UNEMPLOYMENT IN THE REPUBLIC OF MACEDONIA:
Policy Options for Employment Growth

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Abstract
Like the rest of the transitional countries of Central-Eastern Europe that aimed at developing free-market economies, Macedonia has also suffered from many of the same problems, including unemployment. However, unlike most of them such as Bulgaria, the Czech Republic, and Russia, that faced open registered unemployment during the initial transitional process, Macedonia had struggled significant unemployment since the 1970s. This paper discusses the dynamics of unemployment in the country, and it elaborates the current policies undertaken to address the problem. First, it provides an overview of the country analyzing the main factors that affect the process of transition. Second, it analyzes the effects of the macroeconomic stabilization program. Third, it addresses the issue of the passive and active labour-market policies. Fourth, process of privatization and the promotion of small and medium-sized businesses are discussed. Finally, several recommendations are advanced as possible alternatives for future policy formulations.

1.1 Country Overview

The Republic of Macedonia is a small landlocked, mountainous country of some 25,713 sq. kilometers and, according to the 1994 census, home to approximately two million people. After the process of disintegration of former Yugoslavia, initiated by Slovenia and Croatia, Macedonia succeeded in establishing its independence in 1991. Fortunately, unlike Bosnia, Slovenia and Croatia, Macedonia did so without any war or military activities and began its peaceful way of building democracy and the development of a modern free-market-oriented society. Like the rest of the transitional countries of Central-Eastern Europe that aimed at developing free-market economies, Macedonia has also suffered from many of the same problems, aggravated by additional problems resulting from very specific historical circumstances and a hostile external environment.

One of the factors that influenced the slow process of transition was the fact that historically Macedonia has been an underdeveloped country (*Nacionalen Izvestaj-National Report*, 1997, p.21). As it can be seen from Table 1.1, Macedonia was one of the least developed of the six republics of the former Yugoslavia (Kosovo and Vojvodina were autonomous provinces), much less developed than Slovenia, Croatia or Serbia. The period of stagnation and decline of economic activity began in the 1980s and has worsened since then.

Its pattern of economic development was affected by the country's unfortunate destiny to be under Turkish rule for five centuries. While the rest of Europe experienced industrialization, the Turkish Empire kept Macedonia as a predominantly agricultural and rural country. This situation, however, started to change from 1948, especially during the 1970s and the 1980s, when due to the forced and planned industrialization in Yugoslavia, Macedonia also developed heavy and large industries such as steel, construction, and mining. The process of industrialization was accompanied by migration from rural to urban areas, and by 1991 the country had become predominantly urban, with 59.5 percent of the population living in the cities (*Doing Business in Macedonia: Guide for Investors*, 1996, p.4).

Table 1.1 Indices of Gross Domestic Product in Yugoslavia 1959-1989

	1959	1969	1979	1989
Yugoslavia	100	100	100	100
%				
Bosnia-H	75	69	65	68
Croatia	116	123	127	126
Macedonia	64	69	68	65
Slovenia	170	187	204	197
Serbia proper	101	97	99	104
Kosovo	39	34	28	26
Vojvodina	113	111	115	119
Montenegro	62	75	65	73

Source: Vojnic 1995, pp.80-81, as presented in Table 1 in *Action for Social Change: A New Facet of Preventive Peace-keeping, the case of UNPREDEP*, 1996, p.4.

Although industry, including mining, is considered to be the dominant sector, accounting for 50 percent of the GDP and 48 percent of total employment, still nearly half of the country's area is devoted to agriculture, and the level of economic development is still considered to be low (http://www.worldbank.org/html/extdr/offrep/eca/mkdcb.html). As is stated in *Nationalen Izvestaj (National Report)* 1997, the World Bank's *World Development Report* from 1996, placed Macedonia on the border between low-income economies and lower-middle-income economies. This group included Bulgaria, Romania, the Slovak Republic, Poland, and Croatia, while the Czech Republic, Hungary and Slovenia were included in the upper-middle-income economies group (p.21).

Another factor that has limited positive economic reform was the regional conflict in Bosnia that had a significant negative impact on Macedonia. Since 80 percent of Macedonian's transportation to Europe went through Serbia, it is clear that sanctions imposed on Yugoslavia, because of the war, have been very costly to Macedonia. The monthly costs were estimated to be $80 million, which is equivalent to 85 percent of the country's export earnings (Bookman, 1995, p.660). Furthermore, with the break-up of Yugoslavia, Macedonia lost its secure market, which absorbed three quarters of its industrial production. The country also lost the net transfers from the federal government, as well as more than $1.2 billion savings in foreign currency that were kept in banks in Belgrade (http://www.novamakedonija.com.mk/sreda/rb-prilozi.html).

The poor economic performance of the country was compounded by the economic embargo imposed by Greece that objected to the use of the name Macedonia, the use of the "vergina" symbol on its flag, as well as the country's constitution, which was perceived to contain territorial claims. The embargo directly affected the economy. Macedonia enjoyed a central position at the gateway of trade and tourism between Western and Eastern Europe; the border crossing with Greece used to be one of the busiest in Europe. With its embargo Greece blocked the access to Greek markets which comprised one third of the Macedonian sales, as well as access to the port of Thessaloniki that had provided an important route for Macedonian imports and exports. The embargo was estimated to cost some $50 to $60 million per month. Moreover, it has also indirectly impacted Macedonian development. Greece was able to delay the international recognition of Macedonia until 1994, which resulted in a reduced inflow of capital (Bookman, 1995, p.660).

In its struggle to cope with these major problems, the country also had to confront the challenge of creating a range of institutions to perform national functions previously undertaken by the federal government in Belgrade. The creation of institutions to deal with foreign affairs, defense, treasury, customs, central banking, etc. absorbed large amounts of time, especially at the beginning of the transitional period, which postponed some of the necessary measures such as macroeconomic stabilization that waited until 1994 (Nacionalen Izvestaj, 1997, p.27).

Finally, but of no less concern is the escalation of the conflict in Kosovo which has had a serious impact on the country's fragile economic and political stability. The economy started to deteriorate even more. Many of the existed small business collapsed. Foreign investors are hesitant, and increasing number of refugees requires policy responses that create additional burdens on the budget.

Within this context it appears that Macedonia has experienced severe economic hardship. During the period 1989-1995, the cumulative GDP decreased by almost 50 percent. Total investments fell to about two thirds of those of 1989, and employment decreased by more than one third compared to 1989 when it was at maximum (*Doing Business in Macedonia: Guide for Investors*, 1996, p.30).

