaper.

Enforcing Contracts

Macedonia ranks 35th out of 190 countries according to the Enforcing contracts indicator in the Doing Business 2018 Report, registering an improvement in the rank by 1 place compared to last year. Under this indicator, the length of the court proceedings is 634 days, and the cost (as% of the claim) is 28.8%. In the countries of Europe and Central Asia, the average length of court proceedings is 489.9 days, while costs amount to 26.2%, while in OECD's high-income countries

²³ <http://databank.worldbank.org/data/reports.aspx?source=worldwide-governance-indicators>

²⁴ Doing Business 2018

the court proceedings on average last 577.8 days, while the court costs are 21.5 %. In the past period a mandatory obligation was introduced for the parties to try to resolve a dispute through mediation before filing a lawsuit to the court, which is expected to reduce the number of lawsuits filed to courts.

Corruption and informal economy

According to the Corruption Perceptions Index for 2016, Macedonia is ranked 90th out of 176 countries and has 37 index points, which is a decrease in the ranking by 24 places compared to 2015 (66th place). This report²⁵ states there are no drastic changes in the fight against corruption in the countries of Europe and Central Asia, with some exceptions. But this does not mean that this region is immune to corruption. In the Western Balkan countries, there are weaknesses in the way laws are implemented.

The informal employment rate was 18.5% in 2016²⁶ and has been steadily declining since 2009. The existence of a grey economy in the country causes losses in budget revenues due to non-payment of taxes and social security contributions, as well as an increase in the tax burden and unequal conditions for entities operating within the formal economy. A Strategy for Formalization of the Informal Economy 2018-2022, is being prepared and is expected to be adopted by the end of 2017.

Access to Finance

According to an EIB analysis²⁷, in general, credit is available but not always affordable. With almost 6,000 employees and 430 branches across the country, banks serve enterprises of any size. Interest rates have been decreasing, however, unsecured lending is rarely used. Moreover, funds are also available from other sources at preferential conditions (especially for start-ups), but the debt financing market is not yet developed. Over the years, increased competition has resulted in better terms and conditions for SME loans. Lenders cite a number of constraints that do not allow them to grow their SME portfolios faster. Lenders argue that SMEs bear a higher risk as their earning capacity is less certain. Risk assessment of SMEs is more difficult due to insufficient and often unreliable information and leads to the need for a different approach. Furthermore, smaller loan amounts translate into higher transaction costs. Most banks seem to have already dealt with all these obstacles. They normally have separate units and staff members to deal with large and SME clients, respectively, and some even distinguish further between micro-enterprises and SMEs.

From the banks' point of view, the most important limitation is the general scarcity of feasible business projects. Banks are not satisfied with the entrepreneurial skills and financial literacy of their potential SME clients. As a result, many loan applications get rejected. Financial support is necessary to facilitate SME development, but SME development is necessary to justify financial support. SMEs see the situation from a different perspective. SMEs complain about complex and cumbersome lending procedures and excessive documentation requirements. In addition, many of them cannot provide sufficient collateral and are not very well informed about the guarantee schemes that are available to them. SMEs also find it difficult to fully understand all the costs involved with a loan and that banks are not properly disclosing them. Most respondents, however, are of the opinion that access to finance is not the biggest constraint to SME growth in Macedonia. Namely, SMEs in the SEE region no longer identify access to finance as the primary limitation for business development, and point to a lack of programs for strengthen financial literacy and investment readiness, especially for newly established enterprises.²⁸

²⁵ https://www.transparency.org/news/feature/europe_and_central_asia_an_overall_stagnation

²⁶ <http://www.stat.gov.mk/Publikacii/24.17.02.pdf>

²⁷ Macedonia Assessment of financing needs of SMEs in the Western Balkans countries, European Investment Bank, August 2016

²⁸ Assessment framework for research, development and innovation Competitiveness in South East Europe A POLICY OUTLOOK, 2018

E-services

There is currently no single central gateway for accessing government e-services with a higher level of sophistication, and users of government e-services (citizens and businesses) access e-services in a non-unified manner. The portal for e-services www.uslugi.gov.mk is outdated and provides only informational services. On the other hand, a significant number of institutions offer their services electronically on their web portals. However, electronic identification and payment of e-services are inconsistent for all services, thus creating confusion and discouraging the use of e-services. According to the recommendations outlined in the SIGMA report for 2015, the Ministry of Information Society and Administration should modernize the public service portal.

One of the main priorities of the Government of the Republic of Macedonia is the increase in the quality of administrative services, and in that direction, amendments to the Law on General Administrative Procedure (Official Gazette of the Republic of Macedonia No. 124/15) have been made in order to improve the provision of public services through fully coordinated and integrated public administration activities.

Since administrative procedures for providing public services are complex processes that involve the exchange of evidence and data between the institutions *ex officio*, the establishment of the Catalogue of Public Services will help in the implementation of the Law on General Administrative Procedure in the direction of systematic data management for each of the public services, in accordance with the prescribed legal provisions. The Catalogue of Public Services will be used to digitize the services, simplify the processes (administrative guillotine, cutting red tape, etc.), and above all in developing new and improving existing e-services for citizens and businesses.

Measure 13: Development of a National E-Services Portal

Description of measure

The measure envisages activities for development and introduction of a dynamic e-services web portal (National Portal for e-services), as a single contact point with state bodies according to the one-stop-shop principle and the use of standardized user interfaces. The portal will be accessible over the Internet on various web-based platforms. The visual design of the portal, ease of use, easy navigation and use of W3CG standards are particularly important. The goal of the e-services portal is to increase the efficiency of state institutions and provide faster and simpler services by creating a single contact point between citizens and businesses (e-service users) and service providers and by implementing a solution that will allow electronic data exchange between institutions in order to accelerate the e-services delivery process. The creation of e-services portal is grounded on established legal and organizational and technical measures for implementation of the one-stop shop system, which enable secure electronic data exchange among state institutions in accordance with their authorizations.

The e-services portal is closely connected with the current activities on interoperability, the National Population Register/Central Electronic Population Register, the Catalogue of Services, as well as establishing Halls for public services (Single point of services), and harmonization with EU legislation²⁹.

In the first phase of the development of the Portal, the services will be directed to the citizens, but in the further development the portal will be the basis on which more and more services will be built for the business community. Some of the services (such as the M1/M2 template,

²⁹relevant EU acquis (Regulation 910/2015 and its implementing acts, Directive 95/46 and Regulation 2016/679, and Directive 2003/98), as well as policy documents (EU eGovernment Action Plan 2016 – 2020, updated European Interoperability Framework, EU eGovernment Report 2016); Law on Electronic Management and its by-laws, Law on Data in Electronic Form and Electronic Signature, Law on General Administrative Procedure etc.

certificate of non-conviction, etc.) are services that are of relevance for the citizens and businesses, which will be available on the portal.

The catalogue of services should be based on material laws regulating the services. It should cover all public services, data and evidence necessary for the realization of these public services, legal deadlines for the provision of services, distinction of data and documents that will be obtained ex officio and those that citizens and legal entities will have to attach to the requests, which are of a personal nature and are found in the records of public authorities, legal remedies for each of the services, the level of fees and taxes for the service, etc.

A software solution for managing the Catalogue has already been developed, and so far it has included data on services from 26 laws, more precisely for 199 services.

Expected benefits from the established Catalogue of Public Service are:

- improved records and overviews of public services provided by state institutions;
- control and verification of the compliance of services with the Law on General Administrative Procedure;
- unified services under the Law on General Administrative Procedure;
- visibility of services by competent institution;
- services correlated to the laws, decrees, rulebooks and sub-legal acts published in the "Official Gazette".

Planned activities in 2018

- Improvement of the legal framework for electronic management - Draft revision and change of the Law on electronic management and its bylaws;
- Adoption on the Law on e-services and its bylaws, especially for defining the level of fees for e-services;
- Development of new electronic services in accordance with the EU benchmarks and directives;
- Launch of the National Portal;
- Realization of communication plan for promotion of the National Portal for e-services;
- Conducting training for the employees in the administration who will be users of the portal;
- Enter data in the service catalogue with services from other laws;
- Carrying out a qualitative analysis on catalogue data in order to identify services where it is recommended to shorten the list of evidence and documents required to obtain the service (administrative guillotine).

The activities for development of the portal and the communication plan and its promotion will be implemented within the IPA project "Support to public administration reform and capacity building of MISA", while activities for the Catalogue will be carried out by MISA in cooperation with other institutions.

Planned activities in 2019

- Conducting an analysis of the use of the National Portal for e-services with recommendations for future improvements.
- Maintaining the National Portal for e-services and upgrading it with new e-services, primarily services for the business community, users and functionalities.
- Realization of the communication plan for promotion of the National Portal for e-services;

- Conducting trainings to relevant officials from the administration about the amendments in the Law on Electronic Management and Implementation of the Law on Electronic Services;
- Conducting training for the employees in the administration who will be users of the portal;
- Conduct a qualitative analysis of data in the Catalogue in order to identify services where it is recommended to shorten the list of data and documents required to obtain these services.
- Conduct an analysis for linking the Catalogue of Public Services with the National Portal for e-services for the purpose of automated changes to the processes of the Portal based on changes in the Catalogue and providing recommendations.

