

**GOVERNMENT OF THE REPUBLIC OF MACEDONIA**

**POVERTY REDUCTION STRATEGY PAPER**  
**(Interim Version)**

**Skopje, November 10, 2000**

## I. INTRODUCTION

1. Most of the transition economies have suffered from rising poverty rates among their populations. The experience of the Republic of Macedonia has been no different. Over the past few years, the country was faced with and is still fighting increased poverty and all its negative social and political ramifications. In response, the government has made a full commitment to prepare a complete "Poverty Reduction Strategy" with well-defined policies and programs over the next 12 months. This interim paper describes what is currently known about poverty in Macedonia, summarizes existing elements of a poverty reduction strategy, and puts forward some suggestions until a complete strategy is put in place a year from now.

2. Poverty has more aspects than the economic. It is one of the important factors undermining quality of life, broadly defined, and preventing the full realization of human rights. Poor people are thrown onto the margins of life and society. In a transition economy such as Macedonia's, poverty has appeared suddenly for many of its citizens. The speed of income shifts that have occurred impose a particularly heavy social and personal burden. For these reasons, reduction of poverty and the risk of falling into poverty are central goals of the government.

3. The foundation of this interim strategy is the acceleration of economic growth, fostered by ongoing reforms. The other elements are job creation and construction of an efficient social safety net. Over the next three years, as the poverty strategy is implemented, the government has set a medium term goal to reduce poverty by three percentage points (from the current 20 percent to 17 percent). Implementation of these policies is going to be scrutinized through a monitoring system, which means that a new national working group, including public and private sector representatives, is going to be established so as better to coordinate activities, ensure enhanced transparency and participation of non-governmental organizations, citizens' associations, trade unions, and representatives of poor people.

4. It is the hope of the government that successful implementation of the full Poverty Reduction Strategy will contribute to the transformation of poverty into a specific transition phenomenon which should gradually disappear in the post-transition period.

## II. THE POVERTY SITUATION IN MACEDONIA

5. About 20 percent of the total population in the Republic of Macedonia live under the official poverty line with minimum resources for living. The poor in Macedonia are households with less than 60 percent of median household income (the official poverty line of about US\$75 per month in 1996 prices). Poverty in Macedonia is most widespread in the rural areas and in larger households with more members unemployed or with low education. As a result, it is evident that poor households in Macedonia suffer more from the syndrome of unemployment than simply low income. Since unemployment is

primarily an urban phenomenon, this link between unemployment and poverty is especially strong in urban areas while just moderately increasing the risk of poverty in rural areas. Certain groups of the population are more at risk for poverty. These socially vulnerable categories are: unemployed, socially imperiled households, pensioners, and farmers.

6. Poverty in Macedonia today is the result of two factors: fall in aggregate consumption during the 1990s; and rise in inequality in its distribution. Factors that have contributed the most towards deterioration of the economic and social well-being of the population, according to existing research, are the following:

- Drastic decrease in economic activity. During the last ten years, and in spite of the re-birth of economic growth of recent years, real GDP fell by an average of 1.7 percent per year;
- Fall in real wages, pensions, and other social incomes of the population. The average net wage fell in real terms on average by 3.9 percent per year in the last 10 years;
- Increase in income differences among groups of the population;
- Implementation of privatization and other structural reforms, which have produced an army of unemployed workers; and
- Solvency and liquidity problems of banks and enterprises as well as the high deficits of the off-budget social funds.

7. During 1996–2000, no significant changes have been recorded in the structure, profile, and location of poverty in the Republic of Macedonia, in either an absolute or a relative sense. The poverty rate increased from 18.1 percent of the population in 1996 to 20.7 percent in 1998 while the index of poverty depth moved from 3.9 to 5.3 percent. Although there are not yet official statistics released for 1999 and 2000, no large changes are believed to have occurred. There have been some small shifts with respect to the type of households in poverty: the rate of poverty amongst the elderly rose from 12.5 percent to 14.5 percent from 1996–98. For households with young children, poverty rose to 27.5 percent in 1998, a full 5 percentage points above the 1996 rate. Last, the link between unemployment and poverty has also strengthened by 5 percentage points between 1996–98, to a 36.9 percent rate of poverty for households with no employed members.

8. The regional distribution of poverty also remains steady since 1996. Two-thirds of poor households live in rural areas under bad living conditions. The largest part of these households have multiple members and low educational status; they are socially more isolated, with a higher mortality rate. Some of the worst off rural households are the elderly, with only social assistance benefits or a small pension as income. Overall, the

poverty rate for the rural areas was 25.1 percent in 1998. By comparison, in Skopje, about 13.9 percent of the population was poor in 1998, while about 21.5 percent of the population in the provincial cities was poor.

9. In Macedonia, there is a strong correlation between the level of education and poverty. Secondary and university education guarantee a higher living standard, while the highest poverty rate is observed among households where the breadwinner has only primary education. Those with the lowest level of education are also mainly unemployed.

10. The poor can be usefully divided into three groups: the traditional poor, the new poor, and the chronically poor. The group of traditional poor consists of rural agricultural households with more than three children, the group which formed the majority of the poor in the period before transition. In the second group, the new poor, are some low-paid employees, many of the unemployed, pensioners and some recipients of social benefits. The chronically poor, the third group, are older people without pensions, the disabled, old rural households without any fixed income, and others not able to work and with minimal chances to escape poverty irrespective of economic growth.

### **III. KEY ELEMENTS FOR A POVERTY REDUCTION STRATEGY**

#### **A. Priority Public Policies For Higher Growth**

11. Over the medium term, the government has promised to work to decrease the poverty by 3 percentage points (from current 20 percent to 17 percent) through creating conditions for higher, stable economic growth. The government, in consultation with the IMF, has drafted a macroeconomic framework for the next three years (Annex I). The framework is supported by a program of structural reforms summarized in a Policy Matrix (Annex II). This framework projects real GDP growth of 6 percent average per year; driven by growth in exports and investments. Financing of this growth would come partly from rising domestic savings as well as from foreign sources. The external current account deficits (including official grants) compatible with this growth are projected at 7 to 8 percent of GDP through 2003. With these developments, external debt is expected to increase to about 51 percent of GDP, while debt service is projected to remain below 11 percent of exports of goods and services. The policy commitments and targets described in Annex II will be revised once the I-PRSP is replaced by the full-PRSP.