1.2 Unemployment in the Republic of Macedonia

As a constituent part of the former Yugoslavia, during the period 1950-89, Macedonia underwent several social and economic reforms, and lived through a so-called "self-management" system in the context of decentralized market-socialism (different from the Soviet Union communist regime), which had a tendency to push up both inflation and unemployment rates.

Table 1.2 Dynamics of Unemployment in the Republic of Macedonia, 1976-1996

	Unemployed-total	%	Previously employed	First-time job-seekers
1976*	98,114	22.04	32,643	65,471
1980*	117,151	21.82	25,935	91,216
1985*	135,857	21.65	27,876	107,981
1990*	156,323	23.55	26,910	129,413
1995**	197,968	35.69	41,455	156,513
1996***	246,978	31.65	n.a.	n.a.

Sources: **Statisticki godisnik na R. Makedonija*, 1994 (*Statistic Yearbook of the R. Macedonia);*
**Data for January 1995 from the State Employment Bureau;
****Republicki Zavod za Statistika: Anketa za Rabotnata Sila'96*, Skopje, Dekemvri 1996 (*State Statistic Bureau: Survey of Labour Force* '96, Skopje, December 1996);
As presented in Velkov, 1998, p.105, Table 4.1.

As can be seen from Table 1.2, significant unemployment had been present since 1976. Data for the period 1976-1985 show high, though stable unemployment rates which, during the period 1990-1995, rapidly increased reaching 35.69 in 1995. It should be noted that data for 1996, showing 31.65 percent does not signify a decrease in unemployment. The percentage merely reflects a calculation according to new international standards done in collaboration with the ILO. If calculated according to the old national methodology the rate would be 38.8 percent (*Nacionalen Izvestaj*, 1997, pp.56-57).

A rapid increase in unemployment is highly correlated with the transitional processes. Having in mind that Macedonian employment was heavily dependent upon large-scale industry that was declining, one can assume that there was a decrease of employment, especially in the industrial sector, and consequently an increase of unemployment. For example, in 1991 the total employed population was 468,372, of which 381.924 or 81.5 percent were in the "economic activity" sector, and 86,448 or 18.5 percent in the "non-economic activity" sector[1] (Ruzin, 1994, p.180). In 1996 total employment decreased by 33.02 percent as compared to employment in 1990. Despite the decrease in employment in economic activities, this sector still comprised the largest share in total employment including 255,659 persons or 75.23 percent, of which 127,604 or 49.91 percent were employed in industry. At the same date, in the non-economic sector some 84,165 were employed, or 24.77 percent of total employed, which is an increase in participation in this sector when compared to 18.5 percent in 1991 (*Nacionalen Izvestaj*, 1997, p.56).

Although high rates of unemployment exist in the whole country, there are strong regional differences. The lower rates of unemployment are evident in the south and east regions where there are mainly agriculture and tourism activities, while the regions with concentrations of industrial activities have higher rate of unemployment. There is major concern for unemployment rate in the north-western part of the country, particularly in some of the cities such as Debar with 41.84 percent, Kicevo with 31.19 percent, and Gostivar with 30.07 percent (Velkov, 1998, p.108).

In terms of disparity in gender division of unemployment Macedonia belongs to the group of countries with higher female unemployment. In April 1996, there were 28.80 percent male unemployed, with 36.00 percent female unemployed, calculated as percentage from the total male/female labour force (*Ibid.,* pp.110-111). What is of even greater concern is that female unemployment among ethnic minorities is enormously higher, reaching 85.20 percent among Rhomas, or 68.64 percent among the Albanian minority. A factor that may explain this situation could be the influence of specific ethnic, cultural, traditional, and religious values that prevented the female population actively participating in many domains of social life, including education, and the labour market (*Ibid*., pp.111-112). While they register themselves in the State Employment Bureau, their registration does not mean that they are looking for job. Usually they do so just to obtain unemployment benefits. Therefore data from the State Employment Bureau need to be interpreted with caution.

Of big concern is the fact that there is a high unemployment rate among youth 15-24 years old. According to the census in 1994, the participation of youth in the total unemployed population in Macedonia was more than one third, or in the context of the economically active, the youth population reached 69.79 percent. Bearing in mind that among the employed the higher participation (72.82 percent) is among those on age 25-49, it is obvious that the young will have to wait a long time to replace them. Also, because of the low level of economic development of the country, the young do not have the hope of new jobs being created through new investment, thus the common situation that Macedonia is experiencing is the so-called "brain drain" or emigration of highly-educated youth. There are not concrete data that would support the fact of the "brain drain" increasing, but there are some indications. For example, according to the census in 1994, of a total 125,962 persons living abroad, 19 percent were 15-24 years old, 32.76 percent had high school education and 8.29 percent had higher or university level of education (Velkov, 1998, p.127).

Finally, but no less of concern, is the fact that Macedonia, like the rest of the transitional countries, has struggled with long-term unemployment. Data from *Nacionalen Izvestaj*, 1997, show that in 1996 from the total number of unemployed 44.52 percent had been looking for a job for more than four years (p. 58).

Taking into account all these features of unemployment as well as the previous discussed specific circumstances of the country, it is more than obvious that the policy makers in Macedonia have a complex task trying to create and implement different policies which would adequately address this problem.

1.3 Macroeconomic Stabilization

As a response to the difficult economic situation, and in order to stabilize the economy from the beginning of the transitional process, the Macedonian government tried to implement some macroeconomic measures. However, until 1994 there was no comprehensive macroeconomic stabilization program.

Some of the monetary measures undertaken after gaining monetary independence, in April 1992, included establishing the national currency (the denar) and provided a solid basis for the further macroeconomic policies. Implemented through 1993, initial monetary reform was aimed at further development of the monetary independence of the National Bank. It also focused on reform of monetary regulation instruments including more efficient control of the money supply through the abolishment of selective credits burdened with para-fiscal functions, and the introduction of indirect instruments for monetary control, namely open market operations. In May 1993, an official foreign exchange market was established with a flexible denar exchange rate (*Doing Business in Macedonia: Guide for Investors*, 1996, p. 29).

In 1994, with support of International Monetary Fund (IMF) and the World Bank, the Macedonian government introduced a comprehensive macroeconomic stabilization program with tight monetary policy, strict budgetary discipline, and wage controls. The macroeconomic stabilization program maintained the centrality of monetary policy by strengthening the supervision of financial institutions, reforming the payments system, and further liberalizing interest rates. Another main issue of the macroeconomic stabilization program was reform of the financial sector by implementing strict fiscal policies. New taxes with a different definition of the tax base were introduced, including corporate income tax, personal income tax, and a real-estate tax, while the VAT (value-added) tax system was planned to begin in 1998. Fiscal policy also aimed at achieving a budget balance by adjusting budgetary expenses to the budgetary revenues. Along with these processes, the macroeconomic stabilization program included wider structural adjustment measures, among them trade and price liberalization, and banking and enterprise reform (http://www.worldbank.org/html/extdr/offrep/eca/mkdcb.html).

