



Government of the Republic of Macedonia
Ministry of Finance

Committee for preparation of the National Strategy for
Poverty Reduction in the Republic of Macedonia

NATIONAL STRATEGY FOR
POVERTY REDUCTION IN THE
REPUBLIC OF MACEDONIA

August 2002

© Ministry of Finance of the Republic of Macedonia, 2002

Dame Gruev 14, Skopje,

Republic of Macedonia

***Committee for preparation of the National Strategy for
Poverty Reduction in the Republic of Macedonia***

President: *Mr. Nikola Gruevski*, Minister of Finance

**Working team for preparation of the National Strategy for
Poverty Reduction in the Republic of Macedonia**

Members:

Prof. Maria Donevska, Ph.D., Institute for Social Policy; leader of the working subgroup
“Poverty Profiles and Indicators”

Prof. Ilija Aceski, Ph.D., Institute of Sociology, Faculty of Philosophy; leader of the working
subgroup “Urban Poverty”

Prof. Jorde Jakimovski, Ph.D., Institute for Sociological, Political, and Judicial Research; leader
of the working subgroup “Rural Poverty”

Pece Nedanovski, M.A., Faculty of Economics – Skopje; leader of the working subgroup
“Access to Services and Decentralization”

Trajko Slaveski, Ph.D., Faculty of Economics – Skopje; leader of the working subgroups
“Macroeconomic Framework” and “Labor Markets and Unemployment”

Ms. Blagica Novkovska, Director, State Statistical Office of the Republic of Macedonia

Lidija Hristova, Ph.D., Institute for Sociological, Political, and Judicial Research

Dimitar Bogov, Ministry of Finance

Prof. Marija Tasheva, Ministry of Education

Dragan d-r Gjorgjev, Ministry of Health

Mr. Stojan Trajanov, Ministry of Labor and Social Policy

Mr. Esat Deari, Ministry of Labor and Social Policy

Slagjana Taseva, M.A., FORUM Center for Research and Documentation

Ms. Timka Blazevska, Ministry of Agriculture, Forestry and Water Management

Mr. Ilber Mirta, Ministry of Finance

Mr. Branko Efremov, Ministry of Finance

CONTENTS

<i>FOREWORD</i>	<i>1</i>
<i>EXECUTIVE SUMMARY</i>	<i>i</i>
CHAPTER I. INTRODUCTION AND DESCRIPTION OF THE PROCESS FOR PREPARATION OF THE NATIONAL POVERTY REDUCTION STRATEGY	1
1. <i>Systemic measures and activities for poverty reduction in the Republic of Macedonia</i>	<i>1</i>
2. <i>The new approach in fighting poverty</i>	<i>1</i>
CHAPTER II. MACROECONOMIC REVIEW	5
1. <i>Economic growth and poverty</i>	<i>5</i>
2. <i>Economic growth in the past several years</i>	<i>5</i>
3. <i>Economic growth in the period 2002-2005</i>	<i>7</i>
4. <i>Monetary Policy</i>	<i>10</i>
5. <i>Fiscal policy</i>	<i>10</i>
6. <i>Risks to macroeconomic stability and economic growth</i>	<i>11</i>
7. <i>Foreign trade and the balance of payments</i>	<i>12</i>
8. <i>Public debt</i>	<i>12</i>
9. <i>Sector policies in direction of poverty reduction</i>	<i>13</i>
10. <i>Infrastructure investments – higher quality of life</i>	<i>15</i>
CHAPTER III. UNEMPLOYMENT AND THE LABOR MARKET	16
1. <i>Current situation</i>	<i>16</i>
2. <i>Labor Market Policy</i>	<i>16</i>
3. <i>State Intervention in the Labor Market with Economic Policy Measures</i>	<i>20</i>
4. <i>Measures for Increasing Salary Flexibility and Decreasing Labor Costs</i>	<i>21</i>
5. <i>Measures for Decreasing Costs when Laying off Employees</i>	<i>21</i>
6. <i>Cooperation between the State and Local Administration and Involvement of Social Partners</i>	<i>22</i>
7. <i>Financing</i>	<i>22</i>
8. <i>Adjustment of Labor Legislation</i>	<i>23</i>
CHAPTER IV. CHARACTERISTICS OF POVERTY: WHAT THE STATISTICS TELLS US	24
1. <i>Defining the Poverty</i>	<i>24</i>
2. <i>Poverty Profiles</i>	<i>28</i>
3. <i>Other Indicators of Poverty</i>	<i>35</i>
4. <i>Measurement and Analysis of Inequality</i>	<i>41</i>
5. <i>Measurement and Analysis of Vulnerability</i>	<i>41</i>

CHAPTER V. CHARACTERISTICS OF POVERTY: WHAT THE POOR TELL US	44
1. <i>Living Conditions of the Poor Households</i>	46
2. <i>Education and access to the education services</i>	48
3. <i>Health and nutrition</i>	53
4. <i>The labor market and poverty</i>	55
5. <i>How do poor persons cope with poverty</i>	60
6. <i>Definition of poverty</i>	62
7. <i>Final conclusions</i>	62
CHAPTER VI. ASSISTANCE TO THE POOR AND THEIR ACCESS TO SERVICES: REVIEW OF THE CURRENT SITUATION	64
1. <i>The current situation in the field of social protection in the Republic of Macedonia</i>	64
2. <i>Distribution of Responsibilities in the Field of Social Protection Among Different Levels of Government</i>	69
3. <i>Recommendations for Improvement of the Social Protection System in the Republic of Macedonia</i>	70
1. <i>Description of the Existing System</i>	74
2. <i>Reforms in the Health Care System and Their Influence on the Poor People</i>	77
3. <i>Recommendations</i>	78
CHAPTER VII. URBAN POVERTY AND URBAN DEVELOPMENT	85
1. <i>Definition of Urban Poverty in Macedonia</i>	85
2. <i>Characteristics and Typology of Urban Poverty</i>	85
3. <i>Access and Quality of Infrastructure (Physical Welfare)</i>	88
4. <i>Housing Typology</i>	90
5. <i>Urban Regulatory Framework</i>	93
6. <i>Stakeholders Consultation: Workshop on Urban Poverty Reduction Strategy</i>	95
CHAPTER VIII. RURAL POVERTY AND RURAL DEVELOPMENT	97
<i>Basic Issues of Rural Poverty in Macedonia</i>	97
CHAPTER IX. CONSULTATIONS: POOR PEOPLE AND THEIR REPRESENTATIVES	102
1. <i>Methodology for Determining the Focus Groups</i>	102
2. <i>Analysis of the Views on Different issues</i>	105
CHAPTER X. FROM ANALYSIS TO ACTION	116
A N N E X E S	131

FOREWORD

The public interest for the issues related to poverty during the last few years has been rather high, and justifiably so. However, there have been constant attempts for politicization of this sensitive issue. Our point of departure in the preparation of this Strategy was that politicization, misuse of poverty related issues for political purposes, as well as exploitation of possible positive results from the fight against poverty by political parties, definitely could not be the most appropriate strategy for alleviation of the adverse consequences from poverty. Poverty could neither be solved in the short run, nor could this be done by any particular government or political group. In development of an appropriate platform for a longer term and comprehensive approach in poverty reduction there is a need for a strong consensus between all political parties and the civic society, including representatives of the poor.

The Macedonian Government conducted an active poverty reduction policy in the past period, although a comprehensive strategy lacked. For example, one of the basic tasks in the Macroeconomic Policy of the country for 2001 and 2002, official Government documents, was the initiation of a poverty reduction process. This process has been based upon creation of conditions for rapid economic growth, as well as on concrete operative measures of the economic policy, and within that investment, fiscal, social, and regional development policies.

In order to create an environment conducive for realization of these goals – accelerated economic growth and poverty reduction – the Government of the Republic of Macedonia, in April 2000, adopted the Framework Program for Development and Reforms Macedonia 2003, which had anticipated almost all relevant policies that were later on agreed and specified in the process of negotiation with the IMF and the World Bank for the 3-year arrangements during the period 2001-2003.

A string of events contributed the Government of the Republic of Macedonia to complete this Poverty Reduction Strategy at the end of its term of office. This document is fully agreed with the World Bank and it is presented to the major partners of development of the Republic of Macedonia (international institutions and representatives of different countries). We hope that the prepared document will be a solid ground for the next and the succeeding governments to initiate a comprehensive process for poverty reduction in the Republic of Macedonia, in the first place with own resources, but also with significant assistance by our partners from the international community. Of course, this Strategy is not a dogma. On the contrary, it is necessary to constantly monitor the situation, for the purpose of which appropriate mechanisms are proposed in the text, as well as modification of the Strategy, according to the requirements in the process of its implementation.

On behalf of the Government of the Republic of Macedonia, I would like to express gratitude to all those that gave their contribution in the Strategy preparation process. These expressions of gratitude especially refer to:

- a) All the ministries of the Government of the Republic of Macedonia and experts from the state institutions engaged in the preparation of the Strategy, headed by the president of the Strategy Preparation Committee, Mr. Nikola Gruevski, Minister of Finance in the Government of the Republic of Macedonia;
- b) The working team for preparation of the Strategy, headed by Dr. Trajko Slaveski, professor at the Faculty of Economics – Skopje and former Minister of Development and the members of the working subgroups, renowned professors and researchers from a number of scientific research institutions in the country and from the State Statistics Bureau;
- c) The World Bank and the British Department for International Development (DFID) that provided significant technical and modest financial support. Few activities related to acquiring knowledge and experience for certain poverty issues were financed by the Kingdom of Norway and the Parliament of Finland. Excellent cooperation was realized with the representatives of the local missions of the United Nations Development Program (UNDP) and UNICEF. The constant interest of the representatives of a number of foreign government for the course of the preparations of the Strategy was significant encouragement in the whole process;
- d) Representatives of non-governmental organizations, including the poor, the local self-government and especially the representatives of several religious communities in the Republic of Macedonia.

President of the Government of the
Republic of Macedonia
Mr. Ljubco Georgievski

NATIONAL STRATEGY FOR POVERTY REDUCTION IN THE REPUBLIC OF MACEDONIA

EXECUTIVE SUMMARY

“Poverty is when you wake up in the morning with only one wish – during the day, no one to take the hope that the day will come when you will be better off away from you”.

(Poor person from Skopje)

1. Introduction and description of the process for preparation of the National Poverty Reduction Strategy

The Macedonian Government conducted an *active poverty reduction policy* in the past, regardless of the lack of a comprehensive poverty reduction strategy. The state Budget allocates funds for investment in *human resources* as key element in realization of the *Poverty Reduction Strategy*. In this context, policy for stimulating dynamic development of small and medium enterprises is being implemented; priority has been given to infrastructure and environmental protection projects, with an aim to provide jobs for the poor people. In addition, significant resources are being allocated for investments in the health care sector, education, social protection, child protection, infrastructure development in rural areas, etc.

In order to create an environment conducive for realization of these goals – accelerated economic growth and poverty reduction – the Government of the Republic of Macedonia, in April 2000, adopted the Framework Program for Development and Reforms *Macedonia 2003*, which had anticipated almost all relevant policies that were later on agreed and specified in the process of negotiation with the IMF and the World Bank for the 3-year arrangements during the period 2001-2003. A three-year macroeconomic framework, supported by a structural reforms program, was determined.

In December 2000, after almost one year of negotiations, the Republic of Macedonia signed arrangements with the World Bank and the IMF. The arrangement with IMF was combination of two types of loans, extended by this institution – 70 percent EFF (Extended Fund Facility), and 30 percent related to the new arrangement – Poverty Reduction and Growth Facility (PRGF). Starting September 1999, the IMF and the World Bank extended the goals of their concessional lending by explicitly focusing the criteria on poverty reduction in the context of development-oriented strategy.

The new approach is based upon preparation of an own poverty reduction strategy. The governments of the countries using PRGF arrangements with the IMF and credits from the World Bank under IDA conditions are obliged to prepare this document. Even at the time of signing the arrangements, the Republic of Macedonia was in a specific position. It “graduated” in June 2001, i.e. it lost the possibility to use credit funds under IDA conditions. However, this did not prevent the

possibility to utilize the IMF credit under PRGF conditions¹ in the 3-year period of the arrangement. As it is known, due to the military crisis that started at the beginning of 2001, which had devastating consequences on the Macedonian economy, the Macedonian Government and its Central Bank were not able to fulfil the agreed targets in the arrangement with the IMF, so it was officially terminated in November 2001.

In the fall of 2001, and after the termination of the hostilities, the Macedonian authorities and the IMF representatives agreed on a Staff Monitored Program for the country, starting January 1, 2002, aimed at encouraging the economic policy authorities in the Republic of Macedonia to further lead sound macroeconomic policies, thus temporarily relaxing the obligations for continuation of the microeconomic, structural reforms. During the summer 2001, the World Bank prepared and promoted its Transitional Support Strategy, instead of the already existing Country Assistance Strategy (CAS).

Prior to the preparation of the full strategy, for the purpose of presentation to the IMF and World Bank Boards of Directors when considering the country's request for a loan, preparation of an Interim PRSP was required. The Macedonian Government, in addition to the others, has also accomplished this requirement on time. By approving the arrangements in December 2000, the clock for preparation of the full PRSP started to run.

Usually, the deadline for preparation of the Strategy is between one and two years. At the beginning, the ambitions of both sides, the Macedonian, represented by the Ministry of Finance, on one hand, and the international financial institutions (the World Bank and the IMF), on the other, were to complete the preparation process within a year, which was thought to be realistic under normal circumstances and with exceptional efforts on the part of the teams for preparation of this important document. However, the military conflict that erupted in the country in the first half of 2001 imposed an objective extension of the deadlines. Simply, in conditions when the attention of the whole public was turned to security-related issues, which dominated the public communication, the realization of the strategy realization process was impossible, particularly in the part regarding *participation* of as many interested parties as possible, including the poor, and *consultations* with the most important interested entities i.e. institutions. The efforts of the working groups were aimed at in-depth research in the areas agreed with the World Bank team.

The starting point of the Interim-PRSP in the Republic of Macedonia was the awareness that poverty represents one of the most important factors that deteriorate the quality of life of the people and hamper them to fully exercise their human rights. The Working Team, led by Prof. Trajko Slaveski from the Faculty of Economics – Skopje, and the former Minister of Development, coordinated by the Committee for preparation of the NPRS, headed by Mr. Nikola Gruevski, Minister of Finance, has defined and worked in the following fields:

- Poverty profiles and indicators;
- Urban poverty;
- Rural poverty;
- Labor market and unemployment;
- Macroeconomic framework;
- Access to services and decentralization; and

¹ 0.5 percent annual interest rate through semi-annual instalments, with 5.5-year grace period and 10-year repayment period, calculated from the day the credit was approved.

- Organization of the participation and consultation processes.

Now the relevant, medium term period for action is 2002-2005. As it could be seen from the basic text of this document, what should be first done is to secure, hopefully, by the end of 2002, to stop the increase of poverty, especially following the disruptions caused in the economic and social areas during 2001, and then for the 3-year period of poverty reduction to start. Having in mind the current status the Republic of Macedonia has in the relations with the IMF and the World Bank, the country is not obliged to present the Poverty Reduction Strategy to their Boards. However, the World Bank and the donors have strongly encouraged and supported the successful completion of the document, regardless of its status and title (now: National Poverty Reduction Strategy). The World Bank, through its representatives having discussions with the Minister of Finance in the Government of the Republic of Macedonia, has even indicated that it expected the NPRS to present basis for its next 3-year Country Assistance Strategy. This position is also strongly shared by the Macedonian government.

2. Macroeconomic review

Poverty is a multidimensional problem, which, in addition to the economic issues, also includes social, political and cultural ones. Therefore, poverty reduction cannot rely exclusively on the economic policy, but also on complex, well-coordinated measures in several areas. Still, *the economic growth* is a significant factor that affects poverty. The long-term economic growth reduces poverty directly by creating new jobs and increasing the actual available household income. However, not less important are the indirect effects of the economic growth. It increases the budget resources that are at disposal of the government for social programs, improvement of the quality and availability of the education, and investment in the infrastructure. Simultaneously, the economic strengthening of the country creates possibilities for expansion of the democracy and elimination of the social discrimination due to gender, cultural, traditional, ethnic and religious considerations.

