

**Swiss Development Cooperation Private Sector Development Programme**

Markets for Work in Macedonia

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## Executive summary

Macedonia is well on the way to a functioning market economy, as most of the required legislation and institutions have in principle been put in place. The prospect of EU membership (the country has been a candidate since 2005) and the need to attract investment and develop a vibrant private sector that creates economic growth and jobs have been the key drivers of change.

In spite of the modest economic growth enabled by reforms, unemployment has remained high and currently stands at 31%. For young people (between 15 and 30 years of age) this is officially 58%. The share of people under the (relative) poverty line was nearly 30% in 2010. In other words, a significant share of the population has so far benefitted little from progress towards a market economy. Specifically, growth has not created sufficient numbers of jobs and has not been inclusive of youth, women and rural areas.

Private sector development with a focus on further development of a social market-based economy that creates income and job opportunities was therefore included in the Swiss Cooperation Strategy for Macedonia 2013-2016. The current proposed project, which is part of this domain, will aim at:

**Goal: More working age women and men, in particular the young, are engaged in sustainable, decent employment or self-employment and/or earning higher incomes.**

This goal will require addressing constraints on the creation of opportunities for employment and increasing incomes, as well as on employability (relevance of skills) and job matching, which are the key causes of unemployment and poverty. Young women and men will be the prime target group, and improving employability and job matching will benefit them in the first place. The project will take a balanced approach to addressing rural and urban target groups, as high unemployment and low incomes are not limited to rural areas. This balance will be influenced by the presence of young unemployed and low-income women and men, i.e. areas with high youth unemployment and poverty rates will have high priority, be they rural or urban.

Women have a disadvantaged position in the economy generally and the labour market in particular. The project aims at their benefitting equally, including by addressing gender-specific constraints on their involvement in economic activity.

The project will use the Making Markets for the Poor (M4P) approach, which aims at supporting market actors to address underlying causes of the underperformance of specific market systems. Three sub-sectoral market systems have been selected that show good potential for income growth and job creation for women and men, and that attract youth. The inclusion of women, rural as well as urban target groups and potential environmental impact were taken into account in their selection as well. The sectors are:

- Tourism and hospitality
- Energy efficiency
- Creative industries (conditional on an in-depth analysis with key market actors)

In addition the skills market system (demand for and supply of skilled workers, job matching) was selected as a system in its own right. It is crucial to improving the selected sub-sectors as well as to private sector development in Macedonia in general. It is also of particular relevance to youth employment and increasing young women and men's incomes.

The project's expected outcomes are:

**Outcome 1 (sub-sectoral market systems):** *Enterprises in tourism and hospitality, energy efficiency, and creative industries offer a greater number and diversity of products and services, of higher quality, and access new local, regional and international markets.*

**Outcome 2 (skills market system):** *More young women and men have access to education and to job matching services that enable them to take up employment and business opportunities in the selected market systems.*

**Outcome 3 (women's economic empowerment, in addition to mainstreaming in outcomes 1 and 2):** *More women have access to information and services that increase their equality in the labour market, including as business owners.*

The design of outputs and activities will be based on detailed analysis of each of the market systems and will be subject to revision as the project progresses. Outcome 1 intervention areas are likely to include improving cooperation and linkages between market actors, strengthening market research capacity and facilitating research, developing destination concepts for tourism and support to development of new (alternative) tourism activities, improving access to services to enable energy efficiency enterprises to diversify, improve capacity and quality, more effective and joint marketing (in all three markets), promotion of energy efficiency and creative industries services.

In the skills market system the focus is likely to be on effective dialogue between the private and public sector and youth organisations to develop and implement measures to improve employability, and development of commercial job matching services. To increase women's equality in the labour market access to services that address gender-specific constraints, child care and strengthening organizations that conduct advocacy to promote change in gender roles and awareness of women's economic rights are among the possible intervention areas.

It is foreseen that the project will be implemented by a consortium of an international and a Macedonian development agency or consultancy firm, though if the international agency proposes implementation with its own team this should also be considered. The international partner will take the leadership, as there is no M4P experience and expertise in the country.

Following the tendering procedure, which will result in a preliminary project document, the project will start with an inception phase of 12 months. This will serve to constitute and train the project team, develop relationships with partners, and analyse at least two market systems, i.e. energy efficiency and creative industries. The analysis will be the basis for the design and pilot implementation of interventions. The inception phase will *not* only be a preparatory phase: its activities will aim at contributing to the project goal. During this phase the project document for Phase 1 will also be finalised.

In the first phase, of four years, more interventions in the first two market systems will be initiated while others will be expanded. The skills and tourism/hospitality market systems will be added in the first year. The project will continue building M4P skills of the project team, and will also build the M4P capacity of one or more organisations that have the potential to act as co-facilitators. Phase 1 may also include analysis of new cross-cutting market systems, in particular for services (e.g. in IT), so the project can arrive at cross-sector solutions to constraints. This phase will facilitate scaled up interventions that result in demonstrable systemic change in the selected market systems. It will produce credible evidence that this leads to jobs and better incomes. Depending on an assessment this may be followed by a second and possibly a third phase.

The expected total budget is CHF 7 million for the inception and first phase, with CHF 1,176,000 for the inception phase and CHF 5,842,000 for Phase 1 (on average CHF 1,456,000 annually).

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## 1. Context

Macedonia is well on the way to being a functioning market economy, as most of the required legislation and institutions have in principle been put in place. Reforms have been mostly driven by the prospect of EU membership (the country has been a candidate since 2005) and the need to meet the EU's legal and macroeconomic criteria. In addition, attracting investment and developing a vibrant private sector that creates economic growth and jobs are key Government goals.

Progress has been reflected for instance in the Doing Business Index, where Macedonia has been one of the top reformers. It climbed from a ranking of 92 in 2006 to a current ranking of 22, as the result of the Government's comprehensive programme of regulatory reform launched in 2007. This compares to an Eastern Europe and Central Asia Average ranking of 77<sup>1</sup>.

Macedonia's entry into the EU would give it free access to a market of more than half a billion people. It is a member already of the WTO, and the Government has signed free trade agreements with a number of partners outside the EU. The Central European Free Trade Agreement gives Macedonia free access to the regional market.

The macro-economic environment is relatively stable and its management is one of the areas in which the Government has been praised<sup>2</sup>. Corporate and income taxes are low, and so is official inflation. Wages are also still relatively low, though a recent pay rise in the public sector reduced overall labour productivity and is likely to force private sector wages up too. The country has a well-functioning financial system.

Before the current economic crisis these relatively favourable and improving conditions translated into GDP growth rates of between 3 to 6%. Increased exports and private consumption stimulated by foreign direct investments, remittances and credit expansion were the main drivers of this growth<sup>3</sup>. The crisis had a significant impact on exports and FDI, and the current growth rate is estimated at around 2%, after an initial contraction (2010: 1.8%; 2011: 3%; 2012: 1 %, though the Economist Intelligence Unit reports negative 0.3%). Agriculture accounts for 11.1%, industry for 27.3% and services for 61.6% of GDP. Most growth was recorded in services, with the percentages of GDP in agriculture and manufacturing decreasing slightly over the past 5 years<sup>4</sup>.

Growth of the private sector was reflected in the number of registered active enterprises that increased from 39,000 to 73,000 over the past decade. They are largely micro in size (less than 10 employees, 92%), only 2 % employing more than 50 people, and about 76% of private sector workers in micro, small and medium size enterprises<sup>5</sup>. In addition there is a large informal sector that comprises micro enterprises only. Most enterprises are in trade (36.7%), with manufacturing 11.1 %, transport and storage at 8.7%, professional, technical, scientific activities at 7.7%, accommodation and food services at 6.2, construction at 6.1%, and agriculture at 4.1%. Between 2009 and 2011 growth in terms of employment has been strongest in arts, entertainment and recreation (7,400 to 10,300, 37%), various professional, scientific and technical services (11,791 to 15,248, 29%), and various other services (8,354-10,701, 28%). Contraction took place in communication, real estate activities and administrative and support services.<sup>6</sup>

In spite of such growth, unemployment has remained high and currently stands at 31%, one of the highest rates in Europe. Unemployment for young people (between 15 and 30 years of age) is officially a troubling 58%, though a recent independent study puts it at just under 46%<sup>7</sup>. Young women are the most likely to be unemployed, as are youth in rural areas, the least educated and young Albanians and members of other ethnic minorities<sup>8</sup>. Over 80% is long-term unemployment, and this is in the context of

a labour participation rate that is very low (54%), especially for women (43%). In fact, almost 2/3 of those registered as unemployed are no longer actively looking for work. High unemployment rates are not confined to rural areas, with Skopje city at 28%, though overall rates are higher in rural areas.<sup>9</sup>

While average per capita GDP has risen substantially, from €4,972 in 2001 to €8,873 in 2010 and €9,248 in 2011 (European Commission, PPS per capita in Euro), the share of people under the poverty line was nearly 30% in 2010 using the EU approach (relative poverty), while the World Bank gives 23.5% in 2008. This was an increase from the 19% in 2006, in spite of this being a period of significant economic growth. Unemployment and level of education appear to be the main determinants<sup>10</sup>. Poverty has fallen significantly in Skopje, but in other regions it has remained the same or increased.

In other words, a significant share of the population has so far benefitted little from progress towards a market economy. Specifically, growth has not created sufficient numbers of jobs and has not been inclusive of youth, women and rural areas.

A number of factors contribute to this situation:

- Weak growth overall is related to Macedonia's small internal market. Growth will have to come from exports, which requires competitiveness in the regional, European and global markets. Overall competitiveness is low on nearly all counts, as reflected in a ranking of 80 out of 144 on the Global Competitiveness Index (compared to for instance 62 for Bulgaria, and 60 for Hungary)<sup>11</sup>. Furthermore, the readiness of Macedonia's private sector in terms of compliance with EU standards and regulations is weak, and will take a major effort to address.
- Low competitiveness is partly rooted in a significant gap between legislation adopted and institutions created on the one hand and their actual application and functioning on the other. Much legislation has not yet been operationalised, Government institutions charged with implementation often lack competence, capacity and funding, especially in rural areas. The private sector is often ill-informed of new regulations or standards<sup>12</sup>. This is part of weak governance in general as it relates to the private sector. Macedonia ranks low on key indicators such as judicial independence, efficiency of dispute settlement and transparency of government policy making, and corruption is perceived as a significant constraint on doing business<sup>13</sup>. On the private sector's side, unethical behaviour among companies is a major concern<sup>14</sup>.
- Strategies to improve competitiveness have focussed on enhancing efficiency and productivity rather than on innovation, adding more value, or job creation. I.e. much of the growth has been growth without jobs.
- Partly as a result of low competitiveness, but also because of a lack of diversification, exports continue to be lower than imports in spite of improved access to external markets. The recent Government emphasis on export promotion needs significant additional resources and deeper interventions to have an effect on competitiveness and export readiness<sup>15</sup>. The export survival rate of small and medium enterprises after two years is less than 50 %, mainly due to lack of capacity and resources for continued exports. The many SME support programmes are too small, fragmented and uncoordinated to provide significant support towards enlarged exports. 63 % of total exports are from the largest 100 exporter companies, 42 % from the largest 10 exporters, in a small range of products (garments, steel, and chemical products being the top three).
- The large informal sector, estimated to account for 40% of the private sector, is a source of unfair competition for formal enterprises, affects overall competitiveness, and reduces public revenues<sup>16</sup>.
- Of particular importance with regard to youth unemployment is the low quality of education generally (more so in rural areas) and the disconnect between the education system (secondary and higher education and training in particular) and the private sector, which results in low

employability<sup>17</sup>. Public spending on education is low and inefficient<sup>18</sup>. While recently the Government has made efforts to put in place a sector-based institutionalised dialogue between Universities and the private sector, this is not effective and has not yet paid off in terms of improved market relevance. An ineffective Employment Service Agency, lack of job seeking skills and hiring practices that depend on personal contacts and networks add to a difficult school-to-work transition<sup>19</sup>.

- Macedonia's robust financial sector has not translated itself into sufficient access to credit for micro, small and medium size enterprises<sup>20</sup>. High collateral requirements and the lack of appropriate products are the key constraints that affect micro and small businesses in particular. Access is particularly constrained for young women and men and in rural areas. The availability of start-up capital is negligible and the microfinance sector's outreach is small. Working capital, which is a major constraint in most sectors because of delayed business to business payments, is also insufficiently available.
- Availability of appropriate land for agriculture and industry is low, due to lack of regulation, the slow process of privatization, illegal structures and a complex agricultural land market<sup>21</sup>. This also affects access to credit, and banks do not usually accept land as collateral.
- Public infrastructure, including for transport, has suffered from lack of investment over the past 20 years and current public spending is inadequate to bring it up to standard.
- Access to electricity remains a problem, in terms of getting connected and blackouts. This is the lowest ranking indicator in the 2012 Doing Business Index.
- Most public investment has been in Skopje and major towns. Given the consequent lower quality of infrastructure, power, health and education services in rural areas it is unsurprising that private sector investment has followed suit. This affects the Albanian minority, which is disproportionately rural, more<sup>22</sup>. Overall, low quality services are most often mention as a cause of rural to urban migration.
- As only 31% of working age women are employed (compared to 47% of men), and just 6% of businesses is owned by women, Macedonia misses out on one of its main assets, in spite of a legal framework compliant with international and European standards promoting gender equality. In addition, the gender pay gap is significant<sup>23</sup>. This is further considered in section 4.3.

## 2. Goal, target group

The high level of unemployment is a priority concern of the Government of Macedonia. Creating jobs and growth is the main objective of SDC's involvement in the domain of Economic Development in the country. SDC aims to support socially inclusive growth that reduces unemployment among youth and women. In line with this, the project's goal is:

**More working age women and men, in particular the young, are engaged in sustainable, decent employment or self-employment and/or earning higher incomes.**

This goal will require addressing constraints on the creation of opportunities for employment and increasing incomes, as well as constraints on employability and job matching. Especially reducing the latter two will mostly benefit unemployed youth or those leaving the education system. Efforts to address constraints on the private sector that limit growth will, of course, not benefit youth only since there is no sector that engages only the young.

The target group includes unemployed and low-income women and men in rural as well as urban areas. Many rural municipalities are characterised by high levels of unemployment and poverty. However, unemployment is high in Skopje and most other towns as well. Unemployment in Skopje (28%) is only just under the national figure (31%) and in some urban areas in the regions it is higher than that (e.g. 50.5% in urban areas in the Northeast and 37.8% in urban areas in the Southwest). The project will therefore take a balanced approach and address target groups in both rural and urban areas. This balance will be influenced by the presence of young unemployed and low-income women and men, i.e. areas with high youth unemployment and poverty rates will have high priority, be they rural or urban.

Women have a disadvantaged position in the economy generally and the labour market in particular. The project aims at their benefitting equally, including by addressing gender-specific constraints on their involvement in economic activity.