In 1996, finally after five years of recession, the Macedonian economy experienced its first positive changes through increasing of GDP[2] by 0.8 percent, a trend that continued in 1997 when it increased by 1.5 percent (Wyzan, 1998). Another positive result was the fact that the budget deficit has been reduced only to the level of the state's foreign obligations. By eliminating all the categories which represented a non-market or state financing of enterprises projects from the budgetary expenditures, as well as by increasing the discipline of collecting revenues, the government budget become nearly balanced, a dynamic which can be seen from the data in Table 1.3.

Table 1.3 General Government Accounts (Denars Millions)

	1996	1995	1994	1993
Total Revenues	**76,738**	**72,574**	**63,157**	**23,767**
Central Government	40,184	40,748	37,993	13,411
Tax Revenue	37,739	37,165	35,492	11,754
Non-Tax Revenue	2,445	3,583	2,501	1,657
Non-Budget Funds	35,765	31,175	24,710	10,176
Pension Fund	18,327	18,021	14,441	6,115
Health Care Fund	11,585	8,310	6,032	2,398
Employment Fund	3,801	1,927	952	342
Road Funds	2,052	2,917	3,286	1,320
Local Budgets	789	651	453	180
Total Expenditures	**78,382**	**74,114**	**67,061**	**31,690**
Central Government	41,225	41,035	36,843	17,658
Current	35,597	34,384	33,187	17,081
Capital	5,532	6,501	3,466	527
Reserves	96	150	190	49
Non-Budget Funds	36,489	32,480	29,765	13,852
Pension Fund	18,925	18,388	16,505	8,513
Health Care Fund	11,961	8,676	7,992	3,556
Employment Fund	3,551	2,509	734	464
Road Funds	2,052	2,907	4,534	1,320
Local Budgets	668	599	453	180
Surplus/Deficit	-1,644	-1,540	-3,904	-7,923
Deficit % GSP			-2.6	-11,1
Memo: Gross Social Product			147,737	71,526

Source: Ministry of Finance, as presented in Table B.13 in *Doing Business in Macedonia*: *Guide for Investors*, 1996, p.154.

The most striking fact that appeared in 1996 was the rapid fall in the level of inflation. The very high rate of annual inflation (1925.2 percent in 1992) fell to 3 percent in 1996 (http://www.worldbank.org/html/extdr/offrep/eca/mkdcb.html), to 2.6 percent in 1997 (*Nacionalen Izvestaj*, 1997, p.29), and was a mere 0.85 percent in August 1998 (Wyzan, 1998).

However, the macroeconomic stabilization program cannot take all the credit for the revitalization of the economic activity in Macedonia. It was helped by the more favorable circumstances that have appeared, namely the re-opening of the traditional economic routes previously blocked by the sanctions of Yugoslavia, and the lifting of the embargo by Greece. This resulted in the initiation of work on several foreign-financed infrastructure investments such as power, telecommunication, Skopje airport, and a gas pipeline. There was also a recovery in some industrial subsectors including leather and fur, beverages, construction materials, electricity, and transport equipment (http://www.worldbank.org/html/extdr/offrep/eca/mkdcb.html). Consequently, the industrial output increased by 3.2 percent in 1996 (http://www.nbrm.gov.mk).

Despite of all positive results that occurred in 1996, the Macedonian economy is still fragile, and there are still many uncertainties and many concerns, among which the most obvious is the problem of unemployment that still did not show any improvement.

1.4 Labour Market Policies

The Republic of Macedonia has the constitutional and legal obligation to create policies that are aimed at full and free chosen employment. In article No. 42 of the Constitution it is stated that "each citizen of the Republic of Macedonia has the right to work, to free choice of employment, protection at the work place, as well as financial assistance during temporary unemployment" (Ruzin, 1994, p.195). The responsible governmental body for creating the legislative framework of labour market policies, which is the same that exercises control and supervision, is the Ministry of Labour and Social Policy. After the independence of the country, the Ministry designed or revised several laws on the issue of employment including: the Labour Relation Law enacted in December 1993, and amended in 1995; the Law for Labour Inspection, enacted in 1987, revised in 1989, 1991, and 1993; the Employment Law, enacted in 1987, revised in 1989, 1991, and 1993; the Law of Employment an Insurance in Case of Unemployment, which came into force in August 1997, and the newest Law for Increasing Employment, which came into effect in January, 1998 (*Country Policy Paper*, 1997, p.7; and Wyzan, 1998).

Employment services are provided through the State Employment Bureau and its 30 regional labour offices. In principle, the legislature, and the Bureau have established broad objectives for addressing unemployment, including almost all possible passive and active labour market policies. However, in practice the Bureau deals mainly with the passive policies such issues as registration and placement, as well as unemployment benefits and the assistance system.

The unemployment benefit system covers those unemployed whose employment was involuntary terminated. Unemployed persons have the right to income compensation for some 3 months if they had 9 months of previously registered employment or the right of up to 24 months entitlement if their prior employment period was 20-25 years. Persons who had an employment period of more than 25 years are entitled to benefits until their re-employment or retirement. The amount of benefits that the unemployed receive is 50 percent of the average wage of the employed during the previous three months, but less than 80 percent of the minimum wage of the state sector of employment. According to the estimates of the United Nations Preventive Deployment Force (UNPREDEP) in 1996, the average unemployment benefit was about 36 percent of the average wage in the country, and only 20 percent of the registered unemployed were entitled to the benefits. The rest of the registered unemployed did not meet the requirements of the length of registered employment. However, regardless of the beneficiary status, under this system all of the registered unemployed persons are covered with health insurance including their family members (*Country Policy Paper*, 1997, p.27).

In addition to the unemployment benefit scheme there is also a social assistance scheme under which some of the registered unemployed are covered. This system includes those unemployed who are not entitled for unemployment benefits, or whose entitlements expired but whose income in the household does not exceed the certain level of established absolute poverty threshold. The social assistance scheme started in 1992 when the government established a social minimum protection level in order to secure the minimum needs of the population. It covers not only the unemployed but also the low-paid employed, and those infrequently paid who meet the entitlement requirements clearly defined in an annual *Governmental Decision* (Saveska, 1997, p.2).