Thus, the National Poverty Reduction Strategy in the Republic of Macedonia must rely on a policy of *long-term sustainable economic growth*. There is a number of empirical evidence that this is possible only in conditions of macroeconomic stability. Therefore, *the priorities* of the Macedonian economic policy are the following:

- stable and well-coordinated macroeconomic policy;
- continuation of the financial system reforms;
- full completion of the privatization and the reforms in the loss making enterprises;
- reforms in the labour market;
- further liberalization;
- continuation of the public administration reforms and strengthening its capacity for performance of the regulatory function in the economy.

The basic macroeconomic goals for the period 2002-2005 are:

- cumulative increase of the GDP of around 17 percent;
- maintenance of macroeconomic stability with inflation of around 3.5 percent;

- increase of export by 6-8 percent per annum;
- complete fiscal consolidation and achievement of a balanced budget;
- maintenance of the external debt at the present level, and further reduction of the internal public debt;
- decrease of the unemployment rate to 22 percent.

3. Unemployment and the labor market

The high unemployment rate is the most serious economic and social problem in the Republic of Macedonia. The official unemployment rate is 30.5 percent, according to the Labor Survey. However, since 1997, when the highest unemployment rate was achieved, there is a trend for decrease of unemployment.

The facts lead to the conclusion that the unemployment rate in the Republic of Macedonia is not mainly problem related to lost jobs, but a problem related to existence of *barriers to entry* in the labor market i.e. its emphasized *inflexibility*. The saying that the Macedonian labor market is a “heaven” for those that have a job and a “hell” for those that do not is not far from the truth. Hence the logical recommendation emphasized by all qualified experts that understand the Macedonian labor market situation that one of the first steps in reducing the unemployment rate in Macedonia should be facilitating the possibility for the employers to have easier approach with respect to laying off the excessive number of employees. Currently, there are several legal restrictions regarding employee termination that puts an additional burden on the already serious unemployment situation. This is also one of the main reasons for the significant number of employed in the informal sector.

In the past few years, the main activities of the country in the labor market area were directed towards realization of the Social Sector and Labor Market Structural Reforms Project, implemented with technical and financial support by the World Bank and the Government of the Republic of Macedonia. Within the labor market reforms, activities on normative plan were undertaken, via passing new legal regulations and amendments and modifications to the existing ones in the area of labor legislation, thus creating normative and legal assumptions for greater flexibility and competitiveness on labor market and greater motivation of the employers to engage new employees, as well as for stimulating the unemployed persons to actively seek jobs, via reducing the benefits during unemployment and sharpening the criteria for getting such benefits.

In 2001, preparation of Employment Action Plan was initiated, by including all key partners on the labor market. The Action Plan will be based on the European Union regulations and the experiences of the EU member-states, adjusted to the conditions and the movements on the labor market in our country, taking into account the economic, social and other factors influencing the unemployment. It defines the projects that serve the purpose of increasing employment, the necessary funds and sources of funds for financing the projects, as well as the specific bearers and deadlines regarding the realization. Plan preparation and realization requires wider scope and mobilization as well as inclusion of both internal and external human, material and other potential resources.

The active labor policy will encompass the three types of measures: (1) *support in securing a job* (information, mediation, and consultation); (2) organization of *training programs* (qualification, and re-qualification); (3) creation of conditions and support for *direct job openings*. The situation with the Macedonian economy imposes limited opportunities for an active policy, due to limited job

openings and insufficient budget funds for this purpose. Under such conditions, the active labor policy will be used selectively and will be directed towards certain groups of persons looking for jobs, especially those that are unemployed for longer periods.

4. Characteristics of poverty: what the statistics tells us

This document provides information, analysis and insights that constitute a sufficient foundation for refining the existing measures and developing new policies focusing on the reduction of poverty in Macedonia.

Regarding poverty measuring and monitoring, the following indexes are calculated: Head Count Index, Poverty Gap Index and Poverty Severity Index.

Many-year poverty measuring by applying the *relative* and the *subjective* method, enables identification of the basic poverty profiles, the risk population groups and risk factors for impoverishment.

By poverty measuring and monitoring according to the double method, thereby also using the information on the basic structures of the welfare beneficiaries, three main groups of poor households have been identified:

- *Traditionally poor.* This group is composed by the rural, agricultural households with the highest risk of impoverishment. Its main features are: low education level of the household members, and low economic potential because the main source of living resources is the income from the agricultural activities;
- *Newly impoverished households.* Transition has provoked many socio-economic changes, which have created new social categories and process of social stratification. The households from urban areas have also experienced the social consequences of the transition. The following types of households have experienced decline in living standard: households without any employed members, households with employed members not receiving their salaries on time, as well as numerous households;
- *Chronically poor.* The most vulnerable population group including: elderly, disabled, institutionalized individuals, and agricultural households without any permanent income could be defined as chronically poor individuals/households.

The common features of poor individuals/households are:

- *Low education level.* The biggest part of the poor household members is with incomplete primary education or with completed only primary education. This is mostly present in rural households, which contributes to increasing the risk of impoverishment and on the long run, they are faced with the risk of deepening their poverty;
- *Risk economic status on the labor market.* Most of the unemployed poor people are unemployed for a long time, or if they are employed, their job is usually not secure. Most of them are employed in the informal sector, which does not decrease the risk from further impoverishment. The consequences of the uncertain status on the labor market are more evident in the smaller urban region and rural areas. The main reason for this is that the labor market in these regions is limited and less flexible. At the same time there are less opportunities for re-training the poor as a way for their adaptation to the labor market demand;

- *Poor living conditions.* Poor people, especially the traditionally and the chronically poor, live in very poor housing conditions. This is notable in rural areas and suburbs of the bigger urban regions;
- *Poor health condition.* The low education level, poor living conditions, and above all, the long-lasting poverty affect the health situation of the majority of the poor;
- *Social justice/injustice.* Aside the quantitative, measurable features of poor individuals/households the qualitative features of the poverty are also evident. As a result of the process of impoverishment and the long-lasting poverty most of the poor households have distinctive feeling of social injustice.

Measuring poverty and the efforts undertaken to reduce it is a complex task in any society. In a country in transition facing security crisis, caused by spillover of military actions in the immediate neighbourhood, this is even harder, but also more important.

It is therefore recommended to undertake efforts to enhance the capacity of the relevant state institutions to enable them to provide more accurate, comprehensive analysis of the nature and extent of poverty in Macedonia, to assist policy measures preparation and evaluation of poverty reduction measures. This will enable those responsible for preparing and implementing poverty reduction measures to bring better quality decisions. It will also assist the population to have a better understanding of poverty issues and the effectiveness of the steps undertaken to reduce it.

5. Characteristics of poverty: what the poor tell us

On the basis of information obtained from interviews with 154 poor households, a qualitative study has been completed, whereby representatives of these households or families had a direct conversation in a form of interview with specially trained persons. The previously established mutual confidence between the interviewees and the interviewers resulted in providing frank answers and overcoming the problem of stigma within poor families.

Some of the conclusions from this survey are:

- Symbolic part of the poor persons are employed in companies in the process of privatization, with insecure employment future and small and late payment of their income.
- Most of the unemployed persons are registered in the Employment Bureau, but at the same time they are part of the persons employed on the “black market”.
- The most frequent types of informal activities of the poor persons are: seasonal activities in the agriculture, temporary activities such as manual workers (adult male persons), service activities (younger persons) or production of hand-made products (female persons). Common characteristic of all these activities is the high risk due to the illegal nature of the job and the low earnings. However, these activities are the basic source of additional income for the poor households.
- According to the poor persons, the provision of financial support for starting own businesses can be considered as safe mechanism for providing more secure employment future and higher living standard for the poor households. They expect such support from the government institutions.

6. Assistance to the poor and their access to services: Review of the current situation

Poor people, along with all other citizens, use public services. The manner in which these services are provided can have significant consequences for the poor, both positive and negative. Policies in respect of employment, environment, housing, transport, agriculture, law enforcement etc all impact on the lives of the poor. However, there are three services in particular the provision of which has widespread significance for poor people: these are Social Protection, Health and Education.

Any efforts at reform or improvement will need to take account of the historic and contemporary backdrop and be alert to the potential inclusion and exclusion errors that are inherent risks associated with the attempt to target scarce resources to the most needy.

With regard to the three key services for the poor: *social protection, health protection and education*, there is considerable scope for improving targeting of services to the most needy and increasing the capacity of state organisations to deliver these services more effectively and efficiently. While additional, targeted resources would of course be to the benefit of the most needy, there are also measures that could be taken within the context of current budgetary constraints.

In the field of **social protection**, there is evidence suggesting that part of welfare beneficiaries, registered as unemployed are not available to work and yet others participate in the informal economy while using social benefits.

It is suggested for scientific study to be prepared, aimed at providing more accurate profile of beneficiaries, particularly with regard to their availability to work and unreported earnings.

Measures are already undertaken to improve the quality of overall **health protection** system in Macedonia with respect to some standard parameters, such as the number of professionals in the area of health protection per 1,000 citizens. What the researches undertaken within the preparation of this paper and the performed consultation indicate that there is need for the poor to have better access to health protection services and for their exemption from paying the expenses. This especially refers to medications issued on the basis of prescriptions and co-financing deemed to deprive the poor from the access to the necessary treatment.

It is recommended the issues associated with access of the poor to adequate health services to be reviewed and, where possible, barriers to usage of these services to be eliminated.

Regarding the **education**, it is obvious that educational system provides quality services, despite limited resources, to those children and young people who actually attend school. It is also obvious that poverty is closely related to poor achievements in the area of education. The evidence gathered in the course of preparing this paper indicates that not only do poor adults suffer from lack of adequate education, but majority of their children do not attend school, thus increasing the possibility for them to be poor.

The qualitative study on the lives of the poor designed within the preparation of this paper gives some insight into the reasons why poor persons do not attend school. It is important to conduct further research to identify precisely the nature and extent of the barriers for participation in education existing at poor families. In the light of the outcomes of this study, it is suggested to target resources to reduce these barriers for educational access.

It is also suggested to provide literacy for adults who missed regular school education.

7. Urban poverty and urban development

Spontaneous settlements (a terminology which encompasses here a broad range of informal settlements, tenement housing, substandard housing or slum settlements, is used hereafter) accommodate most of the urban poor in Macedonia (see section 4). Most are living at a very low standards and security, with absence of property rights and housing titles, proper connection to water and sewage networks and solid waste collection, the residents are permanently exposed to health risks and eviction threats. Public safety, drugs, high occupancy rates (person/room), growing informality, and living in ramshackle housing are part of life in the low-income areas. Due to sheer lack of educational facilities and/or teachers, or inadequate teaching curriculum, school dropout and illiteracy rates are also increasing, especially among the school age children of the Roma and Albanian ethnic groups. However, it must be noted that not all slum dwellers are necessarily the poorest, in terms of income, and not all poor live in slums. It has been observed during field visits that slum dwellers are not apathetic or indifferent; they play a vital role in the city economy and are part of the vibrant third sector of the economy (i.e. the informal economy).

The major actions in reducing urban poverty in Macedonia should be directed to:

First, *provision/completion* of the infrastructure and urban services in substandard and informal settlements and *legalization* of the unlicensed buildings that could be made legal, i.e. recognition of these settlements as legitimate subjects of public action. Integrating informal settlements as *special areas*, as part of cities, will open the access to city budgets and attract other resources. These interventions may be incorporated into the multi-year city planning, urban master plans and sector interventions, with a clear recommendation that the priority will be awarded to those who have been neglected. It may successfully be implemented within the preparatory activities of urban plans, which are currently being finalized in most of the major cities in Macedonia--including Skopje as the largest city and with the most heavily pronounced differentiation in standards of living.

Second, the fundamentals of the planning strategy must undergo some essential changes in the sense of placing emphasis on those parts of cities where public services are not reaching the poor. While urban planning is, in theory, an “ideal field” for ironing out the differences, in practice it is rarely used to bring about the social and economic equity. Residents of the urban periphery are amongst those that may benefit from the new local action-planning approach and the positive effects it will engender. The results of the improvements will also alleviate the perception of isolation of the poor from the mainstream society.

It is worth noting the fact that in the fight against poverty in spontaneous settlements there is an incipient commerce and service sector. The economic opportunities for the poor to engage in micro and small enterprises (mostly based on self employment) are real. An array of income generating activities, such as incubators of micro-business, and opportunities for on-job training is in highly demanded in these communities.

8. Rural poverty and rural development

Residents of many rural settlements, and especially mountain and remote villages, experience poverty in the form of poor public infrastructure and services. They lack transportation connections to modern roads and bus lines, stores that offer basic supplies, clean drinking water, schools, ambulances, telephone networks, etc. The population in rural areas has lower levels of education

than in urban centers. Many poor rural families depend on incomes from their own farms and/or short-term labor on other private farms.

The analysis of rural poverty in this chapter suggests policies and programs for rural poverty alleviation in *six* general areas:

- Strengthening rural infrastructure, social, and community development;
- Accelerating growth of production and employment in private farms;
- Promoting non-agricultural economic activities in rural areas;
- Income transfer and targeted social protection programs;
- Targeted economic programs; and
- Planning and evaluating rural development.

However, in the short-term, there is a pressing need for an adequate answer to the devastating consequences for the Macedonian agriculture of the security crisis in the Republic of Macedonia that occurred in 2001. This crisis mostly affected the agricultural households in the crisis regions and significantly contributed in increase in poverty related to it.

9. Conclusion

National Strategy on Poverty Reduction in the Republic of Macedonia serves the purpose of providing an analysis of the poverty issues in Macedonia and facilitating the construction of a strategic framework for addressing them.

The processes and studies that have been undertaken in its preparation represent an important stage in the continuing efforts to significantly reduce poverty in the country. However, the paper should not be seen as the final word on poverty analysis, or the definitive statement on the way ahead. What it represents is a systematic and coordinated effort to understand poverty better and to signal the steps that might be taken to reduce it.

All the proposals made in this document will be subject to further discussion and debate. Many of the measures will need to be piloted and tested before they can be confirmed as making a substantial and sustained contribution to poverty reduction.

In order to ensure that the issues associated with poverty and its reduction are given due priority and are formally institutionalized within an overarching strategic approach, it is recommended to consider the possibility for establishment of the institutions Poverty Reduction Commissioner and Poverty Reduction Partnership. Both institutions, by different means, will assist in the formulation, implementation and evaluation of poverty reduction policies, and will review other policy areas in the context of their impact on the lives of the poor.

CHAPTER I. INTRODUCTION AND DESCRIPTION OF THE PROCESS FOR PREPARATION OF THE NATIONAL POVERTY REDUCTION STRATEGY

1. Systemic measures and activities for poverty reduction in the Republic of Macedonia

The Macedonian Government conducted an active poverty reduction policy in the past, regardless of the lack of a comprehensive poverty reduction strategy. The state Budget allocates funds for investment in human resources as key element in realization of the Poverty Reduction Strategy. In this context, policy for stimulating dynamic development of small and medium enterprises is being implemented; priority has been given to infrastructure and environmental protection projects, with an aim to provide jobs for the poor people. In addition, significant resources are being allocated for investments in the health care sector, education, social protection, child protection, infrastructure development in rural areas, etc.

The policy for *stimulating the development of economically underdeveloped regions* in the country, which basically refers to the development of the rural, hilly and mountainous, as well as border regions, has contributed to the creation of infrastructure and other conditions, which not only keep the population to stay in these areas, but also introduce reverse processes, i.e. has contributed to the creation of existential conditions for part of the population, which on various bases stayed in the cities without job. This also resolves the problem present today for part of the population in the bigger cities to live in sub-standard conditions. This may contribute to a partial solution of the housing and other problems faced by the urban population.