The activities will be implemented by the MISA in cooperation with other institutions.

Planned activities for 2020

- Maintaining the National Portal for e-services and upgrading it with new e-services, users and functionalities.
- Regular updating of the data in the Public Services Catalogue.
- Implementation of the recommendations from the analysis of 2019.

The activities will be implemented by the MISA in cooperation with other institutions.

Expected impact on competitiveness/ rationale of the measure

The National Portal for e-services is expected to reduce the administrative burden on citizens and businesses and increase the efficiency of businesses. The savings, i.e. the reduction of the administrative burden for the business community, are aimed at saving money and time.

Reducing the time for obtaining the services, where they will be available from the workplace, will allow the time needed to obtain the services of the counters, to be used for other tasks of the employees. This in turn entails a reduction in fixed costs for products and services provided by businesses, which in turn impacts the difference to invest in new employments, expand production and the list of products/ services or reduce their prices, that is, greater competitiveness of businesses.

Estimated cost of the activities and the budgetary impact

The estimated cost for the development of the National Portal, which is a component of a larger service contract, is 518,980 Euros.

The cost of the service catalogue is 200,000 Euros (100,000 Euros in 2018 and 2019).

Expected impact on employment and gender

Reducing the time for obtaining services by reducing fixed costs for products and services provided by businesses affects creating opportunities for new jobs. Electronic services are equally accessible to all citizens and businesses, regardless of location (urban and rural), gender and social background, degree and type of disability, etc.

Potential risks

Insufficient coordination and communication between the institutions that need to be involved with providing e-services on the portal. The likelihood that this risk will occur is small, since MISA has formed a working group with stakeholder representatives.

4.3.5 RESEARCH, DEVELOPMENT AND INNOVATION (RDI) AND DIGITAL ECONOMY

The Small Business Act's implementation assessment ranks the Republic of Macedonia as the leader among Western Balkan countries in terms of innovation policies for small and medium-

sized enterprises. However, despite the significant progress made in designing, implementing and monitoring of innovation policies from 2012 to 2015³⁰, the latest indicators of the European Innovation Ranking List (2017) still categorize the Republic of Macedonia as a "moderate innovator" compared to the other European countries. This ranking stems from the poor performance (below the EU average) in several key indicators, in spite of the steady progress in relative performance (10.4%) from 2010 to 2016.³¹

Although the analysis identify enhanced export of medium and high technologies and increased public investment in research and development, the total expenditure for RDI as a percentage of the GDP remains significantly low which points to modest investment contribution from both the public and the private sector. However, SMEs in the South-eastern Europe region no longer identify the access to finance as primary obstacle for business development. Instead, they primarily refer to the lack of programs for strengthening the financial literacy and investment readiness, especially for newly established enterprises.³²

The level of cooperation between the academy and the business sector also remains insignificant compared to the EU average³³. Strong barriers remain between the business and academic community such as: (i) absence of the 'third mission' of co-operation with industry in Higher education institutions (HEI), (ii) absence of private sector representation in Governance Boards of HEIs and PROs, (iii) insufficient 'Triple Helix' type events to create opportunities for business and academia to meet, (iv) insufficient innovation vouchers which could initiate small-scale collaboration, and finally (v) substantial low number of collaborative grants for more mature projects. Industry-academia-government partnerships for innovation can accelerate value creation in innovation when the actions of these three stakeholders are coordinated and the main challenge in implementing such partnerships is to ensure effective communication between the three stakeholders, in light of their different priorities, environment and mind-sets.

Promoting innovation at firm level (for example, creating new products, processes and services and/or upgrading the quality of existing products, processes and services) is central to Macedonia's competitiveness and enhanced research and innovation capacity will facilitate regional integration, integration into the European Research Area (ERA) and compliance with EU requirements and standards in key industries.³⁴ Innovation-driven and export-oriented development in Macedonia requires a policy change and a deepening of public sector support for research and innovation. According to the data from the above analyses, providing systematic and sustainable financial support at all stages of the innovation cycle (from the initial idea to the commercialization in the global market), including mechanisms for supporting the cooperation between the academy and the private sector, as well as strengthening the research base and the private sector capacities for investment absorption are a serious challenge. Addressing those challenges would enable the country to build an innovation ecosystem, which would facilitate transition towards a knowledge-based economy. The key strategic documents through which these challenges are coordinated are the Innovation Strategy 2012-2020, the Competitiveness Strategy 2016-2020 and the Comprehensive education strategy 2018-2025.

Measure 14: Improving infrastructure and access to finance for research, development and innovation

Description of measure

³⁰ SME Policy Index: Western Balkans and Turkey 2016

³¹ European Innovation Scoreboard 2017

³² Assessment framework for research, development and innovation Competitiveness in South East Europe A POLICY OUTLOOK,2018

³³ Competitiveness in South East Europe A POLICY OUTLOOK,2016

³⁴ World Bank, Policy Notes 2017

The Fund for Innovation and Technology Development is positioned as a central institution in the national innovation ecosystem, providing support for innovative projects. Until October 2017, 37 companies have received financial support in a total amount of 1,256,785.00 euro as co-financing for their projects. The funds have been awarded in a form of competitive grant-schemes under two support instruments of the Fund: (1) Co-financing grants for newly established enterprises: start-up and spin-off; and (2) Co-financing grants and conditional loans for commercialization of the innovation. In light of the diagnostics elaborated above, in 2017, the Fund worked on drafting bylaws for introduction of new instruments for support of the innovation activity that would be piloted in the forthcoming period:

Instrument III – „Co-financing grants for technology extension“

The instrument is intended for conducting needs analysis and introduction of new, advanced technologies that would improve the performance of Macedonian SMEs and would improve their competitiveness on the domestic and foreign markets. The advanced technologies would further enable and enhance innovative activities in the enterprises and consequently increase the absorption capacity for investment capital of the private sector.

Instrument IV - "Co-financed grants for the establishment, operation and investments of business-technology accelerators"

The instrument will support the establishment and operation of business-technology accelerators as entities providing infrastructural and financial support for innovation activity. The business-technology accelerators are expected to play a key role in the national innovation ecosystem by providing resources (technical and financial) leading to an accelerated and sustained growth of start-ups and to significantly strengthen human capacities within start-up companies, hence, contributing to increased readiness for investment and venture capital.

Instrument V – Technical assistance to support innovative business

The instrument is intended for provision of external expert support to innovative enterprises (e.g. innovation potential analysis, innovation management, protection of intellectual property, investment readiness and fundraising for innovative projects, development of innovation projects, technology transfer, strengthening the cooperation between the academia and the private sector, etc.) at favourable terms. The Fund is currently providing technical assistance of this sort to its grant beneficiaries. It is expected that, based on the positive experience, this instrument would make such services available to all innovative companies.

Instrument VI –Introduction of innovation in the public sector and organization of thematic challenges

Through this instrument, the Fund will provide additional financial and technical assistance to encourage the SMEs innovative activity. The Fund will organize competitions, thematic challenges, prototrons and / or hackathons aimed at finding innovative solutions to problems of global and national interest, as well as, for the needs of the public institutions and the public enterprises. On one hand, these activities would enhance the demand for innovative solutions on the national market, on the other hand, the introduction of innovation in the public sector will contribute to increasing the quality and effectiveness of public services.

Activities planned in 2018

- Adoption of the bylaws for the newly designed instruments,
- Piloting the new support instruments (announcing the first public calls under all of the newly designed instruments).

Activities planned in 2019-2020

- Implementation of the new support instruments (announcing public calls according to annual work plans and monitoring of the granted projects),
- Monitoring and evaluation of the results on programme level.

Expected impact on competitiveness/rationale of the measure

Increased investment in RDI leads to introduction of innovative products / services / processes which contributes to increased quality of goods and services available on the market and increases the capacities of domestic companies to meet international safety and quality standards. The above-mentioned support instruments are expected to enhance public and private investment in RDI (as a percentage of GDP), to increase the number of companies that have introduced an innovative product/process/service, to strengthen the human capacities of SMEs and foster cooperation between academia and the private sector.

Estimated cost of the activities and budgetary impact (in Euros)

Instrument	2018	2019	2020
III.	675.000	400.000	325.000
IV.	542.000	500.000	458.000
V.	250.000	200.000	200.000
VI.	200.000	250.000	300.000

The amounts in the table are shown according to the predicted annual disbursement. The funds for financing the instruments III and IV are provided by the Loan Agreement with the International Bank for Reconstruction and Development (World Bank). The funds for instruments V and VI will be provided through the Rural Development Program (IPARD). The budgeted amount corresponds to 1% of the total annual IPARD budget, an amount that pertains to the Fund in accordance with the provisions of the Law on Innovation Activity.