Few innovations in terms of employment policy were brought into effect by the 1997 *Law of Employment and Insurance in Case of Unemployment*. Beside establishing the system of compulsory insurance of workers in case of unemployment including financial assistance, training, retraining, health insurance, pension and disability insurance, the law had also a goal to provide incentives for creating new jobs through a subsidy system, by exempting employers from the employees' personal income tax during three years. This law also provides the legislative framework for the creation of private agencies for employment assistance in order to increase the process of placement of unemployed, as well as to promote active labour market policies. However, all of this was a theoretical outline, which remained on paper (*Nova Makedonija*, September 17, 1998).

Real positive results in terms of employment growth have been achieved by the newest *Law for Increasing Employment* of 1998. This Law increased subsidies to the employers by exempting them from the payment of pension and disability insurance and insurance in case of unemployment for their employees. It covers only the newly employed, but not in the public sector, who were previously unemployed at least one year. The Law is temporary and will be in force until 1999, for which period the state will take the responsibility for the exempted contributions. Data from the Macedonian daily newsletter show that from January to September 1998 as result of this Law, there were 26,135 new employed persons working with 9,327 employers, mainly in the production and service sector. With this step, for first time since 1991, the unemployment rate decreased by 3 percent reaching 27.9 percent in 1998 (*Nova Makedonija*, September 17, 1998).

The real implementation of the standard active labour market policies in Macedonia began in 1995 when the Government, supported by the World Bank, created the *Project for Social Reform and Technical Assistance.* The responsibility for the implementation of this project was delegated to the *Agency of the Republic Macedonia for Transformation of Enterprises with Social Capital* that undertook several activities for implementing the program for re-deployment, which including the following six components:

1. *Job counseling and employment advice* for which for first time in the country there was an interest shown by private consulting firms. Under the program, two of the private projects were approved, covering 120 unemployed. Up to 1997, a total of five projects were financed covering 1,560 unemployed;
2. *Training and retraining*, under which 87 projects were financed covering 5,852 unemployed 50 percent of which found a job;
3. *Public works,* under which 28 projects were carried out with 739 participants who at that time were considered as temporary employed for 3-6 months;
4. *Counseling for start-up own businesses*, under which there were 19 projects undertaken with 310 unemployed of which 26 succeeded in starting their own businesses, and 19 were employed in other small businesses;
5. *Incubators for new micro businesses and small entrepreneurs*, under which 3 project are

currently operating;

6. *Planning of regional economic development through starting new small businesses and creating new jobs*, under which 2 projects have been financed. There has been a noticeable interest in this type of project. Many of the smaller newly-formed municipalities are submitting their own projects for development in their region.

In summary, in the two years of operation1995-1997, the program for re-employment included 8,600 unemployed from 35 municipalities in Macedonia. Mandated until 1999, the program can be considered as a pilot for developing similar types of programs (*Privatization Report 1997*, 1988, pp.23-26).

1.5 Process of Privatization

The Process of privatization in Macedonia was one of the issues that provoked the largest debate among the policy makers as well as among the public at large, mostly about the model that was chosen, about the way it was pursued and the results that have been achieved. The underlying idea however was that privatization should be a means, not a definite end. It should be a vehicle that will increase the efficiency of the economy through the conversion of enterprises with social capital into enterprises in private ownership[3] (Slaveski, 1997, p.32).

The actual beginning of privatization of Macedonian enterprises was prior the break up of Yugoslavia, after the passage of the *Law on Social Capital* enacted by the Federal Government in 1989. That law provided a mechanism for the corporatization of enterprises and their privatization through "internal shares" that were offered at large discounts with a payment period of up to ten years, and mainly for the employees (*Ibid*.).

However, after the establishment of independence the Macedonian government announced that the *Law on Social Capital* was no longer in force and started to prepare a new privatization law. The new *Law on Transformation of Enterprises with Social Capital* came into force two years later, and the practical realization of the law occurred with the establishment of the *Agency of the Republic of Macedonia for Transformation of Enterprises with Social Capital (*hereafter the Agency) in October 1993 (http://WWW.ERC.MsState.Edu/~vkire/faq/economy/privatization.html). According to the new law the privatization method in Macedonia is defined as a commercial one, based upon the sale of enterprises on a case-by-case basis, in some ways similar to the Hungarian model. The Government abolished the idea of a mass privatization program through vouchers, or any other non-cash system, because it believed that mass privatization could delay the main objective of the transformation process that is restructuring and improving the efficiency of the enterprises. It believed that higher efficiency of the enterprises could be achieved by establishing dominant owners rather than by spreading it among the citizens at large.

Slaveski (1997) argues that there is another issue involved in the reason for the chosen model of privatization. He suggests that usually in the post-communist countries where communists lost their power, there have been variants of massive privatization programs established. In the other countries where "reformed" communists regained their power, as was the case in Macedonia, there were considerable delays or even intense hostility expressed toward the idea of mass privatization. The communists were scared to give up the property rights and decided that they should stay in their hands as a basis for political power which they could pursue mostly through the model that was chosen in Macedonia (p.35).

According to the new privatization law in Macedonia, depending on the size of enterprises which could be small, medium, or large[4], privatization can be pursued through several models (*Doing Business in Macedonia: Guide for Investors*, 1996, pp. 64-66).

Small enterprises can be privatized through the following models:

- Employee buy-out (EBO), under which the employees are given the opportunity to buy out the enterprise if they purchase at least 51 percent of the appraised value of the enterprise. The remaining part of the enterprises they have to buy over the next five years by paying interest-free equal annual installments;
- Sale of a part of the enterprise (in the form of quotas, stakes or shares), under which a part of the enterprise can be sold by a public call for bids. In case there are more than one bidder then an auction has to be organized. If the sale is not successful, then a direct agreement with a perspective buyer may be conducted.

Medium-sized enterprises can be privatized through the following models:

- Sale of the enterprise or a part of it, which is the same model as it was discussed for small enterprises;
- Buy-out of the enterprise, which is a model that is considered to be successful if at least 51 percent of the shares have been sold through a public offering. The remaining unsold shares are transferred to the Agency as a preferred, non-voting stock, and the Agency is obligated to offer these shares to the public within a three-month period after converting them into common shares;
- Leveraged management buy-out (MBO), or management buy-in (MBI), under which a management group that offers the most attractive project through public tender can obtain the right to control the enterprise by making a down-payment of only 20 percent of the appraised value of the enterprise. The management is obligated to buy at least 51 percent of shares by paying not more than five years interest-free annual installments. The unpaid shares , as preferred shares, are kept at the Agency with an option of their conversion into common stock if the shareholders do not pay the installments or if the condition of the signed agreement are not fulfilled;
- Issue of shares for additional investment, under which enterprises can issue shares for additional investment. If the new issue is greater than 30 percent of the appraised value of the enterprise, the Agency will make an agreement with the investor offering an opportunity for purchasing 51 percent of the shares within not more than five years;
- Debt-equity conversion (D/E swap), a model in which an exchange of debt for equity can be used for privatizing a firm if the creditors and the enterprise find it viable.