12. In the area of **fiscal policy**, current weaknesses in the budget structure, such as high tax burden on labor, high share of expenditures for social transfers and public sector wages, weak management control, and poor transparency of spending, will be addressed through a series of reforms. The budget balance of the central government is projected to be not higher than 0.2 percent of GDP deficit in 2001 and 0.5 percent of GDP surplus in 2002–2003. The government will modernize the tax system through reductions in personal income tax in 2001, among other measures. In the same time, expenditure reduction will be pursued, through public administration reforms and introduction of temporary measures for expenditure control until establishment of the treasury system.

13. In the **financial and monetary sectors**, policy will be focused on sustaining the exchange rate as a nominal anchor and, eventually, after completion of reforms in the enterprises, banks, and financial market, on introducing a more flexible exchange rate regime. Since April of this year, monetary control has been based on the use of indirect instruments. To enable the banking system to allocate credit effectively, reforms will be directed towards strengthening of the legal framework and enforcement, as well as strengthening competition. A key pillar of the government's efforts to strengthen the banking sector is to address the status of problem banks and to improve the overall financial health of the banking system, as the non-performing portfolio of the banking sector burdens the access to credit of the private sector. For the financial sector, a new legal framework for preventing money laundering will be introduced. Also, reforms to improve the infrastructure of the financial system will be implemented.

14. Reforms in the **enterprise sector** will be primarily directed towards solving the biggest loss-making companies, strengthening the legal framework with regards to the rights of the trustees and shareholders, making the private companies more accessible, creating an appropriate environment for direct foreign investments and modernization of the process of transition. The uses of privatization receipts will be defined (likely to include retroactive payment of pension obligations and funding of the introduction of the second pillar of the retirement system easier).

15. Other policy areas are discussed in more detail in the following sections.

## **B. The Health Care System**

16. Differences in income levels have a serious impact on the level of accessibility and quality of health services available to the poor. There are still illnesses associated with poor living conditions and illnesses that remain typical for certain groups of the population (i.e., the unemployed, the elderly, the disabled, and the rural population). These health problems linked to poverty include certain transmittable diseases (e.g., tuberculosis and waterborne diseases) which are a result of poor hygiene, and health conditions with risk factors associated with lower education levels, (e.g., alcoholism, smoking, and cardiovascular diseases). Living conditions, as measured by access to potable water or access to waste removal systems, are worse in rural areas and certain poor urban areas than elsewhere in the country. These conditions are especially grave amongst many households in the Roma population.

17. The existing health institutions in Macedonia were designed to allow easy access in the geographical sense. A significant part of the improvement of certain health indicators, such as child mortality (reduced from more than 25 to less than 16 per 1000), lower mortality rates from infectious disease, and increased rate of immunization, may be attributed to improved access to services successfully provided by the government.

18. The government is fully aware of the significant challenges that the country is facing during transition and is prepared to provide additional impetus to health sector

reform in parallel with the wider context of economic transformation. Key reforms for the sector's ability to deliver services to the population will be implemented in the near-term. These are reform of the organization and payment system in primary health care, rationalization of hospitals, and revision of pharmaceutical prices .

19. The Ministry of Health, with the exception of a few programs, does not have a focused policy for the poor part of the population but has been relatively successful in enforcing the basic principles of access to services and minimum quality of health services, guarantees which are particularly important for the poor segment of the population. Preventive health programs, because of the incidence and the nature of the diseases included, are of greater value to the poor than to the rich. Currently, Macedonia has eight health care preventive programs: immunization, tuberculosis, drug addiction, brucellosis, maternal and child health, early cancer detection, reproductive health, and a blood donor program.

20. Planned reforms of the health care system will tap into the model of a universal financing system, utilizing services providers payments as an instrument for introducing improved service provision. A special emphasis is laid on primary health care services, which are accessible to all patients, but also on possibilities for improving the cost efficiency of services. These reforms of the health care system will give rise to a better access to health institutions, especially for poorer groups of the population living in rural areas and for those suffering from "diseases of the poor".

### **C. Education**

21. Education levels in Macedonia are reasonably high. 95 percent of the population is literate, and primary school enrollment rates are close to universal. However, education remains an issue for certain groups, especially the poor. Over three-quarters of the poor have less than primary school education.

22. Gross enrollment rates are lower at all levels of the education system than in other countries in the region; and, as for most transition countries, participation in education has declined since independence. There is still a comparatively high drop out rate, especially at the secondary school level. However, average education status has continued to rise, and the gap between educational attainments of males and females and also of rural vs. urban residents has been narrowing.

23. Reforms of the education system are being implemented in the Republic of Macedonia, to produce positive qualitative and quantitative effects on educational outcomes. The reforms are aimed at raising enrollment rates and raising the average level of education completed. Some improvements have already occurred, but further efforts are required to reach this goal. According to the last census: those with no education constituted 10 percent of the population, those with less than a primary education, 20 percent; primary education, 30 percent; secondary education, 33 percent; and more than secondary education, 8 percent.

24. Curricula are being adjusted to meet the needs of a market oriented economy. There are ongoing activities to reorganize secondary education and preparations for reform of the high school system. More attention needs to be paid to adult education and retraining, which can assist workers in switching careers and responding to market demand. The role of the student in the educational process is being changed, which should contribute to forming individuals capable of creating jobs in the fast-changing economy and of active participation in the institutions of a democratic society.

25. The education reforms wish to provide equity of access and to provide a system that can: cater to the individual needs of each child (especially gifted children and children with impaired development); and that can adjust to the needs of various target groups, especially those suffering from social discrimination. High risk groups, whose members are unlikely to achieve a satisfactory level of education, include: rural children; Muslims, especially females; Roma; and those with special physical or psychological needs.

26. The activities to be undertaken in the field of education, so as to fight poverty in the country, ought to be directed at two levels. At a general level: measures must be taken to raise the average level of education of the population, to be better able to face the economic development challenges. At a targeted level, measures must be taken to create higher inclusion in the educational process of the members of risk groups, who without such help, are destined to remain poor and unemployed.

#### **D. The Social Safety Net**

27. As a consequence of the transformation in the country following independence, and negative short term developments, a high number of households have failed to provide existence for themselves and for their family members. This situation is a consequence of the drop in the number of employed people and increase in the number of unemployed, irregular payment of wages and pensions and certain benefits such as child allowances, unemployment benefits and the real drop in value, changes in the ratio of employed and pensioners and the unfavorable environment surrounding the country.