With respect to this, the Government participates, by specially allocated funds for this purpose, in construction of local roads, local water supply systems, small and micro accumulations, elementary school facilities, primary health care, and stimulates the economic activities through interest rate subsidies on the basis of received loans, wage subsidies for employed workers, participation in financing of re-qualification programs, own investment, as well as customs and tax policy measures (customs and tax relief and exemption).

2. The new approach in fighting poverty

In December 2000, after almost one year of negotiations, the Republic of Macedonia signed arrangements with the World Bank and the IMF. The arrangement with IMF was combination of two types of loans, extended by this institution – 70 percent EFF (Extended Fund Facility), and 30 percent related to the new arrangement – Poverty Reduction and Growth Facility (PRGF). Starting September 1999, the IMF and the World Bank extended the goals of their concessional lending by explicitly focusing the criteria on poverty reduction in the context of development-oriented strategy.

The new approach is based upon preparation of an own poverty reduction strategy. The governments of the countries using PRGF arrangements with the IMF and credits from the World Bank under IDA conditions are obliged to prepare this document. Even at the time of signing the arrangements, the Republic of Macedonia was in a specific position. It “graduated” in June 2001, i.e. it lost the possibility to use credit funds under IDA conditions. However, this did not prevent the

possibility to utilize the IMF credit under PRGF conditions² in the 3-year period of the arrangement. As it is known, due to the military crisis that started at the beginning of 2001, which had devastating consequences on the Macedonian economy, the Macedonian Government and its Central Bank were not able to fulfill the agreed targets in the arrangement with the IMF, so it was officially terminated in November 2001.

In the fall of 2001, and after the termination of the hostilities, the Macedonian authorities and the IMF representatives agreed on a Staff Monitored Program for the country, starting January 1, 2002, aimed at encouraging the economic policy authorities in the Republic of Macedonia to further lead sound macroeconomic policies, thus temporarily relaxing the obligations for continuation of the microeconomic, structural reforms. During the summer 2001, the World Bank prepared and promoted its Transitional Support Strategy, instead of the already existing Country Assistance Strategy (CAS).

The Ministry of Finance has been designated as bearer of the activities for the preparation of the Strategy for poverty reduction in the Republic of Macedonia by the Macedonian Government. Committee for preparation of the poverty reduction strategy was established, and it was headed by the Minister of Finance, Mr. Nikola Gruevski. Member of the Committee was the Working Team, led by Ph.D. Trajko Slaveski, professor at the Faculty of Economics – Skopje and former Minister of Development, as well as other representatives from the Ministry of Finance. The Working Team consisted of distinguished university professors from several institutions in the country; researchers from several institutes in the field of social policy, jurisprudence and economic science, the State Statistics Bureau, as well as senior officials from the key ministries in the Macedonian Government for the preparation of the strategy: the Ministry of Finance, the Ministry of Labor and Social Policy, the Ministry of Education, the Ministry of Health, and the Ministry of Agriculture, Forestry and Water Economy. The Committee was in charge of coordination of activities among the ministries, while the Working Team organized the research and other field activities. For each of the defined research areas, separate working subgroup was established in the following areas:

- Poverty profiles and indicators;
- Urban poverty;
- Rural poverty;
- Labor market and unemployment;
- Macroeconomic framework;
- Access to services and decentralization; and
- Organization of the participation and consultation processes.

The total number of engaged persons in the Working Team and working subgroups amounted to around 60.

Prior to the preparation of the full strategy, for the purpose of presentation to the IMF and World Bank Boards of Directors when considering the country's request for a loan, preparation of an Interim PRSP was requested. The Macedonian Government, in addition to the others, has also accomplished this requirement on time. By mid July 2000, with exceptional efforts of the then Ministry of Development, bearer of the activities for preparation of the Interim Poverty Reduction Strategy, document was proposed, which, with certain modifications by the World Bank experts,

² 0.5 percent annual interest rate through semi-annual instalments, with 5.5-year grace period and 10-year repayment period, calculated from the day the credit was approved.

who directly worked in our Working Team, met all necessary standards to be accepted as solid basis for preparation of the full Strategy. By approving the arrangements in December 2000, the clock for preparation of the full PRSP started to run.

Usually, the deadline for preparation of the Strategy is between one and two years. At the beginning, the ambitions of both sides, the Macedonian, represented by the Ministry of Finance, on one hand, and the international financial institutions (the World Bank and the IMF), on the other, were to complete the preparation process within a year, which was thought to be realistic under normal circumstances and with exceptional efforts on the part of the teams for preparation of this important document. However, the military conflict that erupted in the country in the first half of 2001 imposed an objective extension of the deadlines. Simply, in conditions when the attention of the whole public was turned to security-related issues, which dominated the public communication, the realization of the strategy realization process was impossible, particularly in the part regarding *participation* of as many interested parties as possible, including the poor, and *consultations* with the most important interested entities i.e. institutions. The efforts of the working groups are aimed at in-depth research in the areas agreed with the World Bank team.

The starting point of the Interim-PRSP in the Republic of Macedonia was the awareness that poverty represents one of the most important factors that deteriorate the quality of life of the people and hamper them to fully exercise their human rights. It was underlined that the bases of the Strategy should rest on *acceleration of economic growth*, through the on-going reforms. In addition, creation of new jobs, as well as development of an efficient social protection network, were considered to be important elements. As a medium term policy goal until 2003, the Government of the Republic of Macedonia has committed itself to *reducing the poverty by 3 percentage points*, measured as share of the persons considered as poor in the total number of the population. However, the security crisis in the Republic of Macedonia in 2001 has increased to a great extent the challenges related to the preparation of the PRSP.

Now the relevant, medium term period for action is 2002-2005. As it could be seen from the basic text of this document, what should be first done is to secure, hopefully, by the end of 2002, to stop the increase of poverty, especially following the disruptions caused in the economic and social areas during 2001, and than for the 3-year period of poverty reduction to start. Having in mind the current status the Republic of Macedonia has in the relations with the IMF and the World Bank, the country is not obliged to present the Poverty Reduction Strategy to their Boards. However, the World Bank and the donors have strongly encouraged and supported the successful completion of the document, regardless of its status and title (now: National Poverty Reduction Strategy). The World Bank, through its representatives having discussions with the Minister of Finance in the Government of the Republic of Macedonia, has even indicated that it expected the NPRS to present basis for its next 3-year Country Assistance Strategy. This position is also strongly shared by the Macedonian government.

The Poverty Reduction Strategy has been prepared in a process of active participation of the civil society, NGOs, donors and international institutions. This approach is necessary for securing broad-base support by the major players in the process of strategy preparation and realization, as well as strengthening the sense of personal efforts in its conceptualising by providing broad opportunity to present ideas to realize the goals – faster growth and poverty reduction.

In addition to a number of seminars and workshops, thematically organized by specific issues, attended by relevant interested entities the Consultative Workshop, held in April 2002, should be pointed out. Over 120 persons took part (representatives from NGOs, local government, providers of services: education, health care, labor and social policy, as well as representatives of the religious communities in the Republic of Macedonia. The poor, according to verified methodology and in professionally organized manner, were given a chance to express their view on their own poverty

(causes, coping strategies, possible solutions) within the discussions in the “focus groups” (16 focus groups, 8 of each, urban and rural areas) and the interviews with 154 poor households for the need of the preparation of the Qualitative Survey of Poverty. The methodology for this research and the results obtained are presented in appropriate places of this Strategy.

In several phases of the process, the Forum Centre for Research and Documentation played an important role, particularly in the part of preparation of the process of participation and organization of the research through focus groups. Forum in non-governmental and non-party organization that adequately fitted in the intentions and the philosophy of the approach in the preparation of the Strategy. In the first phase of the activities, which ended in September 2001, the Forum-centre served as hub for exchange of information between the working teams and for presenting the progress of the activities to certain institutions and individuals through a publication in an electronic form distributed to a number of interested parties home and abroad.

The public has been regularly informed about the course, the progress and the problems the bearers of the Strategy faced during its preparation. As it was already mentioned, the initiatives quite often came from the media, but sometimes were initiated by the Working Team, in the cases when some activity was organized (seminars, workshops, etc.). One can be glad to conclude that the poverty issue has become frequently present in the media, and gradually a relatively correct and balanced approach was achieved in its presentation by the most of the media in the Republic of Macedonia. Certainly, part of the credit for this goes to the openness and courage of the Working Team to speak openly to the media about the related issues. From an almost taboo topic, poverty has become an issue for which qualified public debate has already commenced, which was of essential importance for examining some of the observation from the analysis. This culminated in the public promotion of the Facts on Poverty in the Republic of Macedonia by the bearer, the Ministry of Finance through the media, and the preparation of brochure (in Macedonian, Albanian and Roma languages), by which, free from prejudices, poverty in Macedonia was looked straight in the eyes. The open invitation to the citizens to submit their proposals to the team for strategy preparation yielded results. Numerous correspondences sent by mail, fax, and e-mail were carefully studied and contributed the conceptualizing of some of the proposals.

We hope that openness and the careful approach will remain in the future.

CHAPTER II. MACROECONOMIC REVIEW

1. Economic growth and poverty

Poverty is a multidimensional problem, which, in addition to the economic issues, also includes social, political and cultural ones. Therefore, poverty reduction cannot rely exclusively on the economic policy, but also on complex, well-coordinated measures in several areas. Still, *the economic growth* is a significant factor that affects poverty. The long-term economic growth reduces poverty directly by creating new jobs and increasing the actual available household income. However, not less important are the indirect effects of the economic growth. It increases the budget resources that are at disposal of the government for social programs, improvement of the quality and availability of the education, and investment in the infrastructure. Simultaneously, the economic strengthening of the country creates possibilities for expansion of the democracy and elimination of the social discrimination due to sexual, cultural, traditional, ethnic and religious considerations.

Thus, the National Poverty Reduction Strategy in the Republic of Macedonia must rely on a policy of *long-term sustainable economic growth*. There is a number of empirical evidence that this is possible only in conditions of macroeconomic stability. Therefore, *the priorities* of the Macedonian economic policy are the following:

- stable and well-coordinated macroeconomic policy;
- continuation of the financial system reforms;
- full completion of the privatization and the reforms in the loss making enterprises;
- reforms in the labour market;
- further liberalization;

continuation of the public administration reforms and strengthening its capacity for performance of the regulatory function in the economy.

The stable macroeconomic environment will enable an increase in the investments of the private sector that are an engine of the long-term sustainable growth. The Government, on its hand, with well-designed and efficient public investment program, will improve the educational, health, energy, transport, and communal infrastructure in the whole country, thus improving the conditions for the private investors.

2. Economic growth in the past several years

The process of transition in the Republic of Macedonia has provoked significant changes in the overall life in the country. The independence, following the dissolution of former Yugoslavia, the introduced free-market economy, the war conflicts in the region, and the disturbed security situation in the country, have caused a lot of ups and downs in the Macedonian economy. Due to all this economic changes, serious social consequences for the population emerged. In a condition of dynamic economic changes in the country, the number of vulnerable groups of the population has increased.

The dynamics of the changes and their influence on the overall life of the population in the Republic of Macedonia is best illustrated by the basic economic indicators (Table 2.1):

Table 2.1 Basic Economic Indicators (1990-2000)

Year	GDP per capita US\$	Inflation Rate (CPI)	Unemployment Rate ¹⁾	Poverty Rate ²⁾
1990	2,235	596.6	-	-
1991	2,083	110.8	-	-
1992	1,937	1511.3	-	-
1993	1,785	362.0	-	-
1994	1,742	128.3	-	9.0
1995	1,705	15.7	-	16.2
1996	1,709	2.3	31.9	18.3
1997	1,722	2.7	36.0	19.0
1998	1,781	-0.1	34.5	20.7
1999	1,848	-0.7	32.4	23.3
2000	1,924	5.8	32.2	22.6

1. Unemployment Rate according to the ILO is measured from 1996.

2. For the period 1994-1996 the poverty rate, according to experimental calculations, was determined as 60 percent of medium equivalent expenditure of the households. For the period 1997-2000 the poverty rate was determined as 70 percent of medium equivalent expenditure of the households.

The Gross Domestic Product (GDP) is a basic indicator for the achieved level of economic development of a country. In 2000, GDP per capita was US\$ 1,924. Compared to 1990, as the year when the transitional processes began in the country, GDP decreased by 14 percent. The main reasons for such situation are: restructuring of the enterprises, decline in industrial production, lack of significant foreign investments, the war activities in the region, etc.

At the beginning of the transitional process, in terms of negative economic dynamics, the inflation rate was very high (596.6 percent in 1990) with a tendency of hyperinflation, which actually happened in 1992 (1,511.3 percent). A host of negative social consequences followed the hyperinflation and therefore an Anti-inflation program (April 1992) and Stabilization Program (1 January 1994) were developed as well as appropriate measures of the monetary policy by which monetary aggregates gained strong restrictive character; the salaries were limited, and the exchange rate was pegged. The goal of those interventions was to fight the inflation. Stabilization was achieved, but still, due to the long period of strong inflation the salaries of the employees faced real decline of about 40 percent.

Those changes were specific for the first few years of the transition. In 1995, there was a stabilization of the inflation, as well as modest rise in GDP. But, due to the privatization process, dynamic changes within the labor market were provoked, causing: decline in employment, increase in unemployment, rise in the number of the employed persons who receive their salaries with delays up to few months. Consequently, the living standard declined and impoverishment of a significant part of the population was evident.

The growth of the Macedonian economy is determined by the *long-term* component (the structural reforms) and the *short-term* component (the current economic policy and the external shocks). The lack of structural reforms and the poorly performed privatization dominated by insiders in the middle of the 1990's were factors that determined low long-term economic growth rates.

Thus, the growth achieved in the period 1998-2000 was a result of the short-term influences. The GDP growth of 3.4 percent in 1998 was a consequence of the reactivation of the hot rolling mill by the end of 1997 and the expansion of the textile industry. In the second half of 1999 and the first half of 2000, the Macedonian industry was under the influence of the increase in the external demand from Kosovo and the export of steel sheet, while the service sector enjoyed the benefits of the high demand by the non-residents. This was accompanied by the prudent macroeconomic policy, so that during these two years the highest growth rates (4.3 and 4.6 percent) of the Macedonian economy in the last 15 years were achieved. The high inflow of foreign exchange in the economy in 2000 was accompanied by a budget surplus of 2.5 percent of GDP, so that the foreign exchange reserves were increased by US\$ 236 million without any distortions in the monetary policy. The initial intention of the economic policy for the budget surplus to be used for poverty reduction measures in 2001 failed at the very beginning of the year when the country became a victim of the terrorism transferred from Kosovo. The jeopardized security of the country implied new priorities. Instead for poverty reduction, the budget surplus of the previous year was directed to the defense. The security crisis stopped the economic growth, while the Macedonian economy entered into a serious recession. The economic decline of 4.1 percent intensified poverty.

3. Economic growth in the period 2002-2005

Since the beginning of 2000, the economic policy was focused on creating conditions for long-term high economic growth rates by intensifying the structural reforms in all areas of the economy.

- Entrance of foreign banks in the Macedonian banking system was initiated, the new Banking Law was enacted, as well as range of laws in order to protect the creditor and to collect the collateral efficiently, whereas the banks supervision was strengthened significantly;
- With the VAT introduction, replacing the previous sales tax, the process of approximation of the Macedonian tax system to the EU was commenced. At the beginning of 2001, tax burden was alleviated for the first time after a long period, by reducing the personal income tax rates;
- The payment system transformation project was implemented in the Republic of Macedonia;
- Public administration reform commenced;
- Secondary privatization was promoted intensively, which results in defining dominant owners in many unsuccessful companies, privatized by insiders;
- The loss-making companies problem has been solved by their takeover by dominant owners or by liquidation;
- The entrance of foreign direct investments and the know-how transfer they bring is stimulated;
- The number of countries with which the country has concluded free trade agreements is extended (all former SFRY countries, Bulgaria, Turkey, Albania, Ukraine);
- Stabilization and Association Agreement with the EU was concluded, thus providing high degree of trade liberalization with EU;
- The negotiations for access to the World Trade Organization were completed and it is expected for Macedonia to become formally WTO member by the end of the year;

The implementation of these structural measures improved significantly the general economic environment, thus increasing the long-term sustainable growth rates of the Macedonian economy. Simultaneously, the normalization of the security situation will mean an end of the negative shock on the economy. Although in 2002, there are still high security-related budget expenditures, it is expected for them to return to normal. At the beginning of 2003, the financial transactions tax will be eliminated¹, which was introduced in July 2001 during the security crisis.