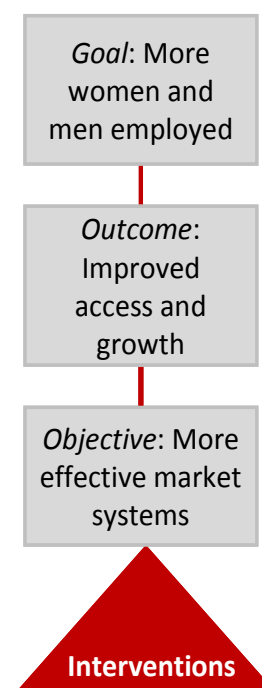
The general approach the project will take is briefly described in Chapter 3. Chapter 4 presents a summary analysis of the market systems the project will address and considers the transversal themes of gender (Women's Economic Empowerment), governance, ethnicity, and the environment. Chapter 5 presents the basic elements of the project's logical framework. Chapter 6 describes the expected process of project implementation, while Chapter 7 provides a brief analysis of the institutional environment with reference to what is facilitating and what is restraining processes of change in Macedonia's private sector, which may affect the project's success. Chapter 8 provides the basic elements of the institutional framework for the project and Chapter 9 presents a tentative budget.

### 3. Overall approach: making markets work

Change that lasts and that affects many is required given the scope of unemployment in Macedonia: the project aims at *sustainable* jobs as well as *large numbers* of jobs. It will therefore take an approach to private sector development that has been adopted by major donors globally, best known as Making Markets Work for the Poor (M4P)<sup>24</sup>. The theory of change on which it is based (illustrated in the diagram) is that in order to create jobs and increase incomes, enterprises, from the self-employed to large firms, need better access to services, markets and facilitating regulation, that enable them to improve productivity, increase sales, and grow. Such improved access and growth will also encourage the start-up and growth of new enterprises. It can be achieved by removing constraints and making use of opportunities in the market systems enterprises are part of, to make those systems more effective and inclusive. Project interventions aim at facilitating changes in market systems that achieve this. The project's objective will therefore to make selected market systems more effective.

The concept of market systems is not necessarily limited to sub-sectors (e.g. fruit and vegetables processing) or value chains (e.g. processing sweet peppers). It can also be applied to transactions that are not commercial, e.g. demand for and supply of advocacy by the private sector, or that are cross-sectoral (e.g. demand for and supply of a skilled labour force).

Because the changes the approach brings are at the level of market systems rather than just in specific the enterprises, most enterprises and people in the system will be affected, over a long period of time.



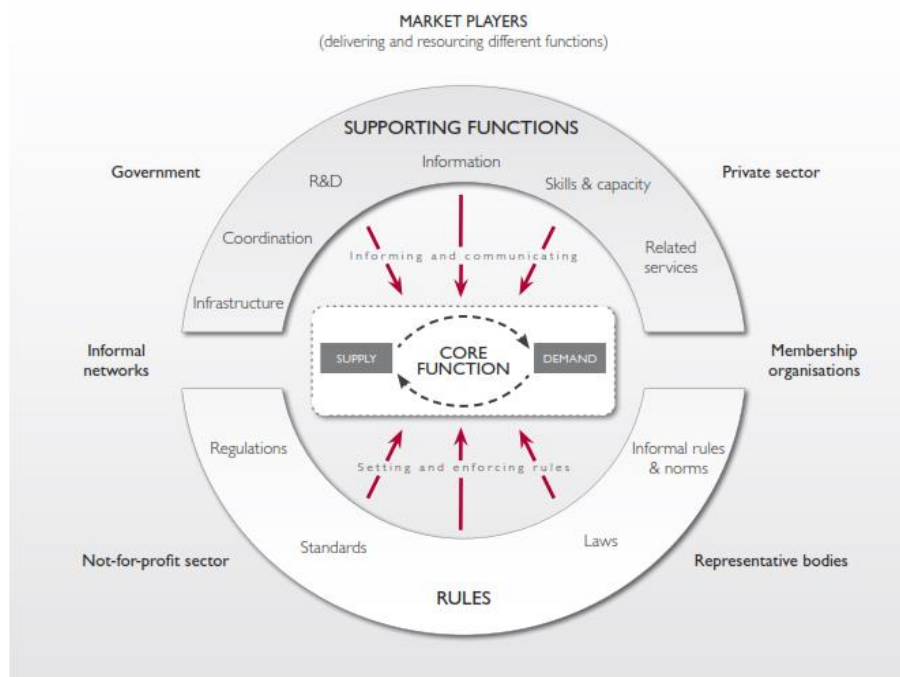


Many more women and men will therefore benefit than an approach that assists individual enterprises directly can reach.

The project will apply the following key principles of the approach:

- *It will consider markets as systems* in which a variety of functions and players interact. A market system can be pictured as in the diagram below, in which:
  - **Market players** are the actors and stakeholders (across private, public and civil society sectors) that fulfill the system's various functions;
  - **Core functions** are the central set of transactions between the demand and supply side, such as producing and buying and selling of goods and services;
  - **Rules** are informal rules and norms, formal rules and laws, standards and codes of conduct that govern participation and behaviour in markets, the transactions in the core in particular;
  - **Supporting Functions** are the range of functions, often services, that support the core exchange and help the market to grow and operate.
- *It will take a facilitative approach:* the project will work with market players to enable them to perform their functions better or take on new functions, and will not take on such functions itself. E.g. it will not provide direct support to enterprises but work with organizations that do. It may co-finance the pilot projects of market actors who introduce innovations, but will not fund fully or take full financial responsibility for spreading or scaling up such innovations.
- *It will address underlying causes* of market systems' underperformance, not symptoms, whose "treatment" will have a temporary effect only.
- *It will ensure that change is based on the incentives of market players*, i.e. that they have good reasons, rooted in their functions, to adopt and maintain change. For enterprises that could be higher profits, for instance. For municipalities it could be tax revenues and votes.

### The market system diagram



Source: The M4P Operational Guide, DFID/SDC 2008

Each of these principles will contribute to the sustainability and scale of the change the project aims at, and the impact on the women and men who are part of the market systems. By taking into account the environmental and social/political aspects of market systems, the project will further enhance the long-term sustainability of improvements.

## 4. Selection and analysis of market systems

### 4.1 Sectoral market systems

The project will facilitate change in selected market systems, where its effectiveness and impact are likely to be highest. Three sub-sectors have been selected for the project's initial phase, on the basis of their:

- Potential for growth.
- Potential for job creation for women and men, youth in particular, and with a view to benefit women equally. Inclusion of rural as well as urban target groups and potential environmental impact were taken into account as well.
- Intervention potential – the likelihood that there are systemic constraints that result in market system underperformance.
- Feasibility of change – the likelihood that an SDC project can contribute to resolving these constraints, also considering ongoing and planned programmes of the Government and other donors.

A range of sub-sectors was reviewed, which had been pre-selected by SDC<sup>25</sup>. These comprised agribusiness, tourism, energy efficiency/renewables, IT, creative industries, automotive supply chain (or more generally manufacture of metal and plastic parts and tools), and transport and logistics. The following were selected:

- Tourism (including hospitality, food)
- Energy efficiency
- Creative industries (conditionally)

The skills market system (demand for and supply of skilled workers, job matching) was also selected as a market system in its own right. It is key to improving the selected sub-sectors as well as private sector development in Macedonia in general. It is also of particular relevance to youth employment.

The analysis of the three selected sub-sectoral market systems is summarised on the tables below<sup>26</sup>.

#### *Tourism and hospitality*

##### **Impact potential**

<b>Growth</b>	<b>Employment , other considerations</b>
<ul style="list-style-type: none"> <li>• The number of visitors (including domestic) increased by 10% in 2010-11</li> <li>• The number of foreign (mostly regional) tourists is growing as well, from 262,000 in</li> </ul>	<ul style="list-style-type: none"> <li>• 23,000 are employed in the hotel and food sector (2011), up from 19,000 in 2008 according to the Labour Market Survey. The World Travel and Tourism Council estimates</li> </ul>

<p>2010 to 316,000 in 2012, with a forecast of 447,000 in 2022 (World Travel and Tourism Council)</p> <ul style="list-style-type: none"> <li>• The direct contribution to 2011 GDP is 1.3% (World Travel and Tourism Council), down from 1.45 % at the start of the crisis in 2008, but forecast to grow by 2.8% in 2012 and 4.7% per annum over the period to 2013-2022.</li> <li>• Investment in the sector has also been increasing.</li> <li>• The sector is likely to have a broader development impact, including in rural areas, in terms of provision of inputs (e.g. food) and a variety of services.</li> </ul>	<p>employment in travel and tourism at 7,500, with further indirect employment generated at 19,500. The Council forecasts that direct employment will rise by 1.6% per annum until 2022, total employment by 1.8% per annum.</p> <ul style="list-style-type: none"> <li>• Tour operators number about 200 but most deal with outgoing tourism; numbers for the rest of the sector are unavailable,</li> <li>• Women make up 31% in hotel and food</li> <li>• About 20% of those in hotel and food are between 15 and 24 years old<sup>27</sup></li> <li>• The sector includes areas outside Skopje and has scope for outreach to poor rural areas</li> <li>• Skill requirements are low to medium; investment requirements are low to medium for some activities (e.g. rural guesthouses, some adventure tourism) but high for others (hotels, resorts). Entry is relatively easy in some areas.</li> <li>• There is significant potential for negative environmental impact, which would have to be addressed in project interventions.</li> </ul>
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### Intervention potential

Possible intervention areas	Feasibility
<ul style="list-style-type: none"> <li>• The quality of attractions is insufficient and inconsistent. This is related to: <ul style="list-style-type: none"> <li>○ Human resources, which are a key constraint; skills in all tourism related services are generally low, including at middle and top management levels.</li> <li>○ Lack of inconsistent application of international or national standards, and gaps and inconsistencies in relevant legislation.</li> <li>○ Often inadequate not well-maintained facilities.</li> <li>○ Environmental concerns (rubbish, waste water).</li> </ul> </li> <li>• Human resources concerns are rooted in the Universities that provide tourism-related education, which teach “old-style” tourism, and are not need-based. Some areas (e.g. tourism logistics) are not covered at all.</li> <li>• Diversity of attractions and activities is</li> </ul>	<ul style="list-style-type: none"> <li>• The Tourism Development and Promotion Agency is ineffective, underfunded and isolated from the private sector.</li> <li>• There are two chambers of tourism and several associations, e.g. of tour operators, whose members would benefit from project interventions.</li> <li>• Tourism is a high Government priority and enjoys donor and Government support through the Innovation Fund, IPARD, USAID Small Business Expansion project, which would overall be complementary to an SDC project. The Government may focus too narrowly on attracting FDI at the expense of local service providers.</li> <li>• Constraints related to infrastructure are unlikely to be amenable to project interventions, and so are some of the needs for development of attractions when they require large investments. A project could,</li> </ul>

<p>insufficient. While some attractions are significant, secondary attractions and activities around them are lacking, though there are many opportunities. Some types of activity (e.g. adventure and rural tourism, thematic tourism, congress tourism) are largely undeveloped.</p> <ul style="list-style-type: none"> <li>• This is related to the lack of market research and innovative investment, linked to lack of access to long-term finance.</li> <li>• Connections and cooperation between actors in and around the value chain are weak. E.g. tour operators (global and domestic) do not relate strategically to local service providers and municipalities and do not work with them to develop broader packages of attractions.</li> <li>• Macedonia is a small country which for most tourists does not serve as a destination by itself. There is a need for regional tourism development and marketing.</li> <li>• While there is a tourism development strategy, it is too generic. It has provided little strategic direction has not resulted in destination development and promotion. Marketing overall is weak.</li> <li>• Unplanned development has resulted in some locations.</li> <li>• Inadequate road and railways infrastructure affects the potential for development.</li> </ul>	<p>however, work with relevant authorities to attract investment or access development funds.</p>
<p><b>Conclusion:</b> This market system has good potential for inclusive employment growth, i.e. for youth, women, in rural and urban areas, for the poor, for different ethnic groups, and for people with different levels of skill. A broader impact on economic development, including in rural areas, is likely. Much needs to be done in order to enhance the system's performance, and market actors are present who are likely to be motivated to make this happen. This is therefore a good market system for this project.</p>	

### *Energy efficiency<sup>28</sup>*

#### **Impact potential**

<b>Growth</b>	<b>Employment , other considerations</b>
<ul style="list-style-type: none"> <li>• Annual import of electricity 200 m Euro, or 30 % of electricity consumption, total imported energy 45% of requirement.</li> <li>• Energy efficiency and renewables are driven by EU regulation and targets, in the public and private sector.</li> </ul>	<ul style="list-style-type: none"> <li>• There are an estimated 20-30 manufacturers of materials used in construction, including 7 of insulation material.</li> <li>• No data or estimates on employment In energy efficiency are available, but a study indicates that a minimum of 10,000 extra</li> </ul>

<ul style="list-style-type: none"> <li>• Obligations for regular energy efficiency audits for public buildings and 3 % of public buildings to be 0 emissions by 2020; green house gasses to be reduced by 28%.</li> <li>• Among home owners and private sector, demand for energy efficiency is created by energy price increases in recent years, which are expected to continue due to liberalisation of the market.</li> <li>• The planned contribution of the building sector to meeting the energy targets is 36,13% (24,08% householders and 12,05% commercial and services sector).</li> <li>• The National Programme for Energy Efficiency of Public Buildings in the Republic of Macedonia 2012-2018 aims at applying EE measures in the buildings from the public sector with an area of 2.3 million m<sup>2</sup>, for which 95.2 million Euros have been set aside.</li> <li>• The market for geosynthetic and insulating materials in the period from 2007 to 2011 shows constant growth over the years except in 2010 when the market fell by 9.5%, but in 2011 increased by 25%.</li> <li>• This sector supports other sectors in cost efficiency and can therefore have a broader impact.</li> </ul>	<p>employees (23 professional profiles) in energy efficiency will be needed in construction<sup>29</sup>.</p> <ul style="list-style-type: none"> <li>• Also needed qualified staff in planning, sales, promotion, human resources management, certification, auditing, quality control and other support (not quantified).</li> <li>• Skills requirements are medium to high.</li> <li>• While there is little employment of young people as construction workers (average age 50 years), youth can be expected to be attracted to support jobs.</li> <li>• Increased local production of inputs would also increase employment, including for youth.</li> <li>• Women are likely to be a small minority among the workers in construction, but could be well-represented in other functions.</li> <li>• This sector will create jobs and have an impact throughout the country, with involvement of micro to large companies.</li> <li>• The sector has a direct positive environmental impact.</li> </ul>
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### Intervention potential