Expected impact on employment and gender

Through investments in research, development and innovation, the competitiveness of domestic companies on the domestic and global markets increases, resulting in economic growth and increased number of jobs, especially of highly skilled workforce. Facilitated access to finance and sharing of investment risk remove one of the main constraints on women entrepreneurship.

Potential risks

Further strengthening of FITD capacities is a prerequisite for successful implementation of the instruments listed under this measure. Improving SME investment readiness in parallel with the increase in financial support is crucial for the absorption of available funds. The insufficient complementarity of the resources and mechanisms poses a significant risk to the further implementation of the existing and the new instruments for support of innovation activity. For this purpose, in the forthcoming period, the Fund will strengthen its human resources with new employments and by providing tailored trainings for its employees. The Fund will also invest additional effort to provide technical assistance for strengthening the capacities of the potential applicants and the grant beneficiaries, especially in regards to elevating their investment readiness in parallel to the implementation of all support instruments.

Measure 15: Triple helix partnership - Establishment of the National Office for Transfer of Technologies

Description of the measure

Triple Helix partnership as a potential for innovation and economic development in a knowledge based society plays a significant role for universities, industry and government to create new institutional and social formats for the generation, transfer and application of knowledge. Thus,

Ministry of Education and Science has initiated establishment of the NTTO as a mechanism for connecting and facilitating co-operation between academia, business and government. All preparatory activities for NTTO establishment are completed. In October 2016, the draft amendments to the Law on Innovation Activity for providing a legal framework for NTTO and inclusion of the Fund for Innovation and Technological Development as one of the founders of the NTTO were adopted by the Parliament of the Republic of Macedonia. After the formation of the new Government and after the conducted analysis of the legal solutions, amendments to the legal measures in the part of the innovation activity, which are foreseen in the NPAA 2018, are proposed. The NTTO is expected to start functioning in the first half of 2018. Based on the analysis of the potential, priorities, and strategies of the country, it is concluded that there are three main sectors that should be included in the technology transfer process:

- I. Agriculture,
- II. Information and communication technology –ICT,
- III. Renewable resources of energy (green energy)

Projects from several (5-10) „additional areas“: chemical, pharmaceutical, metallurgical, mechanical, automotive industry, the creative industries and tourism will be supported by NTTO, if they are identified with sustainable results from research and development, experience in running applicative projects and commitment. Besides technology transfer, NTTO will offer a wider set of services, including research agreement management, encouragement for increased collaboration between universities and the industry, support to the universities and the industry for activities related to technologies and intellectual property. As a result of these services, NTTO should generate income, which will support its activities in the long run, given the fact that technology transfer is not a profitable business, but a mechanism for developing the economy. NTTO will prepare a registry of experts from different industrial sectors in the country, as well as a registry for available laboratories and laboratory services acquired from the “Equipping laboratories for scientific research and applicative activities” project, to the end of increasing the availability to the final consumers. The following final consumers are identified: scientific and research institutions, public and private universities with a research potential, start-ups and spin-offs, SMEs, innovative companies and industries, foreign technology-oriented companies interested in a collaboration with local partners, existing and potential foreign investors, economic chambers, government institutions, nongovernmental organizations and foundations, cluster associations, research companies, consultancy companies and banks.

Activities planned in 2018

Operationalization of the NTTO (staffing a team, equipping the NTTO, organizing trainings for the employees, establishing the processes and developing a strategy for industrial property protection, developing a marketing strategy, funding strategy, strategy for securing funding sources, and establishing a financial reporting and control system). Responsible institution: Ministry for education and science – Project for skills development and innovation support.

Activities planned in 2018/2019

Support to at least 5 pilot innovative projects in the first functioning year (2019), a double increase of the target in the second year and a continuous increase of the number of supported projects yearly from the third year onwards. Responsible institution: Ministry for education and science – Project for skills development and innovation support and NTTO.

Activities planned in 2019/20

Submitting at least 5 patent analyses and 2 patents in a period of 4 years. Responsible institution: National office for technology transfer.

Expected impact on competitiveness/rationale of the measure

This measure is expected to stimulate key elements of an innovation economy, i.e. entrepreneurship, commercially oriented research, university-industry partnership, and risk taking that can lead to improved exports of products and services. It will enhance: interdisciplinary exchange of information, national and international technology transfer and commercialization, appreciation of importance of innovation and IP among stakeholders, in-licensing and technology importation all with the goal of fostering local economic development and helping move the ecosystem towards the innovation frontier and integrating the innovation activities of Macedonia with EU programs. Enhancing innovation capacity and efforts to evolve toward a knowledge-based economy provide opportunities for more and higher value-added employment, and ultimately greater productivity and economic growth.

Estimated cost of the activities and budgetary impact

Within the "Project for development of skills and support to innovations" (funded by a loan from World Bank), implemented by the Ministry of Education and Science, EUR 870,000 are allocated for the provision of technical assistance and financial resources, as well as acquiring databases for purchasing a patent and researching the market to the end of facilitating the initial phase of the NTTO creation. The funding of NTTO is planned to be conducted through the SKILS project until the middle of 2019, until when NTTO is expected to become sustainable primarily on account of revenues it generates from the industry for services rendered. The Government of the Republic of Macedonia undertakes activities to provide additional financing for NTTO from the People's Republic of China through funds for supporting innovation activity.

Expected impact on employment and gender

NTTO will also focus on the large companies and will encourage their cooperation with the universities, especially through the development and the implementation of practice needed for projects on master and doctoral studies, and specific educational programs. All involved stakeholders are expected to have benefits from the NTTO activities, because it should encourage the commercialization of technologies, and the absorption of knowledge on a national and global level.

Potential risks

- Lack of inner technological capabilities – the import of technology does not mean a complete understanding and knowledge of the technology.
- High cost of technology – the high cost in resources for integration of the existing well developed tool or methodology can occur as a result of the high operational and/or maintenance costs.
- Organizational resistance and communication barriers – the basic elements for a successful technology transfer are a secure source of useful information, commitment to information exchange, and flexible information transfer channels.
- Business risk – arises from the constant changes of the business context, and can be a costs risk, demand risk, exchange rate risk and interest risk.
- Inadequate policy framework and instruments that will stimulate greater co-operation between the business sector and the academic community by introducing innovative vouchers, business and technology incubators, a science and technology park that will complement the country's innovative ecosystem.
- Lack of national and institutional policies that will stimulate mobility between research and development companies and universities and research institutions to promote the commercialization of new technologies.

In order to overcome the potential risks, the Ministry of Education and Science undertakes several activities:

- The NTTO will provide a wider range of services, including technical assistance and capacity building to potential users of services (for introducing new technologies), supporting the preparation of project proposals for research that have market potential for commercialization.
- Establish and equip the NTTO as soon as possible and promote it by organizing events for the presentation of the mission and activities of NTTO by interacting all interested parties in order to reduce the potential resistance, the communication barrier and to feel the ownership and the benefit of the NTTO.
- Preparation of a new Law on Higher Education and Law on Scientific Research Work that will provide a comprehensive framework for creating national and institutional policies for greater autonomy in the work of universities, possibilities for introducing mechanisms for supporting cooperation and mobility between companies who invest in research and development and universities and the preparation of joint projects for basic and applied research, greater financial autonomy and responsibility at universities and the introduction of new governance model at universities.
- Reforms in the model of financing higher education through the establishment of indicators for allocation of budget funds, consideration of the possibility of introducing performance contracts with universities that will be aimed at realization of national goals and policies, mechanisms for supporting cooperation between the academy and the private sector and strengthening the research component at universities through reviewing the possibilities for increasing budget funds for the research component.

4.3.6 TRADE RELATED REFORMS

The trade policy of the region, in accordance with the CEFTA Agreement, provides for a significant level of openness in the commodity market and the possibility of wider liberalization of trade in services. In the Multi-Action Plan for the region adopted by the Prime Ministers of the Governments of the region at the Summit in Trieste on July 12, 2017, the following measure is defined "creating a regional economic area, as a support of efforts to attract more investments and removing obstacles in trade, as well as simplification of procedures for accessing markets in the region based on EU compliance. There are no tariffs and quotas in mutual trade in the region, whereby mutual trade is around 12%. This percentage does not reflect the real state of development of the trade in goods due to the difficulties that the business community in the region faces, compared to trade with EU, which exceeds 60-70%.

Customs clearance procedures are slow and deter trade. According the Doing Business indicator Trading across borders the time to export (border compliance efficiency) is 9 hours, which is three times above the average in the OECD and the EU. Facilitating access to import, export and transit procedures for goods in order to shorten the waiting time for customs procedures will help develop regional trade. In this respect, it is necessary to simplify the customs and inspection controls, to reduce the formalities to the possible maximum range, to exchange data using electronic means and to facilitate access in the import, export and transit procedures for goods, and to shorten the waiting time during the customs procedure. That will reduce the costs and will increase the export.

Measure 16: Simplification of procedures for access to markets in the region

Description of measure

In order to strengthen and improve the quality of risk analysis, as well as to establish regional standards for mutual recognition of programs, documents and inspection certificates, as well as to facilitate trade in goods, CEFTA countries undertake activities for application of regional protocols which will be an integral part of the CEFTA Agreement.