All this was taken into account during the preparation of the medium-term macroeconomic and fiscal projections of the Ministry of Finance. In general, in the period after 2005, it is expected to re-establish the fiscal balance deteriorated during the security crisis, to maintain low inflation and stable denar exchange rate, more relaxed monetary policy and drop of the interest rates higher investment activity and high economic growth rates.

In 2002, it is expected for the Macedonian economy to return to the normal track of growth. Following the decline of 4.1 percent in 2001, the economic movements will normalize and GDP will be increased by 3 percent.

The growth will be generated mainly by the recovery of the domestic absorption, assisted by the partial return of the non-residents together with the international assistance programs. Except for the civil engineering and agriculture, where a more significant growth is expected, in all the other activities basically the pre-crisis positions will be restored. In the second half of the year it is expected to have a positive economic growth, which will come as a result of the increased export demand, the intensive recovery of the country and implementation of the numerous assistance programs from the international community.

The intensive economic growth that is expected to commence in the second half of 2002 will continue in the next year as well. At the beginning, the effects of the donor projects will dominate, but soon, the main factor of growth will be the domestic investments. Starting from 2003, the first long-term effects of the structural reforms implemented in the period 2000-2001 are expected. The effects will be felt more intensively in 2004 and 2005. The intensive measures² undertaken by the Government will lead to creation of a favorable environment for reduction of the interest rates and increase of the investments.

Loss-making enterprise reforms and the new payment operations system will create greater financial discipline and easier access to cheaper financing of the small sound companies. For the first time since the commencement of the transition, in 2003, the economic growth will be led by the high investment growth. It is anticipated in the period 2003-2005 GDP to increase by 5 percent annually on real terms.

Stimulated by the improved economic environment, investments should increase 10 percent in real terms on annual basis. Upsurge in the investments in this period will mainly be due to the domestic restructured companies, although FDI should also be expected in the infrastructure and in some labor intensive activities in the south part of the country by Greek investors who will tend to use the advantages created with the Stabilization and Association Agreement with the EU. Reforms in the financial system and the banks' restructuring led to increase in the credit potential, increased competitiveness and greater supply of the banking services, which are already leading to reduction

¹ The financial transactions tax was introduced on July 1, 2001, in order to alleviate the burden imposed on the budget due to the security crisis. Initially it was envisaged for it to be effective until the end of 2001, but the slow normalization of the security situation and the economic activity caused its extension in 2002. However, the Government is strongly committed this tax to stop being effective at the end of 2002.

² Payment operations reforms, bank restructuring, strengthening of the supervision of NBRM, the increased deposit potential, reforms of the loss making enterprises, opening of a foreign bank for micro-crediting

of the interest rates. Simultaneously, the Government will undertake additional measures for easier access to credits by the small entrepreneurs and their education in the areas of management and marketing. With such growth dynamics, the investments in fixed assets will increase their participation in GDP from the present 17 percent to 22 percent in 2005.

Following the initial investment impulse, export will be the next significant factor of GDP growth. It will increase, in real terms, from 6 percent to 8 percent annually, whereby the composition of the export products will be extended, which today is dominated only by several products. In the period 2002-2005, Macedonian economy will initiate increase in the external demand through greater access on the markets of the countries-candidates for accession in the EU, Ukraine and Russia, as well as stronger marketing appearance on the EU market with agricultural products. Concluded Free Trade Agreements with number of countries in the region, the Agreement with the EU, as well as the expected accession in the big family of the World Trade Organization will finally provide for winning new markets and additional export stimulus.

Regarding the private sector, it is expected for the salaries to increase with a dynamics that will correspond to the increase in the labor productivity. It will allow for the employees to be adequately awarded for their effort, and the employers not to increase their production costs, i.e. to manage to retain the competitive capability. It is indispensable for retaining the existing markets and winning new ones for the Macedonian goods, having one and only goal – export increase!

The projected economic growth by 5 percent on annual basis as well as the expected productivity growth in conditions of low and stable inflation will lead to increase in the real wages and salaries and the pensions by around 1 percent to 2 percent per annum. Simultaneously, it is expected for the downward trend of the unemployment rate³ to continue more intensively from the present 30.5 percent to around 24 percent in 2005. Present levels of the living standard and the income distribution will cause higher marginal propensity to consume, thus the improvement of the general economic situation, accompanied by the creation of new jobs, will generate real personal consumption growth by around 3 percent on annual basis. The effects of the personal consumption growth will have direct influence over the poverty reduction. Although smaller portion of the income increase will be saved, it should be expected that the confidence regaining in the banking system in the country will cause continuous increase in the official saving of the citizens in the next several years.

Price stability is the main component of the macroeconomic stability. High inflation has negative impact on the poorest layers of the population and deepens the poverty, since it reduces the economic growth and depreciates the real value of their property. Orientation towards low and stable inflation has been a policy orientation of all Macedonian Governments from 1995 till now. Having low inflation policy, even in conditions of war, the economic policy protected mainly the poor layers of the population from adverse inflation consequences. Therefore, in the period to come, the Republic of Macedonia should retain the attribute of a country in transition with the lowest inflation rate. In the long-term, annual inflation will be maintained at the level from 3 percent to 3.5 percent. Thus, inflation will be maintained close to the level realized in the European Monetary Union (2 to 2.5 percent), being our biggest trade partner, and simultaneously, room will be created for greater flexibility of the monetary policy.

³ Unemployment rate has reached the pick of 36 percent in 1997. Since then onwards, it continuously reduces, reaching 30.5 percent in 2001

4. *Monetary Policy*

Maintenance of price stability means conducting *disciplined* monetary policy, which, at the same time, will also ensure stronger support to the economic development. Realizing these goals also means further promotion of the policy of full independence of the Central Bank, as well as its maximum responsibility. Monetary strategy and exchange rate policy will be predetermined by the political goal of the Republic of Macedonia for accession in the European Union. In the long run, it explicitly means assuming the obligation for accession to the European Monetary Union (EMU), i.e. adopting the EURO as common currency.

The Republic of Macedonia has already realized close to 50 percent of its trade with the EU member countries. Simultaneously, by signing the Stabilization and Association Agreement with the EU, great part of the trade has already been liberalized.

The Republic of Macedonia should have monetary/foreign exchange policy that will provide certain maneuver room in the transition period towards the single European currency. At the same time, that policy has to provide ever-greater convergence towards the EURO as future currency.

Accordingly, the policy of stable Denar exchange rate against the EURO will continue, however, taking into account the need to maintain the competitiveness of the Macedonian industry measured by the real effective Denar exchange rate. For the purpose of maintaining and improving the competitiveness of the Macedonian economy, slight nominal devaluation of the Denar can be allowed towards the EURO of around 2 percent annually. Thus, price stability will not be deteriorated, and, simultaneously, pressure over the monetary policy will be reduced.

5. *Fiscal policy*

The experience of the rapidly growing economies indicates that the disciplined fiscal policy is the most suitable environment for implementation of dynamic economic growth. The decrease of government expenses and its reduction within the realized revenues leads to a double result: 1) increasing the financial strength and investment ability of the enterprises; and 2) not increasing the indebtedness of the country.

Therefore, the long-term commitment will be reducing the government expenses and achieving fully balanced budget (budget expenditures equal to budget revenues).

Until 2003, the stabilization of the budget, which was deteriorated during the security crisis, will continue through realization of insignificant sustainable deficit of around 2 percent of GDP, 1.5 percent out of which will be a result of the investment projects financed with Telekom privatization proceeds. The other part of the deficit of 0.5 percent will be financed with foreign donations and credits. Fully balanced budget will be realized already in 2004, and in 2005 mild budget surplus of about 1 percent of GDP may be realized, which can be used for repayment of public debt and additional measures for poverty reduction. During this period, the Budget will continue to contain a strong social component.

Table 2.2 Central Budget Projection 2002-2005

	2002	2003	2004	2005
Total revenues	57314	53691	56528	60415
Tax revenues	53771	50431	53508	57293
Other revenues	3543	3260	3020	3123
Total expenditures	63017	58178	56687	56768
Current expenditures	49711	49340	51091	50841
Out of which: transfers	19287	17961	19504	19173
Capital expenditures	8792	8838	5596	5927
Deficit/surplus	-5702	-4487	-159	3647
Financing	-5702	-4487	-159	3647

Source: Ministry of Finance

The public finance recovery process envisages completion of the pension and health reforms. In the long term, the new pension system, as well as health system reforms, will provide improvement of the financial situation of the Pension and Disability Insurance Fund and the Health Insurance Fund, as well as reduction of the pressure on the government budget for transfer of funds to the appropriate Funds. This will enable certain reduction of the social insurance contributions, which burden the operational costs and lower the competitiveness of the enterprises. Together with the already reduced personal income tax, the reduction of social insurance contributions will create additional space to the enterprises for more profitable operations and new investments in equipment and employments.

The tax policy reforms will continue in the light of its simplification and approach to the business interests. The policy, which creates equal conditions for all, will continue, it will eliminate the unfair competition and it will support the existing and new entrepreneurs, especially in the industry, agro-sector and small businesses.

But under no circumstances one must give up the combat against tax evasion and gray economy. Failure to pay or the unreal calculation of tax increases the inequality in allocation of income. The greater inequality in the society reduces the effects from the transformation of the economic growth on the poverty reduction. The success in the combat for more successful tax collection means more textbooks and computers in the education, lower price of medicines and health services, more quality roads and electric network, greater welfare for the most vulnerable groups.

6. Risks to macroeconomic stability and economic growth

Certainly, the basic assumption for the projected macroeconomic trends is the complete normalization of the security situation as well as functioning of the state bodies throughout the country. Thus, the biggest threat to deviation of the Macedonian economy from the projected growth rate is deterioration of both the piece and the security of the country. In case of new external shocks, there may be contraction of the economic activity, which would lead to failure of the budget projections. In such case, fiscal consolidation will be prolonged, i.e. tax revenues will be reduced and security and displaced person accommodation-related expenditures will be increased.

Relying on the experience in 2001, one can assume that the execution of the regular social programs will continue although with insignificant delays. However, pressed by the necessity to

reduce the budget expenditures, the Government will, most probably, face dilemma whether to fully stop the additional poverty reduction programs. In such case, the way out could be ESM (electricity generation and distribution company) privatization proceeds. The proceeds would compensate the loss of tax revenues and could serve to finance poverty reduction programs.

7. Foreign trade and the balance of payments

The restructuring of the industry, which is ongoing, and the increased investment activity in the future will support the *export* growth by about 6 to 8 percent. However, the import dependence of the Macedonian industry for raw materials and equipment will incite increase in the import with averagely same pace. Although this would mean increase in the trade deficit, the increased inflow of private transfers, as well as the improvement of balance of services, will influence on gradual reduction of the current account deficit from the last-year (2001) 10% of GDP to about 7% in 2005.

The current account deficit will be financed with long-term indebtedness and FDI. Thereby, due to the last-year security crisis, significant FDI are not expected at the beginning. However, the expectations will stabilize with the stabilization of the economic trends, and the last-year violence will fade in the memory of the potential investor, so that increase in FDI is expected. Actually, during the whole period until 2005, it is expected for FDI to range from US\$ 70 million to US\$ 120 million. The privatization of Electric Power Company (ESM) is not included in these amounts.

It is expected for the ESM managing package to be purchased by foreign investors. The amount of this investment that can reach as much as US\$ 1 billion will be treated in special manner, similar to the Telekom privatization proceeds in 2001. A part from the inflow will be used for public infrastructure investments, another part for poverty reduction programs, and the third part for public debt consolidation and reduction. The foreign exchange reserves will be maintained on the level of about four-month import of goods and services.

8. Public debt

The Republic of Macedonia has public debt of about 60 percent of GDP and it is on the verge of meeting the Maastricht criteria for the public debt size. This indicates that there is no over-indebtedness issue, however one should be careful about public debt management. The external debt amounts to about 40 percent of GDP. Accruing to the standards for defining the indebtedness level, the Republic of Macedonia is placed among the *less indebted countries*.

Table 2.3 Indebtedness level of the Republic of Macedonia in 2001, according to several criteria

External debt as % of GDP	External debt as % of export of goods and services	Servicing of debt as % of export of goods and services	Interest repayment as % of export of goods and services
39.7	99.1	14.4	4.3
moderate indebtedness	lower indebtedness	lower indebtedness	lower indebtedness

The standards for defining the indebtedness level, and on that basis, classification of the country in certain group of countries, are given separately for each indicator as follows:

- *External debt in relation to gross domestic product, high indebtedness over 50 percent, moderate indebtedness between 30-50 percent, lower indebtedness below 30 percent.*

- *External debt in relation to export of goods and services, high indebtedness over 275 percent, moderate indebtedness between 165-275 percent, lower indebtedness below 165 percent.*
- *Servicing of debt in relation to export of goods and services, high indebtedness over 30 percent, moderate indebtedness between 18-30 percent, lower indebtedness below 18 percent.*
- *Interest repayment in relation to export of goods and services, high indebtedness over 20 percent, moderate indebtedness between 12-20 percent, lower indebtedness below 12 percent.*

According to the World Bank recommendations, if three of the four indicators enter in given interval, the country is classified in the appropriate group of countries. However, we emphasize that the careful interpretation is needed, regarding the fact that during shift from one to another group of countries, one should also take into account the trend in the previous period, not only in the current period.

At the beginning of 2002, the Government of the Republic of Macedonia adopted Public Debt Strategy, and by the end of the year it will pass the Law on Public Indebtedness. The Law will set strong mechanisms for preventing the uncontrolled indebtedness of the country. Pursuant to this, the concessionary indebtedness at international financial institutions will be encouraged, and the non-concessionary debt will be solely used for debt consolidation. This policy is not expected to lead to increase in the external debt until 2005.

The domestic debt of the Republic of Macedonia comprises the bonds issued upon frozen foreign exchange saving deposits and the two bonds for rehabilitation of Stopanska Banka. The total domestic debt upon these three bonds is about 20 percent of GDP. During 2002 and 2003, an additional bond for denationalization will be issued. However, regular servicing of debt upon the first three bonds is expected to decrease the domestic public debt from 3 to 5 percent.

9. Sector policies in direction of poverty reduction

Poverty deepening is accompanying phenomena of the structural reforms of the Macedonian economy. The economic growth *per se* will not lead to a more significant poverty reduction. The high economic growth realized in the period 1998-2000 is proof of that, when, instead of a decline, there was growth of the relative poverty by 1.9 percentage points. This should not be surprising at all. In the process of transition of the economic system there were significant changes on the labor market and increase of the inequality in the distribution of the national wealth. Certain age groups and skills have been big losers, while others fared on the market quite well. Hence the poverty reduction in short term can be achieved solely with targeting the most vulnerable groups of the population.

9.1. Industry

The transition and the reforms in the enterprises resulted in increase of the unemployment in the big industrial centers. It created favorable foundation for progressive increase of poverty in the urban centers. Thereby, the most affected are the workers in the middle ages who have lost their job. Therefore, *the industrial policy* in the following period will contain special programs directed towards the most vulnerable groups of unemployed skilled industrial workers. The development of the *small and medium-size enterprises* has mitigated the negative implications of the restructuring of the large enterprises. They are simultaneously a key element in accelerating the growth of the Macedonian economy. In addition to this, the government will encourage the establishment of *small family business-type craft shops*. That will be supported by the Micro-crediting Bank, agreed to be established in the second half of this year by the EBRD, in cooperation with the International Finance Institution (IFC) and the KfW, which will be specialized for financing micro businesses. The efforts for attracting FDI in reforming the large loss-makers, but also in construction of new

facilities will certainly continue. For that purpose, the promotion of the advantages offered by *the free economic zones* will be intensified.