28. In response to rising poverty and falling employment, the Republic of Macedonia put into place a safety net for its citizens. Since 1992, the government has adopted annual programs and resolutions setting eligibility criteria for social assistance benefits, restricting them to citizens with income levels below the official poverty line. However, all citizens enjoy this right, irrespective of religious, ethnic, political or other background. In more recent years, to contain pressures on the public budget and to improve targeting of assistance, the government has tightened eligibility. In 1996, the income ceiling was set at half of the official poverty line, reducing eligibility to about 10 percent of the population. Since then, the number of households receiving social assistance has been growing, rising by 27 percent between 1996 and 1999, with budget allocations increasing correspondingly. In the future, ongoing improvements of eligibility are planned to target more closely the poorest households.

29. Poverty reduction activities related to the social safety net will be directed during the next year towards:

- Further definition of the social assistance criteria to ensure a more equitable distribution, to target the poorest households. This would start as of the beginning of 2001, after the detailed analysis of the existing criteria has been completed in cooperation with the World Bank experts.
- Consideration of social investment funds. This activity will commence in 2001, with the creation of pilot projects in certain municipalities in the country.
- Establishment of daycare for children with impaired development.

30. Overall, the government will undertake measures directed towards overcoming the current structural problems and establishing systems of social insurance on financially sustainable bases. In addition, the transition towards a multi pillar pension system will be coordinated in accordance with reforms in the payment system and developments in financial markets.

### **E. The Labor Market**

31. In addition to spurring greater job creation through higher economic growth, to improve performance of the labor market, the government will adopt an active policy of information disbursement on employment opportunities, programs for training, and consideration of various policies that create private incentives for job creation. In order to facilitate employment of the poor, a dynamic development policy of small and medium enterprises will be undertaken, and investments for projects for protection of the environment and infrastructure will be promoted. Greater investment in human capital development, with special emphasis on the policies and efficiency of the education system, will also be important to improved operation of the labor market and its contribution to poverty alleviation.

32. The shock of economic transition, and especially the privatization of state-owned companies, has had its greatest impact on the labor market, with a series of unfavorable and long-term implications. The transition was followed by a transformation of the labor force (in size and structure), revealing the scope of long accumulated over employment and transformation of hidden into open unemployment. Military activities in FR Yugoslavia, the Kosovo conflict and the massive refugee wave into the country in the first half of 1999 imposed further negative impacts on the unemployment situation. The labor market in Macedonia is clearly out of balance, with signs of further worsening.

33. As a result of the high outflow of labor on various bases, there is a trend of continuous drop in registered employment. (which has contracted by 39 percent since 1989) and today, the number of employed stands at the level of two and a half decades



ago. Many have come to depend on informal employment (seasonal jobs, temporary, and part time jobs), which now constitutes 27 percent of the labor force.

34. Although unemployment has been present and increasing slowly over several decades, the transition period of the 1990s pushed it up to unprecedented levels, reaching 360,000 persons, or over one-third of the labor force. Unemployment has become worse both in scope and in structure. The unemployment rate fluctuates between 32 and 36 percent. The unemployed are: predominantly the young (43 percent of the unemployed are age 20–29); and uneducated people (43 percent of the unemployed have incomplete primary or primary education). Women make up 40 percent of the unemployed, and the unemployment level is highest in urban centers. Further, there has been growth in the number of second time unqualified job seekers, and three quarters of the unemployed have been seeking employment for more than four years.

35. There is a correlation between (un)employment and poverty. The most vulnerable groups of the labor force are: unemployed poorly-qualified middle-aged people who have lost their jobs and first-time young job seekers, people employed in companies with uncertain futures, households with no employed members, self-employed in the farming sector, and multi-member families in rural areas.

36. Over recent years, the main activities of the government were directed at undertaking structural reforms in the social sectors and the labor market, implemented with technical and financial support from the World Bank and other international donors. Into the future, the government's labor market policy will be directed at accelerating growth and encouraging job creation, especially for those seeking employment for a long time, those poorly qualified, and families with several unemployed members.

- Existing programs and some new programs will help in finding employment, and provide further qualification and re-qualification of workers, especially for social assistance beneficiaries; and
- the Labor Office will be transformed into a job placement agency that provides organized and planned mediation to try to match labor supply and demand, and that cooperates with affiliated private non governmental organizations.

37. To encourage direct foreign investment in labor intensive companies, entrepreneurship, expanded self employment, and the development of family run businesses, the following will be considered as possibilities:

- Microfinance and overall support of projects in rural areas to stimulate individual farming, and self-employment and family run businesses in agriculture;

- Public works in communal infrastructure and protection of the environment, to provide part time employment for the poor; and
- Business incubators to create employment of socially underprivileged people.

## **F. Rural And Regional Development**

38. Although 87 percent of Macedonia is rural, and 40 percent of the population live in rural settlements (1994), almost two-thirds of the Macedonian countryside is experiencing depopulation. According to the census of 1994, there are 119 rural settlements with no inhabitants living there. Some of the factors pushing population out of the rural areas are: permanent structural changes in agriculture, low level of education of the rural population; lack of off-farm employment; low quality infrastructure (communal, social, and economic) and undeveloped entrepreneurial spirit. These problems are not new, but they have only been worsened by the period of transition.

39. What makes the problem in the countryside even more difficult is the very significant concentration of poor elderly households, whose members cannot fully utilize existing agricultural opportunities and generate only small incomes from their economic activities.

40. To alleviate the growing social and economic problems and to maintain stability and social cohesion in rural and underdeveloped regions, the government will consider the following approaches:

- depart from the concept of development of urban centers and move to the concept of space development with a view to reducing regional and local differences in terms of infrastructure and economic development;
- alter attitudes towards the countryside. The countryside needs infrastructure development as a precondition for a varied economic and cultural development that will provide a higher living standard of the population. A multi-sector approach is required for the development of the countryside, designed to match the possibilities of rural spaces; and
- pay special attention to development of small businesses in settlements and regions where there are unutilized capacities and labor. In rural areas, it is important to help develop the entrepreneurial spirit of a wider spectrum of households, to gradually shift them from traditional crafts and occupations towards involvement with modern industries.