Achievement in the process of negotiation is in respect with the deadline given in point 26 of the Final Declaration adopted by the Chair of the Vienna Western Balkans Summit on 27 August 2015, to conclude the Additional Protocol prior to Western Balkan Summit in France, held on 4 July 2016.

This measure is aimed towards SEE Strategy 2020: in the Pillar "Integrated Growth" is created a new development model in Dimension A "free trade area". The Dimension is directed towards facilitating trade and liberalizing trade in services.

Activities planned in 2018

Application of the Regional Additional Protocol 5 on Trade Facilitation. In 2017, the Republic of Macedonia started the process for ratification of the protocol, which should enter into force in 2018. An effective enforcement of the protocol is expected in late 2018 after all the CEFTA countries complete the ratification process.

The exchange of information among domestic institutions in relation to Additional Protocol 5 will be done via common environment infrastructure based on the Law on electronic management. If a need arises for eventual legal amendment, it will be considered within the Measure 14: Development of a National E-services Portal, where improvement and revision of the law is foreseen for the purposes of development of the portal.

Activities planned in 2019

Developing transparent tools (expanding the TRACEE certificate for veterinary certification, creating a phytosanitary certificate system) and upgrading customs systems intended for data exchange between customs authorities in the region.

Expected impacts on competitiveness/rationale of the measure

The measure will contribute to transparent tools and simplified customs and trade procedures to eliminate possible export risks and smooth access to markets in the region through the creation of a one-stop-shop system (information system) between customs authorities and inspection bodies for veterinary and phytosanitary control, to shorten the waiting time during customs control. The customs and inspection authorities, which have the authority to carry out control of the goods at the customs terminal within the information or TRACEE system to exchange information for the preparation of a customs declaration or a veterinary or phytosanitary certificate issued before the goods, arrive at customs control. The system will decrease import and export costs and time needed to export and import goods. It is estimated to reduce the trade costs and the average time needed to import and export to other CEFTA countries by 47%. It will increase the exports to other CEFTA countries by 3.5% annually.

Estimated cost of the activities and budgetary impact

Planned activities in 2018 within the IPA Project for CEFTA countries with funds of 4.8 million Euros for the period up to 2020 and 55.1 thousand Euros for 2019 will be proposed in the budget of the Republic of Macedonia for upgrading the customs and veterinary system.

The investment of 51.500 Euros is needed for purchase of hardware and communication resources (servers, firewall/routers and switches) for the Customs and inspection authorities and additional 3.600 Euros are estimated for annual internet running costs.

Expected impact on employment and gender

Cannot be estimated at this stage

Potential risks

In order for the Protocol to come into force, at least three countries need to ratify it. Having in mind that the Multi-Action Plan for the Region defined the measure "creating a regional economic area" in support of efforts to attract more investments and removing barriers to trade, as well as simplifying the procedures for accessing markets in the region based on EU compliance", it is expected that the Protocol will be ratified by all CEFTA countries so that the activities for facilitating the regional trade can continue.

4.3.7 EDUCATION AND SKILLS

Even though the access to education has improved, still the challenges remain in the area of provision of skills for the „new economies“³⁵, as well as for the linking of the educational system with the needs of the private sector. The systems of vocational education and higher education put their accent on the traditional cognitive skills, and in the case of vocational education, the focus is put on the tightly defined professional profiles, with low vertical and horizontal flexibility. The findings of a survey conducted by World Bank in the project STEP for skills measurement, show that the demand is growing for "new economy" skills, such as capability for completing complex tasks, analytical and organizational capabilities etc., which cannot be automated. These findings indicate that the education system has to change its role from teaching facts and theory to developing skills, which can be applied to different workplaces.

The vocational education and post-secondary education do not attract sufficient number of students due to obsolete and unreformed profiles. Therefore, there is an on-going reform of the VET curricula with modular approach. According to the OECD Competitiveness in SEE Report, Macedonia has an index of 2.5 (ranging from 1 to 5) for the cooperation between the Centre for vocational education and the business community, which is higher than most SEE countries (Serbia, Bosnia and Herzegovina, Kosovo, Montenegro). However, there is a lot of room for improvement of this cooperation.

Employers are still not aware of the essential role played by the National Occupation Standards (which provide information on the workplace and the knowledge, skills and competencies required to perform the tasks and constitute a base for preparing qualifications) and the standards of qualifications in the creation of relevance between businesses and vocational education and training. VET students need to be prepared to enter a rapidly changing labour market.

In order to optimize (efficiency and effectiveness) of the VET system in the country in terms of expenditures and relevance to the local, regional and national labour market as well as needs assessment of the VET institutions and schools will be done. The aim is to provide adequate basis for establishing Regional Centres of Excellence. This activity would encompass training for qualifications of the existing VET staff. Also, focus will be given on further development of the mutual cooperation between the VET schools and the business community with an aim of improving the youth employability. The idea is to boost the work-based learning by encouraging the companies to invite and accept students on practical education and training with the purpose of equipping them with skills for specific job requirements.

The main obstacles in the high education are the insufficient quality of the high education along with the not fully functional accreditation and evaluation system of universities, and the non adjusted study programs to the labour market needs.

³⁵ World Bank Country Partnership Strategy for the Republic of Macedonia 2015 – 2018

Almost one third of recent graduates have a job that is not aligned with their field of study. The research on graduates shows that such a horizontal mismatch is an obstacle to retention of careers for postgraduate students with a master's degree. In addition, more than half of recent graduates are "vertically" mismatched, with one third are overqualified for the job, and one fifth being under qualified for the work. Another key challenge is the lack of work experience that many graduates have when entering the labour market, as well as the problem that the higher education system does not equip them with sufficient and appropriate skills, which limits their job opportunities³⁶. As a result of these findings, the ministry, in cooperation with higher education institutions, is working to adopt a new Law on Higher Education and in cooperation with the World Bank, a new model for financing universities based on outcomes results.

The main challenges for the informal education and adult education sector are the noncompliance between the demand and supply of adult education due to lack of information for the labour market needs, low awareness of the population and the companies, lack of a system for validation of the nonformal and informal learning.

The role of the NQF, as instrument of communication and reforms of the education system is very important for the reduction of the mismatch between the supply and the demand of workforce and getting the needed qualifications as per the requests of the labour market.

The improvement of the qualifications system should provide for creation of jobs, and at the same time, the improved skills should influence the increase of the income of the companies and the individuals (salaries) on the labour market.

The key strategic documents targeting these challenges in a coordinated manner are: SEE Strategy 2020, Comprehensive education strategy 2018-2025, VET strategy in the context of lifelong learning 2013-2020, Adult education strategy etc.

Measure 17: Further development of the qualification system

Description of measure

The development of the qualifications system in our country enables establishing a balance between the supply and demand of knowledge, skills, competences, equal access to the education and training system, gaining qualifications in differ manners, mobility of qualifications and strengthening of the social dialogue. The analyses have shown that there is a huge discrepancy between the skills offered in the educational process and the needs of the employers. There are several sectors that can't find employees with adequate qualifications and skills. Therefore, the NQF for lifelong learning was developed as a tool for the reforms in the education and training system and as tools for communicating a quick response to the needs of the employers.

National Qualification System will be supported by the Skills Observatory as a strategic tool through which the Ministry of Education and Science will analyse the adequacy of the skills students have in correlation with the demands of the labour market in order to continuously improve the curriculum in accordance with the requirements of the employers. The Skills Observatory will also support key national stakeholders, including universities, secondary schools, training providers and individuals interested to contribute to increasing employability. The Objective of the Skills Observatory is to support the development of evidence-based policymaking for the development of vocational and professional education in Macedonia, by providing adequate analytical and informational capacity

As a result of this measure we expect that qualifications will be developed and available in accordance with the needs of the labour market, in order to create competitive labour force, to

³⁶ European Commission, Report on Higher Education Provision and Labour Market Needs

increase employability, especially with the young and vulnerable groups, to create new jobs, to enable more comprehensive planning of skills and competences, to better describe the needed skills for the work place by using the results from learning and to identify the transversal skills of the employees. Special focus is put on the vocational education and training. The reforms of the VET have already started and according to the labour market analysis, there are over 79 qualifications for the formal education and 5 standards of qualifications for the non-formal education. For the faster employability were developed 76 qualifications in the three-year education (standard of qualification and curricula) (47 standards of qualification in the VET with duration of three years out of which 13 standards of qualification are redesigned, 34 are new and 29 are in the vocational training with duration of two years). In the education of adults there 34 special programs which were developed, as a possibility to get qualifications, pre-qualification or additional qualification, in accordance with the needs of the labour market and the development of the technology.

The cooperation with the employers has deepened through practical learning with employers, who prepare the students for future work processes and through the preparation of the curricula and syllabi. So far, 379 and 358 certified mentors in companies were trained, who lead the students through the learning process in the company. Also, in cooperation with the employers were developed around 200 occupation standards. A working group for preparing new law on higher education has been established, and a debate with relevant stakeholders is on-going.