Possible intervention areas	Feasibility
<ul style="list-style-type: none"> <li>• Legislation in energy efficiency is in place but needs to be operationalised, e.g. with regard to certification of energy efficient buildings.</li> <li>• Lack of production of equipment for industrial energy management systems and other equipment for energy efficiency in manufacturing.</li> <li>• This is related to limited transfer of know-how and technology to companies and universities.</li> <li>• Local production of insulation materials, windows, other energy efficiency materials in construction – will need to expand and diversify.</li> <li>• The quality of some materials may be unreliable.</li> </ul>	<ul style="list-style-type: none"> <li>• This sector is a stated Government priority and enjoys support from multiple institutions, with directions defined primarily in the National Strategy for Sustainable development and the Energy Strategy 2008-2020.</li> <li>• USAID project on energy efficiency in manufacturing (till 2015).</li> <li>• EU support for training of construction workers on energy efficiency, but not for supporting jobs.</li> <li>• Business associations and chambers exist and are active; a number of NGOs in energy efficiency (and renewable) are active too – they and their members will benefit from improvements in this market system.</li> </ul>

<ul style="list-style-type: none"> <li>Universities, vocational schools – training capacity lower than expected demand and programmes for new employee profiles are not in place.</li> <li>Energy efficiency measures require a high level of coordination among many actors, which may not be sufficiently present.</li> <li>The market for energy efficiency is affected by lack of awareness of benefits and understanding among general public, private sector.</li> <li>Lack of access to finance limits the extent to which energy efficiency is taken up by home owners (no mortgages for energy efficiency), and in the private sector (including in industry). It will also affect expansion of production and investment in new energy efficiency related production.</li> <li>Energy efficiency is not taken into account in valuation of homes and buildings.</li> </ul>	<ul style="list-style-type: none"> <li>Investments repaid through future savings, increasing demand.</li> <li>Local authorities have started gaining awareness (local election programmes included energy efficiency projects and programs)</li> </ul>
<p><b>Conclusion:</b> Employment growth in the energy efficiency market system is a near certainty. Apart from construction workers (the need for whom will be addressed by an EU supported initiative) it is likely to be relatively inclusive in terms of attractiveness to youth, coverage of rural and urban areas, and possibly women. Increased energy efficiency of other sectors can have a significant indirect impact, and reduced energy use is an important goal in itself. There is scope for interventions facilitated by an SDC project and market actors are likely to be motivated to support them. This is therefore a good market system to select.</p>	

### *Creative industries*

#### **Impact potential**

<b>Growth</b>	<b>Employment , other considerations</b>
<ul style="list-style-type: none"> <li>This is a very diverse sub-sector, ranging from digital animation and movies to industrial design to crafts, which makes it difficult to assess.</li> <li>Quite new concept in the country, promoted in 2006 by the creative industries mapping led by Min. of Culture and supported by the British Council. It is thus understood as artistic or cultural heritage rather than economy related.</li> <li>There is a lack of verifiable data on growth in output or value added. This is compounded by definitions of the sub-sector having changed</li> </ul>	<ul style="list-style-type: none"> <li>An estimated 10,000 employed; 500 to 1,000 of these are designers. Sector specialists report these figures are growing.</li> <li>Many small and micro companies, and freelancers.</li> <li>Youth are attracted to the sector.</li> <li>The involvement of women varies by sub-sector, 35 % - 70 %</li> <li>The sector is present across the country, though mainly in Skopje and smaller towns.</li> <li>For many activities small initial capital so entry is easy in this respect.</li> <li>Skills levels are medium to high.</li> </ul>

<p>over the years.</p> <ul style="list-style-type: none"> <li>• However, sector specialists state that growth is taking place throughout the sector, and most in design and crafts.</li> <li>• Macedonia is the main market, apart from smaller sub-sectors like animation.</li> <li>• Especially design supports many sectors, so improvements could have broad impact. There is a potential for acceptance of brand and product development in other sectors.</li> </ul>	<ul style="list-style-type: none"> <li>• Environmental impact - negligible</li> </ul>
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### Intervention potential

Possible intervention areas	Feasibility
<ul style="list-style-type: none"> <li>• The sector is not well researched and understood, which limits the effectiveness those who aim to improve it.</li> <li>• The perception among officials of the sector as “cultural” has led to neglect of its economic importance, in spite of clear examples to the contrary.</li> <li>• Related to these two points there is a lack of coordination and collaboration among key market actors. Policy coherence is low and implementation lacking.</li> <li>• There are several associations, chambers and NGOs with committed staff, but their influence and effectiveness is limited due to limited organisational and advocacy capabilities.</li> <li>• Skills are mainly “artistic” and insufficiently applicable in business; relevance to and knowledge of markets are low.</li> <li>• Management, entrepreneurship and other soft skills are inadequate.</li> <li>• Skills inadequacies are rooted in education – links with the private sector are weak, there is no commercialisation focus, designers stop at ideas.</li> <li>• Universities, schools primarily Skopje based.</li> <li>• Enterprises in other sectors are insufficiently aware of how design and other services could improve their business.</li> </ul>	<ul style="list-style-type: none"> <li>• Although this is not a high Government priority sector, it is included in the Government’s Innovation Strategy. It could therefore access support from the Innovation Fund.</li> <li>• The existing associations, chambers and NGOs and their members would benefit from improvements in the market system. Associations and NGOs appear motivated to support such improvements.</li> <li>• An initiative with British Council, Min. of Culture and others started but suffers from lack of data and analysis: BC and associations would welcome SDC involvement to take this to a more effective level.</li> <li>• Several initiatives from businesses to enhance the applicability of design and linking services have been started recently, although still limited.</li> <li>• A number of initiatives to give the sector a higher profile is ongoing.</li> <li>• Increasing interest of young people in studying design in universities, but also at non-formal education providers.</li> </ul>
<p><b>Conclusion:</b> Creative industries, design and crafts in particular, are likely to offer scope for inclusive employment growth, including for youth, women, and members of different ethnic groups. Though the sector is concentrated in urban areas, it does not exclude rural areas, especially in crafts. Some sub-</p>	



sectors, such as design, are an important supporting function to other sectors and there is therefore potential for broader economic impact. There could be good synergies with tourism and hospitality as well as energy efficiency. However, not enough is known about this market system, and a thorough market system analysis, including quantitative information on enterprises and employment, is required to take a final decision on whether and how to proceed. Such an analysis would be very useful to actors currently engaged in improving this system even if this project would not go ahead with it.

## 4.2 Skills market system

As was indicated in the context chapter constraints in the school-to-work transition are a major factor that contributes to youth unemployment, while inadequate skills are a significant constraint on development across the private sector. The assessment of the selected market systems also indicates that inadequate skills are a constraint in each. Given its critical importance, the project will facilitate change in the skills market as a cross-cutting market system. This aims at improving employability rather than creating more employment opportunities, in the first instance in the selected sub-sectors but with the intention to address underlying causes of youth unemployment more generally in the medium to long term.

In the table below this system is considered in a way similar to the sub-sectoral systems earlier on, with some adaptations as generating employment *in* the system is not the objective.

### Impact potential

Scope, growth	Employment , other considerations
<ul style="list-style-type: none"> <li>Nearly all young women and men are affected by the education system. Enrolment in primary schools is 92% (no differences between the sexes), with around 84% continuing to secondary education (similar for boys and girls) and a steadily decreasing number of early school leavers (higher for girls). Per year some 25,000 graduate from secondary schools (53% are female), from universities 10,000 (56.5% are female)</li> <li>Enrolment percentages in secondary and higher education have been growing steadily, and so has the number of institutions. There are now 114 secondary schools, of which about 60% include vocational courses, and 6 are private; over the past decade the number of universities grew to 19, of which the majority (14) are private<sup>30</sup>.</li> <li>Improved, more relevant skills and knowledge will affect the growth of all market systems/sub-sectors, including the</li> </ul>	<ul style="list-style-type: none"> <li>Unemployment among youth stands at around 46%. This is due to few employment opportunities, but also to low employability of school leavers and university graduates. Lack of a sufficiently skilled workforce is among the highest constraints on doing business mentioned by enterprises<sup>31</sup>.</li> <li>Low employability affects youth from rural areas, where education opportunities are more limited, most, especially in terms of quality.</li> <li>Low employability affects those in low and medium skilled areas in the same measure as those with higher education.</li> <li>Only 31% of working age women are employed.</li> </ul>



three priority market systems selected for this project.	
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### Intervention potential

Possible intervention areas	Feasibility
<ul style="list-style-type: none"> <li>• Low employability of young women and men who graduate from secondary and tertiary education is linked to the insufficient market relevance of what the education system provides. <ul style="list-style-type: none"> <li>○ Skills and knowledge are often out of date, rooted in earlier technologies, attitudes or stages of economic development.</li> <li>○ They are insufficiently specific, practical or concrete.</li> <li>○ The soft skills that are required for most professions in addition to technical skills, are often lacking.</li> <li>○ Standards are low overall.</li> </ul> </li> <li>• These constraints are linked to: <ul style="list-style-type: none"> <li>○ Insufficient and low quality career counselling.</li> <li>○ Limited use and availability of internships, with attitudes negative among students as well as enterprises.</li> <li>○ Dysfunctional relationships between the private sector and educational establishments, in spite of a legal framework that encourages cooperation.</li> <li>○ Rigid curricula and long lead times for changing them in the public system.</li> <li>○ Outdated pedagogies.</li> <li>○ Inadequate skills and knowledge of educators, linked to low quality teacher training.</li> <li>○ Insufficient quality control.</li> <li>○ Weak management of educational institutions</li> <li>○ The need to keep students in profit-driven institutions<sup>32</sup>.</li> </ul> </li> <li>• Ineffective job matching. This is linked to: <ul style="list-style-type: none"> <li>○ A general lack of information flow to</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>• The Government has recognised the skills gap, in terms of quality as well as relevance, and the Innovation Strategy as well as the Youth Employment Action Plan include a number of measures to address this.</li> <li>• While direct intervention in education and training has generally demonstrated little lasting effect, measures to improve linkages between institutions and the private sector, increase flexibility of curricula and stimulate private sector provision of training could bring systemic change.</li> <li>• Legislation provides for Public-Private Dialogue to enhance the relevance of curricula, and a USAID project (until 2015) is doing successful work in this area</li> <li>• The private sector's lack of confidence in the education system, and vice-versa, could be an obstacle, which may be addressed by demonstrating early successes.</li> <li>• The education system's risk averseness could be an obstacle – the project would have to work with selected institutions that do see the advantages of greater relevance.</li> <li>• Issues related to job matching are less well-recognised by the Government, apart from career counselling. Incentives to address them are likely to be strong in the private sector and among youth and their organisations.</li> <li>• Private sector solutions to job matching could run into resistance of the public sector.</li> </ul>

<p>youth on opportunities.</p> <ul style="list-style-type: none"> <li>○ Low job seeking skills among youth.</li> <li>○ Low capacity (including financial) at the Employment Service Agency (less than 3% finds a job through this channel<sup>33</sup>).</li> <li>○ Absence of private sector recruitment agencies.</li> <li>○ Hiring practices largely based on personal contacts rather than assessment of competence, especially in micro and small businesses (37% find a job that way).</li> </ul>	
<p><b>Conclusion:</b> This market system is critical to increasing youth employment and development of the private sector. It is likely there are areas in which an SDC project could facilitate systemic change.</p>	

### 4.3 Women's Economic Empowerment

As noted in the Context chapter, in spite of a domestic legal framework that is compliant with both the international and the European standards promoting gender equality, women's participation in the economy is low, in terms of employment as well as business ownership<sup>34</sup>. The reasons are complex. They include traditional gender roles, attitudes and expectations. While stated attitudes support gender equality overall, in practice women rather than men take on home and care work. Although this is changing gradually, it still holds true for most, even more so in more rural areas and among ethnic Albanians, Turks and Roma.

The impact on women's opportunities to take on work outside the home is exacerbated by the dearth of day care facilities and kindergartens, especially in rural areas. Just 26% of children is enrolled in kindergartens, for children care centres this is 11%<sup>35</sup>. Children of low-income families are less likely to be enrolled. The gender pay gap contributes to this situation: the work available to women often pays less or hardly more than the cost of care, thus reducing incentives to look for paid employment.

While women's lower educational level used to be quoted as a reason for their low employment rate, this is no longer valid, as women outdo men, in tertiary education in particular. However, women in rural areas still have greater difficulties in accessing schools, especially where traditional attitudes limit girls' mobility as is the case among ethnic Albanians. Traditional gender roles also gave a greater impact on Albanian women's participation in education.

Direct discrimination by employers in the private sector is reported to be widespread. Lower pay is just one aspect of this. Women are reported to be asked to sign statements they will not become pregnant, are asked during interviews whether they have or plan to have children, or are laid off when they do get children. Women appear largely unaware of the extent to which such discrimination is pervasive and illegal<sup>36</sup>. The fact that hiring practices are based on relationships rather than competence, and women hold fewer decision making positions, is a further disadvantage. The majority of women therefore prefers employment in the public sector, which is their main employer.

Of particular significance for women's low rate of business ownership is that while they have an equal right to inherit land and other assets, they seldom do so, as they are unaware of their rights or unable to

defend them. Women own only 3% of assets. This limits access to bank finance, and as attitudes do not favour women in business, financial support from family and friends is restricted as well. Women also lack the networks that enable men in business to access inputs and information. Support programmes, suppliers and buyers regard men as their typical clients and are unaware that this may put women at a disadvantage.

Some of the steps the Government has undertaken in the framework of gender equality legislation are intended to address these issues. There was a National Action Plan on Gender Equality (until 2012) and equal opportunities coordinators have been appointed within each ministry. Commissions for equal opportunities have been established within the units of Local Government, and Coordinators for equal opportunities have been elected within the local government units. This has, however, not yet had an effect in the private sector. Some consider the Government's approach to be ambiguous, as policies have not focused on women's re-entry in the labour market but rather on increasing the birthrate<sup>37</sup>.

While some of the root causes of inequality will be difficult to tackle directly by an M4P project (e.g. values related to traditional gender roles), improving access to services (including finance and child care), information (business as well as rights related), unfair hiring practices and access to markets are possible areas of intervention.

#### 4.4 Governance

As indicated in the Context Chapter, weak governance as it relates to the private sector is a significant cross-sectoral constraint on growth<sup>38</sup>. While major improvements have been made in terms of legislation and the establishment of institutions, implementation is lagging behind. Accountability and transparency of authorities are weak, partly due to lack of provision of consistent and adequate information. The contribution of the private sector to policy making and planning, at national and municipal level is insufficient. Public institutions are perceived to be inefficient and ineffective. Trust between the private sector and public institutions is low. Similarly, relations among public institutions relevant to private sector development are often characterised by mistrust and lack of cooperation. Business ethics in relations between enterprises are weak, resulting in frequent breach of contract and delays in payments which are a major financial constraint.