9.2 Agriculture

The most recent studies in Macedonia show that the poverty is most frequent among the rural population in the mountainous regions. The individual farmers mostly have small parcels of land and lack sufficient information and knowledge for placement of their production on the markets. They are mostly uninsured and in the old age, when not capable of working, remain without resources for living. Taking this into account, focused actions in the agriculture are needed, which would swiftly lead to reduction of the general rate of poverty. The establishment of the Agriculture Fund and the equalization of the status of the individual farmers with the one of other workers regarding the health and pension insurance is the first step in the improvement of the quality of life of the residents in the rural area. Besides that, organized government action for promotion of the agricultural production of the small farmers is needed. The solution would be creation of associations which would provide adequate information to the farmers regarding the products demanded on the agricultural products markets, the products that have high price and grow in the hilly and mountainous regions, and which simultaneously place their products.

9.3 Construction

Until before the transition, the Macedonian construction operated on the markets of the whole former Yugoslavia, but also on the Middle East markets. With the collapse of the common Yugoslav market and the deterioration of the political and security, as well as the economic situation in the Middle East, the Macedonian construction companies were forced to pass through a restructuring process whereby large number of construction workers lost their jobs.

The reduced construction activity in the country did not leave much room to the laid-off construction workers for their engagement even in the informal sector due to which many of them found themselves on the threshold of poverty.

The enhanced construction activities in the past two years, fostered by the investment projects financed by the Telekom receipts, the international humanitarian organizations, but also by increasingly stronger entrepreneurs in this sector started increasing the labor force demand. In the following period, the government will even more intensify the construction activity via public investments to be financed by the privatization receipts, but via more intensive housing construction Public Enterprise for Housing. In the following four years the public enterprise planned to build around 15,000 flats, out of which two thousand will be intended for the socially disadvantaged persons. One such projects will not only create large number of jobs but will also help the most vulnerable groups to solve the housing problem.

9.4 Services

The services sector is probably the sole *winner* in the previous transition process. It served as an *absorber* of the significant part of the labor force that lost its job in the process of privatization and restructuring of the enterprises. The more intensive development of this sector will depend most on the general economic development and the increase of the purchasing power of the population. The Republic of Macedonia is a country in which great part of the services, usually purchased on the market in the more developed countries, are produced and consumed in the households. In that manner, they do not contribute to the increase of GDP. The basic reason for that is the *low purchasing power*. Taking into account that in the next few years the Macedonian economy is expected to achieve stable high economic growth rates, stronger development of the services sector should be expected. Since it is labor intensive, the positive effects on the job creation will not fail to

arise. This process will be supported with favorable funds for crediting the services sector, whereby again, there will be a significant role for the Micro-crediting Bank.

10. Infrastructure investments – higher quality of life

Public infrastructure investments in some areas in Macedonia could have significant effect on the improvement of the quality of life of the population and thus on the poverty reduction. The long-year infrastructure negligence of many villages in Macedonia has had multiple adverse effects on increasing the poverty, not only in the rural area, but also in the urban destinations of the migrants.

The significance of some civilization gains is invaluable, and those are the following: pure and healthy potable water, sending the children to new, nice and warm schools, medical care for the population in reconstructed and well equipped clinics, enabling the young people to develop their sport skills in modern sport halls, and the access to the larger cities to be by asphalt roads. All these are necessary elements for achieving higher quality of life of every citizen in our country. The Government will invest Budget funds and state capital privatization receipts in infrastructure development. The state capital has been built with the labor and funds of all citizen of Macedonia and precisely because of that, the privatization receipts should be used for improving the general welfare. Besides that, wherever possible, and where there is an interest, investment of foreign capital shall be stimulated, in the form of concessions, direct investments and concessionary credits in the development of the infrastructure of our country.

The first step in this direction has been already made with the comprehensive Investment program, financed with part of the Telekom privatization receipts. Within this program, US\$ 110 million will be invested in three stages in water supply systems, sewerage networks, local roads, small accumulations, construction and reconstruction of clinics and schools. Out of that, US\$ 40 million were realized in 2001, and this year, there is an ongoing realization of around US\$ 50 million. The remaining US\$ 10 million will be realized in 2003. This practice is expected to continue after the privatization of Electric Power Company of the Republic of Macedonia, when a significant part of the privatization receipts will be intended for similar infrastructure projects.

The infrastructure will keep the people in their homes and will bring private job-creating investments. Taking into account that the poverty is most frequent among the rural population in the mountainous regions, the investment in better infrastructure will lead to general poverty rate reduction.

Table 2.4 Main Macroeconomic Data

	2002	2003	2004	2005
GDP in million Denars	251,711	273,547	297,278	323,067
Real GDP growth rates	3.0	5.0	5.0	5.0
CPI	3.5	3.5	3.5	3.5
Central Budget deficit (% of GDP)	-2.3	-1.6	0	1.2
BOP current account deficit (% of GDP)	-9.2	-8.5	-8.0	-7.3
Real investment growth	12.0	10.0	10.0	10.0
Gross national saving (% of GDP)	74	11.1	12.9	14.3

Source: Ministry of Finance of the Republic of Macedonia.

CHAPTER III. UNEMPLOYMENT AND THE LABOR MARKET

1. *Current situation*

The high unemployment rate is the most serious economic and social problem in the Republic of Macedonia. The official unemployment rate is 30.5 percent, according to the Labor Survey. In 1997, the unemployment rate was at its highest 36 percent. However, it should be taken into consideration that there is great number of people in Macedonia employed in the informal sector. According to the Survey, this number is 152,000 persons, which is 27.8 percent of the total number of employed persons.

The structure of unemployed, according to the waiting time, is also atypical. The *long-term unemployment* (over one, two, or more years waiting for a job) dominates. Over 40 percent of unemployed have been seeking jobs for more than 5 years. Three quarters of the total number of unemployed are seeking their first employment.

The young people dominate in the unemployment structure, as well as unskilled workers, and persons with insufficient working experience. Therefore, it can be concluded that the high unemployment rate in Macedonia is not primarily due to *employee lay-offs* in the process of restructuring, although this form is also present. According to the World Bank assessments, only around 20 percent of the total unemployed persons in Macedonia is a result of the lay-offs. This is atypical in relation to other transition economies, where the majority of unemployed are persons with previous working experience, laid off in the process of enterprise restructuring. However, one should not neglect the fact that the Republic of Macedonia even in the pre-transition period, as an integral part of the former SFRY, it had rather high unemployment rates.

These facts lead to the conclusion that the unemployment rate in the Republic of Macedonia is not mainly problem related to lost jobs, but a problem related to existence of *barriers to entry* in the labor market i.e. its emphasized *inflexibility*. The saying that the Macedonian labor market is a “heaven” for those that have a job and a “hell” for those that do not is not far from the truth. Hence the logical recommendation emphasized by all qualified experts that understand the Macedonian labor market situation that one of the first steps in reducing the unemployment rate in Macedonia should be facilitating the possibility for the employers to have easier approach with respect to laying off the excessive number of employees. Currently, there are several legal restrictions regarding employee termination that puts an additional burden on the already serious unemployment situation.

2. *Labor Market Policy*

2.1. **Government measures and activities during the last few years**

In the past few years, the main activities of the country in the labor market area were directed towards realization of the *Social Sector and Labor Market Structural Reforms Project*, implemented with technical and financial support by the World Bank and the Government of the Republic of Macedonia. Within the labor market reforms, *activities on normative plan* were undertaken, via passing new legal regulations and amendments and modifications to the existing ones in the area of labor legislation, thus creating normative and legal assumptions for greater flexibility and competitiveness on labor market and greater motivation of the employers to engage new employees,

as well as for stimulating the unemployed persons to actively seek jobs, via reducing the benefits during unemployment and sharpening the criteria for getting such benefits.

With the development of legal and institutional framework of the labor market, the primary tasks and measures in the employment policy in the Republic of Macedonia were directed towards the active labor market policy. Thus, the 2001 Macroeconomic policy measures, in the field of labor market, were directed towards increasing the employment and reducing the unemployment rate, via implementing, above all, the active measures of employment.

However, the crisis in the region in the last few years and the military activities initiated by armed Albanian groups from Kosovo in Macedonia in 2001, among others, disrupted the fundamental economic flows at large number of economic entities, led to drop of the physical output, decline of the business cooperation with the foreign partners, reduction of the operations or termination of the operations at certain entities, restriction of the foreign investments, as well as laying-off workers or sending them on forced vacation. It had direct impact and influence on the realization of the macroeconomic policy in general and on the labor market policies in particular, as well as on the flow and the dynamics of the realization of the projects in the area of labor. As a result, the population activity rate remained on relatively low level of 55.5 percent, the employment rate – 38.6 percent, and the unemployment rate, although somewhat lower compared to the previous year, continues to be very high and it amounts to 30.5 percent.

These conditions provoked a shift of the current activities of the state related to the implementation of the labor market policy, instead on the active employment policies, to direct towards supporting the persons who lost their job and maintaining the continuity in securing the rights of the unemployed persons, including the unemployment benefits.

In 2001, preparation of Employment Action Plan was initiated, by including all key partners on the labor market. The Action Plan will be based on the European Union regulations and the experiences of the EU member-states, adjusted to the conditions and the movements on the labor market in our country, taking into account the economic, social and other factors influencing the unemployment. It defines the projects that serve the purpose of increasing employment, the necessary funds and sources of funds for financing the projects, as well as the specific bearers and deadlines regarding the realization. Plan preparation and realization requires wider scope and mobilization as well as inclusion of both internal and external human, material and other potential resources.

In addition, there is continuous cooperation between the governmental and non-governmental institutions at all levels in the country and with the international missions, institutions and experts from abroad included in the preparation and the realization of the projects and the programs related to the development and the possibilities for employment (World Bank, IMF, PHARE, CARDS, Stability Pact, Social Council within the Council of Europe, MOT, European Training Foundation, etc.).

In 2002, implementation of the PRIZMA Project - partnership for economic development in Macedonia – has continued, supported and financed by the US Ministry of Labor and the USAID, which has been implemented since 1999. So far, this project has encompassed 18 municipalities, and now it is extended to the other 12 ones, within which projects have been realized regarding the adjustment of the labor force in the enterprises facing restructuring, increasing competitiveness of the enterprises and local economic development, all that to the end of keeping the working posts in the same enterprise or creating new working posts and supporting self-employment. The total planned number of opened and retained jobs in the first 18 municipalities is 3,437, whereas the cost per opened and retained job is US\$ 582, which is significantly lower cost than the average cost for opening a new job or retaining one within other similar projects. The monitoring evaluated this project as the most successful one of this type in the Central and Eastern Europe.

The implementation of the Welfare Project financed by the World Bank and the Government of the Republic of Macedonia, which started in 1999, continued this year as well. It is implemented through the Privatization Agency of the Republic of Macedonia. The project comprises several components as follows:

- Job restructuring;
- New employment;
- Welfare;
- Establishment and functioning of the Policy Evaluation Unit; and
- Project coordination.

This project should facilitate the re-employment of the employees from the bankrupt companies who lost their jobs, employment of the unemployed persons that are without a job for more than a year, as well as of all unemployed persons who are seeking job for the first time. This was realized through different active employment programs (advice for employment, training and re-qualification, public works, advice for small businesses, regional development studies etc). So far, 482 employment programs were supported, that include 31,726 unemployed persons, of which 11,087 were employed on a permanent basis.

Within this Project in the Ministry of Labor and Social Policy, a special Unit for Evaluation of the policies in the competence of the Ministry was established for analysis, evaluation and putting into operation the programs from the area of labor, social protection, child protection and protection of the disabled former soldiers, by preparing models and projection of the movements, planning the needs, as well as promotion and increase of the efficiency of the programs in these areas.

The reforms in the vocational high-school education system also continued, which should overcome the inefficiency of the old system and adjust the knowledge and skills to the needs of the market economy via introduction of new professions and occupations. Within those frameworks, the operations of the Macedonian National Observatory was intensified, the task of which is to monitor the conditions in the education and the labor market in the Republic of Macedonia for the purpose of assisting in the area of education and employment.

During 2001, the implementation of the Law on Employment of Disabled Persons began, which determined the obligation for establishing a special fund in which 15 percent of the total funds realized from the employment contribution will be assigned, for the purpose of employing disabled persons, adjustment of their working posts, procurement of equipment, machines, tools and spare parts, and construction, upgrading and adaptation of the working space depending on the technical-technological process. The manner and the criteria for granting funds from the special fund are prescribed in special Rulebook. In 2001, 97 requests for funds from the special fund were submitted by 89 legal entities. Out of them, 41 requests were solved for employment of 98 disabled persons, for which 20,596,680.00 denars were paid.

Since May 2001, a new Rulebook on training, re-qualification and additional qualification of the unemployed and other persons has been applied, which more closely regulates the legal right of the unemployed persons for employment preparation. The duration of the employment preparation has been determined on the basis of the performed analysis of the specific activities for which the unemployed and other persons are trained, whereby the training and the re-qualification may not last longer than 3 months, and the additional qualification no longer than 1 month in the same occupation, i.e. no longer than 2 months in the same profession. In 2001, through the Employment

Bureau of the Republic of Macedonia, 286 programs were financed for employment preparation, in the realization of which 4,745 persons were included, out of which 3,689 established full-time employment. For realization of these programs, 102,658,008 denars were spent or around EUR 1,670,000.

For the purpose of more precise determination of the number of registered unemployed persons in the Bureau, the records were updated during 2001 by deleting the unemployed persons who fail to register in the Bureau within the legally determined deadlines, or do not accept offered employment, i.e. employment preparation. In this manner, around 28,000 persons were deleted from the unemployment records, thus realizing saving of funds, which instead used for passive measures (pecuniary allowance, pension and disability insurance and health protection) can be put in direction of some of the active policies for employment of unemployed persons.

At the end of 2001, 41,375 unemployed persons – recipients of unemployment benefits – were registered, which is 11.5 percent of the total number of unemployed persons registered at the Employment Bureau of the Republic of Macedonia. Their number increased by 7,373 persons in relation to the previous year.

As long as they receive pecuniary allowance, the unemployed persons are entitled to pension and disability insurance. All unemployed persons who, while registering in the Employment Bureau, are not able to realize the right to health insurance on other basis, realize this right through the Employment Bureau. In this manner, during 2001, around 214,000 health insurance beneficiaries were registered in monthly average, which is around 60 percent of the average number of the total unemployed persons registered in the Employment Bureau.

Several reforms have been implemented in the operation of the Bureau, and the local employment offices, in direction of increasing the efficiency and improving the quality of the services provided to the employers and to the unemployed persons.

There is coordinated cooperation of the Employment Bureau with the other institutions in the state, and especially with the Social Work Center, Pension and Disability Insurance Fund, State Labor Inspectorate and the Health Insurance Fund, thus unburdening the employers from numerous obligations related to registering and un-registering of labor relation, and facilitating the unemployed persons in realizing their rights on one hand, and on the other increasing the possibilities for eradicating the illegal operations, especially at the pecuniary allowance, health insurance and welfare beneficiaries.

At the beginning of 2001, personal income tax rates were reduced to 15 percent and 18 percent and they are among the lowest in Europe. This would undoubtedly contribute to cost reduction and more profitable operation of the enterprises, job creation and more regular registering of the employees by the employers.