Large enterprises can be privatized through the same models that have been described for the medium-sized enterprises, but with a few modifications. One modification is that down-payment for a MBO/MBI, instead of 20 percent is only 10 percent. Another difference is that the Agency, having a special body (the Transformation Board) that prepares the enterprise for its privatization, plays a much more active role in the case of privatization of large enterprises, than it does for medium-sized enterprises (*Ibid*.).

The results from all these different models of privatization were differentially evaluated among different political groups and among the public. According to the *Privatization Report*, the achieved results for the period 1993-1997 have been mainly satisfactory. After the new Law was enacted, there were 1.216 enterprises targeted to be privatized, of which 113 were large, 273 medium, and 830 small enterprises.[5] By the end of 1997 the transformation has been completed in a total of 1,132 enterprises (1997, p.2).

However, Slaveski lists several strategic mistakes made by the Agency that discredited the privatization process in the eyes of the general public. He suggests that the so-called management teams were management groups selectively from within the enterprises, who usually used all available means from persuasion to threats in order to gain "support" from the employees and to secure their nomination. Furthermore, half of the members of the board of the Agency were managers of large socially-owned enterprises that were scheduled for privatization, which were also well-connected to the ruling parties, clearly not concerned about the issue of any conflict of interest. Although by law the concession only involved 10 to 20 percent down-payment, and a five years interest-free credit, in reality management groups were given larger concessions. The Agency also pretended not to notice, in most cases, unlawful practices for securing the majority of shares in the management teams. In this regard, the press has reported many abuses where managers, in order to transfer the shares from employees to the management teams, have threatened to fire those employees who opposed the measure (1997, pp. 40-43). There were also cases in which the management teams during the preparation process for privatization, tried to weaken the performance of the enterprises in order to decrease its value so they could buy it more cheaply (Velkov, 1998, p.142).

Regardless of the different opinions and interpretations that privatization's data may provoke, it is clear that there are still many difficulties that have to be overcome for privatization to achieve real efficiency in the economy in the country. The Agency itself recognizes the need to increase the inflow of foreign investment, a goal which, hopefully, will change some of the so far, "unlawful" practices in privatization.

1.6 Promotion of Small and Medium-sized Businesses and Entrepreneurship

Although the promotion of small and medium-sized business is a very important element in transitional economies for enlarging the private sector and absorbing surplus of the labour force, the Macedonian government's involvement started very late, at the beginning of 1997. Despite government ignorance, yet there was a considerable so-called "self-emerged" small business sector that started up automatically when the previous ideological and legislative barriers were removed in 1991, and by 1993 it resulted in more than 90,000 newly-created registered businesses by individuals (Vaknin, 1996, p.1). However soon afterwards, facing the non-stimulated environment, many of these businesses collapsed, or many of them tried to avoid some of the legislative obligations, particularly tax obligations, thus making only a small contribution to the state budget (less than five percent) (Deacon, and associates, 1996, p.6).

By 1996 only 40,000 of the total registered small businesses were considered as active, because they managed to pay their dues and to present their annual financial statements, but in fact only a small fraction of the "active" businesses did real business and produced some income (Vaknin, 1996, p.1).

Finally in 1997, perceiving this as a problem, the government introduced new measures to stimulate this sector by giving credit options as well as providing technical assistance to the new entrepreneurs (*Nacionalen Izvestaj*, 1997, p.28). These measures were included in the framework of the *Project for Social Reform and Technical Assistance* designed with World Bank support, and which have been discussed earlier in this paper.

Additionally, in 1997, as a part of the National Operative Program of the Commission of the European Union-PHARE for Macedonia, the Project for Development Small and Medium-sized Enterprises was incorporated in the overall government strategy for addressing this issue. The Macedonian government also enacted the *Decision for the Establishment of a National Agency for Developing Small and Medium-sized Enterprises* (NEPA), which will operate under the auspices of the Agency of the Republic of Macedonia for the Transformation of Enterprises with Social Capital. The NEPA should be responsible for implementing government policy for the development of new enterprises as well as providing comprehensive programs and services that will facilitate the process. The plan calls for the creation of five regional centers that, in collaboration with the NEPA, will be responsible for the provision of services. However, in 1997 these measures were still in the planning stages, which means that the entire this component needs a much more attention from the policy makers in order for implementation to be appropriate to the real needs of the new entrepreneurs in Macedonia (*Privatization Report*, 1997, p.30).

1.7 Recommendations for Policy Options for Employment Growth

At the end of this journey it is now time to reflect back on the analysis to see what conclusions can be drawn from it so that future policy formulations might decrease unemployment rates and alleviate some of the negative consequences of unemployment in Macedonia.

I will here list several recommendations that in my opinion might have a positive impact on unemployment in the country. I will also discuss which of the listed recommendations might have priority, explaining the criteria for prioritization, as well as commenting on which of them seem to be more feasible for the current situation in the country.

Based on the overall analysis in this paper it becomes clear that unemployment is a complex issue that is very much dependent on the growth of economy in the country and an issue that requires a systematic approach. However, the relationship of unemployment to the level of economic development in the country does not mean that the government or the policy- makers should do nothing but simply wait for improvement in the economy. Instead, they have to shape their policy in a way that will directly move the country as quickly as possible toward economic growth. At the same time they have to deal with the current unemployed population in a way that will alleviate personal costs, as well as help them become prepared for entering new jobs that will be provided via economic growth or by other measures to stimulate the economy.

I recognize that this is not an easy task for the government and policy makers. It requires considerable skills for coordinating the several policies, and willingness for collaboration within the government among the different sectors and ministries. The measures undertaken cannot work in isolation, all of them are interrelated and can affect the desired results of each policy if not planned and implemented properly.

My recommendations for the Republic of Macedonia are inspired by the experiences of other transitional economies, as well as constrained by some of the weaknesses known within Macedonian experience to date. The recommendations include enhancing the passive and active labour market policies, improving the process of privatization, and strengthening the private sector by attracting domestic and foreign investment as well as by promoting of small and medium- sized businesses.