While there are no studies that examine the impact of these conditions, they are likely to affect investment by Macedonian and foreign enterprises, enterprises' competitiveness, and the functioning of value chains, in terms of horizontal as well as vertical integration. They are likely to be a contributing factor to informality of businesses and employment.

The performance of the selected market systems is likely to be affected by these constraints, and governance will be considered in their assessment. Information provision, accountability mechanisms, improved participation and education on business ethics are among the possible areas of intervention.

#### 4.5 Ethnic minorities

Macedonia is a multi-ethnic country, with ethnic Macedonians as the largest group (64 %), ethnic Albanians as the largest minority group (around 25%) and Turks, Roma, Serbians, Vlachs, and Bulgarians making up the remainder<sup>39</sup>. Ethnicity has become an increasingly important factor in the country's political, social and economic life since the break-up of Yugoslavia. Tensions between ethnic Albanians and Macedonians came to a head with the armed conflict of 2001. This ended with the US and EU brokered Ohrid Framework Agreement, which increased Albanian language and representation rights

and provided for a process of decentralisation and inter-community dialogue. Implementation is ongoing, with uneven progress. The Agreement did not deal with other minorities<sup>40</sup>.

Macedonia's Constitution includes the principle of equality and prohibits discrimination, including on the grounds of race and ethnic origin. The country has ratified major international human rights treaties, such as the European Convention for the Protection of Human Rights and Fundamental Freedoms and the Framework Convention for the Protection of National Minorities.

In spite of these positive provisions, inter-ethnic tensions have remained, with the latest violent incidents breaking out in early 2012. Segregation among communities remains significant, and appears to be increasing in schools<sup>41</sup>. Minority groups are more rural than ethnic Macedonians, and have less access to services such as health and education. The Roma and Turks suffer greater poverty and are largely excluded from the labour market and public life, including due to discrimination and lack of education. Unemployment is higher among ethnic Albanians than ethnic Macedonians, with analysis showing this is not related to Albanians being more rural. What the causes are is unclear, and overall there are no data or analysis on how ethnicity affects Albanians' participation in economic life or on the economic relations between ethnic Albanians and Macedonians.

Ethnic divisions appear to be deep-rooted and it is unclear how they affect private sector development and employment creation, though it is clear that exclusion of the smallest minorities from the labour market is a defining characteristic. The extent to which an M4P project can address this is limited. The project will need to analyse the causes of exclusion from the selected market systems and identify approaches to reducing it on a case by case basis. This may include improving access to training, other services and information.

#### 4.6 Environment

The process of aligning Macedonia's environmental legislation with EU requirements is ongoing, with more progress in some areas (e.g. strategic environmental assessment, environmental impact assessment, air quality, waste management), less in others (water quality, nature protection, industrial pollution control and risk assessment). As in other areas, implementation of legislation is insufficient due to institutional capacity and budget limitations<sup>42</sup>.

Macedonia therefore continues to suffer significant environmental damage related to economic activities, including of micro, small and medium size enterprises. This includes water pollution from chemical and metallurgic industry, leather production, food processing, livestock waste from farms, dairies, meat processing and slaughterhouses, and hotels and restaurants, which generally discharge waste without treatment. Smelter facilities are responsible for heavy metals pollution in the main rivers.

Overuse of pesticides and chemical fertiliser pose a further risk to soil, though data on this are hard to come by. Solid waste management is weak, with little recycling and illegal as well as inadequate legal landfills threatening soil and water quality.

As industrial production declined from the early 1990s, air pollution is reported to have decreased by 50%<sup>43</sup>. Air pollution from metallurgic industries and thermal energy plants are still a concern.

Efforts at energy efficiency in industry are still in their infancy. Most energy used (80%) is from thermal plants, the remainder being from hydro power plants.

UNDP is funding a range of environmental projects (in energy efficiency, water, waste management and more<sup>44</sup>), SDC in the water domain. Little is being done directly with the private sector, apart from USAID's Industrial Management project.

The project will contribute to reducing environmental impact by inclusion of the market system for energy efficiency. It will also identify interventions in the two other selected sub-sectors that will contribute to increasing energy efficiency and protecting the environment. Tourism and hospitality is likely to offer most scope for this. The project will explore synergies with SDC's interventions to reduce water pollution.

## 5. Tentative outcomes and intervention areas

The following are the project's expected outcomes and possible areas of intervention. These are *suggestions* that need to be reviewed, revised and added to on the basis of a thorough analysis of the market systems concerned. They will be subject to continuous review as the project gains experience with pilot interventions and partners.

### **Outcome 1**

*Enterprises in tourism and hospitality, energy efficiency, and creative industries offer a greater number and diversity of products and services, of higher quality, and access new local, regional and international markets.*

Further sub-sectoral market systems may be selected in the project's second phase or earlier if progress in these three allows.

#### ***In tourism/hospitality:***

Key constraints in this market system are the lack of secondary and alternative tourism attractions, the inadequate quality of the attractions and the insufficient cooperation of market actors in and around the value chain. While there is a Government tourism strategy, there are no concrete plans for developing, managing and marketing Macedonia as a destination, which results in a weak presence in regional and international markets and uncoordinated development in the country itself. Two underlying constraints are lack of market knowledge and capacity to do tourism market research, and the low quality of human resources at all levels.

The project will bring systemic change by working with research organisations and other market actors to develop a capacity to do research on an as needed as well as a regular basis. The design of a destination concept for Macedonia by market actors will be based on this and other input. Such a concept could include concepts specific to regions in Macedonia, a concept for Macedonia as a whole, and an approach to developing tourism in Macedonia as part of a regional (e.g. West Balkan) offer. The project will facilitate developing and improving tourism services and products that fit in these concepts, with a focus on secondary and alternative tourism attractions that are capital extensive and labour intensive and provide incomes and employment to rural women and men. The project will also facilitate market actors developing and implementing concrete plans to promote Macedonia in target markets.

Human resources constraints will be addressed under Outcome 2.

#### ***In Energy Efficiency***

Domestic supply is unable to meet the increasing demand for high quality energy efficiency products. This is rooted in the lack of trained human resources, weak coordination among market actors (such coordination is crucial especially in this market system), and inadequate access to services that could enable enterprises to expand, increase quality, and diversify. While demand is increasing awareness of

the potential for savings due to energy efficiency is still low, especially in the private sector and among the general public.

The project will therefore facilitate better coordination and information sharing among market actors. Such coordination will specifically aim at developing and implementing measures that improve quality, quantity and diversity of products and services, and their coordinated delivery. Access to services will be improved, most likely in finance (working and long-term investment capital), technology, research and development, and innovation networks. Better access to information is likely to be part of interventions in each of those areas. Improved coordination will also contribute to market actors developing plans for promotion of energy efficiency that will lead to more sustained demand.

Human resources constraints will be addressed under Outcome 2.

Depending on progress in energy efficiency the project may eventually also consider involvement in biomass, agricultural residues in particular, and biogas as sources of renewable energy.

### ***In creative industries:***

In this market system the main current constraint is the lack of reliable information, which makes it difficult to analyse the market system and for market actors to address constraints. The project will therefore support market actors to collect information and carry out a detailed and comprehensive analysis of this market system. Weak cooperation and coherence in creative industries have so far stood in the way of conducting such a study and developing approaches to addressing constraints. Among the possible areas of intervention should therefore be strengthening cooperation, and conducting the study will make a start with that. Strengthening relevant associations, chambers and NGOs, for instance with regard to advocacy and dialogue capacity, could also be an area of intervention. Better coordination could contribute to improved marketing to the private sector, which is insufficiently aware of the impact creative industries, for instance in design, could have on their performance.

Whether the project will continue to be involved in this sector after the study will be decided on the basis of the findings.

Human resources constraints will be addressed under Outcome 2.

## **Outcome 2**

*More young women and men have access to education and to job matching services that enable them to take up employment and business opportunities in the selected market systems.*

The employability of many youth leaving the education system is low because their skills are not in demand in the private sector, skills are insufficiently practical and the quality of education is low. In addition, mechanisms matching them with vacancies are ineffective and job seeking skills are weak. Several factors contribute to this situation, the low budget for education and the Employment Services Agency probably being among the most important. This is not an issue the project is likely to have much impact on. A crucial area where the project could make a difference is the ineffective dialogue between the education system and the private sector, and youth organisations. Improving dialogue could enhance the market relevance of skills and facilitating this process in the selected market systems will be the project's entry point.

Better dialogue should result in market actors (private sector and educational institutions) developing and implementing specific measures to improve market relevance. In tourism this could include introducing a new range of courses related to secondary and alternative tourism and improving the quality of tourism and hospitality training generally. In energy efficiency the focus is likely to be on new or improved courses in planning, sales, promotion, human resources management, certification, energy

auditing, quality control and other support services. In creative industries likely intervention areas are in moving courses from an artistic to a market oriented approach, and development of management, entrepreneurship and other soft skills. Improving the way internships are perceived and implemented is likely to be important in each market system. Improving career counselling in schools, universities and youth organisations is another possible area of intervention.

In job matching the project may facilitate interventions in, among others, commercial matching and recruitment services, job portals, and improved services of youth NGOs.

While the focus will be on the three selected sub-sectors, the skills market system is an interconnected or cross-cutting one that supports other sub-sectors in similar ways. Analysis of this system is likely to identify constraints that affect all or most sub-sectors and that can be addressed through similar interventions. It is foreseen that, following success in the selected sectors the project will work towards having improvements taken up in others. E.g. ways to improve internships in the three sectors could be promoted to others.

Gender equality will be mainstreamed under the first two outcomes, based on Gender Analysis and gender specific constraints identified in each of the selected market systems. However, gender inequality in Macedonia has a number of underlying causes that affect women across sectors, which the project will address under an outcome specific to women. This outcome will cover interventions targeted at women.

### **Outcome 3**

*More women have access to information and services that increase their equality in the labour market, including as business owners.*

Key constraints on women's equal participation in the labour market include the traditional division of work based on gender, combined with the lack of child care facilities, which force women into unpaid care work. Women also do not have equal access to information and services that would enable them to start a business or find employment. Direct discrimination of women by employers, and lack of knowledge of equal rights in the workplace and rights to own assets are other significant constraints on women's economic empowerment.

The project will facilitate interventions in each of these areas. In terms of services, it is likely to focus on improving women's access to information about services that are available to them (e.g. credit, grants, training, quality certification, marketing), or information that will enable them to grow their business (e.g. on markets) or gain access to employment opportunities (e.g. on private sector employment agencies). If needs for services are identified that are not available on the market, the project could work with market actors on developing them. The project will work with market actors at the municipality level to explore possibilities to establish child care facilities on a commercial basis, possibly as public-private partnerships. It will strengthen the advocacy capacities of organisations that promote greater gender equality in and outside the workplace, including women's right to inheritance of assets.

## **6. Activities, the process of implementation**

The market systems analyses presented in this note only identify the main constraints on underperformance, and the suggested outputs provide no more than an indication of the interventions that could address some of the likely underlying causes. Actual interventions will have to be designed on the basis of in-depth market system analysis, which will be part of project implementation. The

following process is expected to result in the design, implementation and assessment of the interventions the project will facilitate:

- In-depth analysis of each of the four selected market systems, in order to confirm and expand on the known constraints and identify their underlying causes. This will be done in close consultation and collaboration with key market actors. Importantly, it will include gender analysis for each of the systems, governance and environmental aspects, and assessment of economic and social/political constraints on ethnic minorities.
- Development of plans for interventions that address the underlying causes and build on the incentives of market players to bring lasting change.
- Implementation of interventions on a pilot basis, to test and demonstrate their efficacy and involve market actors.
- Assessment of pilot interventions in terms of likely effects on the market system and impact on women and men, in particular with regard to employment and incomes for youth, leading to decisions to scale them up, adjust or discontinue them. These assessments will provide the basis for setting targets for the logframe indicators as well as for the more detailed indicators for the individual interventions.
- Implementation of the full-scale interventions that aim at systemic change, including through involvement of more and/or larger market players. This will include the design and implementation of additional interventions to facilitate such scaling up. E.g. based on successful pilot interventions the project can facilitate replication and copying in other areas of the country, other enterprises, for other products, or uptake by larger organisations and enterprises.
- Monitoring and measurement of results, which will be based on the Donor Committee for Enterprise Development Standard, while taking into account good practice as it further evolves.

This is not a linear but an iterative process. The results of pilot interventions may lead to additional analysis of a market system in order to improve their impact or ensure scaling up. Monitoring and measurement of results is not a final step but an ongoing process that provides feedback on intervention design and implementation. Targets may be adjusted downwards or upwards as more impact data become available and improve the forecasts. Identification of a weak support function (e.g. in IT) may result in analysis of the market system for that support function and development of interventions to improve it.

The project will be implemented over several phases, following a tendering procedure of 3 to 4 months in which the bidders will be provided with this note (except the budget) as a technical resource, and which will result in a preliminary project document that will be the basis for selection and for the inception phase. The 12-months inception phase will result in a final project document. Each phase after Phase 1 will be conditional on an assessment of the previous one. The following is the expected process of implementation:

- The inception phase of 12 months (excluding the tendering procedure) will serve to establish a project office and constitute and train the project team, and develop relationships with partners in the selected market systems. Training will be practical and experiential, and be part of project implementation, i.e. it will be organised around the analysis of one market system, energy efficiency, and design of initial interventions by the entire project team. Although this market system may not offer the best scope for learning, it is suggested the project will start here as the window of opportunity for making a contribution is relatively short given Macedonia's targets to be achieved by 2020. This will be followed by pilot implementation of interventions in this



market system led by one of the project's intervention managers, and analysis, again by the entire project team, of the creative industries market system. The analysis will be done in close collaboration with the group of associations, NGOs and other partners who are already engaged in developing this sub-sector. A decision whether to proceed in this market system will be taken during the inception phase, to enable finalisation of the project document before the start of Phase 1. If creative industries are not selected, a brief assessment will be conducted to establish whether fresh and processed fruit and vegetables or another of the sub-sectors reviewed for the design of this project can take its place. The inception phase will *not* only be a preparatory phase: interventions in market systems will be started that aim at contributing to the project goal.