## **IV. DEVELOPMENT OF THE POVERTY REDUCTION STRATEGY**

### **A. Process Followed for the I-PRSP**

41. In preparing this interim PRSP, the Government of the Republic of Macedonia formed a Steering Committee and a Working Group. The Steering Committee, which provided oversight guidance on the I-PRSP, included the Ministers of Development, Labor, Health, and Finance. The Working Group included representatives from the Ministries as well as from universities and research institutes. The role of the Working Group was to coordinate inputs to the I-PRSP from a broad range of sources both within and outside the government. This included the commissioning of local experts to undertake research and generate background papers:

- a summary of existing research on poverty since the Kosovo crisis;
- findings from focus group research on perceptions of poverty among different social groups; and
- a first version of a communications and participation plan for the Poverty Reduction Strategy process.

The results and recommendations of this work and the first draft of the I-PRSP were presented and discussed at a June 2000 workshop attended by the Steering Committee, the Working Group, the international donor community, and the media.

42. Throughout the development of this I-PRSP, key stakeholders were kept informed, especially through the following activities: discussion of the draft I-PRSP and its background papers at the June 2000 Working Group workshop in Skopje, parts of which were broadcast nationwide; the presentation of a summarized version of the draft I-PRSP at the World Social Summit in Geneva in June 2000; and presentation of key messages of the I-PRSP in various public speeches and interviews with the Minister of Development, who led the I-PRSP effort through July 2000, and other Steering Committee members.

### **B. Filling the Gaps in Poverty Data and Analysis**

43. Poverty incidence is estimated and reported each year, based on the government's annual household budget survey. In 1996, an expanded sample and questionnaire was used, as part of a poverty assessment conducted jointly with the World Bank, and poverty indicators are periodically collected. Future poverty profiles will attempt to expand coverage and knowledge of Macedonia's poverty profile. In fact, a census will be undertaken in early 2001, on the basis on which a revised sample frame can be constructed for the household budget survey. Discussions have begun with the World Bank and the donor community to support a Living Standards Measurement Survey

during 2001 as part of the PRS process. This survey may not be fully finalized by the time the full-PRSP is completed, but the preparation of the survey and some of its early results are likely to be available prior to the completion of the PRS. To the extent possible, this information and preparatory work will serve to guide the work of working groups described in the Participation Plan (Annex III).

44. The government will undertake a series of measures in order to improve and/or establish appropriate mechanisms for the regular and timely collection, analysis, and publication of data required for the monitoring of relevant social indicators related to the well-being of the population. The results of the surveys will be widely publicized and the government is committed to consult with relevant stakeholders on these results through appropriate channels (such as workshops and conferences). In addition, the government will attempt to continue to improve the quality and coverage of existing poverty data and of the macroeconomic data that underlies the framework underpinning this I-PRSP, as described in Section XI of the Policy Matrix.

45. Until a full set of monitoring indicators is developed, as part of the PRS process, the government intends to monitor progress of its poverty reduction strategy based on an interim set of available indicators (Annex IV), consisting of:

- life expectancy;
- infant mortality rate;
- maternal mortality rate;
- under five mortality rate; and
- basic education enrollment rate.

### **C. Participation in the PRS**

46. A key part of the interim PRSP is the participation plan (see Annex III), which lays out the approaches and activities to be undertaken during the preparation of the full PRS. The participation plan has the objective of giving stakeholders the opportunity to share in the process of developing the poverty reduction strategy and establishing a model for communication between the state and stakeholders. This experience, if it brings positive results in the formulation of a poverty strategy, could then be used for other similar initiatives by the government. The stakeholders for the poverty strategy include elected representatives (especially local government), key domestic stakeholders (authoritative figures from local communities, non-government organizations, and representatives from civil society); and external development partners. Participation in the PRSP will build trust and consensus between government and society. It will also

build ownership, lead to empowerment and increase overall sustainability of the poverty reduction strategy.

47. More specifically, the participation plan is designed to allow stakeholders the opportunity to provide the government with feedback and suggestions on the PRS. Stakeholders will be consulted starting in early 2001, through conferences and workshops; focus groups, surveys, and community meetings; and public information campaigns on the PRS as a whole and on specific issues within the PRS. A three-part participatory process is outlined in detail in Annex III. The plan calls for consultations at the national and sector levels with a broad range of stakeholders. Part 1 of the plan (scheduled to take place in January-February of 2001) includes national level reviews with stakeholders on the priority policies identified in the I-PRSP. Part 2 includes consultations between Ministries and appropriate stakeholders on specific sector issues and will expand from March to September of 2001. One of the main objectives of these first two phases is to identify data and policy gaps that may need to be more thoroughly developed prior to completing the PRS. Part 3 includes national level meetings with stakeholders on the strategy paper.

48. Finally, it is the government's expectation that such participatory process in the preparation of the PRS will later on be followed by similar participatory mechanisms to monitor progress and evaluate the results of the PRS. This would also enable, if deemed necessary, the introduction of changes to the PRS at an early stage. As previously mentioned, such participatory process will hopefully also serve to establish a model of communication to be followed in other government initiatives.

## Selected Economic Indicators, 1997–2003

	1997	1998	1999	Projections			
				2000	2001	2002	2003
Real economy							
				(in percent change)			
Real GDP	1.4	2.9	2.7	6.0	6.0	6.0	6.0
Consumer prices							
Period average	2.6	-0.1	-0.7	6.1	2.2	2.1	2.0
End of period	3.2	-2.4	2.6	4.9	1.2	2.4	1.9
Balance of payments				(in millions of U.S. dollars)			
Current account	-276	-307	-136	-214	-295	-309	-321
Excl. official transfers	-283	-335	-201	-282	-328	-342	-354
Trade balance (fob)	-386	-418	-409	-601	-605	-593	-600
Gross reserves	280	334	478	677	752	808	844
				(in percent of GDP)			
Current account	-7.4	-8.8	-4.0	-6.5	-8.2	-7.9	-7.5
Excluding official transfers	-7.6	-9.6	-5.9	-8.5	-9.1	-8.7	-8.3
				(in months of next year's imports of goods and non-factor services)			
Gross reserves	1.7	2.1	2.5	3.2	3.4	3.4	3.4
				(in percent)			
Export growth rate	7.8	4.5	-7.8	14.7	14.0	10.6	8.0
Import growth rate	10.9	5.4	-6.4	22.9	9.9	7.1	6.3
External debt				(in percent of exports of goods and non-factor services)			
Debt service ratio	8.7	10.1	13.0	12.9	10.7	10.8	10.9
				(in percent)			
External debt to GDP	31.6	41.1	43.3	45.7	48.6	50.3	50.8
Fiscal accounts 1/				(in percent of GDP)			
Revenue and grants	34.9	34.0	37.9	40.2	36.5	35.3	34.4
Total expenditure	35.3	35.8	38.0	38.0	35.2	33.8	32.4
Balance	-0.4	-1.8	-0.1	2.2	-1.2	-0.7	-0.5
Monetary indicators				(in percent change from end of previous year)			
Broad money (M3)	15.8	14.9	29.7	22.6	12.7	...	...
Total private sector credit	18.9	10.4	9.4	18.1	13.1	...	...