In terms of passive and active labour market policies, despite the trend in other transitional countries, especially in the Czech Republic, of cutting expenditures for the passive policies and transferring the money toward active labour market policies (Kramer, 1997, p.90), my opinion is that they are equally important, and thus they should be equally developed. I believe that only a simultaneous implementation of these policies can make sense given the existence of both types. A passive policy of registering the unemployed makes little sense if there is no link between registration and the active policies of training, counseling or other services to help the unemployed become more mobile and acceptable within the labour market. Also, temporary unemployment benefits not only provide satisfaction for basic needs but also allow the unemployed to actively search for jobs, or participate in training programs, since the burden of looking for daily bread is removed. The active labour market policies, on the another hand, contribute to higher efficiency of passive labour market policies, limiting the possibilities for abusing or creating dependency on the benefit system. This argument is inspired by the ILO's recent critique on the use of the name of these policies as "active" or "passive", elaborating different negative or positive connotation related to it (Chernyshev, 1997, p. 64).

In Macedonia, active labour market policies have only recently begun, and currently have made only modest achievements. Thus my recommendation with regards to the issues discussed above is that passive labour market policies should continue but that they should be closely tied to the emerging active policies. The Privatization Agency, which is responsible for implementation of the active policies under the framework of the *Project of Social Reform and Technical Assistance*, supported by the World Bank, has to increase its collaboration with the State Employment Bureau, which is mainly responsible for the provision of the passive policies. This could provide an opportunity to the State Employment Bureau which, until now has had active policies only on paper, to really participate in their implementation.

Bearing in mind that the World Bank's Project under which these policies are implemented will last until the end of 1999, it is clear that until that date both agencies should expand the program as much as possible, developing it in a form that will allow it to become self-sufficient. The best way for doing that is by involving existing non-profit agencies, or encouraging the establishment of new ones on a local level that will become direct providers of the services.

The non-profit sector in Macedonia is in its initial phase with few agencies involved in unemployment activities, but there is an understanding of the need, as well as a willingness to expand the non-profit sector. Among the few NGOs dealing with unemployment, the Macedonian Center for International Co-operation has already implemented some projects for employment promotion on the local level, as well as projects for building civil society. This Center was established in 1993 as a joint venture between local initiatives and the Dutch Interchurch Aid (http://www.mcms.org.mk/dodatok1_eng.htm).

Because this agency has already included international training for its programs and has already gained some experience, my assumption is that it could play an important role if it is involved in the implementation of the previously described World Bank's Project, as modified based upon my recommendation. Using the financial support of the World Bank it could expand its project by developing outreach to more local communities (in 1994 it had four projects in three cities and one village) (*Ibid*.). It could also broaden its target population, which was mainly women, and could incorporate more activities such as job counseling, employment advising, training, and retraining. Through its project for strengthening the civil society and through expanding its collaboration with other international NGOs that work in Macedonia, it could offer technical assistance and professional support in order to encourage the establishment of new non-profit agencies that would provide passive and active labour market services in the local communities. The local non-profit agencies would have to work in close collaboration with the local state labour offices and with the local employers. The local based non-profit agencies would have the advantage of carefully designing their programs after assessing the community's labour market needs. Collaboration with local state labour offices and with the local employers would give them the opportunity to develop a local database system including information on job-seekers and vacancies. Depending on the type of jobs available and the existing skills of the unemployed, these agencies could develop curricular activities that would match the requirements of the local labour market. The agencies could also develop an effective evaluation methodology for their programs by which they could seek training from an experienced international organization. The evaluation methodology should be outcome-based, meaning that it should not only include quantitative information about participants, but also what kind of impact the program had on the participants, their families, and the community. Such evaluation could provide useful information about what works, what does not and why, and could help improve the creation of programs, the targeting process as well as the implementation of programs. This entire process could be considered an investment for establishing long-term active labour market policies. Assuming that the non-profit agencies will become experienced, they could then write grant proposals to different donors to enable them to expand the project.

With respect to the discussed problem of *youth unemployment* in Macedonia, I would also suggest that along with the existing active labour market policies there is a need to create special incentive programs for youth employment. This can be also done on a local level with collaboration among and between the non-profit agencies, the local schools, and the local business community, by developing a model of subsidies for apprenticeship and youth employment.

My next recommendation is related to the process of **privatization** in Macedonia, which has not achieved the desired results, especially in terms of effective governance by the management teams of the already privatized firms, nor in terms of attracting an inflow of foreign capital. Based on the prior discussion concerning privatization, my general recommendation would be that the Agency of Privatization should stop any kind of politically motivated decisions and pursue privatization based only on market-oriented rules. In order to do this, the Agency should really start implementing the rules established by the law, and revise all cases where privatization seemed to be "unlawful" or where the management teams did not meet the conditions included within the agreement. Clearly, for this to happen the executive branch of government needs to play a stronger role. The court dealing with commercial business issues should initiate this process requesting the Agency to review the cases and submit a report. If the Agency refuses to respect this request, the public prosecutor should initiate charges against the Agency. At the same time the Agency should increase its activities in promoting Macedonian enterprises to foreign investors. It should permanently work on increasing contacts with potential foreign investors providing them with all the necessary information for investments in the country. The already privatized enterprises that have not shown any improvement in their performance should be re-offered for sale to potential foreign buyers. For the management teams of the rest of the enterprises seminars should be organized, and training programs introducing modern management techniques in order to strengthen their management capacity, so much needed in the new competitive market environment.

For increasing the general interest for **investment** in the country, beside the investment in privatization process, the government has to develop a national strategy that will make Macedonia more visible in the international market. The advantages of the country's natural, and human resources, as well as its good infrastructure has to be emphasized, and these kinds of information has to be disseminated through different agencies that offer international communication, as well as through all of our worldwide diplomatic and consular posts. Since Macedonia is very small with a small market and limited purchasing power of its population, new investments have to be focussed on export-oriented businesses. According to the

Commission of the European Communities (PHARE) study on improving export capabilities, several components were identified as having particular export potential: finished textiles, leather goods, shoes, packaging, lamb, fruits and vegetables, processed foods, wines, automotive accessories, vehicle and bus assembly, electronic equipment, telecommunications equipment, electric motors, metal fabrications, steel pipe, furniture, construction, and tobacco and cigarettes (*Doing Business in Macedonia: Guide for Investors*, 1996, p.28).

This classification clearly shows that there are many possibilities waiting for investment, but it has to be admitted however that *foreign investors* still do not feel comfortable doing business in Macedonia. They are not sure that the legislative framework provides a stable business climate in the country. Of course this is coupled with the political instability in the region. The war in Bosnia created the fear that the ethnic conflict might be easily spread through the whole former Yugoslavia. The most recent conflict in Kosovo increased the possibility of the conflict spreading, while at the same time decreasing the interest of foreign investors for the whole region, including Macedonia.