This measure has been implemented since last year and all planned activities have already started

Planned activities for 2018

Planned activity	Responsible institution
1. Development of 10 new qualifications according to the requirements of employers and new technologies in companies	- National Board for the Macedonian Qualifications Framework; - Sectoral committees - Ministry of Education and Science - Centre for Vocational Education and Training - Employers
2. Establishing three sectoral committees for qualifications	National Board for the Macedonian Qualifications Framework
3. Implementation and operationalization of the Skills Observatory system. Establishing a connection with the information systems of all involved institutions and collecting data from them. Conduct training for using the Skills Observatory for MoES staff involved in the process of creating educational policies.	Ministry of Education and Science - Skills Development and Innovation Support Project
4. Development of 5 special programs for adult education and training for additional qualification or pre-qualification for easier mobility and employability in the new companies	- The Adult Education Centre - Providers of educational services
5. Strengthening of cooperation between higher education institutions, as well as with the vocational secondary schools in order to provide quality practical work for students in companies and possibility for the workforce to be recognized by the company where the practical work is taking place.	- Universities and higher education institutions - Secondary vocational schools - Firms, companies.

Planned activities in 2019

Planned activity	Responsible institution
1. Development of 5 qualifications required by employers and flexible access for their acquisition	- National Board for the Macedonian Qualifications Framework;

	<ul style="list-style-type: none"> - Sectoral committees - Ministry of Education and Science - Centre for Vocational Education and Training - Employers - Providers of educational services
2. Development of programs for training for specific jobs, for additional qualification	Providers of educational services and higher education institutions
3. Strengthening of cooperation between higher education institutions and the private sector, and vocational schools and the private sector to provide quality practical work for students in companies.	<ul style="list-style-type: none"> - Universities and higher education institutions - Secondary vocational schools - firms, companies

Planned activities in 2020

Planned activity	Responsible institution
1. Training for transversal skills upon request from employers	<ul style="list-style-type: none"> - Employers - Providers of educational services
2. Validation of non-formal education to acquire specific qualifications (establishment of a system for validation and recognition of previous study)	<ul style="list-style-type: none"> - Centre for vocational education and training - Special accredited institutions for validation of non-formal education

Expected impact on competitiveness/rationale of the measure

The measure will contribute to reducing the mismatch between education and the labour market, acquiring skills and competences that will meet labour market needs, recognizing acquired qualifications in the country by foreign investors and recognition of qualifications acquired abroad by domestic and foreign employers for easier employability of job seekers and competitiveness of enterprises. The higher quality of the qualifications will enable the improvement of the efficiency and productivity of the companies, of the innovations and the reduction of the costs for training for additional qualifications of the employees.

Estimated cost of activities and budgetary impact

	2017	2018	2019	2020
Budget expenditures (in Euros)	1,822,635	1,617,632	263.650	288.750
Non-budget financing (in Euros)	2,043,000	3,000	310.000	310.000

Expected impact on employment and gender

Increasing the quality of the curricula based on learning outcomes, designed to address the proper needs of the labour market and the employers, will lead to acquire the knowledge, skills and competences that will enable the students to enter the labour market and find a job easily. Additionally the strong transversal skills, acquired due to the new reformed curricula will contribute to a better mobility of the working force, career development and productivity of the companies. Most of the companies in Macedonia are SMEs, which do not have a capacity to recognize and develop the potential of the employees working in their company; therefore the NQS system as a meeting point for all stakeholders will contribute to a better recognizing of the needed skills and competences.

Potential risks

- Lack an overall framework for the implementation of all activities might contribute to various non-systemic decisions, caused by weak communication and various approaches;
- Insufficient capacities for administering the implementation of activities contributes to the delay of activities and discourages all participants to join the process;
- Lack of common approach might make the implementation of certain activities harder and to cause change of attitudes in the institutions which are willing to work;

- Effective leadership of the reform process is crucial for making important decisions throughout the entire process and for effective flow of activities;
- Insufficient interest of the relevant interested parties, process not realized. This applies particularly to the active participation of the employers, whose opinions and suggestions are crucial.

In order to overcome the potential risks the MoES undertakes the following activities:

- Establishing of all accompanying bodies for support of the National qualification framework (sectoral committee); These bodies according to the NQF Law are consist of employers' organization, trade unions, students, HE institutions, government institutions, associations etc. and are responsibly on a regular basis to improve the qualification system in Macedonia, through identifying the gaps and proposing possible solutions;
- Strengthening of the awareness for the role of the NQF will contribute to the increased communication and better coordination in the policy making process;
- Improving the system for collection of data and analysis of the forecasts for the needs of the labour market will lead to recognize what is needed for improving and tuning the educational programmes, creating new qualifications and strengthening the quality assurance procedures;
- Finding adequate instruments for the motivation of employers.

4.3.8. EMPLOYMENT AND LABOR MARKETS

In the period between 2012 and 2016, the number of employees in the Republic of Macedonia increased by 73,000 i.e. 11.2%. The average annual growth rate of the number of employees was 2.8%. The largest number of new jobs was observed in manufacturing; construction; trade; and public administration and defence, and compulsory social insurance.

In 2016, the employment rate among population aged 15–64 was 49.1%. It still, however, remains at a low level and indicates an insufficient utilization of workforce as a development potential. The gender gap in employment is high. The employment rate among men (58.6% in 2016) is higher than the employment rate among women (39.2%) by 19.4 pp.

The employment rate among young people is low, that is, only 16.2% of young people aged 15–24 are employed. One of the reasons for this is the low activity rate of young people (31.3%), which is mainly due to their participation in the education system. The share of young people (aged 15–29) not in employment, education or training (NEET) is 31.3%, with women, compared to young men, being more likely to not be in employment, education and training.

The share of the informally employed in the overall number of employees is 18.5%, decreasing by 4 pp compared to the year 2012. Approximately half of the informally employed are in the agriculture sector, and, according to their economic status, about half of them are unpaid family workers. In terms of the share of the informally employed in the overall number of employees by gender, the rate among men is 20%, whereas the rate among women is 15%.

Despite the continuous decline in the unemployment rate, the Republic of Macedonia is still facing a high rate of unemployment. The unemployment rate in 2016 was 24% (a drop from 31.2% in 2012), and there are no major gender differences.

Notwithstanding the positive trend, there is a high unemployment rate among young people, which tends to drop as their level of education rises. Among the youth, the low rate of created jobs in the labour market and the high unemployment rate result in high long-term unemployment. Moreover, 60% of all unemployed persons are also seeking work through the

Employment Service Agency of the Republic of Macedonia.

The activity rate in 2016 was 64.5%³⁷, which presents an increase by 0.6 pp compared to 2012. Analysed by gender, the activity rate is identical in both 2012 and 2016, i.e. 50.8%. The inactivity of women is disproportionally distributed among young women, women in rural areas, and low-skilled women, with one of the most important reasons for female inactivity being household duties. The activity rate is higher among persons with higher level of educational attainment.

In accordance with the Employment and Social Reform Program 2020, the Employment Strategy 2016–2020, and the National Economic Reform Program 2015, the goal is to increase the employment rate to 46.9%, and to reduce the unemployment rate to 21.5%, by the year 2020. Bearing in mind the trends in 2016 and the first half of 2017, these goals are feasible.

Identification of problems and challenges

As part of the joint initiative of the Government of the Republic of Macedonia and the European Commission, a significant strategic document was prepared, namely, the so-called Employment and Social Reform Program 2020.

During the preparation of the *Program*, consultations and cooperation with representatives of the European Commission (DG EMPL) and the EU Delegation in the Republic of Macedonia were realized continuously. While preparing the *ESRP*, the section relating to employment and the labour market was made consistent with the Employment Strategy 2016–2020, the Action Plan for Youth Employment 2020, the action plans for reduction of the informal economy, the operational plans for active employment programs and measures and labour market services, and other relevant documents. The Employment and Social Reform Program 2020 was adopted by the Government of the Republic of Macedonia in August 2017.

According to the *ESRP*, the relevant problems and challenges include:

- Enhancing the economic development and creating new jobs;
- Improving the situation relating to unemployment, especially among the most vulnerable categories of persons (the youth, the long-term unemployed, and others);
- Tackling the informal employment;
- Enhancing the quality of work and services of the public employment service; and
- Strengthening the social dialogue in the Republic of Macedonia at tripartite and bipartite level, and at the national and local level, and enhancing collective bargaining.

As regards employment and the labour market, the joint conclusion from the Economic and Financial Dialogue 2017 is to “strengthen the outreach and coverage of active labour market policies towards the long-term unemployed, youth, and the low-skilled”.

Furthermore, in the Assessment of the Economic Reform Program 2017-2019 it is stated that “the administrative division between active registered unemployed people and others looking for work (i.e. passive unemployed people) creates an artificial and administrative barrier to the take-up of active employment measures”.