1/ Fiscal accounts are for general government.

**Policy Matrix, 2000–03**

<b>Policy Area</b>	<b>Objectives and Targets</b>	<b>Strategies and Measures</b>	<b>Implementation</b>	<b>Lead Advisor</b>
<b>I. Fiscal Policies</b>				
<b>A. Overall Budget</b>	Maintain fiscal prudence.	Maintain fiscal stance consistent with external sustainability and availability of concessional external assistance.	2000-03	IMF
	Improve fiscal transparency, and budget design and preparation.	Introduce a rolling three-year budgetary framework, explicitly incorporating costs of structural reforms and integrating core activities undertaken through off-budget special revenue accounts (beginning with the 2001 budget).	2001-03	IMF
		Introduce new policies only after fully evaluating budgetary implications and cost of policy change for budget year and subsequent years and identifying offsetting savings.	2001-03	IMF/WB
	Prudent use of privatization receipts.	Predefine use of privatization receipts (focusing on reducing net government indebtedness, servicing external debt, funding costs of structural reforms, spending on quality investment projects, and re-paying retroactive pension obligations), and allocate receipts accordingly. Receipts will not be used for recurrent and consumption spending.	2000-03	IMF
<b>B. Revenue</b>	Shift taxation burden from direct to indirect taxes.	Introduce the VAT.	Apr. 2000*	IMF
		Complete organization of VAT system; computerized accounting, refund, and audit procedures.	Dec. 2000	IMF
		Increase tax collection efforts, including carrying out more frequent and selective audits.	2000-03	IMF
		Reduce personal income taxes and social contributions without compromising the financial viability of social insurance funds.	2001-03	IMF
		Maintain a flexible oil pricing policy that follows developments in international prices and maintains a stable stream of government revenues.	2000-03	IMF
		Establish and comply with declining cap on direct and indirect government support to the enterprise sector.	2001-03	WB
		Prepare a satisfactory action plan with a realistic timetable for the reorganization and/or transfer of ZPP functions in revenue and social contribution collection and management	Jun. 2001	IMF/WB
	Implement above action plan.	2001-03	IMF/WB	

**Policy Matrix, 2000–03**

<b>Policy Area</b>	<b>Objectives and Targets</b>	<b>Strategies and Measures</b>	<b>Implementation</b>	<b>Lead Advisor</b>
<b>C. Expenditure and Budget Management</b>	Reform public administration and rationalize expenditures based on clearly defined priorities.	Prepare comprehensive action plan for civil service reform.	Jul. 2000*	EU/WB
		Continue policy of limiting the wage bill at the level specified under the government's economic program.	2000-03	IMF/WB
		Develop a strategy, within the overall wage bill ceiling, aimed at improving pay through deeper rationalization of the civil service.	2000-03	IMF/WB
		Revise budget law to clarify budget process, including the roles and accountability of budget users.	May 2001	WB
		Finalize action plan on the development of new standards and guidelines for improved financial management and accounting practices at different ministries.	May 2001	WB
		Provide adequate budget and number of positions in key ministerial functions (i.e. SAO, CFOs, internal audit, PAR, CSA).	2001	WB
	Integrate core off-budget special revenue accounts into central government budget.	Identify core and noncore special revenue account activities.	Nov. 2000	IMF/USAID/WB
		Integrate core activities in 2001 central government budget.	Dec. 2000	IMF/USAID/WB
		Develop procedures and time-bound plan for corporatization, privatization, or elimination of non core activities, including passage of general legal framework if required.	Dec. 2000	IMF/WB
		Implement time-bound plan for corporatization, privatization, or elimination of non core activities.	Jan.-Sep. 2001	IMF/WB
	Improve budget execution.	Establish Treasury department at the Ministry of Finance	Apr. 2000*	IMF/WB
		Adopt and complete satisfactory time-bound action plan for the development of treasury functions; including cash management, debt management, budget accounting and reporting activities.	2000-02	IMF/WB
	Improve effectiveness of social assistance programs.	Strengthen means-testing to improve targeting of social assistance benefits.	2000-03	WB
		Improve administration of these programs including through upgrading information technology and enhancing data communications between key government agencies.	2001-03	WB



**Policy Matrix, 2000–03**

<b>Policy Area</b>	<b>Objectives and Targets</b>	<b>Strategies and Measures</b>	<b>Implementation</b>	<b>Lead Advisor</b>
	Debt management.	Issue negotiable government bonds in exchange for frozen foreign currency deposits.	Apr. 2000*	IMF
		Establish an operational government debt monitoring unit in the Ministry of Finance.	Dec. 2000	IMF/USAID/WB
		Compile a comprehensive list of government debt including loan guarantees.	Dec. 2000	IMF/USAID/WB
		Strengthen existing regulations and adopt policy for issuance of guarantees.	Jun. 2001	IMF/USAID/WB
		Include guarantees as supplementary information to the budget, and budget reserves for guarantees, starting with the budget for 2001.	2001-03	IMF/WB
		Establish and adhere to programmed limits on contracting and guaranteeing new nonconcessional debt, except for normal import-related loans.	2001-03	IMF
<b>II. Financial Sector</b>				
<b>A. Monetary Operations</b>	Shift completely to indirect instruments of monetary control.	Continue with exchange rate anchor based monetary policy.	2000-03	IMF
		Conduct open market operations with NBM bills.	2000-03	IMF
		Establish market for treasury bills and introduce repurchase operations with short-term commercial and government paper.	2002	IMF
		Interest rates on open market operations will be market determined.	2000-03	IMF
<b>B. Institutional Reforms</b>	Modernize banking legislation.	Enact new banking legislation.	Sep. 2000*	IMF/WB
		Passage of money laundering legislation by parliament.	Mar. 2001	IMF/WB
		Amend NBM Act.	Jun. 2001	IMF
	Further upgrade NBM regulations.	Prepare timetable for necessary amendments to existing NBM prudential regulations to bring them in line with international standards.	Dec. 2000	IMF/WB
		Issue revised prudential regulations in line with international standards including those pertaining to capital adequacy, loan classification and provisioning, and foreign exchange exposure.	Jun. 2001	IMF/WB
Reform deposit insurance scheme.	Enact new law to replace current bank-owned and operated system with government backed system.	Sep. 2000*	WB	