- A first phase, of four years. During this phase more interventions in the energy efficiency market system will be initiated while others will be expanded, and interventions in creative industries (if selected) will be designed and implemented. The skills and tourism/hospitality market systems will be added in the first year, following the process described at the start of this chapter. The timing will depend on progress with the other market systems. If time allows, it could already start in the inception phase. Phase 1 will continue building the M4P skills of the project team, and will also build the M4P capacity of one or more organisations that have the potential to act as co-facilitators. Phase 1 may also include analysis of new cross-cutting market systems, in particular for services, to come to cross-sectoral solutions to constraints. This could include for instance IT, logistics, finance, business education. The inception and the first phase will result in scaled up interventions. They will demonstrable systemic change in the selected market systems and will produce credible evidence that jobs result from this.
- A second phase, of 3 years, based on a review of the first phase. It will probably continue work in the selected market systems, unless interventions have come to a close or have proven ineffective. It will also address further market systems, that could be selected following the review. It may facilitate transfer of innovations in one market system to others, including systems not directly addressed by the project. The project will be flexible and opportunistic in its expansion to further sectors or deepening of its work in sectors already covered. If the first phase has been successful at building local capacity, co-facilitating organisations will have an increasingly important role in this phase, and it may also be possible to phase out the international project manager. Depending on its design, this phase will be able to demonstrate larger-scale impact on employment in the initially selected sub-sectors and systemic change in new sub-sectors.
- Possibly a third phase, of shorter duration (e.g. 2 years), based on an assessment at the end of the second phase, especially if that phase added new sub-sectors. This phase would bring ongoing interventions to a conclusion rather than starting anything new. Co-facilitators could be contracted for a major part of the work.

Interventions will have a local, regional or national focus depending on their nature. E.g. development of a destination concept for Macedonia is clearly an activity that requires national level involvement, though not without regional or municipality participation. Developing alternative tourism attractions is likely to have a local as well as a national level component too. The project will ensure that it works with market actors at the appropriate levels. It will also establish or enhance relations between local and national level actors, which are usually weak though they are important to improving market systems performance and scaling up innovations. In principle, change that remains limited to just a few local market systems is insufficient and where country-wide change is possible this will be the aim.

## 7. Institutional environment assessment

Within the Government there appears to be a great deal of consensus about and commitment to the goal of EU membership. This has been reflected in generally positive “progress reports” for the European Commission, and recommendations to start accession negotiations for 4 consecutive years. Talks have nevertheless not started, with the Commission declining to do so the last time in December 2012, citing the need for more progress on reform, “neighbourly relations” with Bulgaria and the country’s dispute with Greece about its name. This is to be assessed in another report. Meanwhile, the process seems to have lost credibility in the eyes of many. Given the EU’s internal crisis, some observers believe that membership may well be delayed indefinitely. Developing closer economic relations with Turkey, Balkan countries that appear to be in a similar situation and Caucasus, Central and other Asian countries is considered a prudent strategy that would avoid the country placing all its eggs in one basket. This process has already been ongoing for some time and may now receive additional impetus.

Meanwhile, on 24 December MPs of the main opposition party, SDSM, were forcibly removed from a heated Parliamentary debate on the 2013 Budget, which resulted in the country going through a period of political turmoil in the first quarter of the year. The boycott of Parliament and the threat to boycott local elections by the SDSM were the main outward signs. Such crises have been a recurrent feature of politics in Macedonia, and political instability is one factor that affects the private sector’s perception of the business environment<sup>45</sup>. It is difficult to judge the gravity of the situation this time and whether it will have consequences now the opposition lost the local elections and its leader stepped down. However, the outside world (EU and US) clearly took it seriously and so did some independent observers, with for instance the Economist Intelligence Unit downgrading its already low assessment of the country’s political stability.

While the reasons for the crisis seem to have been personality and interest-driven rather than rooted in policy (the oppositions policy platform is considered by some to lack coherence in any case), it may affect progress on reforms and other issues on the EU and Government agenda, and may be a further reason to delay accession negotiations.

These two main factors together create a sense of uncertainty which may affect local as well as foreign investment. Uncertainty about EU membership will also reduce incentives of Government and private sector actors for supporting or undertaking concrete interventions in market systems that are predicated on this coming through in the medium term. For instance, compliance with EU food safety standards may seem less urgent if exports are likely to focus on other markets in the foreseeable future. The project may therefore have to build on more generalized incentives for market actors to take new initiatives.

Two further issues increase uncertainties in the context in which the project will operate. One is the plethora of policies and strategies the Government has developed over the past 5 years or so, often with donor support. It is often difficult to see how these connect, what the priorities are, who is in charge of implementing them, and where funds will come from and what is therefore likely to happen. Hopefully the latest initiative, the Innovation Strategy, will go some way towards bringing things together, especially as it has the World Bank funding implementation.

Secondly, what actually happens in Macedonia is often not the result of policies or strategies but of the workings of pervasive interest-driven networks based on family, patronage and rent seeking. These have little to do with political ideologies or policies, more with influence and access to resources. Such networks of course play a role anywhere, especially in countries in transition. However, in the view of

some observers they seem particularly strong in the Balkan countries, including Macedonia. They have been strengthened by the privatization process which was widely seen to be corrupt, and play a role from the municipality to the national level<sup>46</sup>. The political crisis of the first quarter of this year is, on this view, the result of clashing interests of client networks rather than of disagreements about policies. This may affect the project, as they make the institutional and business environment more opaque and unpredictable. Furthermore, change in market systems in which such groupings play a role may be opposed if they stand to lose resources and influence, for instance through better (more transparent) governance or if a project goes to a municipality controlled by a rival group.

General incentives for the kinds of changes the project will facilitate will definitely exist, in terms of higher incomes and profits in the private sector, and greater public and internal recognition in the public sector, which for some may translate into votes from the electorate. A growing private sector would also increase the tax base, which would eventually benefit public institutions and those working in them.

In the private sector individual enterprises (and those they employ and buy from or sell to) are the most likely to see benefits, and it is therefore probable that they will initiate or support change if the project can make a convincing business case for it and demonstrate success. Here the challenge will be to be seen as fostering fair competition and presenting change as “win-win” solution even though some may win more than others, especially in the short term.

Chambers of Commerce and Industry and other business associations are key market actors who in theory are in a critical position to bring systemic change, especially when scaling up from successful pilots to an entire sub-sector. Macedonia has a large number of such organizations, some of which are sectoral while others have a broad membership base. There are two types of Chambers, of which the oldest group is formed by those that have survived the break-up of Yugoslavia and continued with compulsory membership up to 2005, after which membership of all private sector representative bodies became voluntary. They have a large though not very active membership base and close ties with the Government and the public sector generally. While they are therefore influential, many in the private sector see them as too close to Government interests, “semi-official” and conservative. While they could be supportive of systemic change they may be less likely to take the initiative and may be risk averse.

In response to the need for a genuine voice of the private sector, a large number of voluntary Chambers and associations have sprung up. Some, such as the Macedonian Chambers of Commerce Union, have successfully undertaken advocacy vis-à-vis the Government and have gained a good measure of credibility. Some others have been much less effective, due to a lack of competence, organization, or an as yet short lifespan.

There is a large number of private sector organizations and institutions that fulfill support functions such as consultancy, education and training, research, marketing, IT, etc. Again, not all of these have an adequate level of competence and capacity, but those that do can be expected to support market system change that increases their opportunities. Here too the challenge will be to develop convincing business models and demonstrate success.

Most relevant service providers in the public sector lack capacity, competence and, most importantly, funds. This is true for the Agency for Promotion of Entrepreneurship, the Agency for Promotion and Support to Tourism, and the Employment Services Agency. Only a massive (and sustainable) change in budget allocations could improve this situation, which is improbable. These agencies and similar public bodies are therefore unlikely to initiate systemic change, and some may hinder it if they perceive it as weakening their position, for instance when private sector providers of similar services become more prominent.

The education system is very diverse in its interests and the way it operates. Generally, though, it is conservative in nature given the long time taken to change the core of curricula, though in theory there is significant flexibility to adapt them to local needs. Usually (not just in Macedonia) educators are also wary of change that requires them to update their own skills and knowledge and change their approach to teaching. Individual incentives are usually not very strong, as career progression is not linked to the relevance of skills taught. Private schools and universities may be more likely to support change if they can demonstrate the success of their students in finding jobs. Currently, though, the quality of private education is lower than that of public schools and universities.

The eight Regional Development Centres have existed since 2008-2009 when they were established with EU support. They resort under the Ministry for Local Self-Government, while they are “owned” by municipalities. They currently receive support through a GIZ project (partly SDC funded). Their mandate in Regional Development, which includes designing and implementing a Regional Development Strategy and brokering between service providers and the private sector, will be relevant to the project to the extent activities will have a regional focus. Although their capacity is limited, and varies, they can be expected to support systemic change within their limited possibilities, especially if they are consistent with the Regional Development Strategies.

Municipalities and their Mayors have significant powers and can make or break initiatives at that level. The experience of projects like the USAID Small Business Expansion project indicates that Mayors are likely to swing their support behind new initiatives if they see the benefits for their community (and electorate).

## 8. Institutional framework and partners

It is foreseen that the project will be implemented by a consortium of an international and a Macedonian development agency or consultancy firm, though if the international agency proposes implementation with a team it recruits directly this should also be considered. The international partner will take the leadership and will be managed by an international expert, as there is no M4P experience and expertise in the country. The team is expected to include full-time (national) specialists for gender and M&E, both of which will be core concerns.

The project will be an independent unit, i.e. it will not be placed within a particular Ministry or other institution. This will enable it to relate without prejudice to a variety of partners, which is essential given its scope across several market systems, including skills. Potential partners include market actors in the private, public and NGO/Civil Society sectors as they affect the private sector generally and in the four selected market systems. In addition to individual enterprises, those that are likely to support systemic change could include:

- Cross-sectoral, Chambers: Macedonian Chambers of Commerce and North West Chamber of Commerce, the Economic Chamber of Macedonia.
- Cross-sectoral, youth organizations: Youth Educational Forum (MOF) and similar youth NGOs and associations (there are some 20), international student organizations such as the International Association for the Exchange of Students for Technical Experience and AIESEC.
- Cross-sectoral, Government: Cabinet of Vice President of Government of Macedonia, Ministry of Economy, Ministries of Culture, Education, Labour and Social Affairs, the Agency of Youth and Sport, InvestInMacedonia, the IPARD Agency, Macedonian Bank for Development Promotion, the Innovation Fund.

- Tourism: Chambers of Tourism (2), Association of tourist agencies, Faculties of tourism (private and public, Regional Development Centres, municipalities where interventions are located.
- Creative industries: British Council, Skopje Design Week, Skopje Architecture Week, Mechanical faculty Skopje, private faculties with design programmes (e.g. University American College Skopje), Ministry of Culture, Regional Development Centres, municipalities where interventions are located..
- Energy Efficiency: Macedonian Centre for Energy Efficiency, Association of insulation producers, Association of solar panel producers, Mechanical Faculty Skopje, vocational schools involved in energy efficiency projects, the Economic Chamber of Macedonia, Ministry of Environment and Physical Planning, Regional Development Centres, municipalities where interventions are located.

While the project will take on a facilitation role itself, it will also work with organisations with private sector development expertise that have the potential to be developed into independent and sustainable facilitators. These could include selected Regional Development Centres where the project has a regional focus. It will build such organisations' capacity, provide mentoring to support this process, and contract them as co-facilitators for specific interventions. This should start in Phase 1.

In terms of other programmes, to avoid duplication, create synergies and facilitate learning, the programme will collaborate or coordinate closely with:

- SDC's projects in the domain of Democratic Governance and Decentralisation. Given that governance issues are a prominent constraint on private sector development in Macedonia, and that the current project is likely to identify such constraints that are specific to its selected market systems, the extent to which governance programmes and the project can collaborate to address such constraints should be explored (e.g. better municipality level participation of the private sector in planning and decision making).
- SDC's projects in the water domain, where there could be synergies with interventions that improve environmental protection in the present project.
- The SIPPO programme, which recently started working in systemic market development in the fresh fruits and vegetables sector and garments, while also working with furniture and subcontracting sectors in their traditional approach. Potential for cooperation might arise if the SIPPO programme for sustainable and eco tourism includes Macedonia in the future.
- The USAID Business Expansion Project, which is likely to obtain funding from SECO. While this project does not take the M4P approach, it does act as a facilitator. In order to avoid confusion among stakeholders it is advisable to keep the two projects geographically separate while exchanging information and experience, and if appropriate acting together at the national level. When the Business Expansion Project is completed (most likely in 2015) the current project could expand into other regions.
- The GIZ /SDC Regional Economic Development in Macedonia if it is still operational at the time the current project starts. This is especially important to the extent that the project may work with RDCs.
- The programme on energy efficiency in buildings that is likely to be supported by the EU.
- The USAID Industrial Management Project on energy efficiency in manufacturing. The project is likely to be able to build on its experience.
- The upcoming UNIDO project in tourism, focusing on training for the hotel industry.
- World Bank loans and technical assistance for Macedonia, especially in their Skills and Innovation Projects, working with vocational centres for skills development (including

supporting the National Strategy for Vocational Education and Training) and technical assistance to the Government Innovation fund.

- World Bank future cooperation might result from currently ongoing Research on Green Growth Area ending in summer 2013, looking at opportunities for green growth especially in agriculture.
- EU Delegation IPA Project activities included in the Capacity Building for Implementation of Industrial policy, and Sector support plan for private sector development (IPA project 2012/2013, implementable 2014-2016).
- EBRD activities in BAS-Business Advisory Services and two EBRD supported financial facilities for bankable projects including energy efficiency (WEBSEFF 2 and Competitiveness program for SME's), delivered through local banks.
- IPARD Agency's future measures related to rural tourism, with regard to potential project and intervention support in rural areas for tourism facilities.