The World Bank's document Policy Note 2017 emphasizes that in order to improve the labour market outcomes, Macedonia needs to support the labour demand by providing conditions for the more productive companies to grow and employ, to improve the skill level of the population with the aim of matching labour supply and demand for modern skills and workplace skills, as well as to provide better assistance for marginalized groups to be able to enter the labour market.

³⁷ The analysis refers to the population aged 15–64.

As regards the current reasons for high unemployment, these are most often related to the insufficient labour demand, which comes largely as a consequence of the weak economic growth in the past decade and the global economic crisis.

In terms of the labour supply, the measures were mainly aimed at improving the skills of the unemployed, retraining and further qualification, supporting the unemployed youth to gain work experience, etc. However, matching the needs of the companies with the workforce supply still remains a major challenge.

The demand is mainly encouraged by improving the business environment and reducing labour costs. In the business environment domain, measures for development of SMEs and entrepreneurship were implemented.

In the past period, the impact of the active employment measures was assessed, and they were adjusted in compliance with the recommendations, quotas of minimum 30% youth participation in the active employment measures were determined, the method of measuring the performances of the participants in the employment services and measures was developed, the information on the labour market was improved and the work and services of the Employment Service Agency of the Republic of Macedonia were modernized; however, the number of employers using the services of the Employment Service Agency relating to employment mediation remains small, and the financial means for the active employment measures were not sufficient to increase the coverage of the beneficiaries of the employment measures.

Moreover, in the past two year, the profiling of unemployed persons started being implemented and individual employment plans started being prepared by the Employment Service Agency of the Republic of Macedonia, hence providing guidance to the most vulnerable categories in order for them to take part in the Active employment measures, the upgrade of which is included in the EPR 2018–2020.

The country is still facing a high unemployment rate and low employment and activity rates. The overall employment rate is low, primarily as a result of the low employment of women and young people. In the structure of employment and job vacancies, most occupations are such that require workers with secondary (vocational) education. The highest growth rates of the number of employed persons (newly opened jobs) are among the highly educated persons and persons with secondary education. A significant portion of unemployment is long-term unemployment, resulting in the loss of the knowledge and skills of the unemployed and a decrease in their productivity, which also reduces their chances of finding work. The activity of the work-age population is low, primarily as a result of the low activity of women and persons with low educational level attainment.

Measure 18: Upgrading the active measures included in the Operational Plan for Active Employment Programs and Measures and Labour Market Services

Description of measure

This labour market measure is related to the Economic and Social Reform Program 2020, the Employment Strategy 2016–2020, the Action Plan for Youth Employment 2020, and the Program of the Government of the Republic of Macedonia, mainly in the area of decent work.

The Operational Plan for the Active Employment Programs and Measures and Labour Market Services (OP) contains active policies including description of the measure, goal, scope of beneficiaries, required funds, sources of financing, competent institutions, terms and criteria, promotion, monitoring and implementation, and a financial framework. The plan is prepared and adopted by the Government of the Republic of Macedonia annually. It also includes measures for self-employment and business start-ups, subsidized salaries, training, community work, pilot measures, as well as employment services.

In 2016, funds in the amount of about 10 million EUR were allocated for active policies, and about 8 million EUR of these were spent. In that year, 8,620³⁸ persons were planned to be covered with the active measures, but 6,551 persons were actually covered; 3,618 of the covered persons were employed in October 2017.

The coverage of persons is planned to be significantly increased in 2018; 16,000 participants are also planned, for which 20 million EUR will be provided.

In the past years, active job-seekers (persons that registered in the Employment Service Agency of the Republic of Macedonia each month) were entitled to apply for the active measures in the Employment Service Agency of the Republic of Macedonia (ESA); however, in the upcoming period, this obstacle to the participation in the active policies is planned to be removed, so that all job-seekers registered in the ESA can take part. The profiling of unemployed persons and individual plans for employment (i.e. the measures from the two previous ERPs) will be used to place the focus of the active measures on the most vulnerable unemployed persons.

The *Occupational Outlook* will also be developed and will be based on the Labour Force Survey, the Skill Needs Analysis of the ESA, survey research on employers and job vacancies, data on education, employment projections, and sectoral studies. The *Outlook* is to be designed and tested by the Labour Market Unit within the Ministry of Labour and Social Policy, in order to provide more reliable information on labour demand. In the medium term, the aim is to provide adequate active measures (trainings) aimed at reducing the mismatch between supply and demand in the labour market. The data will be obtained from the State Statistical Office, the results from the HERMAC model of the Labour Market Unit within MLSP, the Skill Needs Analysis of the ESA, as well as data from the Economic Chambers and the Organization of Employers of Macedonia. For the purposes of information dissemination, a website will be developed where one could obtain information on: job description; education, training and work experience; working conditions (salary, working hours, work environment, occupational diseases and injuries); and similar occupations.

This new measure will have a direct impact on the problems and challenges in the labour market that the Republic of Macedonia has identified in consultations with EC, that is:

- Enhancing the economic development and creating new jobs;
- Improving the situation relating to unemployment, especially among the most vulnerable categories of persons (the youth, the long-term unemployed, and others);
- Increasing the coverage of the active measures for the long-term unemployed, the youth, and the low-skilled;
- Removing the obstacles to participation in active policies.

Activities planned in 2018

In the next period, a detailed analysis of active measures and programs implemented in the past years is planned to be made with the aim of incorporating the lessons learned and developing new active measures, after which the new *OP 2018* will be prepared. The plan will be discussed and reviewed by the Economic and Social Council, and it will be adopted by the Government of the Republic of Macedonia by the end of 2017. Public debates and consultations with international institutions, the civil sector and other relevant experts and stakeholders will take place during the preparation process. The situation at the regional and national level will be taken into account during the processes of creation and implementation, and the active participation of the local self-governments via the local economic councils will be secured, in order to improve the sustainability of the supported employments. As regards the vulnerable

³⁸ The data for the coverage of beneficiaries does not include the “Macedonia is Employing” project

categories in the labour market, in addition to the youth, the long-term unemployed, the low-skilled, and unemployed persons aged over 50 years, the focus will also be placed on persons that have been inactive in the labour market for more than 5 years. Moreover, activities for development of social entrepreneurship will be included with the aim of facilitating the access to the labour market for the vulnerable categories of citizens. As regards the young persons, measures for early prevention (guarantee for young people) from the loss of knowledge and skills after the completion of their education and inclusion in the labour market are to be developed.

An inter-institutional working group has been established for the purposes of the development and implementation of the Occupational Outlook; the working group is to determine the occupations to be included as a priority, the type of data that are to be collected and the sources of information, and the methods of dissemination, and is to prepare regular annual reports on demanded occupations. In the upcoming period, training will be provided for maintaining the website, entering data on new occupations, and changing the description of occupations, as well as training for processing micro data. The website is scheduled to be launched in 2018, and to be used in the process of preparation of the *Operational Plan 2019*.

Expected impact on competitiveness/rationale of the measure

Bearing in mind the aforesaid challenges that the labour market and employment in the Republic of Macedonia face, the increase in the active measures is expected to result in improvement of entrepreneurship through the measures for self-employment and training for entrepreneurship, improvement of the occupations, skills and work experience through trainings, hence reducing the mismatch of the supply and demand of workforce. Furthermore, the subsidized salaries will reduce the labour costs of small and medium-sized companies for decent jobs. The effects will be seen in the medium term through the increased competition among the small companies. The training is expected to have an impact in the medium and long term by improving the occupations and the skills of the unemployed. Furthermore, the subsidized salaries for decent jobs in developing companies are expected to stimulate investments and job creation in more productive companies at short and medium term.

Expected costs of the activities and expected impact on the budget

It is planned that 20 million EUR be provided in 2018, which presents an increase in the allocated financial resources for active measures, specifically, from 0.1% of the GDP in 2016 to about 0.2%³⁹ of the GDP.

Expected impact on employment and gender

Bearing in mind the planned larger increase in the allocated financial resources, the active measures are expected to have a relevant influence on the number of jobs by covering 16,000 participants in 2018. In order to provide gender equality, the upgrade of the plan will strive to achieve equal participation of women, that is, to ensure that half of the participants are women. For the purposes of addressing the effect of dead-weight loss, the most vulnerable categories in the labour market (persons who would be very unlikely to enter into employment without participating in the measures) will be guided to take part in the active measures through the profiling and the individual plans, employers will be obliged to keep these persons in employment following the subsidized period, and the unemployed will have to undergo a process of training prior to their self-employment or prior to having their salaries subsidized.

The focus will be placed on micro, small and medium-sized enterprises for decent jobs. Moreover, the measure is planned to have a greater influence on the activation of the inactive in the labour

³⁹ Assuming that the GDP growth in 2017 and 2018 will be 2.2% and 3% respectively. GDP growth should be made compliant with the projections in the *ERP 2018–2020* when they are ready

market by removing the obstacles to the participation in the active measures, which would increase the possibilities for activation and participation of potential 100,000 passive job-seekers in the ESA. A significant impact on the activation of the job-seekers for participation in the active measures is expected in the short term, whereas the impact on the sustainable number of jobs is expected in the medium and long term.