**Policy Matrix, 2000–03**

<b>Policy Area</b>	<b>Objectives and Targets</b>	<b>Strategies and Measures</b>	<b>Implementation</b>	<b>Lead Advisor</b>	
<b>C. Foreign Exchange Market Operations</b>	Strengthen bank supervision capacity.	Establish off-site monitoring unit and problem bank unit.	Jul. 2000*	IMF/WB	
		Prepare requisite supervision manuals.	Sep. 2000*	IMF/WB	
		Develop early warning system for monitoring banks with difficulties.	Dec. 2000	Netherlands/WB	
	Strengthen enforcement of NBM's regulations.	Complete diagnostic studies of four largest banks (excluding Stopanska Banka).	Sep. 2000*	WB	
		Design corrective action programs (formalized through letter agreements) to address all deficiencies identified in the diagnostic studies the four banks recently completed.	Dec. 2000	IMF/WB	
		Ensure effective implementation of such programs.	2000-01	IMF/WB	
		Prepare report, on a periodic basis, assessing the extent of noncompliance by banks with prudential regulations.	2000-03	IMF/WB	
		Stopanska Banka sold to foreign strategic investor.	Apr. 2000*	IMF/WB	
	Increase competitiveness, promote consolidation, and resolve problem banks.	No use of public resources to bail out nonviable banks, especially if they do not pose any systemic risk.	2000-03	IMF/WB	
		Enforce program of action to upgrade existing problem banks (i.e. those that currently have a CAMEL rating of 4 and 5) and impose specified sanctions on those that remain in noncompliance.	Mar. 2001	IMF/WB	
		Amend legislation to transform BRA into an Asset Management Company (AMC) and give it an irrevocable 3-year horizon.	Jun. 2001	WB	
	Transform Bank Rehabilitation Agency (BRA).				
	Improve functioning of the market	Amend the Foreign Exchange Operations Law so as to (i) discontinue the legal obligation for authorized banks to organize foreign exchange market in their premises; (ii) allow nonbank financial intermediaries to operate; and (iii) eliminate the export surrender requirement.	Mar. 2001	IMF	

**Policy Matrix, 2000–03**

<b>Policy Area</b>	<b>Objectives and Targets</b>	<b>Strategies and Measures</b>	<b>Implementation</b>	<b>Lead Advisor</b>
<b>D. Payment and Settlement Systems</b>	Reform Bureau of Payments Operations (ZPP) and develop a modern settlement system  Create effective pledge registration mechanisms.  Create a central share register and adopt a modern securities clearing and settlement system.	Install system for the real time gross settlement system for large value payments in the NBM and selected commercial banks.	Dec. 2001	EU PHARE/WB
		Establish and operationalize bank-owned clearing house for small value payments.	Dec. 2001	Netherlands/WB
		Transfer corporate customer current accounts from ZPP to the banking system.	Dec. 2001	IMF/WB
		Operationalize register on pledged movable property.	Mar. 2000*	Norway/WB
		Operationalize register on pledged immovable property.	Mar. 2001	Norway/WB
		Complete the feasibility study and formally adopt proposed action plan for operationalization of the new central share register and delivery-versus-payment (DVP) based securities clearing and settlement system.	Mar. 2000*	WB
<b>III. Privatization, Enterprise Restructuring, and Private Sector Development</b>	Privatize or close selected loss making state and socially owned enterprises.  Follow “best practice” international public tender based privatization method.  Foster development of SMEs	Operationalize the central share register and DVP-based securities clearing and settlement system.	Dec. 2001	Norway/WB
		Complete sale or close/liquidate selected enterprises.	Mar. 2000*	IMF/WB
		Complete sale or close/liquidate Feni/Fenimak.	Nov. 2000	IMF/WB
		Complete sale or close/liquidate Jugochrom and four other large loss-making enterprises.	Mar. 2001	IMF/WB
		Complete sale or close/liquidate remaining selected loss-making enterprises.	Jun. 2002	IMF/WB
		Privatize telecommunications company.	2001	
		Amend existing privatization legislation and issue supporting decrees to improve quality of privatization process, and implement “best practice” privatization process for large enterprises.	Jun. 2000 – Jun. 2002	WB
		Operationalize a new electronic central company register.	Mar. 2002	EU PHARE/WB
Develop a strategy to facilitate the development of Small and Medium-sized Enterprises.	2000-03			

**Policy Matrix, 2000–03**

<b>Policy Area</b>	<b>Objectives and Targets</b>	<b>Strategies and Measures</b>	<b>Implementation</b>	<b>Lead Advisor</b>
<b>IV. Creditor and Shareholder Rights</b>	Strengthen the legal framework for enforcement of creditors' rights.	Amend the Bankruptcy, Collateral, and Executive Procedures Laws.	Oct. 2000*	WB
		Enact new collateral law integrating both movable and immovable collateral.	Mar. 2002	WB
	Strengthen the legal framework for enforcement of shareholders' rights.	Amend the Law on Issuance and Trading of Securities that will (i) mandate the transfer of share books from companies to the new central share registry; (ii) strengthen the independence and enforcement powers of the SEC; (iii) toughen insider trading rules and disclosure requirements; and (iv) improve protection of minority shareholders.	Jun. 2001	WB
<b>V. Trade Policy</b>	Liberalize foreign trade regime.	Harmonize tariff rates in line with requirements of the agreement with EFTA and the Stabilization and Association Agreement with the European Union.	2001-03	IMF/WB
		Negotiate free trade agreements with regional partners to foster the Stability Pact.	2000-02	IMF/WB
		Meet requirements for WTO membership.	2000-02	IMF/WB
	Export promotion and investment policy.	Establish free trade zones, technology parks and innovation centers.	2001-03	
<b>VI. Employment and Labor Market</b>	Promote employment.	Avoid measures that increase effective protection.	2000-03	WB
	Rationalize unemployment benefits.	Improve flexibility of labor markets by decentralizing collective bargaining and lowering dismissal costs.	Mar. 2000*	WB
		Restrict eligibility for open-ended unemployment benefit and impose additional eligibility criteria.	Mar. 2000*	
		Assess effectiveness of the administration handling unemployment benefits and introduce changes to improve its performance.	2000-01	WB