## 9. Indicative inputs

Budget Inception phase (1 year)			
Staff	480,000		
Consultants	181,000		
Staff development	65,000		
Operations	250,000		
Support to interventions	200,000		
Inception total	1,176,000		
		Inception total	1,176,000

<b>Annual budget Phase 1 (4 years)</b>			
Staff	552,000		
Consultants	157,000		
Co-facilitation	100,000		
Staff development	40,000		
Operations	200,000		
Support to interventions	407,000		
Annual total	1,456,000		
		Phase 1, 4 years	5,824,000
		Total 5 years	7,000,000

## Annex 1 Findings on sub-sectors that were not selected

### *Fruit and vegetables – production and processing*

#### Impact potential

Growth	Employment , other considerations
<ul style="list-style-type: none"> <li>• Export and production doubled in 5 years.</li> <li>• The export market offers the greatest scope for growth, including regional markets.</li> <li>• Growth is expected to continue, especially in the export market, for fresh as well as processed produce – supply cannot meet demand, and productivity (of producers) is increasing (largely due to greenhouse expansion). So far the market segment is mostly at the low quality and low price end, where competition is highest.</li> <li>• Peppers, tomatoes, cucumbers, beetroots and cabbage, are the main vegetable crops, exported fresh as well as frozen, canned or processed in other ways. In fruit apples, pears, sour cherries, peaches and table grapes are the main products, exported fresh, dried, frozen and canned. There is potential for growth in all. Processed peppers have been singled out by some as having the greatest potential, and they do currently make up the largest share of production. Sour cherries are the most commonly processed fruit (frozen).</li> </ul>	<ul style="list-style-type: none"> <li>• An estimated 20,000 households are involved in production; no information on growth, but overall employment in agriculture is stable,, or declining slightly.</li> <li>• 1,100 employed in processing (60-70 firms), an additional 3,500 as seasonal workers; employment in this sector has remained stable over the past 5-7 years with some variations due to weather conditions.</li> <li>• No figures on involvement of women but overall they make up 40% of those working in agriculture.</li> <li>• There are no figures on the employment of youth. Youth are involved but they may prefer other sectors, as indicated by enrolment decreasing in agricultural education. Increased use of technology could attract more young people.</li> <li>• This is a largely rural sub-sector; fruit has potential in the poorer mountainous areas.</li> <li>• Skill requirements are low to medium, investment requirements are low for some activities (e.g. plastic tunnels) so entry is relatively easy.</li> <li>• As in all agricultural activities, there is significant potential for negative environmental impact, but this could be addressed in project interventions.</li> </ul>

#### Intervention potential

Possible intervention areas	Feasibility
<ul style="list-style-type: none"> <li>• Productivity is low but increasing. This is rooted in: <ul style="list-style-type: none"> <li>○ Very small landholdings (1.47 ha on average for agriculture overall)</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>• There are various associations, including of processors, buyers, farmers. They appear effective or to hold potential and their members are likely to benefit from change.</li> </ul>



<ul style="list-style-type: none"> <li>○ Lack of irrigation</li> <li>○ Low quality inputs, or their inappropriate use</li> <li>○ Low level of technology</li> <li>○ Inadequate skills and lack of information on practices that could improve productivity</li> <li>• Low productivity results in low capacity usage in food processing (average 40-45%)</li> <li>• Quality is insufficient for EU markets. This is rooted in: <ul style="list-style-type: none"> <li>○ Insufficient knowledge of and skills in application of EU quality and hygiene standards. Processors are affected by inconsistent quality of inputs.</li> <li>○ Lack of quality inputs (e.g. seeds, seedlings, no local production).</li> <li>○ Old plantations and obsolete varieties (fruit).</li> <li>○ Limited traceability, which will become an increasingly important concern.</li> </ul> </li> <li>• These constraints are related to weakness in support functions: <ul style="list-style-type: none"> <li>○ The extension services are underfunded and lack up-to-date knowledge.</li> <li>○ Testing laboratories and inspection bodies are few in number.</li> <li>○ Agro-pharmacies may not provide the right or lowest cost inputs.</li> <li>○ Shortage of agronomists, and their out-dated skills.</li> <li>○ Agricultural education is not well-linked to practice.</li> </ul> </li> <li>• A lack of diversification, which is rooted in very low investment in R&amp;D and weak linkages between the private sector and R&amp;D at Universities.</li> <li>• Value chains lack integration, horizontal (e.g. cooperatives), and vertical (e.g. contract farming). There is a lack of collection centres, integrators, cooling and storage infrastructure, dialogue, and few suppliers, buyers, processors provide services to producers. Linkages to markets are weak.</li> <li>• Access to finance is constrained by collateral requirements and inappropriate financial</li> </ul>	<ul style="list-style-type: none"> <li>• This is a high priority sector that enjoys donor and Government support. This includes IPARD, the Innovation Fund, USAID Agbiz (finishing), USAID Small Business Expansion project, SIPPO. Overall this would be complementary to an SDC project</li> <li>• Government support includes subsidies which so far have failed to significantly affect productivity and quality and may be a disincentive to change.</li> <li>• Feasibility of addressing one of the core constraints, e.g. small landholdings, is low. However, expanded use of arable land may increase size of landholdings (35% of arable land is currently unused and state owned).</li> </ul>
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products (e.g. loan terms too short for investment but also no access to working capital). There is little value chain finance – firms are constrained by long payment delays.	
<b>Conclusion:</b> This is a promising sector in many respects, but the project's goal, employment of more women and men, especially youth, is not well-served by it. Strong growth has been largely jobless, and youth are said to be leaving agriculture. While employment creation may be a possibility in the long term, with rising productivity of growers and possibly more land being cultivated, this is by no means certain as technological innovation may continue to counteract this.	

### *Dairy*

#### **Impact potential**

<b>Growth</b>	<b>Employment , other considerations</b>
<ul style="list-style-type: none"> <li>Only 55% of milk used in Macedonia is produced domestically so there is significant potential for import substitution.</li> <li>However, from 2008 production has stagnated, which may be partly due to the failure of a large dairy. Dairies run at low capacity.</li> <li>In addition, imports tripled over 5 years.</li> <li>Macedonian dairy producers do not have an EU export license and competition in the region is strong; those markets are also protected by their governments.</li> </ul>	<ul style="list-style-type: none"> <li>While no data are available, estimates range up to 50,000 households being engaged in milk production. This includes subsistence production. No information is available on growth, but overall employment in agriculture is stable or decreasing slightly.</li> <li>An estimated 1,000 may be employed in processing, in 4 large and many small dairy firms. Start-up and failure rates in small dairies are high.</li> <li>40% of those engaged in agriculture are women (no data on dairy).</li> <li>There are no data on the employment of youth. They are involved but may prefer other sectors as indicated by decreasing enrolment in agricultural education. Increased use of technology could attract more young people.</li> <li>This is a largely rural sub-sector.</li> <li>Skill requirements are low to medium.</li> <li>Investment requirements are currently relatively low (in production) but meeting EU standards, in particular environmental regulation, will be costly, possibly too costly for some.</li> <li>The environmental impact of animal husbandry/dairy is significantly higher than of crop production, which is the reason for strict EU regulation. While the project could address this in its interventions, the high cost to farmers may be a constraint.</li> </ul>

### Intervention potential

Possible intervention areas	Feasibility
<ul style="list-style-type: none"> <li>Productivity of dairy farmers is low but increasing. This is rooted in: <ul style="list-style-type: none"> <li>Very small landholdings and number of animals (on average 1.63 ha on 5-10 parcels)</li> <li>Inadequate use of feed (coupled with high cost and low local availability)</li> <li>Inadequate skills and lack of information on practices that could improve productivity</li> </ul> </li> <li>Low quality and inability to meet EU hygiene standards and environmental regulations. This is rooted in: <ul style="list-style-type: none"> <li>Insufficient knowledge of and skills in application of EU quality and hygiene standards; no GAP.</li> <li>Lack of investment in upgrading facilities and technology.</li> </ul> </li> <li>These constraints are related to weakness in support functions: <ul style="list-style-type: none"> <li>Extension and veterinary services are underfunded and lack up-to-date knowledge, skills, equipment.</li> <li>Agro-pharmacies may not provide the right or lowest cost inputs.</li> <li>There is one testing laboratory, which is inadequate.</li> <li>Existing legislation is not being applied.</li> <li>Agricultural education is not well-linked to practice.</li> </ul> </li> <li>Lack of diversification, rooted in very low investment in R&amp;D and weak linkages between the private sector and R&amp;D at Universities.</li> <li>Value chains are disorganised: Collection centres are insufficient in number; integrators that collect are unreliable and shift “their” farmers between dairies; dairies compete for producers, while at the same time misusing their position; mistrust among farmers and between actors at different levels is widespread; few dairies provide embedded services like information, training. Forming cooperatives has proven difficult, and they are over-regulated.</li> </ul>	<ul style="list-style-type: none"> <li>There is an Association of Dairy and Meat Producers and cooperatives of dairy farmers.</li> <li>This sector enjoys donor and Government support. This includes IPARD Agency measure, the Innovation Fund as well as USAID Small Business Expansion project. Overall this would be complementary to an SDC project.</li> <li>Government support includes subsidies which so far have failed to significantly affect productivity and quality. However, new subsidies for producing grade 1 milk may change this.</li> <li>Feasibility of addressing one of the core constraints, e.g. small landholdings, is low.</li> <li>The cost of compliance to EU regulations is likely to have a strong impact which may reduce the effectiveness of other interventions as producers will struggle to meet requirements.</li> </ul>

<ul style="list-style-type: none"> <li>Access to finance is constrained by collateral requirements and inappropriate financial products (e.g. short loan terms for investment, no working capital loans). There is little value chain finance.</li> </ul>	
<p><b>Conclusion:</b> There are no data that indicate employment growth, production has stagnated over a period of 5 years, and EU regulations may be too strict for many producers and processors to meet. Under current conditions the competitiveness of Macedonian dairy products overall is doubtful, though there are some niche products (e.g. cheese) that have shown potential. Overall, this market system does not show much promise for the project.</p>	

### *Renewable energy*

#### **Impact potential**

<b>Growth</b>	<b>Employment , other considerations</b>
<ul style="list-style-type: none"> <li>Annual import of electricity 200 m Euro, or 30 % of electricity consumption, total imported energy 45% of requirement.</li> <li>Energy efficiency and renewables are driven by EU regulation and targets, in the public and private sector.</li> <li>Green house gasses to be reduced by 28% and 21% of electricity from renewable sources by 2020.</li> <li>This has already resulted in private investments in and concessions for hydro and solar plants.</li> </ul>	<ul style="list-style-type: none"> <li>There are few domestic manufacturers of renewable energy equipment, confined to thermal solar heating (seven). The sector largely depends on import.</li> <li>No information is available on biomass, including crop residues, where little is being done, including at the policy level.</li> <li>No data on employment. This sector has high capital and low labour intensity, and depends on highly skilled specialists.</li> <li>Hydro and solar plants will be located throughout the country.</li> <li>Involvement of women is likely to be low.</li> </ul>

#### **Intervention potential**

<b>Possible intervention areas</b>	<b>Feasibility</b>
<ul style="list-style-type: none"> <li>Renewables are highly regulated, procedures need to be simplified.</li> <li>Lack of local production of equipment in relation to renewables.</li> <li>No development and promotion of use of agriculture residuals for biomass fuel and biogas.</li> </ul>	<ul style="list-style-type: none"> <li>This sector is a stated Government priority and enjoys support from multiple institutions, with directions defined primarily in the National Strategy for Sustainable development and the Energy Strategy 2008-2020, including feeding tariffs for renewable energy production and support to household introduction of solar panes.</li> <li>Donor support in pilot projects.</li> <li>USAID project on regulations and procedures for renewables.</li> <li>A number of NGOs in energy efficiency and</li> </ul>

	renewable are active.
<b>Conclusion:</b> No data or forecasts on employment are available. The sector is largely labour extensive, depends on imported equipment, and mostly requires highly educated personnel (apart from when plants are being built). It is therefore not selected for this project. Further investigation of renewables from agricultural residue and livestock waste, where little is being done, could be reconsidered if good progress is made in energy efficiency.	

IT<sup>47</sup>

### Impact potential

Growth	Employment , other considerations
<ul style="list-style-type: none"> <li>Fast growth – 15 to 20% annual growth, revenues doubled in 5 years</li> <li>Investment continuing.</li> <li>Export (40%) and domestic market (crisis affected). Software development is largely export oriented.</li> <li>Permanent growth of mobile phones usage (more than 2 million mobile phones), increasing internet penetration (52 %) and computer owners (54%).</li> <li>Limitation of scale in outsourcing due to population size and consequent limited size of skilled and specialized labour force.</li> <li>Increase in enrolled and graduated students in ICT, counting to 3,800 enrolled students annually and 1.800 graduated annually, up from 940 in 2007.</li> <li>Supports many sectors, which are a market for IT services, so would have broad impact.</li> </ul>	<ul style="list-style-type: none"> <li>Said to have some 12,000 employees.</li> <li>In software development, increase by 90% between 2007 and 2011.</li> <li>Said to be able to absorb 2,000 more now.</li> <li>Majority young people.</li> <li>Estimated 30-40% women.</li> <li>Majority of companies located in Skopje.</li> <li>Environment: potential positive impact as supporter to green business, energy efficiency, and greening other sectors.</li> </ul>

### Intervention potential

Possible intervention areas	Feasibility
<ul style="list-style-type: none"> <li>Human resources supply is still insufficient in quantity, in spite of over 10 faculties, 3 private institutes, many small, more basic providers.</li> <li>Difficult transition from faculty to work, rooted in: <ul style="list-style-type: none"> <li>Lack of applied, specialised, design and soft/management skills.</li> <li>Lack of practical experience.</li> <li>Dialogue between private sector and education exists but is inadequate.</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>Currently little donor and Government support, apart from reduced VAT (5%).</li> <li>Listed as Government priority, and assistance may be forthcoming through Innovation Strategy and Action plan, Fund.</li> <li>Active IT associations and chambers as potential partners. USAID supported the main association, MACIT, with organisational development and other support.</li> <li>Individual companies also motivated for</li> </ul>

<ul style="list-style-type: none"> <li>• High turn over and brain drain, as employees gain skills and experience and seek better pay.</li> <li>• Overdependence on outsourcing – need for research, product development, branding, active marketing, but little investment in this.</li> <li>• Domestic firms in other sectors give low priority to IT which limits the market.</li> <li>• Small firms outside Skopje may need linking to markets.</li> <li>• Lack of clustering or collaboration where scale or specialisation is important.</li> <li>• Access to finance is insufficient, partly due to lack of collateral. This also affects research and product development.</li> </ul>	<p>change.</p> <ul style="list-style-type: none"> <li>• No clear incentives for education service providers to become more relevant, though legal provisions for dialogue with private sector are in place.</li> <li>• Overall the private sector appears to be tackling key issues by itself, led by the larger companies and associations.</li> </ul>
<p><b>Conclusion:</b> This market system has excellent potential for relatively inclusive employment growth, in particular for youth and women, though mostly in Skopje and other main towns. There are some areas that need to be addressed to enhance the system's performance. However, all indications are that key market actors are well aware of these and capable of tackling them. This market system will be addressed as a supporting function (service) to the four that were selected.</p>	

*Light manufacturing (plastic, metal, equipment, electrical engineering, including automotive supply chain)*

#### Impact potential

Growth	Employment , other considerations
<ul style="list-style-type: none"> <li>• This is a complex and diversified sector.</li> <li>• There has been insufficient mapping of capacities and potential, and little is available on specific sub-sectors.</li> <li>• The sector contributed 3.7 % in GDP, compared to 2.3 % in 2008, 26 % of GDP of manufacturing in 2012</li> <li>• The automotive sub-sector is dominated by large foreign investments in the Free Zone.</li> <li>• Domestic companies are export oriented (390 million Euro in 2012, compared to 225 in 2008, of which 80 million exports for light metal processing and die industry in 2012), showing total sector growth of 76 % in five years (In 2010 export fell at 160 million)</li> <li>• Currently there is a lack of investment, mainly due to the crisis.</li> </ul>	<ul style="list-style-type: none"> <li>• 25,000 employees in 2012, but decreasing (28,000 in 2006).</li> <li>• Automotive: 38 enterprises (2010), 2,000 employees excluding the Free Zone</li> <li>• New technology and equipment might reduce instead of increase employment.</li> <li>• Nothing can be said about the involvement of or attractiveness to youth, though enrolment in relevant trades seems to be decreasing.</li> <li>• Employment is mainly male.</li> <li>• Firms are concentrated around Skopje and the main other urban centres.</li> <li>• Environment – impact of growth would probably be negative in terms of water, air pollution and energy use, but project interventions could respond to this.</li> </ul>