My next recommendation therefore is related to improvement of the legal system, the tax system and other institutions whose activities affect in one or another way the investment processes. In this regard the reform of the banking system is more than urgent. Banks have to regain their lost credibility by the local population who after their savings were "frozen" in the banks, invented new way of saving money by purchasing foreign currency, usually German Marks, and keeping the money at home. This resulted in very low domestic saving which is one of the main reasons for the very low *domestic investment.* Here, I support the recommendation in the 1996 *Doing Business in Macedonia*: *Guide for Investors*, for improving the supervisory function of the banking activities, especially of the new established saving houses, including on-site and off-site supervision. The role of the Deposit Insurance Fund, also has to be strengthened and it has to articulate to the public at large that its task is to compensate banks' or saving house depositors in case of implemented bankruptcy procedures (p.86). This will hopefully increase confidence among the public at large to start again saving in banks, instead of keeping their money at home, and will thus increase domestic investment.

Parallel with a national strategy for attracting foreign investors, and the strategy to increase domestic investment, the government has another option for increasing the general investment level. This is related to a possible strategy that the government could develop in order to involve the Macedonian diaspora in participating in the economic development of the country. This recommendation was inspired by the Vaknin's article *Equity, Europe, Investment-Three Wrong Orientations in Macedonian Economy (*1996), in which he suggests that many countries maintain close ties with communities of expatriates throughout the world, giving as examples Israel or China where most of the foreign investment comes from people of Jewish or Chinese origin living abroad. Since almost 750,000 Macedonians live outside its borders (p.2) should give the government enough reason to increase contact with them. Perhaps some special Agency could be established that would be responsible for developing and maintaining relationships with potential Macedonian investors living abroad. The Agency might also use the IMF database where information about remittances, money that migrants return to the country of origin, are analyzed. IMF database can be found on the follows Internet location: http://migration.ucdavis.edu/Data/remit.on.www/aboutRemit.html. For the moment there is no Macedonian information, which could possibly be an activity for the Agency. Publishing such data could increase the incentive for Macedonian migrants to invest back in their country of origin.

My next recommendation is aimed at **promotion of small and medium-sized businesses** by improvement of government stimulation measures. As was the case for the active labour market policies, in my opinion the provision of government measures for the promotion of small and medium-sized businesses should be also done on local level, allowing regional disparities of unemployment to be more effectively addressed. The five regional centers established under the *National Agency for Promotion of Small and Medium-sized Enterprises* (NEPA) should establish networks of local non-profit agencies willing to be involved in development of this sector. Each non-profit agency after establishing contract with the regional center would have the responsibility of conducting a study of the local community identifying potential fields of investment, competitiveness of the potential businesses, the opportunities for export, etc. Based on these findings local programs could be developed and the potential entrepreneurs could be involved in training programs organized in collaboration with non-profit agencies, regional centers and the NEPA, addressing each issue important for starting-up the business, including management techniques. It would be useful if foreign experts were invited as instructors for these training programs. As part of its activity the non-profit agency should consider establishing contacts with international businesses in order to develop markets for exporting the local business products. Nor should the domestic market be neglected. A start-up loan could be provided for the new entrepreneurs with the obligation to pay back after they become self-sufficient. This would, hopefully, increase the incentive for the non-profit agency to pay a lot more attention during the preparatory phase in order to make sure that appropriate businesses are chosen for which there is a market. The non-profit agency would also make sure that through the provided training programs the new entrepreneurs gain the needed knowledge and skills for entering the competitive business world. At the same time these measures should increase the interest of entrepreneurs who before did not feel comfortable starting a business and facing the risk of bankruptcy. Unlike "self-emerged" businesses, the goal of this program would be aimed at eliminating any additional risk by guiding and preparing the new entrepreneurs from the initial phase. The non-profit agency would have the role of an "umbrella" or buffer between government regulations, the market and the entrepreneurs. It should be in permanent contact with the government through NEPA and the regional center, and should share all necessary information with the entrepreneurs. This recommendation is built upon the idea of the *Project for Development of Small and Medium-sized Enterprises*, through NEPA (discussed in the previous section), for which financial assistance is provided by the PHARE. Such a proposal will, I hope, provide more efficient use of money as a long-term investment enhancing the expertise of the non-profit agencies and enabling them to continue similar programs by obtaining grants from other sources. In order to establish their credibility the non-profit agencies must avoid repeating the mistakes of the privatization process. Decision-making has to exclude all other reasons except economic ones, and the process has to be transparent with free flows of information among all parties involved in any way in the process, including the government through the NEPA, the PHARE or other donors, the entrepreneurs, foreign partners if a relationship is established, as well as the public at large.

It has to be pointed out that, currently, the Macedonian national budget is limited and it will be difficult to implement all of the previously presented recommendations. It is clear that until the economy is able to attract enough foreign and domestic investments to secure growth in output and make the economy self-sufficient, the country will remain dependent on foreign credits. Thus, my further recommendation is that the country should continue developing relationships with the World Bank, the International Monetary Fund (IMF), European Bank, and others that offer credit agreements. It does not mean that I am unaware of the risk of increasing the foreign debt. My assumption is that it will be temporary, and as soon as the country's economy is revitalized the debt will be slowly paid back. Also, since the credits are given from international organizations one can assume that there are international standardized requirements that the country has to meet, thus increasing the confidence of international investors that the environment in Macedonia may not be too risky for private investment. However, entering into foreign credit agreements has to be done very carefully, with negotiation about requirements trying to adjust them as much as possible to the specific characteristic of the country and to the cultural and traditional values. Until now, the government, has worked out compromises for some of the World Bank and IMF requirements, particularly those addressing cuts in social benefits, such as health benefits, and pension insurance benefits, thus succeeding in maintaining the social protection system of the country. This strategy, in my opinion, should continue, because regardless of the fact that it is a burden for the weak budget in the short run, in the long run it is an investment in human capital. Failing to address the basic needs of the people could result in multiple negative consequences that could easily become an even bigger burden for the budget and prejudice future development.

My final recommendation, which is a long-term one, is linked to my comment about investment in human capital, stated above. It is a broad recommendation, and it is concerned with involvement of the educational system in the general employment policy of the country. It will require major reforms in education, adjusting it to the labour market dynamics of the country and to the contemporary needed knowledge and skills, in order to ensure, at least for the next generation, the achievement of the goal of "full employment".