**Policy Matrix, 2000–03**

<b>Policy Area</b>	<b>Objectives and Targets</b>	<b>Strategies and Measures</b>	<b>Implementation</b>	<b>Lead Advisor</b>
<b>VII. Pension System</b>	Reform pension system.	Change benefits and eligibility criteria including increasing retirement age, reducing the replacement rate, and basis of indexation to wages and prices.	Mar. 2000*	WB
		Enact legislation to establish framework for introduction of fully-funded mandatory second pillar to the pension system.	Mar. 2000*	WB
		Prepare an action plan to strengthen the administrative capacity of the Public Pension Fund in the areas of information management, accounting, and budget preparation.	2001	WB
		Enact legislation that will govern the operations of pension funds and establish supervisory structure for private pension funds, institutional arrangements for collection and registration, norms and investment rules, and audit, disclosure, and accounting standards.	2001	WB
<b>VIII. Rural Development</b>	Improve government policies and services to reduce rural poverty.	Analyze constraints to agriculture sector growth and impact of agricultural reforms; develop strategy for agriculture and rural development.	2001-02	Netherlands/WB
<b>IX. Education</b>	Improve quality, efficiency, and equity of the education system.	Develop education strategy to improve quality of the education system and address low enrollment rates of the poor.	2000-01	Netherlands/WB
		Rehabilitate and construct schools in rural and undeveloped areas.	2000-03	WB
		Provide disadvantaged groups with greater access to higher education.	2000-03	WB
		Introduce adult education programs.	2001	WB
<b>X. Health</b>	Improve management of the Health Insurance Fund (HIF).	Develop legislative framework and implement reforms to enhance the HIF budget process, strengthen financial control and accountability, rationalize co-payments, and improve provider payment arrangements.	2000-01	WB
		Reform organizational and payment arrangements for primary health care, begin rationalization of the hospital network, reform hospital payments, and review pharmaceutical pricing and some aspects of competition in pharmaceutical markets.	2002-03	WB/WHO

**Policy Matrix, 2000–03**

<b>Policy Area</b>	<b>Objectives and Targets</b>	<b>Strategies and Measures</b>	<b>Implementation</b>	<b>Lead Advisor</b>
<b>XI. Statistics</b>	Improve quality of statistics in line with the General Data Dissemination System (GDDS).	Begin compiling national accounts on a quarterly basis and introduce use of input-output data to calculate quarterly GDP.	2000-01	IMF/WB
		Develop capacity and quality of staff at the Central Statistical Office.	2000-03	IMF/WB
		Improve fiscal statistics to conform to the Government Finance Statistics Manual.	2000-03	IMF
		Improve compilation of balance of payments data.	2000-03	IMF
	Improve poverty related data.	Improve statistics for poverty measurement and indicators for poverty monitoring.	2001-03	Netherlands/WB

Note: \* Denotes measures already implemented.

## **PARTICIPATION PLAN**

In the Republic of Macedonia, it has become clear that there is a need to involve all the members of society in a joint effort to shape a strategy for poverty reduction, which will objectively reflect the existing needs and priorities of the country. The I-PRSP presents a starting point for the participation process. During the year to come, contributions from representatives of civic society will be incorporated into the full strategy. The participation plan summarized here sets out the framework for a consultative and participatory process to be used during the preparation of the Poverty Reduction Strategy so as to reach some degree of consensus with stakeholders.

This participation plan was designed after consultations with key government officials, NGO, and other stakeholders. As part of the preparation of the I-PRSP, detailed interviews were conducted with representatives of civic society whose publicly confirmed interest and/or domain of activities are directly or indirectly connected with poverty. Talks were held with representatives of key local NGOs, selected for their past successes in addressing poverty issues and including groups working on environmental protection, human rights, and other issues, and representatives of minority groups, trade unions, and political parties to solicit their views on poverty in Macedonia and on the process of participation.

During the Poverty Strategy Reduction process, participation should be led at two levels:

- by representatives of the government as a whole, for issues of a general or political nature; and
- by individual ministries for more specific issues and areas.

The following categories of government participants will be included in the participation activities:

- workers in the state administration,
- members of parliament,
- representatives of the ministries,
- representatives of the local departments of the ministries,
- representatives of the local authorities,
- representatives of parliamentary commissions, and
- representatives of the government and the Cabinet of the President of the Republic.

### **Part 1 – January 2001 to February 2001**

Led by representatives of the government as a whole, a first consultation will be held in January-February 2001.

#### ***Participants***

- Higher administrative personnel of the government and representatives of the Ministry of Finance, Ministry of Health, Ministry of Education and Science, and Ministry of Labor and Social Policy;
- Representatives of eminent NGOs (not more than 10);
- Representatives of local governments (not more than 5);
- Four representatives of opposition parties;
- One representative of the Association of Trade Unions;
- One representative of each of the independent trade unions;
- Three representatives of the religious community; and
- Representatives of the Ministry of Finance as the coordinating ministry.

#### ***Theme***

Three priority policies outlined in the I-PRSP (acceleration of economic development, creation of new jobs and building of an efficient system for social protection). The discussions at the meeting will be summarized in the form of suggestions and recommendations that will be delivered to the Ministry of Finance.