### Intervention potential

Possible intervention areas	Feasibility
<ul style="list-style-type: none"> <li>Quality and productivity are low, due to: <ul style="list-style-type: none"> <li>obsolete technology</li> <li>lack of qualified staff, staff with skills relevant to the market</li> <li>low capacity usage</li> <li>low level of innovation</li> </ul> </li> <li>Lack of innovation is partly rooted in low investment in market research and R&amp;D, which is linked to the low level of cooperation between companies and Universities and research institutions. As a result, research done at these institutions is low in market relevance.</li> <li>The education system is also insufficiently market driven in its curricula.</li> <li>Companies' market access and growth is limited by a lack of strategic and business planning, market strategies.</li> <li>Market access is also affected by the lack of cooperation between companies (especially in the automotive sub-sector)</li> <li>The available finance does not meet the sector's specific needs, which are for long-term investments as well as short-term working capital. Working capital requirements are high due to payment delays in the value chain.</li> </ul>	<ul style="list-style-type: none"> <li>This is a Government priority sector, but its strategy relies on attracting FDI. Companies in the automotive sector will be able to access the Innovation Fund.</li> <li>An automotive cluster exists due to donor initiative but it is inactive,</li> <li>There is no appropriate light manufacturing business association (though an on-going initiative aims to create one)</li> <li>Free Zone companies could function as catalyst in the automotive sub-sector and could upgrade it if there are incentives to do so. Currently they source through well-established global supply chains and there appears to be little reason for them to change this.</li> </ul>
<p><b>Conclusion:</b> This sector appears to be generating no or little additional employment, the interest of youth is questionable, the level of involvement of women is low. While the sub-sector is important to GDP and export growth, it is less relevant to a project that aims at reducing unemployment, of youth in particular.</p>	

### Transport and logistics

#### Impact potential

Growth	Employment , other considerations
<ul style="list-style-type: none"> <li>No figures on growth are available.</li> <li>The 2011 number of firms was 6,400, up from 3,700 in 2005, but this could be due to registration of existing firms, in compliance with EU regulation.</li> <li>92% of the firms are in road transport; nearly all are micro in size, 90% provide international</li> </ul>	<ul style="list-style-type: none"> <li>30,000 are employed in the sector; there are no figures on growth.</li> <li>13% are women, 4% are between 15 and 24 years old.</li> <li>This sector is located across the country, with concentrations in major transport hubs.</li> <li>Skill requirements are low to medium.</li> </ul>

<p>services (earning foreign exchange).</p> <ul style="list-style-type: none"> <li>Logistics currently provides basic services: transport, warehousing, customs clearance, distribution, storekeeping. The market for these is largely saturated and scope for further development lies mostly in the direction of supply chain integration and other value-added services.</li> <li>Macedonia is well-located for growth of this sector.</li> <li>Investment was reduced due to the economic crisis.</li> </ul>	<ul style="list-style-type: none"> <li>Large investments are required for entry into logistics (infrastructure), but the entry level in transport is relatively low. The Government has reduced fees for international driving licenses and inspections.</li> <li>Impact on this sector will affect the sectors it supports.</li> <li>There is considerable risk of negative environment impact in terms of emissions and construction. However, a more efficient transport and logistics sector could also reduce environmental impact of other sectors.</li> </ul>
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### Intervention potential

Possible intervention areas	Feasibility
<ul style="list-style-type: none"> <li>Macedonia scores low on logistics competence and quality as in the World Bank's Logistics Performance Index. Expanding the market for basic services and upgrading to supply chain integration services will require further development of human resources.</li> <li>Human resources weaknesses are rooted in inadequacies in the vocational centres for training on international transport and the three universities that offer logistics related courses. In addition, no courses are on offer on supply chain integration and other value-added logistics services.</li> <li>Local companies (in other sectors) are insufficiently aware of the benefits supply chain integration services can bring.</li> <li>Macedonia also scores low on infrastructure on the Logistics Performance Index, including with regard to main roads and railways. This is a key obstacle to further expansion.</li> <li>Licensing requirements for transport in the EU are extensive and competitive.</li> <li>Most transport companies do not meet EU vehicle standards.</li> </ul>	<ul style="list-style-type: none"> <li>There is an active logistics and transport association.</li> <li>Foreign companies are transferring business models built on supply chain integration, investing in infrastructure and developing integrator skills.</li> <li>There is Government support for the sector, including through the Innovation Fund.</li> <li>The World Bank is supporting the upgrading of Corridor 10, which is said to be essential to further growth.</li> <li>Large investments are a key requirement for upgrading the sector.</li> <li>Given these circumstances it is unlikely an SDC project could make a significant difference.</li> </ul>
<p><b>Conclusion:</b> This is a large market system in terms of employment but employment growth prospects are unclear. Growth appears to depend in the first place on large investments in supporting infrastructure, which the project will not be able to support, and upgrading of the system and transfer of know-how and business models is likely to come through involvement of large foreign firms.</p>	



## Annex 2      Market system ranking

The table below was used in the process of decision making on market system selection. It provides a very rough scoring, which was helpful to bring the findings on the main criteria together on one page, though it was of course insufficient as a basis for final decisions. Scores go from 1 (lowest) to 3 on all criteria except the environment, for which the lowest score was 0 (potentially damaging). All criteria had the same weigh except intervention potential which was multiplied by 4. The “employment growth” column is highlighted because market systems in which the likelihood that no employment would be generated was high, could not be selected given the goal of the project.

	Scale	Growth	Empl. Growth	Youth	Green	Other	Intervention potential	Total
Veg and fruit	3	3	1	1	0	3	3	23
Dairy	3	1	1	1	0	3	2	17
Tourism	3	2	2	2	1	2	2.5	22
IT	2	3	3	3	2	2	1	19
Creative	2	1	2	3	1	3	3	24
Energy eff.	1	3	3	2.5	3	2	2	22.5
Light manuf.	3	3	1	2	1	1	1	15
Logistics	3	2	1	2	0	1	1	13

## Annex 3 Basic elements of the logical framework

### Goal

*More working age women and men, in particular the young, are engaged in sustainable, decent employment or self-employment and/or earning higher incomes.*

### Outcome 1

*Enterprises in tourism and hospitality, energy efficiency, and creative industries offer a greater number and diversity of products and services, of higher quality, and access new local, regional and international markets.*

Further sub-sectoral market systems may be selected in the project's second phase.

#### Output 1.1

A tourism market research capacity has been developed and is being used by the private sector.

#### Output 1.2

Destination concepts have been designed, possibly as part of a regional (e.g. West Balkan) offer, and new and improved tourism products and services have been developed accordingly and are being provided in a coordinated manner by women and men.

While the destination concepts will be inclusive of the full range of tourism services and products in which Macedonia has competitive advantages, the focus of development of services and products is expected to be on secondary attractions and activities (those around major attractions), and alternative tourism, including rural, eco, adventure, and thematic tourism (e.g. "authentic homestays", biking and hiking trails, mountain biking and rock climbing, paragliding, wildlife watching, high-quality guided cultural tours in remote areas, etc.). Standardisation and certification could be one way to improve quality.

#### Output 1.3

Practical plans have been developed to promote Macedonia as a destination, including as part of a regional (e.g. West-Balkan) destination, and are being implemented in a coordinated manner by women and men.

These plans will address different target markets and will be developed by market actors based on the destination concept(s) for Macedonia designed under Output 1.2. This may include a collective Macedonian presence at international fairs, developing business linkages with international travel and tour agents, internet portals, etc.

#### Output 1.4

Cooperation between actors in the tourism and hospitality market system has been improved and representative organisations enabled to fulfil their functions.

This output will be in part addressed by having market actor collaborate on the above outputs, but is likely to also include strengthening representative organisations, including their advocacy capacity, developing public-private dialogue and improved business-to-business cooperation.

### ***In Energy Efficiency***

#### **Output 1.5**

Coordination and information sharing between market actors, which aims at sufficient provision of high quality energy efficiency products and services by women and men, has been improved.

#### **Output 1.6**

Enterprises in energy efficiency production and service delivery have better access to services that enable them to improve diversity, quality and capacity.

Improving quality, diversity and capacity in energy efficiency enterprises is required to meet the expected increase in demand. To be able to do so, enterprises are likely to require improved access to appropriate finance (e.g. investment in expansion, new production lines, R&D, working capital to deal with long delays in payment), technology (new and improved), new production lines, research and development services (product development and improvement) and innovation networks (European and other networks of enterprises and research institutions that share knowledge and support innovation). They will also need better access to information in all these areas.

#### **Output 1.7**

Market actors have developed and implemented energy efficiency promotion, information and advocacy plans that will increase the demand for products and services.

Depending on progress in energy efficiency the project may eventually also consider involvement in biomass, agricultural residues in particular, and biogas as sources of renewable energy.

### ***In creative industries:***

#### **Output 1.8**

Market actors and other stakeholders have conducted a detailed and comprehensive analysis of creative industries market systems.

The project's further involvement in the sector will be decided on the basis of this analysis. If continued support is decided on, outputs will be designed at that time and on the basis of the analysis. Based on what is currently known, possibilities are:

#### **Output 1.9**

Cooperation between actors in the creative industries market system (or specific parts of this system, e.g. design) has been improved and representative organisations enabled to fulfil their functions.

#### **Output 1.10**

Practical plans have been developed to promote creative industries services and products to the private sector in Macedonia and possibly the region, and are being implemented in a coordinated manner by women and men.

This could be of particular importance to developing markets for creative industries outside the main cities.

#### Output 1.11

New commercially viable creative industries services and products have been developed, and quality of existing services and products improved including in terms of market relevance.

### **Outcome 2**

*More young women and men have access to education and to job matching services that enable them to take up employment and business opportunities in the selected market systems.*

#### Output 2.1

Dialogue between the private sector, educational institutions and youth organisations that aims at enhancing the relevance of skills of school leavers and the effectiveness of job matching mechanisms is evidence based and has become more effective.

#### Output 2.2

Market actors have implemented measures developed through dialogue that will enhance the relevance of skills for employment and job seeking.

This could include, among others, changes in the technical content of curricula, inclusion of soft skills, improvement of internships and how they are perceived, career counselling, use of mass media and social networking sites to reach youth with information on skills that are in demand or with advice on job seeking.

#### Output 2.3

Job matching mechanisms have become more effective and new mechanisms have been developed.

This could include, among others, commercial matching and recruitment services, job portals, use of mass media and social networking sites, improved services of youth NGOs,

Gender equality will be mainstreamed under the first two outcomes, based on Gender Analysis and constraints identified in each of the selected market systems. However, gender inequality in Macedonia has a number of underlying causes that affect women across sectors, which the project will address under an outcome specific to women. This outcome will cover interventions targeted at women.

### **Outcome 3**

*More women, especially the young, have access to information and services that increase their equality in the labour market, including as business owners.*

#### Output 3.1:

Services developed and operational that address women's specific needs, or women linked to such services.

#### Output 3.2

Sustainable child care facilities developed and operational, possibly as public-private partnerships of municipalities and social entrepreneurs, including youth.

#### Output 3.3

Advocacy capacity strengthened and influence increased of associations, business and civil society organisations that promote change in traditional gender roles and that raise women's

awareness of their rights to equal treatment on the job market and inheriting assets, and on ways to defend such rights.

Under this output one could explore the use of mass media, social networking sites, informal channels of communication women use, developing linkages with the legal profession, etc.

## Annex 4 Tentative budgets

Budget Inception phase (1 year)			
	per month	months	per year
<u>Staff:</u>			
International project director	18,000	12	216,000
nat project manager	5,000	12	60,000
3 sub-sectoral intervention managers	3,000	30	90,000
skills intervention manager	3,000	10	30,000
M and E expert	3,000	10	30,000
Gender expert	3,000	10	30,000
Administration	2,000	12	24,000
<u>Consultants:</u>			
			-
International backstop M4P	18,000	2	36,000
International gender backstop	15,000	2	30,000
International M&E consultant	15,000	1	15,000
Technical consultants (national, international)			100,000
Staff, co-facilitator development			65,000
Support to interventions			200,000
Operations (including project equipment)			250,000
<b>Total</b>			<b>1,176,000</b>

Annual budget Phase 1 (4 years)				
		per month	months	per year
<u>Staff:</u>				
International project director	18,000	12	216,000	
nat project manager	5,000	12	60,000	
3 sub-sectoral intervention managers	3,000	48	144,000	
skills intervention manager	3,000	12	36,000	
M and E expert	3,000	12	36,000	
Gender expert	3,000	12	36,000	
Administration	2,000	12	24,000	
<u>Consultants:</u>				
				-
International backstop M4P	18,000	1.5	27,000	
International gender backstop	15,000	1.5	22,500	
International M&E consultant	15,000	0.5	7,500	
Technical consultants (national, international)			100,000	
Co-facilitation (contracts with co-facilitators)			100,000	
Staff, co-facilitator development			40,000	
Support to interventions			407,000	
Operations			200,000	
<b>Total</b>				<b>1,456,000</b>

## Annex 5 Main people met

No	Stakeholder Name	Institution	Position
1	Mirce Cekredzi	Arcuss Design / Union Chamber of Commerce	Owner / Vice President
2	<i>Aleksandar Tasev</i>	<i>Balkan Unlimited foundation</i>	<i>Manager</i>
3	Eleonora Zaprova	British Council in Macedonia	Director
4	Zarko Koneski	British Council Project on Creative Economies	Conference Center manager
5	Ilija Nasov, PhD	Camel Solar / Center for Plasma Technologies	Manager / Director
6	Jovan Madjovski	CEED Macedonia	CEO
7	Arben Halilii	Chamber of North-West Macedonia	Deputy Executive Manager
8	Reshat Nagavci	Chamber of North-West Macedonia	Head of Department
9	<i>Lovre Risevski</i>	<i>Crimzon Capital</i>	<i>Project Manager</i>
10	<i>Darko Arsov</i>	<i>Crimzon Capital</i>	<i>Project Manager</i>
11	Ana Mickovska- Raleva	CRPM - Center for research and policy making	Public Policy Analyst
12	Marija Risteska, PhD	CRPM - Center for research and policy making	Executive Director
13	Ljupka Karadakovska	Dentina Strumica	Owner
14	Tanja Karadakovska	Dentina Strumica / MABI Trade	Manager
15	Jadranka Arizankovska	Economic Chamber of Macedonia	High Counsellor
16	Gabriela Kostovska Bogoevska	European Network For Women Entrepreneurs	Project Manager
17	Elena Ivanova	Exploring Macedonia	CEO
18	Koljo Micev	Ezo-M Strumica	Owner/Manager
19	Tatjana Kandikjan, PhD	Faculty of Mechanical Engineering in Skopje	Professor, Design Lab Innovation Program
20	Radmil Polenakovik, PhD	Faculty of Mechanical Engineering in Skopje, Start-up Center UKIM	Professor at faculty, NCDIEL manager
21	Atanasko Tuneski, PhD	Faculty of Mechanical Engineering skopje	Professor
22	Ilija Jolevski, PhD	Faculty of Tehnical Sciences at UKO Bitola	Assistant professor at Computer science and engineering
23	Vladimir Pecijareski	Freelance	Insurance broker
24	Aleksandar Karaev	GIZ	Regional Economic Development