In spite of the last-year armed conflict in our country and the created insecure climate, the effects of the measures and activities undertaken in promoting the labor market conditions are evident. In 2001 the trend of increase of the registered unemployment was stopped and a process of its decrease was initiated, which, however moderate it seems, it is significant compared to the total number of unemployed. It should also be noted that during 2001, a total of 90,308 employments were realized, out of which 63,346 full-time and 26,962 part time and seasonal.

2.2 Increase in the labor mobility

In order to achieve higher flexibility in the labor market, several measurements will be undertaken to increase labor mobility. The limiting factor here can be the insufficiently developed real estate market, i.e. residential apartment market, especially apartments for rent under acceptable conditions, which will be appropriate for the income and living standard of the labor. The regional

mobility of labor will also be stimulated through the improvement of the residential apartment market, i.e. real estate market by, among other measures, increasing the demand.

2.3 Decreasing income uncertainty

In Macedonia, due to certain social and cultural characteristics, the mechanisms of informal support play an important role in alleviating the financial problems of the unemployed. This refers particularly to the *role of the family*, the persons unemployed for a longer period of time, especially the young population that has not had the opportunity to work yet.

Unemployment allowance

The number of unemployment allowance beneficiaries is about 41,000 at the moment, which is a serious problem of social and developing character.

It is known, both from theory and practice, that the longer the allowance is paid and the higher its amount, the lower the beneficiary's motivation to look for new employment. However, it is very difficult to assess the length and the amount of allowance because of the extremely unfavorable condition on the labor market in the Republic of Macedonia and the problems associated with employment. Therefore, rigorous control will be carried out as well as sanctions against enterprises that do not register their employees, mostly persons using benefits via the Employment Bureau, in an attempt to avoid paying their liabilities.

The reduction of outlays on the basis of salaries decreases the labor price. All opportunities for realization of this objective will be used.

Allowance for Laid-Off Employees

According to the existing legislation, the allowance paid to laid-off employees is one monthly salary for each two years of employment in the enterprise, with a maximum twelve monthly salaries. It is essential that the allowance provides sufficient protection to employees without destroying the financial condition of enterprises that need to lay off a significant number of employees. For this purpose, the maximum amount of allowance provided to laid-off workers should be six rather than twelve monthly salaries, with an exception of enterprises already in a process of privatization or liquidation within the FESAL 2 arrangement with the World Bank.

3. State Intervention in the Labor Market with Economic Policy Measures

3.1 Income Policy

The income policy, or the legislative regulation of salaries, will be further used to support the other economic policy measures (the nominal anchor – foreign exchange rate, monetary and fiscal policy) in its efforts for stabilization. The Government will actively monitor the improvement in the development of new forms of *corporate management*, and will assess the need for improving the economy *competitiveness*. These factors will crucially influence the need for state intervention with regard to salaries.

As in the previous period, the private sector, as well as privatized enterprises with more than 51 percent private capital, is not covered with the policy of administrative control of salaries. The salaries in state enterprises, public services, and the state administration will be indexed, according to a combined index from the consumer price index and the producer price index.

3.2 Minimum wage issue

In the period of the ongoing microeconomic restructuring, a more intense policy regarding minimum wage is unacceptable. The determination of minimum wage may have negative effects in the process of microeconomic restructuring and insuring more rational allocation of labor resources, directed towards their engagement in more productive objectives. Hence, no legal determination of the minimum wage amount is envisaged, since this would cause more negative than positive effects. Protection of the poorest workers and their families should be performed by the social policy measures.

4. Measures for Increasing Salary Flexibility and Decreasing Labor Costs

Higher flexibility in the salary determination in the Republic of Macedonia is necessary because the economic stabilization policy is based on nominal anchor, in this case the foreign exchange rate. In these circumstances, a flexible salary policy and in general, flexible labor markets will enable changes in relative prices, supporting the process of adjustment of the economy. In order to achieve this goal, the following measures are necessary to be undertaken:

The partial indexing of controlled salaries will be done as a combined index, which, in addition to the changes in retail prices, will also include the movements of producers' prices;

The process of collective negotiation will tend to become decentralized, given that collective negotiation at the enterprise level is a more efficient method of protecting employees' rights;

The food and transportation allowances should become a part of the net salary and should be included in the tax base and the base for payment of social contribution benefits;

Female labor in the Republic of Macedonia is relatively less paid compared to the male labor. This is due to the higher expenditures for female labor related to paid maternity leave, which is currently nine months, and according to recent changes in legislation, this period can be shortened voluntarily, with the right to use 50 percent of the unused portion of the allowance.

5. Measures for Decreasing Costs when Laying off Employees

The costs related to laid-off employees can be decreased by:

- Reducing the maximum amount of allowance for laid-off employees from twelve to six monthly salaries (except the loss-making enterprises included in the Government program for privatization or liquidation); and
- Eliminating all the conditions that enterprises must meet before being able to lay-off a large number of employees (not recruiting new employees, not recruiting for positions that have become vacant in a natural way, eliminating overtime work, etc). The determined deadline for previously stating the intention to lay off employees due to "redundancy" should be shortened from the current 90 to 45 days. With regard to giving notices, only the existing obligation to submit notification one month prior to the lay-off should be further applied.

6. Cooperation Between the State and Local Administration and Involvement of Social Partners

Cooperation between the state and local institutions is realized within the framework of designing employment policy, by applying active measures on the labor market at local level, covering the whole territory of the Republic of Macedonia, and by supporting continuous implementation and promotion of labour adjustment model, via building partnership at a central and local level, training of experts and rationality and efficiency in the process of earmarking and utilizing the funds in employment projects and programs.

Cooperation and *partnership* between the state, social partners and the local administration, and all responsible and interested factors in creating and implementing the employment policy was realized through different forms and models, above all via meetings related to preparation of legal projects in the labor area, joint participation with the social partners in the preparation and application of collective agreements, within the economic and social council, on joint meeting or through gathering opinions thereto, through participation of representatives of the social partners in the Employment Bureau management body, joint organization and participation in training seminars on international, national and local level regarding projects in the labor area, collaboration of representatives in various commissions and bodies established with regard to the preparation and implementation of concrete employment projects and programs.

In practise, the partnership was also realized by mutual participation in preparation and realization of projects; exchange of information relating strategic planning; implementation and long-term institutionalisation of projects; reviewing reports with respect to preparation and realization of projects; participation in meetings and giving recommendations with regard to projects realization and development; information of the public and the interested parties etc.

7. Financing

Major sources of funds for covering the rights and projects in the area of employment and unemployment insurance are the following: a) *employment contribution*, which, according to the rate of 1.6 percent of the employee's gross salary is paid on monthly level by the employer on the account of Employment Bureau of the Republic of Macedonia, and b) *state budget*.

The reduced number of insured persons, irregular payment of salaries and salary contributions, low salaries and the low rate of the employment contribution are the main reasons for the greater share of the budget funds, which amounts to 80 percent.

In addition to the rights to insurance in case of unemployment and training programs, the following is financed with the funds for these two sources: re-qualification and additional qualification and programs for employment of disabled persons.

In addition to these sources, specific projects and programs are financed by international financial and other institutions in the form of credits, donations and various forms of technical assistance. The Macedonian Government also takes part in realization of training and re-qualification programs.

8. Adjustment of Labor Legislation

In 2001, a Law for Amendments and Modifications the Law on Employment and Unemployment Insurance has been enacted.

Within the Payment System Reform Project, Law on Transformation of Payment Operations Bureau was enacted which also led to changes in the manner of collection of salary contributions, which encompass the employment contribution. Hence the need for appropriate modifications in the Law on Employment and Unemployment Insurance, to the effect of harmonization with the new manner of collection of salary contributions, stipulated with this Law. In the part of the Law referring to the penalty provisions, the amount of the fines for the determined offences was increased; part of them refer to the obligation for regular calculation and payment of the salary contributions by the employer and the responsible person at the employer and at the Employment Bureau of the Republic of Macedonia.

Due to the changes that occurred with the payment system reform, amendments and modifications were made to the Law on Labor Relations, in the sense of determining an obligation for the employer, i.e. responsible person at the employer, to keep records for the calculated and paid salary, allowances and salary contributions, and the employee to be issued a certificate for the paid salary, i.e. allowances and salary contributions. At the same time, more strict sanctions are determined, i.e. criminal liability of the responsible person at the employer is envisaged, should he/she fail to calculate and pay the salary contributions. With these amendments, it is expected the regular payment of contributions to be ensured, which was not always a case so far, thus enabling the employees to, without any problems, realize the rights to labour relation, and in the case of termination of employment - rights to unemployment insurance.

In May 2001, new Rulebook on Training, Re-Qualification and Additional Qualification came into force, which refers to the unemployed persons and employees that face termination of employment due to bankruptcy, economic, structural, technological and similar changes and which more closely determines the legal right to employment preparation.

CHAPTER IV. CHARACTERISTICS OF POVERTY: WHAT THE STATISTICS TELLS US

1. *Defining the Poverty*

The simplest method for measuring the population's living standard is by the level of the family budget and its structure. At the beginning of the transition process, 69.4 percent of the total households' incomes came out from the *salaries*. The share of incomes on the basis of *social transfers* was 11.5 percent. In the period of economic and social restructuring, changes in the structure of the households' income arose as well. In 2000, 53.8 percent of the total income of the population came out from their salaries, and 22 percent from different kinds of social transfers. At the same time, changes in the consumption structure of the households are noticeable as well. The largest part (around 40 percent) of the total consumption goes for food, and at the same time, expenses for transportation, postal and telephone expenses, housing, hygiene and health have increased. On the other hand, the expenditures for clothing, shoes, education, science, culture and recreation have declined more and more. What is also noticeable is the increase of the in kind consumption. All these data is illustrative enough for understanding the changes in the population living standard and the process of its impoverishment.

Consequently, in such conditions the need for the policy makers of economic and social policies to create an adequate socio-economic policy that will improve the living standard of the population, as well as social protection to the vulnerable population groups has arisen.

Therefore, in 1996, activities for establishing mechanisms for measuring and monitoring poverty in the Republic of Macedonia started.

The activities for implementing methodology for poverty measurement and monitoring were directed towards: defining the poverty, choice of the data base for monitoring the living standard of the population, and choice of the methods and instrument for determining of poverty profiles.

Measurement of the well-being of the population in Macedonia started in 1996 with the preparation of poverty data for the period 1994-1996. The first poverty calculations are treated as experimental, because through them, a selection of the methods, instruments, and indicators adequate to the specific situations in the Republic of Macedonia was conducted.

The results from the poverty measuring in the period 1997-2000 represent base for poverty analyses in the Republic of Macedonia, as well as for identification of the necessary poverty reduction mechanisms. However, in order to understand the reasons for certain situations in living standard, in some parts of the text, information referring to the period from the beginning of the transition process until 1997 has also been analyzed.

The definition of poverty as a multidimensional phenomenon varies in different countries, but recognizing the need for international comparison of the data when choosing the definition, international recommendations and standards, as well as the characteristics of the Republic of Macedonia are taken into consideration.

In measuring the poverty in Macedonia the definition from the statistical service of the European Union, EUROSTAT, is respected, defining poverty as follows:

“Individuals, families and groups of people are considered poor the resources of which (material, cultural, and social) are on such level which excludes them from the minimum acceptable way of living in the country where they live”.

This definition indicates the need that in the process of poverty measuring and determining the minimal living standard, the specific conditions of each country should be taken into consideration.

1.1 Poverty Lines

In the process of poverty measuring, one should start from the assumption that there are in advance well defined levels of living standard called “poverty lines” which need to be reached if one does not want to categorize an individual/household as poor.

In Macedonia, in the process of poverty measuring, the “double method” is practiced, i.e. combination of the *relative* and the *subjective* method of poverty line assessment.

The *relative* method of poverty is based upon assessment of a relative living standard, defined as indispensable level of existence. This standard is defined as 70 percent of the medial equivalent consumption of the households.

During the period of experimental calculations of the poverty, the absolute and the relative method for poverty were used. The obtained results indicated that there were no significant differences in the level of poverty measured by the various methods. In the Republic of Macedonia, there are no regional differences in the prices of products and the food costs are under the level of the poverty line defined by the relative method, which indicates that the relative method, however, as a broader concept, is more adequate for a country such as Macedonia. The relative method of poverty measurement during the experimental calculations was determined as a basic method for poverty measuring and monitoring in the Republic of Macedonia.

The assessment of the subjective standard of existence is based upon the opinions expressed by the households involved in the household budget survey, through which information for socially acceptable minimal living standard according to the population’s opinion was gained.

The double method of poverty measuring offers possibility for analyzing two possible poverty lines, which enables a more realistic assessment of the living standard of the population.

1.2 Conceptual Bases for Poverty Measuring

When measuring poverty in the Republic of Macedonia, data on *households’ consumption* are used.

Although, conceptually, *incomes* could be used as well, the consumption is basis for measuring because of the following reasons:

- In a longer period of time, the households are facing great variations in their income, especially when they receive their net salaries with delays up to few months;
- Social transfers are not reported by the households;
- Part of the households, especially those where the head of the household works abroad, does not report the income they receive as private transfers. Since these households mostly consist of several members it looks like they have minimal incomes and high expenses;
- Expenditures show greater stability over time;
- In the current social-economical conditions, the incomes are insufficient to cover the current expenses of the households.

Having in mind the demographic differences of the population and the different size of the households, in the process of definition of the concept of poverty, it is necessary to decide on how the living standard of the population will be measured and how its real estimate will be made.

When measuring the living standard of the households in Macedonia, the OECD equivalent scale is used. With coefficients 1.0 for the first adult member, 0.7 for the second, and 0.5 for children, deflation of household consumption is achieved as well as deduction on equivalent adult.

1.3 Measurement Unit

Data from the Household Budget Survey serve as base for measurement of the living standard of the population in Macedonia. Because, the survey provides follow-up of incomes as well as of expenditures on a level of households there is no possibility to make a precise breakdown of the family budgets on the level of individual. Therefore, the household is considered as main measurement unit for poverty measuring and monitoring.

1.4 Indexes of Poverty

Regarding poverty measuring and monitoring, the following indexes are calculated: Head Count Index, Poverty Gap Index and Poverty Severity Index.

The *Head Count Index* is an index, which indicates the percent of population that lives under the poverty line (it could be households or individuals depending on the chosen measurement unit). It is the main poverty indicator and reflects the *presence* of poverty.

The *Poverty Gap Index* can be defined as average proportional income deficiency for the whole population (instead of that for all poor households or individuals). Poverty gap index could be interpreted as minimum amount for income transfer necessary for overcoming the poverty in relation to minimum amount of national income needed to avoid the poverty when the income would be distributed equally.

Poverty Severity Index takes into account the distribution of the poor under the poverty line, having the income intervals of the poor households as a starting point.

1.5 Data Sources for Poverty Measurement

Censuses, socio-economic *surveys* of the households, and *administrative sources* for the social status of the population comprise the system of information on the population and its living standard. However, no source of information provides all the necessary information and therefore, a combination of all of them is used.

The Census enables covering of the whole population and thus it is used for monitoring of economic, social, demographic and territorial changes of the population. However, due to the fact that census is usually carried out once in 10 years, it is not possible to monitor the frequent socio-economic changes. IN order to monitor these changes, which are more dynamic, the survey data are used from the Labor Force Survey and the Household Budget Survey. This kind of surveys allows the follow up of a great number of variables with more frequent dynamics.

This system of information is complemented with the administrative sources for the results of the social policy measures.

Data on beneficiaries of various types of social benefits represents the basic administrative source of information on the social situation of the population. Administrative information enable the monitoring of the number of social beneficiaries, but the main disadvantage is related to the lack of detailed information on economic and demographic characteristics of individuals and households who are social beneficiaries.

However, data from the *Household Budget Survey* are the main source of information for poverty measuring and monitoring. It is the most important and the most comprehensive source of

information on the living standard of the population in Macedonia, which at the same time provides detailed comparison of the situation over a longer period of time.