### **Part 2 – March 2001 to September 2001**

Meetings will be organized in the respective ministries on specific sector issues, as follows:

- *Ministry of Finance* (fiscal policy, financial sector developments, privatization, foreign investment, and the private market's roles in poverty reduction) (three themes, one per month);
- *Ministry of Health* (reforms in the health sector as related to poverty reduction, basic package of health services, optimal and priority health care for the poor, health education, impact of culture on health outcomes) (five themes, one per month);
- *Ministry of Education and Science* (reforms in the education system as a strategic initiative for poverty reduction, the problem of groups excluded from elementary and



secondary school education, priorities in elementary school education, priorities in secondary school education) (four themes, one per month);

- *Ministry of Labor and Social Policy* (social protection versus growing impoverishment, social assistance programs and criteria for eligibility, priority activities in the area of the social policy, problems of the labor market, ways to stimulate new jobs, implications of geographic distribution of the poor) (six themes, one per month);
- *Ministry of Local Self Government* (infrastructure priorities by regions, problems with telecommunications, problems with water, problems with electricity) (four themes, one per month).

The full versions of the texts prepared by the Ministries and the Working Group for the I-PRSP can be used as starting materials for the discussions. In August-September 2001, each ministry should prepare a joint report of all meetings organized within its own area of responsibility. These joint reports will then be submitted to the Ministry of Finance and the Steering Committee of the Poverty Reduction Strategy.

### ***Participants***

- Chosen officials of the ministries (deputy ministers, undersecretaries, assistants, and counselors);
- Representatives of NGOs active in the respective area;
- Representatives of trade associations in the respective area;
- Representatives of the Association of Trade Unions;
- Representatives of the independent trade unions;
- Representatives of the religious communities;
- Representatives of local governments;
- Representatives of the opposition political parties;
- Eminent public figures knowledgeable in the respective area;
- Academics; and
- Representatives of interested civic groups active in related areas.

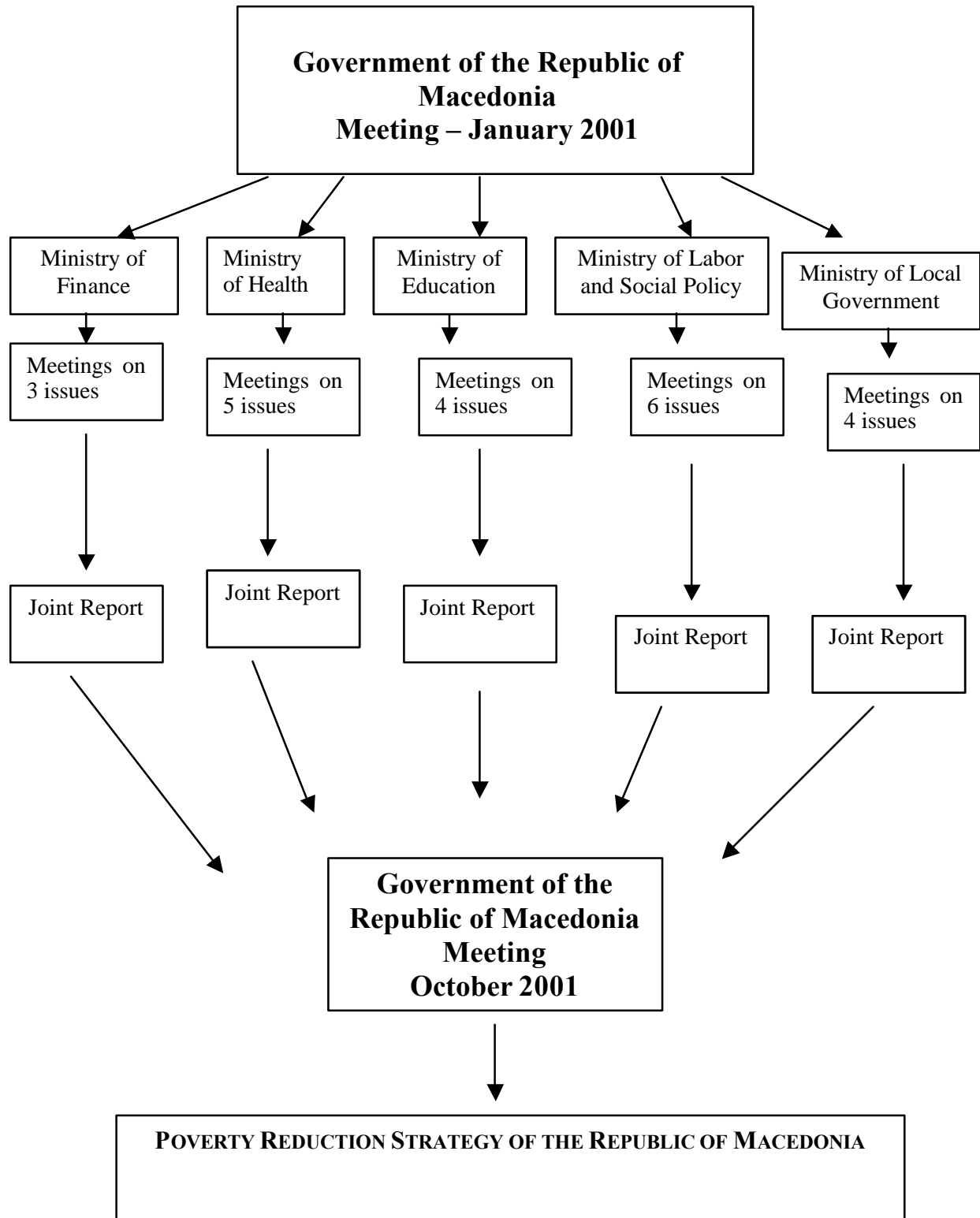
**Part 3 – October 2001**

A second meeting at government level will be held in September-October 2001, with the inputs from all joint ministry reports submitted as the basis for discussion.

***Participants***

The same participants who took part in the former panel at government level. These findings, recommendations, and conclusions will be incorporated into the final version of the Poverty Reduction Strategy of the Republic of Macedonia.

**PARTICIPATION PLAN**





## Selected Interim Monitoring Indicators

	1990	1995	1998
Life expectancy at birth (years)	...	71.9	72.6
Male	...	69.7	...
Female	...	74.1	...
Infant mortality (per 1,000 live births)	31.6	22.7	16.3
Child mortality rate, under-5 (per 1,000 live births)	...	24.5	18.0
Maternal mortality rate (per 1,000 live births) 1/	11.3	...	3.4
Gross primary enrollment (% of school-age population)	...	99.0	...
Male	...	100.0	...
Female	...	98.0	...

1/ Most recent estimate of maternal mortality rate is for 1997.