No	Stakeholder Name	Institution	Position
25	Romela Popovic-Trajkova	Government of RM, Cabinet of Vice-President	head of Sector of Vice-President of Government for Economy
26	Suzana Aleksova	Government of RM, Cabinet of Vice-President	Advisor
27	Vase Vitanov	Hortena Strumica	Manager/Owner
28	<i>Bratislav Stankovic</i>	<i>IT University in Ohrid</i>	<i>Vice-Rector</i>
29	Toni Malushev	LED Strumica	Head of LED sector
30	Sofce Ivanova	LED Strumica	Assistant for project coordination
31	Sofce Janeva	LED Strumica	Adviser for plan and Analysis
32	Pance Bedzovski	LED Strumica	Assistant for project coordination
33	Vlatko Bezovski	Logistics and Transport Chamber/ Association	Board member
34	Kalin Babushku	Macedonia Export Consulting	Partners
35	Konstantin Dimitrov	MACEF -Macedonian Association for Energy Efficiency	President
36	Natasa Ljubeckij Angjelic	MAP -Macedonian Association of Processors /MCG	Project Manager
75	Saso Risteski	MAP -Macedonian Association of Processors /MCG	
37	Vesna Avramovska,	MATA Craft	Creative Director
38	Zoran Todorovski	MATA Craft	President
39	Gordana Stevkovska Veljanovska	MATA Craft	Project manager
40	Martin Trajcev	Milkoop (Milk Cooperative)	Manager
41	Zorica Velkovska	Ministry of education and science	Program Coordinator for Program for integration of environment Education
42	Marjan Zabrcanec	MOF- Youth Educational Forum	Executive Director
43	Vasko Kronevski	Nextsense Skopje	CEO
44	Pece Taleski	OXO NGO	Executive Director
45	Marijana Milevska	PREDa Plus Prilep	Director
46	Filip Sekuloski	PREDa Plus Prilep	Program officer
47	Прогрес: Зоран Спасески, управител	Progress Prilep	
48	Aleksandar Velinovski	Public Room Promo Center / Skopje Design Week	Managing director
49	Zulieta Gjrkova	RDC (regional Center South East)	Manager

No	Stakeholder Name	Institution	Position
		Strumica	
50	Neda Korunovska	ReActor Think Tank	Manager
51	Kosha Boshku	SEAVUS	President
52	Irena Chaushevska	Seavus education- SEDC	Executive Director
53	Vesna Ivanovska	Seavus education- SEDC	Training manager
54	Natalija Puntevska	SIPPO program	Coordinator
55	Stefano Lazzarotto	Swiss Embassy Macedonia	Ambassador
56	Katharina Stocker	Swiss Cooperation Office Macedonia	Head of Cooperation
57	Lilian Kandikjan	Swiss Cooperation Office Macedonia	Programme Officer
58	Aneta Damjanovska	Swiss Cooperation Office Macedonia	Programme Officer
59	Kristina Kolozova	Swiss Cooperation Office Macedonia	Assistant Head of Cooperation
60	Dragan Blazev	Timel Proekt (USAID industrial project)	Chief of party
61	Martin Petkovski	Tour Operator 5 / travel agency	Director
62	Mihaela Stojkoska	UNDP	Program Officer
63	Vesna Dzuteska Bisheva	UNDP	Assistant Resident Representative
64	Ana Kubelka	USAID industrial project (Timel Engineering)	Project Assistant
65	Carl Larkins	USAID project on SME Business Extension (regional)	Chief of Party
66	Mirjana Makedonska	USAID project on SME Business Extension (regional)	Deputy Chief of Party
67	Samir Latiff	USAID Sustainable Energy Project	Chief of party
68	Gjorgji Kusevski	USAID YES project	COP
69	Strežimir trajkovski	USJEPOR	Manager
70	Aleksandar Nencev	VEGEMAK Strumica- Association of fruits and vegetable exporters	Program coordinator
71	Vasil Petrovski	VIRGO ltd. Skopje	CEO
72	Vladimir Trpanoski	Vitaminka AD Prilep	Commercial Director
73	Denis Boshkovski	World Bank in Macedonia	Country Operations Officer
74	Gordana Popovik Friedman	World Bank in Macedonia	Business Environment Specialist
75	Zoran Radevski	Z.Radevski Bitola	CEO
76	Marta Naumovska Grnarovska	ZAVAR Skopje	General manager
<b>Pre-Mission Meetings</b>			

No	Stakeholder Name	Institution	Position
77	3xFx	Kristijan Danilovski	Managing director
78	Alkaloid Skopje	Zoran Kostovski	COO-Chief Operating Officer, Head of Logistics & Sales operations
79	Alkaloid Skopje	Dejan Krzovski	Head of Purchasing and Investment
80	BBC Consulting Skopje	Olivier Dalongeville	Manager (ex-CEO of Ruen Kocani)
81	European Commission Delegation in Macedonia	Elizabeta Georgievska	Economic and Finance department
82	Macedonian chamber of tourism	Lela Krstevska	President (CEO of Radika hotel)
83	MASIT- Chamber of ICT companies	Anita Nikova	Executive Director
84	MASIT- Chamber of ICT companies	Dame Cvetkovski	President of Assembly of Masit (Board member of Neokom and Neotel)
85	MASIT- Chamber of ICT companies	Igor Bimbiloski	Managing Director of Masit (Executive director of Thome and Tmobile, Strategy and Business Development)
86	MBPR - Macedonian Bank for Reconstruction and Development	Darko Stefanovski	Manager of Credit Insurance Department
87	National Association of Dairy and Meat Processors	Predrag Cvetkovic	President (former GM of Bitolska Mlekara)
88	TeTe Plast	George Todorovski	Director & Owner
89	TeTe Plast	Ivo Maljanovski	Quality Manager
90	USAID Macedonia	Joseph Lessard	Director of Economic Growth Office
91	USAID Macedonia	Tanja Markova	Project Management Specialist

<sup>1</sup> World Bank/IFC Doing Business, Economy Profile – FYR Macedonia, 2012

<sup>2</sup> E.g. World Bank, Unlocking Macedonia's Competitiveness Potential: A Sectoral Assessment of the Constraints and Opportunities in Automotive, Apparel, Agribusiness, and Logistic Services, 2012; European Commission, FYR Macedonia 2012 Progress Report, 2012.

<sup>3</sup> European Commission, The pre-accession economies in the global crisis: from exogenous to endogenous growth?, 2010

<sup>4</sup> Data by sub-sector are not available.

<sup>5</sup> State Statistical Office; the Action Plan on Youth Employment 2015, 2012 reports this as 82%.

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- <sup>6</sup> It has unfortunately not been possible to obtain data from the State Statistical Office that are more sub-sector specific.
- <sup>7</sup> Reactor, Youth and the Labor Market, 2012.
- <sup>8</sup> Macedonian Action Plan on Youth Employment 2015, 2012. The effect of education is disputed by Reactor, Youth and the Labor Market, 2012, which used regression analysis and found level of education was not a factor, i.e. youth with low or high levels of education have the same chance to be unemployed other things being equal. Figures on ethnicity and employment are also from Reactor's publication.
- <sup>9</sup> The highest unemployment rates in 2011 by region are in the Northeast region with 50.5 % in urban and 75.2 % in rural areas, followed by Southwest region with 37.8 % in urban and 49.0% in rural areas. Skopje region, although the most developed on the basis of most development indicators, is ranked sixth region by unemployment rate, with 28 % in urban and 38 % in rural areas (State Statistical Office).
- <sup>10</sup> Macedonian Action Plan on Youth Employment 2015, 2012
- <sup>11</sup> World Economic Forum, Global Competitiveness Report, 2012-2013
- <sup>12</sup> The improvements in the Doing Business index ranking are deceptive in this respect, as the index is based on the situation encountered by companies limited by guarantee in Skopje: the large majority of companies are single proprietorships and institutional capacity outside Skopje is weaker.
- <sup>13</sup> Enterprises view corruption as the third most important problem in doing business (World Economic Forum, Global Competitiveness Report, 2012-2013); the country ranks 69 out of 176 on the global corruption perception index (<http://www.transparency.org/country#MKD>)
- <sup>14</sup> World Economic Forum, Global Competitiveness Report, 2012-2013
- <sup>15</sup> World Bank, Unlocking Macedonia's Competitiveness Potential: A Sectoral Assessment of the Constraints and Opportunities in Automotive, Apparel, Agribusiness, and Logistic Services, 2012.
- <sup>16</sup> World Bank, Unlocking Macedonia's Competitiveness Potential
- <sup>17</sup> UNICEF, Education in the Former Yugoslav Republic of Macedonia, 2012; World Economic Forum, Global Competitiveness Report, 2012-2013; World Bank, Unlocking Macedonia's Competitiveness Potential; Enterprises consider an inadequately educated workforce as the second most problematic factor for doing business. A third of employers report it is difficult to find workers.
- <sup>18</sup> European Commission, FYR Macedonia 2012 Progress Report, 2012.
- <sup>19</sup> Reactor, Youth and the Labor Market, 2012
- <sup>20</sup> World Economic Forum, Global Competitiveness Report, 2012-2013; Tarnutzer, A., Karangeleski, V., Report of the Scoping Mission on Private Sector Development in Macedonia, SECO/WEIF Private Sector Development Division SCO Swiss Cooperation Office Macedonia, 2012; <http://www.mixmarket.org/mfi/country/Macedonia>;
- <sup>21</sup> World Bank, Unlocking Macedonia's Competitiveness Potential
- <sup>22</sup> 71.4% of ethnic Albanians live in villages, 66.9% of ethnic Macedonians live in towns, Reactor, Youth and the Labor Market, 2012, page 22
- <sup>23</sup> International Labour Organisation, The Gender Pay Gap in FYR Macedonia, 2012
- <sup>24</sup> For more information, see the M4P Hub website, [www.m4phub.org](http://www.m4phub.org)
- <sup>25</sup> The review drew on interviews with representatives of the private sector, Government, and donor programmes, and existing reports and documentation. This included sub-sectoral analysis publicly available and analysis made available specifically at our request by USAID, Macedonia Export Consulting, Public Room, and the Macedonian Association of Processors. SIPPO made available a public presentation on fruit and vegetable processing (its report on the sector is considered internal). We are grateful for the free access provided by these organizations.
- <sup>26</sup> Annex 1 provides similar analysis for the sub-sectors that were not selected. .
- <sup>27</sup> The Labour Market Survey uses the categories 15-24, 25-64 and 65 and above in all tabulations by sector.
- <sup>28</sup> Both energy efficiency and renewable energy were reviewed for this concept note. A summary of findings on renewable is in Annex 1.
- <sup>29</sup> Economic Chamber of Macedonia, Build up skills – Republic of Macedonia; Analysis of the National Status Quo, 2013
- <sup>30</sup> <http://futurechallenges.org/local/liberalization-versus-qualification/>
- <sup>31</sup> World Economic Forum, 2012; World Bank, Unlocking Macedonia's Competitiveness Potential, 2012
- <sup>32</sup> <http://futurechallenges.org/local/liberalization-versus-qualification/>

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<sup>33</sup> Reactor, Youth and the Labor Market, 2012

<sup>34</sup> Main sources for this section are Centre for Research and Policy Making, Perspectives of Women in Rural Areas, 2012; International Labour Organisation, The Gender Pay Gap in FYR Macedonia, 2012; Reactor, Women in the Macedonian Economy, 2012; Reactor, Finding the Key to the Glass Door; Demystifying the Reasons for Women's Low Participation in the Labor Market, 2012

<sup>35</sup> UN Economic Commission for Europe database, <http://w3.unece.org/pxweb/Dialog/Saveshow.asp?lang=1>; UNICEF quotes a rise to 14% in its 2012 profile of Macedonia, [http://www.unicef.org/ceecis/Macedonia\\_2010.pdf](http://www.unicef.org/ceecis/Macedonia_2010.pdf)

<sup>36</sup> Reactor, Finding the Key to the Glass Door; Demystifying the Reasons for Women's Low Participation in the Labor Market, 2012

<sup>37</sup> One of the team's higher level interlocutors in the Government stated that increasing women's participation in the work force was not a priority.

<sup>38</sup> Main sources: Transparency International Macedonia, <http://www.transparency.org.mk/en/index.php>; Transparency International Corruption Index, <http://cpi.transparency.org/cpi2012/results/>; World Economic Forum, Global Competitiveness Report, 2012-2013, 2012; Report for the European Commission, Former Yugoslav Republic of Macedonia 2012 Progress Report

<sup>39</sup> This section draws mainly in World Directory of Minorities and Indigenous Peoples, Macedonia Overview, <http://www.minorityrights.org/?lid=4021> ; Wikipedia, Albanians in the Republic of Macedonia, [http://en.wikipedia.org/wiki/Albanians\\_in\\_the\\_Republic\\_of\\_Macedonia](http://en.wikipedia.org/wiki/Albanians_in_the_Republic_of_Macedonia); Simoska, Emilija, A View on the Inter-Ethnic Relations

<sup>40</sup> Report for the European Commission, Former Yugoslav Republic of Macedonia 2012 Progress Report

<sup>41</sup> UNICEF, Country Profile 2012, Education in the Former Yugoslav Republic of Macedonia, 2010

<sup>42</sup> This section draws mainly on the European Environment Agency, [http://www.eea.europa.eu/soer/countries/mk/soertopic\\_view?topic=waste](http://www.eea.europa.eu/soer/countries/mk/soertopic_view?topic=waste), Report for the European Commission, Former Yugoslav Republic of Macedonia 2012 Progress Report, Naturvernverbundet, <http://naturvernforbundet.no/international/environmental-issues-in-macedonia/category939.html>, University of Gothenburg, Macedonia- Environmental and Climate Change Policy Brief, 2009.

<sup>43</sup> State Statistical Office

<sup>44</sup> <http://www.undp.org.mk/?LCID=27>

<sup>45</sup> World Economic Forum, 2012

<sup>46</sup> E.g. Kazandziska, Milka; Risteska, Marija; Schmidt, Verena; The Gender Pay Gap in the Former Yugoslav Republic of Macedonia, International Labour Organisation, 2012

<sup>47</sup> Communication is a shrinking sub-sector and was not further considered.