Although I have argued that as a complex problem unemployment should be addressed with comprehensive policy approaches by simultaneously implementing different policy measures, in reality, especially in a country with limited budget and low level of economic development this seems not to be that easy. The current situation necessitates the prioritization of policy approaches. In my opinion the criteria that should underlie the priorities should be, on the one hand, those that impose the smallest burden on the state budget, and on the other hand those that maximize the creation of new jobs. Thus, I would say that the recommendations addressing the level of investment including foreign and domestic investment, as well as investment support from Macedonians who live abroad, are the most urgent ones followed by the recommendation about making the process of privatization more legitimate.

If the country succeeds in increasing the general investment level then that would automatically result in the creation of new jobs, increase labour demand and decrease the labour surplus. The state budget would not be directly burdened through any additional subsidies or benefits (with the exception of the previously discussed provisions of the new Law for Increasing Employment of 1998). If the recommendation for increasing the level of investment were to be well implemented and yielded positive results it could also have a positive impact on the recommendations for passive and active labour market policies. Measures such as job counseling, placement, training, and retraining would make more sense if there were visible new jobs waiting to be filled. Studies completed in other European transitional countries show that Foreign Direct Investment (FDI) "has certainly contributed to the growth of the workforce in private manufacturing and service enterprises" (http://www.ilo.org/public/english/85multi/promact/icftu.html). According to the same studies direct employment in Multinational Enterprises (MNEs) in Central and Eastern Europe has been rapidly growing. Between 1991 and 1994 in Belarus and the Russian Federation it increased by more than 200 percent, and in Kazakhstan and Turkmenistan by more than 500 percent. In Poland the workforce in MNEs increased from 174,552 in 1992 to 373,852 in 1995 (*Ibid*.). These studies, however, show that FDI in transitional countries tends to come in Joint Venture Settings (JVs) instead of setting up new plants. That is so because it gives investors the opportunity to get around certain legal restrictions on property ownership or to reduce start-up costs taking advantages of the knowledge and established market shares of local and nonlocal partners already present in the domestic and regional markets. But the believe in JVs is that at the beginning they usually have negative effects on employment. In order to make the enterprises more efficient and productive the managers of JVs are responsible for massive layoffs (*Ibid*.). I mention this here in order to suggest that Macedonia might try to attract more investors willing to set up new plants thus directly creating new jobs. However, this does not mean that if there is an interest in JVs within the country that it should be turn down. In my opinion, although at the beginning it may appear that JVs increase unemployment, in the long term they have broad positive impacts on the economy and thus have indirect positive results on unemployment as well. Through them there is opportunity for improvement in production technologies, as well as in technical and other skills of the employees based on international standards. There is also an opportunity for increased jobs dealing with the input needs of JVs such as providing raw materials or dealing with the outputs such as transporting etc. Certainly these activities could have stimulating effects on the country's industry.

The recommendation about improving the process of privatization could also lead to similar results as the ones described above. If privatization is implemented properly according to the law it could generate more money for the state budget, as well as strengthening the private sector which eventually will absorb more of the available labour force. By increasing the efficiency of privatized enterprises presumably production will also increase and gradually will lead to economic growth in the country.

From what I have discussed it may be noted that foreign investment is the preferable option. However, bearing in mind the current situation in the country, including the threatened political instability from the recent and continuing events in Kosovo, it has to be admitted that a rapid increase in foreign investment is unlikely. The policy most likely to be implemented is the recommendation concerning the legitimacy of privatization. The new political circumstances created by the new parliamentary elections and the victory of the opposition party (the ruling party until now had a pro-Communist orientation) seems to me to be a promising factor. During the election campaign the party that won promised that all unlawful transitional processes would be revised and the individuals or groups involved would have to bear the legal consequences. They have promised that the new government would be more transparent and would make sure that the justice system is respected. I believe that they will keep these promises. That will be one of the strategies for the new government to regain the lost trust of the people in the governmental system in general. Another recommendation that I think has a good chance of being accepted is the one concerning domestic investment. Interest for opening private businesses does exist in Macedonia. As discussed earlier, many new businesses emerged at the beginning of the transitional process which later, because of inadequate government policy, failed. Hopefully the new government will learn from the mistakes of its predecessors thus increasing its attention on creating a positive business climate for new investments. I am an optimist in this respect. Since this is the first time that the opposition has gained power after seven years of transition I believe they will try very hard to prove that they can do better in the interest of the people and for the prosperity of the country. The fact that power is no longer concentrated in one party but rather is dispersed among several, gives people more confidence in the correctness of the decision-making and policy creation processes.

Finally, I am well aware that my recommendations do not provide solutions for the problem of unemployment in Macedonia. They are merely possible avenues that may be used in some of the future policy formulations.

Ednotes

1. The Republic of Macedonia used a different statistical methodology in defining sectors of the economy as compared to OECD's methodology. In the OECD countries the economy is divided in three sectors: **primary,** including agriculture; **secondary,** including industry, construction, and public activities; and **tertiary,** including transportation, services, trade, and administration. In Macedonia the economy is divided into two sectors: **economic activities** such as industry, mining, agriculture, construction, traffic, trade, tourism, and financial and technical services; and **non-economic activities** including the area of education, science, culture and information, health and social welfare, and social-political organizations (Ruzin, 1994, p.177).
2. In 1996 for the first time economic activity in Macedonia was measured by the GDP concept. Until 1995, economic performance was measured through gross social product GSP, which included only material production, not taking into consideration non-productive activities. However, in order to have more adequate time series, calculation of the GDP was simultaneously done for the previous years as well (*Economic movements in the Republic of Macedonia in 1996*: http://www.nbrm.gov.mk).
3. In Macedonia as a constituent part of Yugoslavia, the property rights were vague and mostly undefined. The enterprises were "socially-owned", which theoretically meant that people employed by the enterprise were the nominal owners as representatives of the public at large. In fact neither workers nor citizens owned any shares, nor they could transfer their ownership. According to the Constitution, ownership belonged to the society at large (Slaveski, 1997, p.31).
4. At least two conditions should be met for an enterprise to be classified as small, medium, or large: "A small company has no more than 50 employees, its total annual revenues are less than 8,000 average monthly salaries, and the book value of its operating assets is not higher than 6,000 average monthly salaries. A medium –sized company has no more than 250 employees, its total annual revenues are less than 40,000 average monthly salaries, and the book value of its operating assets is not higher than 30,000 average monthly salaries. Other companies exceeding these limits are categorized as large enterprises." (*Doing Business in Macedonia: Guide for Investors*, 1996, p.60).
5. At that time the enterprises in public utilities, public works, large infrastructure systems, natural monopolies, social services, agriculture, land, forestry, and other natural resources management, were excluded from the privatization process. Agriculture was included later by enacting the Law on Agricultural Privatization in 1996, while banks and other financial institutions were transformed under other laws, which were part of the wider financial sector reform (*Ibid*.).

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