Potential risks

Designing and implementing the active policies in a way that they would achieve their goals presents a challenge. Furthermore, the awareness and interest of the unemployed persons and the employers presents a potential risk to the full utilization of the planned financial means and achieving the planned coverage of users.

In order to overcome these potential risks, the employers, the local community, the civil sector and other relevant experts and stakeholders will be actively involved in the planning of the active policies. Furthermore, public debates will take place and the Operational Plan will be reviewed by the Economic and Social Council. For each of the measures, there will be public informing via the national media. If there is not enough interest from employees and employers during the implementation process, the Operational Plan for Active Programs and Measures and Labour Market Services 2018 will be amended in order to redirect resources towards measures of greater interest.

Measure 19: Youth guarantee

Description of measure

The high unemployment rate among young people in the country imposes the need to undertake measures aimed at improving their situation on the labour market, primarily by facilitating the transition from education to employment. In this sense, with the implementation of the Youth Guarantee measure, each young person under the age of 29 will be given the right job offer, the opportunity to continue education or be included in some of the internship or training measures for preparation for employment. This will be provided to them 4 months after the completion of education or registration as an unemployed person in EARM. There are several reasons why youth unemployment and their inactivity are emphasized, such as the long-term consequences on individuals and society as a whole (lower employment and lower incomes in the later period, greater reliance on social assistance, inclination to vices and criminal acts). The Youth Guarantee Measure is a new framework for the youth employment policy, which:

- Targets young people under the age of 29 years who are neither employed, nor are they in the educational process or training, within a period of 4 months from the date of introduction into the records of the unemployed persons or completion of the educational process;
- Promotes the integration of different employment policies, measures and services in order to strengthen their coherence and coordination;
- Combines preventive and curative approaches, accompanied by strategies for accessing young people facing multiple obstacles in the labour market, and
- Establishes a broad partnership between public institutions at central and local level, as well as between them and the social partners, youth and civil society organizations and the private sector.

Unfavourable position of youth in the labour market in the EU countries after the major economic crisis led to the establishment of the Youth Guarantee, which offers the opportunity for all young people to receive an employment offer by the age of 25, to continue education or be involved in practice or training in order to further facilitate their employment within a period of

4 months after leaving the education or registering as unemployed person. All EU Member States have developed Plans for the implementation of the Youth Guarantee, which provide long-term reforms and initiatives for early intervention, activation and integration of the labour market to be undertaken in order to promote youth employment and improve the transition from education to work. The creation, implementation and results of the Youth Guarantee Schemes are monitored by multilateral mechanisms by the Employment Committee (EMCO).

Starting from efforts to improve the situation of young people in the country, as well as on the basis of the positive experiences from the implementation of the Youth Guarantee project in EU countries, the Government of the Republic of Macedonia includes the Youth Guarantee measure as one of the priority activities in its Work Program 2017-2020.

Following the example in the European countries, 3 pillars of activities are identified (early intervention, identification and inclusion and activation with integration in the labour market).

EARM will intensify its activities and introduce new methods of work that are aimed at early intervention in order to prevent the future unfavourable position of young people on the labour market and to prevent their long-term unemployment and other related problems. In this sense, these are the activities:

- info meetings with young people in schools / faculties;
- professional orientation and career counselling of students in primary and secondary schools;
- employment fairs with a special emphasis on the participation of pupils and students;
- better information on the situation on the labour market through the EARM website, social media and other applications.

The activities will be realized in cooperation with the educational institutions and will contribute to bringing the information on the labour market closer to pupils or students.

The identification of inactive young people (who are not involved in the educational process, are neither employed nor are they seeking employment), is aimed at preparing for their inclusion in the measures for activation and integration in the labour market. In doing so, a special focus will be placed on young people who face different obstacles (social exclusion, poverty or discrimination)

For that purpose, EARM will organize:

- information campaigns for awareness raising and attracting young people to engage in some of the activation measures;
- activities for identifying, contacting and involving inactive young people.

The youth organizations within the non-governmental sector shall have the main role in the process of realization of this activity, whose contribution will be significantly important.

The Youth Guarantee **begins** with the **activation measures for young people**. It will initially apply to young people who are active jobseekers and are registered for the first time as unemployed (influx). Once the unemployed persons are registered in the unemployment register, they are immediately referred to their first interview with an expert from EARM, who makes the profiling of their employability using a control questionnaire and develops the individual employment plans. The IEP defines the activities that will enable the young unemployed person in the next 4 months to be included again in the educational process (not in the regular education) or to be included in some of the measures and services for employment, which will enable him to increase his opportunities for easier employment, i.e. he will be offered appropriate employment which corresponds to his education and skills. These activities include group and individual counselling and information; providing job search assistance services;

motivational training; inclusion in one of the labour market integration measures (employment, education and training measures).

Planned activities in 2018

EARM will start the implementation of the Youth Guarantee measure in 2018, and it will be included in the Operational Plan for Active Employment Measures and Labour Market Services for 2018. Initially, the measure with all the activities which are stated above in the section "Description of the measure", will be piloted in 3 employment centres (Veles, Delchevo and Struga). This is because it is necessary to observe the implementation and any possible problems which may occur, in order to overcome and if necessary all the activities to be modified before the official start of the implementation of this measure on the whole territory of the Republic of Macedonia.

Planned activities in 2019

This measure with all the activities stated above in the section "Description of the measure", will be implemented in all 30 employment centres, having in mind the experience of the pilot implementation the previous year.

Planned activities in 2020

This measure with all the activities stated above in the section "Description of the measure", will be implemented as a regular activity of the EARM, having in mind the experience from the previous years.

Expected impact on competitiveness/rationale of the measure

All the implementation activities foreseen within this measure are expected to increase the competitiveness of young people and facilitate their inclusion in the labour market. In addition, competitiveness will be assessed through indicators that will be determined before the start of the implementation of the measure.

Estimated cost of the activities and budgetary impact

The EARM budget will provide financial means for the implementation of this activity.

In order to determine the amount of money, it is presumed that all young people which will be included in the Youth guarantee are about to be targeted with some of the active employment programs measures. Average cost per participant is given by the sum of all money spent in programs and measures in 2015 and 2016 divided by the number of participants in 2015 and 2016. The result is the average cost per individual that is multiplied by the average number of young people inflow (registered for the first time in ESARM) in 2015 and 2016.

In 2018, the planned target of participants in the 3 centres for employment is 860 people, for which approximately 70,305,000 denars will be spent.

In 2019, the planned target of participants in all employment centres is 9500, for which approximately 776,625,000 denars will be spent.

In 2020, the planned target of participants in all employment centres is 9500, for which approximately 776,625,000 denars will be spent.

Expected impact on employment and gender

The measure Youth Guarantee aims to improve the position of young people in the labour market, and hence to increase their employment or employment opportunities. The employment of young people involved in this measure will be monitored monthly, semi-annually and annually. In addition, gender representation will be monitored.

Potential risks

The physical and human capacities available to the EARM and their continuous improvement, promotion and modernization are of great importance for the successful implementation of employment policies and measures and for achieving the desired results and effects on the labour market as a whole. They are also the main precondition for the successful implementation of the “Youth Guarantee”. In EARM there are still not enough employees whose main responsibilities and tasks are related to direct work with the unemployed people (the ratio is 1:358). Having a certain number of employees in each ESC whose focal work assignment will be the unemployed young people, will undoubtedly put a huge impact of the success of this measure. Due to a lack of possibilities for increasing the number of employees in EARM, the capacities are continually improving, both through a series of internal initiatives, and through assistance and support provided through a number of significant international projects

4.3.9. SOCIAL INCLUSION, POVERTY REDUCTION AND EQUAL OPPORTUNITIES

In Republic of Macedonia there is a trend of continuous slight reduction in poverty and inequality. However, despite the positive trends, poverty in the country still is at an extremely high level, which is why tackling these challenges and enhancing the situations that affect poverty directly remain one of the main priorities of the Government of the Republic of Macedonia.

According to the latest published statistics (Laeken poverty indicators) of the State Statistical Office, obtained on the basis of the data from the Survey on Income and Living Conditions (SILC), in 2015 the at-risk-of-poverty rate expressed in percentage of population in the Republic of Macedonia was a high 21.5%. According to the most frequent status of economic activity, the rate of poor employed persons was 8.9%, whereas the rate of poor pensioners was 7.3%. The Gini coefficient (measure of inequality of income distribution) was 33.7%.