1.5.1 Household Budget Survey

Household Budget Survey, conducted by the State Statistics Bureau, is a detailed research about the socio-economic and demographic features of the households. The survey gathers detailed data on: income and consumption of households, subjective opinion for the necessary level of monthly income for various households as well as other features of the household living standard. This survey is a main data source for monitoring: the cost of living, the total living standard of the households, measuring and monitoring of poverty and inequality in the Republic of Macedonia. Data are gathered as a sample, but estimations of the conditions are prepared relevant for the whole population. The survey is done yearly, but data collection is on quarterly basis. The survey covers a sample of 1,025 households. The choice of households is done randomly by two-staged stratified sample, which is representative. The households, covered by the sample, are chosen at the beginning of each calendar year and they are included in the sample for one year, which means that they are quarterly interviewed by interviewers.

The main disadvantages of this data source are:

- The sample is insufficient to be representative for all types of households and is on lower territorial level. Data per types of households are classified as data on: non-agricultural, agricultural, and mixed households. A main criterion for such classification is the source of household income. The number of agricultural households in the sample is very small and is insufficient to be representative for that type of households. Data are representative on national level, on level of the capital city-Skopje, and urban/rural areas.
- Data on incomes are underestimated because the comparison of the information from this survey with data of other researches and sources of information on the economic situation of the households indicates that a large part of social transfers are not reported or are undervalued.
- Data are gathered quarterly on the basis of an interview, which increases the possibility of not stating, or partly stating part of incomes or expenditures as part of the three-month household budget (especially some products which are not part of regular consumption) because the households are not obliged to record the changes in the family budget. However, the interviewers, who usually are with many years of experience, remind the households for the possible incomes and expenditures.

The cooperation with households included in this survey is on very high level. It is also confirmed by the high response rate, which in the last several years has been around 90 percent. Since the households are informed about the importance of the survey and therefore, their participation in the survey could be evaluated as one with high quality.

Analyses for possible measures to improve the quality of the survey suggest two mainstreams:

Extending the sample;

Introduction of diaries.

In order to extend the sample, financial support by the Government is necessary, especially with the started process of poverty measuring and monitoring as well as the process of establishing mechanisms for poverty reduction.

From the beginning of 2002, the household budget survey has redesigned contents. Diaries are introduced in which the chosen households record all the necessary information. Thus, even

better quality of data on the living standard of the population in the Republic of Macedonia is expected.

2. Poverty Profiles

The features of poverty in the Republic of Macedonia are analyzed through data on the *scope of poverty* (poverty dimension or head count), *poverty gap* and *poverty severity* by:

Economic status of the household members;

Household composition;

Age and gender of the household head;

Regions (Skopje, urban/rural);

Education of the household head.

The main measurement unit in these analyses is the *household*.

2.1 Poverty Features in Macedonia

Many-year poverty measuring by applying the *relative* and the *subjective* method, enables identification of the basic poverty profiles, the risk population groups and risk factors for impoverishment.

By poverty measuring and monitoring according to the double method, thereby also using the information on the basic structures of the welfare beneficiaries, three main groups of poor households have been identified:

- *Traditionally poor*. This group is composed by the rural, agricultural households with the highest risk of impoverishment. Its main features are: low education level of the household members, and low economic potential because the main source of living resources is the income from the agricultural activities;
- *Newly impoverished households*. Transition has provoked many socio-economic changes, which have created new social categories and process of social stratification. The households from urban areas have also experienced the social consequences of the transition. The following types of households have experienced decline in living standard: households without any employed members, households with employed members not receiving their salaries on time, as well as numerous households;
- *Chronically poor*. The most vulnerable population group including: elderly, disabled, institutionalized individuals, and agricultural households without any permanent income could be defined as chronically poor individuals/households.

The common features of poor individuals/households are:

Low education level. The biggest part of the poor household members is with incomplete primary education or with completed only primary education. This is mostly present in rural households, which contributes to increasing the risk of impoverishment and on the long run, they are faced with the risk of deepening their poverty;

Risk economic status on the labor market. Most of the unemployed poor people are unemployed for a long time, or if they are employed, their job is usually not secure. Most of them are employed in the informal sector, which does not decrease the risk from further impoverishment.

The consequences of the uncertain status on the labor market are more evident in the smaller urban region and rural areas. The main reason for this is that the labor market in these regions is limited and less flexible. At the same time there are less opportunities for re-training the poor as a way for their adaptation to the labor market demand;

Poor living conditions. Poor people, especially the traditionally and the chronically poor, live in very poor housing conditions. This is notable in rural areas and suburbs of the bigger urban regions;

Poor health condition. The low education level, poor living conditions, and above all, the long-lasting poverty affect the health situation of the majority of the poor;

Social justice/injustice. Aside the quantitative, measurable features of poor individuals/households the qualitative features of the poverty are also evident. As a result of the process of impoverishment and the long-lasting poverty most of the poor households have distinctive feeling of social injustice.

2.2 Relative Poverty in the Period 1997-2000

The process of impoverishment in the Republic of Macedonia, which sharpened in the beginning of the nineties, continued in the period 1997-2000 as well. The consequences from the security crisis, which struck the country in 2001, are still quantified from the aspect of poverty, but they surely are with a negative sign.

Table 4.1 Relative Poverty Rates in the Republic of Macedonia (1997-2000)

	1997	1998	1999	2000
Poverty per household	19.0	20.7	23.3	22.6
Poverty per individual	21.7	22.9	23.6	24.6
Poverty per household with constant poverty line	19.7	21.5	18.9	19.2
Poverty per individuals with constant poverty line	24.2	26.1	21.9	24.2

Source: State Statistics Bureau

Table 4.2 Relative Poverty in the Republic of Macedonia (1997-2000)

	Head count	Poverty gap	Poverty severity
1997	19.0	4.5	1.7
1998	20.7	5.1	1.9
1999	23.3	6.0	2.4
2000	22.6	6.0	2.4

Source: State Statistics Bureau

For a period of several years, the number of the poor population has increased by 3.6 percentage points with simultaneous poverty gap and increasing of poverty severity for a larger part of the main poverty profiles. The main reasons for impoverishment of the households include: the economic transition (above all, the negative effects of the economically inefficient and slow privatization) and the recession, which this process, as in the other transitional economies caused;

military conflicts in the region; unstable condition in the country, as well as the process of social stratification of the population.

The dynamics of economic development, as well as the distribution of incomes contributed to increasing the relative poverty of the population in this period, too. The number of households below poverty line has relatively increased, in terms of relatively stable economic growth. As a result of the achieved growth, the absolute value of the poverty line has increased by 12 percent, which is also the average increase of the living standard of the Macedonian citizens.⁴ The increased rate of the poor households in the total number is explained with the increase of the inequality in the distribution of incomes. Although the relatively short period for making far-reaching conclusions, the market has punished the individuals and families who either failed in valorizing their own skills and qualifications.

The upward trend of the impoverished part of the population is verified by the data on the increase of the number of welfare beneficiaries, too.

2.3 Main Poverty Profiles

2.3.1 Regions

One of the risk factors for impoverishment is the place of living. The statistics provides data on the regional distribution of poverty in the Republic of Macedonia for the urban and rural areas, and separately for Skopje.

The smaller urban areas and rural communities due to the fewer employment opportunities, particularly for the elderly persons with low qualifications, are faced with high risk for impoverishment. At the same time, these locations have limited opportunities for vocational education and training, which contributes to the low education level of the young population from the low-income households, thus creating high risk of their categorization as chronically poor.

The poverty measurements in the capital city of Skopje reveal dynamical impoverishment of the population. Although in 2000 a decline in the total percentage of poor households compared to the previous years is noticeable, almost ¼ of the population of the capital city are poor with significant deepening of their poverty. This introduces the need of special treatment of Skopje as location with many specific features with simultaneous strong influences of many factors, which decrease the living and the total standard of its citizens.

The basic reason for the dramatic changes in the living standard of the citizens of Skopje is the social stratification, which is the most intensive in the capital city.

Table 4.3 Relative Poverty in the Republic of Macedonia by Regions (1997-2000)

	Head count index			
	1997	1998	1999	2000
Total	19.0	20.7	23.3	22.6
Skopje	12.5	13.9	24.3	22.0
Urban	20.3	21.6	18.8	17.8
Rural	23.3	25.8	28.1	29.4

Source: State Statistics Bureau

⁴ Table 4.1 shows that the poverty rate stagnates if measured according to the constant line of poverty.

Along with the increase of the number of poor households, what is also noticeable is the significant deepening of the poverty of the poor households living in Skopje (Table 1 in Annex I). The poverty severity indicator of the households in Skopje verifies that the most serious changes in the living standard have happened in the households with residence in the big urban areas (Table 2 in Annex I).

A fundamental factor that has an influence on the risk of impoverishment is the *education level*. Data on the fluctuations of the poverty gathered by analyzing according to the regional distribution of the households as well as the education level of the head of household, confirm the same (See Table 4.4.).

In Skopje, in a few years period, a high level of impoverishment especially for people without education is evident. In 2000, from the total number of people without education, 63.3 percent are poor (See Table 4.5). What is even more concerning is the process of impoverishment of individuals with high education, especially in the other urban areas. This confirms the limitation of employment possibilities in small urban areas.

Table 4.4 Relative Poverty in the Republic of Macedonia by Regions and Education (1997)

Education	Head count index			
	Total	Skopje	Urban	Rural
Total	19.0	12.5	20.3	23.4
Without education	34.9	46.7	20.0	34.2
Uncompleted primary education	26.6	27.3	32.4	24.6
Primary education	28.0	21.3	36.8	23.5
Secondary education	11.2	7.9	13.4	12.7
Higher education	8.2	-	8.8	4.0
University education	1.3	-	2.6	-

Source: State Statistics Bureau

Table 4.5 Relative Poverty in the Republic of Macedonia by Regions and Education (2000)

Education	Head count index			
	Total	Skopje	Urban	Rural
Total	22.6	22.0	17.8	29.4
Without education	52.5	64.3	62.5	41.9
Uncompleted primary education	35.3	39.1	38.3	32.7
Primary education	31.9	39.1	22.3	35.1
Secondary education	12.1	16.4	9.4	9.1
Higher education	62.0	-	5.7	4.3
University education	3.4	2.0	2.9	2.0

Source: State Statistics Bureau

2.3.2 Economic Status of the Household Members

Unemployed persons, comprise the most vulnerable category of population. Also the employed with low qualifications, insecure working arrangements and irregular salaries are in this category.

From the total number of households with only one employed member in 1997, 19.2 percent were poor, increasing up to 20 percent in 2000 (Table 3 in Annex I). The simultaneous deepening of their poverty indicates that their main risk factor is the education level accompanied by the vocation and the age. The dynamics of the impoverishment reveals the conclusion that due to the low qualifications of these employed people, improvement of the living standard of their households cannot be expected (Tables 4 and 5 in Annex I).

From the total number of households with two or more employed members in 1997, 9.8 percent were below poverty line, and in 2000, 6.8 percent. At the same time data show decline in the depth of their poverty. Because the poverty gap index is so low, only a small amount of financial aid to the family budget of these households could pull them out from the category of poor households.

Data from several years of poverty measurements indicate that the most vulnerable group is the group of households with no employed member. In 1997, 26 percent of this type of households were poor, and in 2000 almost $\frac{1}{3}$ of this type of households were poor, with high poverty gap indicator. Also, households with no employed or with only one employed member, experience rise in the poverty severity indicator.

In the total structure of the poor households, the households with no employed members, in 1997 participated with 49.2 percent and in 2000 with 64.7 percent. This data confirm that larger part of population is without employment possibilities and depends on social assistance as an only income source.

2.3.3 Economic Status of the Head of the Household

Indicators of the poverty extent, poverty gap and severity for various types of economic activities, indicate the significant connection between the position on the labor market and their living standard. The lowest extent of the poverty is noticeable in the non-agricultural households. It is obvious that the individuals trying to earn incomes by starting their own businesses (self-employed individuals) face limitations in the effort to improve the living standard of their households. The poverty of this group of people shows an increase.

The extent of the poverty in the category of *unemployed* is the highest, although in the year 2000 a small decrease of the extent of the poverty for this group was observed. The increase of the poverty gap and poverty severity indexes for the unemployed persons in the same period confirms that they, as well as their households, belong to the most vulnerable groups in the society.

2.3.4 Age of the Head of the Household

The age of the head of household is one of the risk factors for poverty. Age and education level of the person are determining factors for the possible economic status on the labor market.

Indicators for poverty presence at different age groups show that the poverty is highest for people around 40 years of age and with low education level or with incomplete high school.

This age group should have separate social treatment because it refers to individuals who can actively participate in the programs for re-qualifications in order to enable themselves a better position on the labor market.

The impoverishment of the households with elderly members is continuing as well, but not with such dynamics.

At the elderly households there is an insignificant decline in the number of poor elderly households, but the more intensive deepening of their poverty confirms that actually, the elderly one-member households are becoming impoverished.

Table 4.6 Poverty by Age of the Head of Household in the Republic of Macedonia (1997-2000)

Age	1997	1998	1999	2000
15-24	n/a	n/a	n/a	n/a
25-34	23.4	23	23.7	23.8
35-44	19.8	23.0	23.7	23.8
45-54	17.4	17.3	18.5	21.2
55-64	16.7	24.1	19.0	22.7
65+	20.8	18.7	31.0	24.7

Source: State Statistics Bureau

2.3.5 Composition of Households

For different types of households, the dynamics of changes in the living standard is different. The biggest impoverishment in the analyzed period is evident in households defined as *other households with children* (Table 4.7.). These are actually households having more members and are comprised of several families living together. This type of households could be considered as very vulnerable with a high risk of further impoverishment, because a lot of factors simultaneously contribute to increasing their impoverishment including place of residence (rural and small urban areas), age, and education level of the members of these households.

But, impoverishment also continues in households with no children. Those are mostly *elderly households* without stable incomes. This means continuation of the process of impoverishment of the chronically poor individuals/households. The elderly households live in both, rural and urban areas, which means that for them the major risk factor is not the place of residence, but the economic potential.

Table 4.7. Poverty Indexes by Type of Household (1997-2000)

	1997		1998		1999		2000	
	Head count index	Poverty gap index	Head count index	Poverty gap index	Head count index	Poverty gap index	Head count index	Poverty gap index
Couples with children	18.2	5.3	24.3	6.7	28.0	9.5	21.9	5.1
Other households with children	23.21	5.82	23.68	6.31	23.91	6.91	28.43	8.21
Households without children	18.10	3.83	18.21	3.90	18.29	4.27	20.24	5.62

Source: State Statistics Bureau

The situation and the living conditions of the youngest population are especially important. The living standard of households with children under the age of 7 is particularly sensitive, because the lower economic potential of these household means bigger possibility for their *social exclusion*, limited access to education, especially to higher forms of education, and limited access to health services. In the analyzed period, a mild decline of the percentage of households below the poverty line is evident (Table 4.8.). However, at the same time, deepening of poverty in poor households with children under the age of 7 is noticeable. This indicates the necessity of more serious analyses of this type of households, especially analyses on the composition of these households, and their

place of residence. Large part of the poor households with children is part of the chronically poor households. In the same period, a rise in the percentage of households without children under the age of seven, which are below the poverty line, is evident. Their impoverishment is accompanied by deepening of their poverty as well.

Table 4.8. Poverty Indexes by Households with and without Children under the age of 7 (1997-2000)

	1997		1998		1999		2000	
	Head count index	Poverty gap index	Head count index	Poverty gap index	Head count index	Poverty gap index	Head count index	Poverty gap index
Households without children under the age of 7	7.39	3.53	18.66	4.19	19.68	5.14	1.76	5.80
Households with children under the age of 7	4.46	7.97	27.16	7.75	25.94	7.83	4.64	6.88

Source: State Statistics Bureau

In the past few years, large households comprised of several families have experienced the most significant decline in the living standard. The fact that more than ¼ of these families have living standard below the defined subsistence level is pretty concerning. This type of households usually live in rural areas and they are experiencing the largest deepening of poverty.