Table: Poverty and social exclusion indicators, 2013–2015

	2013	2014	2015
At-risk-of-poverty rate, % of population	24.2	22.1	21.5
Number of persons below at-risk-of-poverty threshold, in thousand persons	500.4	457.2	445.2
At-risk-of-poverty threshold of single-person household - annual equivalent income in denars	70,275	71,925	78,362
At-risk-of-poverty threshold of four-person household (2 adults and 2 children aged less than 14) - annual equivalent income in denars	147,578	151,043	164,560
At-risk-of-poverty rate before social transfers and before pensions, % of population	41.0	41.7	40.5
Inequality of income distribution, S80/S20, %	8.4	7.2	6.6
Inequality of income distribution, Gini coefficient, %	37.0	35.2	33.7

Social inclusion, as a process of integration of individuals in the society, is based on activities for constructing a modern concept of behaviour towards socially excluded persons and creating a new social model that puts the person and personality first, but respects and makes an effort to address the reasons for exclusion, affiliation, diagnosis, disability or any other basis for social exclusion of the citizen. In that respect, it is necessary to intensify the efforts for strengthening, and for better and more efficient utilization of available human and material resources, joint action, coordination and collaboration of all relevant stakeholders aimed at providing faster development, higher standard, better quality living, and development of mechanisms for social inclusion of vulnerable categories of citizens in a local context.

Identification of problems and challenges

As regards the reduction in poverty and social exclusion, one of the measures that have been taken thus far in order to ensure greater social security for the most materially vulnerable families is continuous increase in the amount of financial benefits (social financial assistance and permanent financial assistance), specifically by 5% in 2013, 2014 and in 2016, and by 10% in 2015. Additional measures are also being taken in order to improve the protection of persons at

risk of social exclusion, by introducing new financial entitlements in the field of social protection and by continuous development of community based social services.

The situation of poverty and social exclusion is also directly affected by the situation in the labour market, the employment policies, the support in the area of creating new jobs, inclusion of vulnerable categories of citizens in the labour market, as well as policies and measures in the field of education, strengthening the human capital and skills, and so on. As a result of the activities realized in this field, in the past period the rate of population at risk of poverty was reduced from 27% in 2010 to 21.5% in 2015.

However, despite the results achieved thus far in terms of reduction in the poverty and social exclusion rates in the country, significant reforms are necessary, *inter alia*, in the area of redesigning the types and adequacy of the financial benefits in the domain of social protection, as well as assistance and support to the most vulnerable categories of citizens and tackling poverty, especially bearing in mind the goal of the Government of the Republic of Macedonia to reduce the poverty rate below 16%, that is to be achieved in 2020.

All previous analyses unambiguously show that the social protection system in the Republic of Macedonia is in a phase in which essential reforms are necessary, primarily in order to improve the effectiveness of financial benefits and the efficiency of benefits and social services that are delivered to end users. The current design of the social transfers is quite uneven and inadequate, and, as such, contributes to the deepening of inequality in the society. As regards the social protection services, it has been established that they are not tailored to the individual needs of end users, and that they should be provided in the community through further implementation of the process of deinstitutionalization, decentralization and pluralization.

This conclusion is based on the performed analyses of the current social protection system and the recommendations for improvement of the social protection system, such as the analyses and assessments of the social protection systems prepared through the “Conditional Cash Transfer” project of the World Bank, the documents prepared within the “Promoting Social Inclusion Services” project financed with the support of the EU (IPA), as well as the analyses prepared with the support of the UNICEF Office, namely, Analysis and assessment of the impact of the legislation for introduction of the model of social agreements in the Republic of Macedonia and the Model of social agreements presented through the analysis of the cost effectiveness and the analysis of the benefit and costs.

The *Law on Social Protection* allows the process of pluralization in the provision of social services, but, in practice, these are mainly provided by the state. There is a lack of initiative from municipalities to establish institutions for institutional or extra-institutional social protection, as well as greater activity and involvement of the local communities in the implementation of policies in these areas, coordination at the local level between relevant stakeholders and their greater cooperation with institutions at the national level. The private initiative is not sufficiently present in relation to all social protection services; however, what can be highlighted as the reason for this is the non-existence of the amount of the cost of the service defined by the state (per hour and per beneficiary). There is an evident lack of provision of social services by the civil sector, which is usually dependant on funds provided by external donors. Hence, the access to social protection services and the coverage of the beneficiaries of these services within the established forms of social protection do not fully satisfy the needs of the vulnerable categories.

An important and comprehensive reform of the social protection system is envisaged, and is to be implemented in the upcoming period, in order to create opportunities for efficient responding to and tackling the identified challenges in the area of social protection, poverty and social inclusions.

The social protection system will be redesigned by separating the material (financial) entitlements from the provision of the social services.

The measures mentioned in this part of the document (poverty and social exclusion) are also envisaged in the Employment and Social Reform Program 2020 (ESRP), adopted in August 2017, as an important strategic sectoral document prepared through intensive cooperation and dialog with the European Commission and with active participation of all relevant stakeholders.

Measure 20: Enhancement of financial benefits in the field of social protection

Description of measure

The aim of the reform of the social protection system is to ensure the proper targeting and directing of the social benefits to persons and families that are at social risk of poverty and social exclusion. The adequacy and efficiency of the financial benefits for the materially most vulnerable families is planned to be implemented via the introduction of the program for minimum adequate income that will allow families at social risk to receive financial benefits in addition to their income in order to reach the poverty threshold. It is planned to introduce family packages and to group the entitlements from social protection and child protection. Part of these transfers will be conditioned with entry into the labour market for work-age beneficiaries, and with strengthening their work capacities.

These planned measures will have direct impact on poverty and social inclusion of the vulnerable categories of citizens.

For the purposes of the realization of this measure, the Ministry of Labour and Social Policy (MLSP) provided technical and expert assistance from the World Bank Office via the “Conditional Cash Transfer” project, as well as support from the UNICEF Office in Skopje.

Activities planned in 2018

In compliance with the activities aimed at improving the social policy by considering solutions for redefining the institutional framework of the social protection system, redesigning the financial entitlements in the area of social protection, strengthening the current and introducing new social services and the manner of providing and financing these by the established work group in the MLSP with the secured expert support from a number of national experts, a comprehensive analysis of the current situation, and the efficiency and effectiveness of the current system of financial entitlements in the area of social protection will be carried out, in order to obtain relevant and reasoned proposals and recommendations for implementing the planned reforms, and the system and regulatory changes, and for providing opportunities for improvements in this area. In the processes of designing and implementing the planned reforms and measures, the results obtained through numerous analyses and researches will be taken into account, as well as the conclusions from the held meetings with the target groups, in order to design measures and policies that will correspond exactly to the needs of the end users. Based on these activities, an assessment of the impact of the legislation will be made.

The text of the new *Law on Social Protection* is planned to be prepared by the end of September 2018, following which the consultative process with the stakeholders will commence, and, at the same time, work will be done on preparation of bylaws that are necessary for the operationalization and practical application of the *Law*.

In 2018, due to the need for changes and upgrade of the existing software solutions for administering financial entitlements, business analysts will be hired through the project of the World Bank, who will start working and preparing the new tender documentation, that is, the description of the functionalities that the new system should support (in compliance with the new legislation), in which, in addition to the rights, the social services will be covered.

Activities planned in 2019

The actual practical implementation of the new legislation will begin in 2019. The impact of the new policies on people's living standards will be monitored.

Training will be conducted for persons employed in the social protection system, in order to familiarize them with the new solutions, as well as for the purposes of their smooth implementation in practice. A public campaign on the new legal solution will be conducted via the public TV services, and the written and electronic media, with the aim of acquainting the end users.

Moreover, in 2019, the software solution for administering the financial rights and social services will continue being upgraded, and will be put into operation in the course of the year.

Expected impact on competitiveness/rationale of the measure

This measure will allow better targeting of target groups and will increase the effectiveness of cash transfers, with the purpose of exiting the poverty circle, economic strengthening and social inclusion. Furthermore, some of these transfers will have to be conditioned with the entry into the labour market for the work-age beneficiaries and with participation in programs and measures for strengthening their work capacities, which is expected to improve their employability and competitiveness in the labour market.

Expected cost of the activities and budgetary impact

This measure will be carried out by the existing staff of the Department for Social Protection, the Department for Pension and Disability Insurance, the Department for Child Protection, and the Labour Department within the MLSP, and with expert support from professors from the Department for Social Work and Social Policy, provided through a project of the World Bank. The funds for the implementation of the new legislation will be financed from the Budget of the Republic of Macedonia, but the exact fiscal projections will be available after conducting detailed analysis and preparing the draft legislation.

Expected impact on employment and gender

The cash transfers for work-age beneficiaries are expected to be conditioned with the strengthening of their work capacities and their entry into the labour market, which is expected to result in employment of some beneficiaries. The linking with the active labour market measures, where 22 million EUR are envisaged to be provided in 2018, which presents an increase in the allocated financial resources for the active measures from 0.1% of the GDP in 2016 to about 0.21% of the GDP, will contribute to reducing the unemployment among beneficiaries of social protection entitlements. Gender equality will impact the designing of all measures in the new draft text of the *Law*.

Potential risks

After the adoption of the new draft text of the *Law*, it is necessary make it operational immediately, that is to enable its practical application. If this does not happen, the application of the *Law* would have to be postponed until the adoption of the new bylaws. Furthermore, the practical application and the payment of the financial entitlements are also connected to the upgrade of the system for administering the financial entitlements. If the processes of preparation of the analyses and the tender documentation are not completed within the envisaged timeframes, this will slow down the development of the new system, which will further complicate the administering of the new financial entitlements.