Households consisting of greater number of members belong to the most vulnerable category of population. The biggest impoverishment in the analyzed period is evident at households with 5 members (Table 4.9.). In the four-year period, this type of households has experienced the biggest impoverishment in comparison to all other profiles of poor households. The biggest part of these households live in rural areas and have limited possibilities of coping with poverty.

Table 4.9. Poverty Indexes by Number of Members in Households (1997-2000)

	1997		1998		1999		2000	
	Head count index	Poverty gap index	Head count index	Poverty gap index	Head count index	Poverty gap index	Head count index	Poverty gap index
1 member	6.33	1.38	11.11	1.78	16.46	5.81	14.47	2.73
2 members	16.97	3.10	17.58	2.66	15.59	3.11	16.57	3.61
3 members	15.79	3.49	12.86	3.06	16.55	4.28	13.46	4.39
4 members	17.96	4.11	20.07	4.81	20.56	4.78	20.86	5.32
5 members	17.36	3.41	29.50	7.20	23.84	7.62	33.58	9.62
6 members	31.11	8.51	29.00	7.38	29.03	8.27	27.47	6.61

Source: State Statistics Bureau

2.3.6 Education of the Head of the Household

Data show that measuring poverty and monitoring its trends are the most sensitive regarding the education level of the population. The poorest households are those with head of the household without education (Table 4.10.). More than 40 percent of this type of households are poor with

intensive poverty deepening. This type of households experience very high risk of social exclusion, especially due to the rural areas of residence with fewer possibilities of changing their economic status. The rate of poor households with the head of the family being with uncompleted primary education is pretty high as well (34.2 percent and with primary education 30.4 percent).

The secondary education (high school) is the average education level of the labor market participants in the Republic of Macedonia. Data indicate risk of further impoverishment of the labor force because the high school obviously doesn't represent an education level, which would provide an adequate living standard for the employed as well as employment possibilities for the unemployed.

Table 4.10. Poverty Indexes according to Education of the Head of Household (1997-2000)

	1997		1998		1999		2000	
	Head count index	Poverty gap index	Head count index	Poverty gap index	Head count index	Poverty gap index	Head count index	Poverty gap index
Without education	34.38	4.55	38.89	8.97	37.68	13.17	42.62	12.95
Uncompleted primary education	26.59	7.31	28.80	7.33	30.34	7.11	34.24	8.92
Primary Education	28.01	7.43	21.75	5.82	30.55	8.99	30.42	9.23
Secondary education	11.17	7.23	16.91	3.82	13.61	3.14	13.97	3.13
Advanced education	8.20	1.96	1.92	0.69	6.15	1.48	9.38	1.73
Higher education	1.43	0.25	5.26	0.78	0.00	0.00	3.70	0.72

Source: State Statistics Bureau

3. Other Indicators of Poverty

Human development indicators are essentially connected to poverty. They actually provide a picture about achievements of human capabilities, as well as the functions in a certain country. According to the new definition from 1994, the known HDI – Human Development Index represents a sum of three indicators:

1. The standard of living (GDP per capita);
2. Life expectancy, which is measurable by the expected life duration at human's birth;
3. Accomplished education – measured via literacy rate of the adults, and gross rate of enrolment in all three levels of education (elementary, secondary and tertiary).

Table 4.11. Basic Indicators for Calculation of Human Development Index in the republic of Macedonia

Indicators	Life Expectancy (1997/1999) in years	Literacy Rate of the Adults (1994 Census) above 15 years of age	Gross rate of enrolment in all three levels of education 1998	Real GDP per capita (PPP US \$1996)
Macedonia	72.5	94.6	63.8	4,163

Source: State Statistics Bureau of the Republic of Macedonia

In the annual UNDP Human Development Report for 1998, according to the HDI (Human Development Index), Macedonia is ranked on 80th place among 174 countries in a group of countries with medium level of human development, and in the report from 2001, according to the calculated HDI from 1999, a progress is noticeable, i.e. Macedonia is ranked on the 60th place (UNDP, 2001).

3.1 Basic Demographic Indicators

The number of the population in Macedonia, in the past few years is growing with a slow pace. The number of women in 1999 increased by 3.7 percent and number of men by 3.6 percent compared to 1994.

Rise in number of elderly in the total population is noticeable in Macedonia. In the period 1991-1999, the number of people aged 0-19, as well as the number of the population with working ability aged 20-59 is declined. At the same time, the number of elderly, aged 65 and older, increased from 7.3 percent in 1991 to 9.7 percent in 1999 and to 10 percent in 2000 (State Statistics Bureau, 2000 and 2001).

The critical value of participation of population aged 60 and over (which is 13 percent) is achieved at both sexes, even overcomes at women.

Marital status of an individual is a good indicator in evaluating poverty. Singles are in better economic situation. The widowers and widows have a worse standard of living, but the divorced individuals are in even worse condition. In Macedonia there is a process of delaying the marriage, which is noticeable at both sexes. The number of marriages is declining, while the number of divorces is gradually rising. In 1991, the number of divorces per 1,000 marriages was 32.4 and in 2000 that number increased to 92.9. According to the Census from 1994, from the total population aged 15 and above, 18.6 percent of the women and 27.4 percent of the men are single.

At the end of nineties, a larger number of rural population of women is trying to leave their villages. As a result, in many villages, an increase of the number of single men aged 25-45 is noticeable.

According to the same data from 1994, 9.4 percent of the total population are widows and 3.2 percent are widowers.

The number of children in the family is also a very good indicator of the material situation. Families with more children are in worse situation. According to the Census from 1994, 65.9 percent of the total number of families have children. The average number of children in families under the age of 18 in rural areas is 1.4 while in urban 0.97.

3.2 Vital Indicators

Other indicators, important in the process of evaluation of the human development also exist and they demand detailed analysis:

- Infant mortality rate;
- Mortality rate of mothers during delivery;
- Mortality rate of children under the age of five;
- Enrolment rate in elementary education.

According to analysis so far (unfortunately, the indicators are from different time periods), the situation in relation to the above-mentioned indicators is as follows:

The largest number of children are born by mothers aged 20-29 (69 percent in 2000). Compared to 1950, a trend of an increased number of children born by mothers aged 15-19 (from 3.9 percent in 1950 to 8.7 percent in 2000) is evident. The fact that even younger female population – under the age of 15 – are becoming mothers is also concerning. Although at that age, the person is still considered neither physically nor psychologically prepared to give birth, 29 children were born by mothers under the age of 15 in the year 2000. The mortality rate of mothers at delivery in the period 1991-1999 is relatively low and equals 15 per 100.000 live births. Infant mortality rate for children under the age of 1, in 1996 equaled 16.4 deaths per 1000 live births, declining to 11.8 per 1000 live births in 2000 and it still declines.

Table 4.12. Infant Mortality Rate

Year	Female	Male
1950	130.3	142.5
1960	112.9	116.2
1970	90.2	85.8
1980	51.9	56.5
1990	31.0	32.2
1998	16.3	16.3

Source: State Statistics Bureau, *Women and Men in the Republic of Macedonia*, Skopje, 2000

As it can be seen from Table 4.12., the infant mortality rate declines, which is a result of the improvement of health services as well as health culture in the families with children. The fact that there is a decline of the difference between infant mortality rate in rural and urban areas, should be especially emphasized.

Mortality rate of children under the age of 5 equals an additional 3.2 per 1000 live births. However, these data should be taken with reserve, due to the possibility of absence of adequate personal registration, i.e. reporting of birth and death of children.

As the statistics show, mortality rates (infant mortality rate, mortality rate of mothers at delivery, and mortality rate of children under the age of 5) are not so concerning, which can be explained by the fact that the primary health care, including the outreach health services provided in the mothers' homes, is on satisfactory level.

It is estimated that 91-94 percent from the total children population is immunized. Total immunization cannot be achieved because some children, although registered by birth, are not registered within health services. Also some children, especially girls, drop out of school, where the immunization is usually done.

In relation to children aged 1-4, the rise of upper respiratory infections as well as infections of the urinary organs is evident. The rise of anemia, vitamins deficit, rachitic disabilities, and diarrhea as result of decline in the living standard, non-hygienic life conditions, as well as absence of system of sewage and water supply in the rural municipalities is noticeable.

The general mortality rate from 1991 to 1999 increased from 7.2 to 8.3 deaths per 1000 inhabitants.

Table 4.13. Vital Indicators in the Republic of Macedonia per 1000 Inhabitants (1996-2000)

	1996	1997	1998	1999	2000
Live born	15.8	14.8	14.6	13.5	14.5
Total mortality	8.1	8.3	8.4	8.3	8.5
Infant mortality	16.4	15.7	16.3	14.9	11.8
Birth rate	7.7	6.5	6.2	5.2	6.0

Source: Statistical Yearbook of the Republic of Macedonia, 2000; State Statistics Bureau, 2001

The tuberculosis rate in Macedonia was 83.3 in 1997 and 70.3 in 1999 per 100,000 inhabitants. This rate is significantly higher compared to the one in the developed European countries and worldwide.

92-98 percent of those who are supposed to be immunized are immunized.

Analyses indicate that the leading causes for death in Macedonia, as well as in general, are the cardiovascular diseases and the malignant neoplasm.

3.3 Indicators Related to Education

a) Care and education of children under the age of 7 in Macedonia is done within 52 organizations (nurseries, kindergartens, pre-school activities or primary schools) with 187 working units. According to data from 1997, 12 percent of the total number of children aged 9 months to 7 years were enrolled in the activities of those institutions. Most often, the enrolled children are children from families with employed parents, and mostly with Macedonian nationality compared to other ethnic groups. Out of the total number of children, enrolled in educational institutions in 1998, 12.5 percent were children from families with no employed parents, and 1.6 percent were children of disabled parents (permanent welfare beneficiaries). Some of the children under the age of 7, enrolled in these institutions, use state children benefits. In 1997, 4.7 percent and in 1998, 4.5 percent of the enrolled children were using the state children benefits.

The number of enrolled children in pre-school activities is rising and a decline of the average number of children in one pre-school-group (from 24.9 children in 1992 to 21.3 in 1998) is noticeable. The lowest number of children enrolled in pre-school activities is evident among children from Turkish followed by Albanian and Serbian nationalities.

b) Primary education is free of charge and compulsory for all children. Within education there is no discrimination in respect to gender, or national, social, and religious background. More than 98 percent from children of adequate age are enrolled in primary education, whereby the enrolment age is not strictly defined, varying from 6 to 8 years of age. Some detailed analyses indicate that, predominantly among Roma children, there are children who are not enrolled in or who are dropping out from school⁵.

In Macedonia, 99.7 percent from the enrolled children (1998/1999) complete the primary education. The most cases of dropping out are noticeable in the fifth grade, especially among Albanian school groups and in rural areas. As result of that process, 5.4 percent out of the total population in Macedonia aged above 10 are illiterate.

⁵ According to the "Vulnerability of Roma Children" study done in the municipality of Shuto Orizari in the city of Skopje, out of 3,775 interviewed Roma children at school age, 31 percent do not attend school. 12 percent of them are children at 14 years of age, who pursuant to the Law on Education, are obligated to attend primary school (Lakinska-Popovska, 2000).

c) Secondary and higher education. The number of pupils in high schools gradually increases. In 1995/96, the number of pupils who continued their education in high schools was 29.8 percent, and in 1998/1999 that number was 34.3%. The same applies for the students in the higher education. 36.1 percent in 1995/96, and 40.2 percent in 1998/99 from the pupils enrolled in higher education.

However, in relation to participation in educational institutions in Macedonia, there is a big gap between certain social groups and nationalities. The youth from the rural areas and representatives from Roma population participate more rarely in secondary and higher education.

3.4 Social Protection Indicators

Social protection and social security represented 25 percent of the total expenditures of the Budget of the Republic of Macedonia in the year 2000.

According to the 1997 Social Protection Law, the following rights to welfare are prescribed in Macedonia:

Permanent pecuniary assistance for the persons unable to work, determined by special medical comity; single woman during pregnancy one month before giving birth and single parents with children under the age of 3; and elderly over 65 years of age, without income and without close relatives responsible for supporting them, or relatives not being economically capable of that;

Welfare, for persons able to work, who are socially unsecured. They include the unemployed, employed with low or irregular salaries, as well as pensioners with low pensions whose households have income below the prescribed percentage of the relative poverty line;

- Pecuniary allowance for help and care;
- Right to *health care* for the permanent pecuniary assistance beneficiaries;
- *Salary allowance* for part-time jobs due to care of disabled child;
- One-time pecuniary assistance;
- Housing right.

In February 2001, there were 5,079 households (1 percent of the total households in Macedonia) were registered as permanent pecuniary assistance beneficiaries. In 2000 there were 17,080 one-time financial aids delivered (Ministry of Labor and Social Policy, 2001; Institute of Social Affairs, 2000).

However, from all the above-mentioned categories, special interest in welfare (the second category) was shown. The detailed eligibility criteria for the right and the amount for this type of assistance are given in special Government Decision. In February 2001, there were 78,098 households (15.5 percent of the total number of households in Macedonia) using welfare (Ministry of Labor and Social Policy, 2001).

The biggest number of beneficiaries, according to the social status of the holder of the right to welfare are unemployed (88.9 percent), 5.2 percent are employed, 0.1 percent are pensioners, 0.1 percent are permanent pecuniary assistance recipients and 5.5 percent are other individuals.

An increase of the number of welfare beneficiaries is noticed in small town areas and their suburbs, as well as in the rural areas on the territory of the Republic of Macedonia.

Mild increase in the number of juvenile and adult social protection beneficiaries with psychophysical disabilities is also evident. These individuals face very high risk of impoverishment. At the same time, the number of children with severe mental retardation is gradually increasing (from 903 in 1995 to 931 in 1998), as well as the number of the moderately retarded children (from

614 in 1995 to 667 in 1998). With respect to the minors with physical disabilities, special concern are those with body disabilities whose number increased from 595 in 1995 to 727 in 1998 (Bureau for Social Activities of the Republic of Macedonia).

Table 4.14. Households welfare beneficiaries in the period 1995-2000

Year	Number of households
December, 1995	50466
December, 1996	57625
December, 1997	67423
December, 1998	63691
December, 1999	73469
December, 2000	77309

Source: Ministry of Labor and Social Policy

In relation to ethnic structure in Macedonia, welfare is distributed in the following manner (Table 4.15)

Table 4.15. Welfare Beneficiaries According to the Ethnic Structure⁶

Nationality	Percentage of Population	Percentage of Households on Welfare
Macedonians	66.6	43.0
Albanians	22.7	31.8
Turks	4.0	7.0
Roma	2.2	12.7
Vlach	0.4	0.1
Serbs	2.1	0.8
Other	1.9	4.6
Not expressed	0.1	-
Total	100.0	100,0

Source: Ministry of Labor and Social Policy

In 1996, 54.9 percent of welfare beneficiaries were from Roma population, while Turks comprised 20.9 percent, Albanians 12.9 percent, Macedonians 6.1 percent, and other groups the remaining 12 percent. This indicates that the Roma population is decreasing the utilization of welfare benefits while the Macedonians and the Albanians are increasing their usage.

According to household structure, the majority of households that receive welfare are four-member or larger families.

According to the skill structure of the bearer of welfare right, unskilled persons – 45.8 percent and persons having secondary education – 21.7 percent are dominant.

The dominant age group among welfare beneficiaries is the age group 31-40, which corresponds with data on poverty rates, where largest index values are those regarding the age group of 40.

In some regions in the Republic of Macedonia there is a disparity between the distribution of poverty and the welfare coverage. The issue about the quality and the adequate targeting of welfare in Macedonia remains open and needs to be solved with an increase in the capacity of the adequate

⁶ Data on the structure of the population are gathered from the 1994 Census; while the other data are based on statements of the households.

institutions, above all, the Ministry of Labor and Social Policy and its associated institutions. Taking into consideration the percentage of the households – welfare beneficiaries (15 percent) and the amount of the welfare (4,200 denars per 5-member family), it can be concluded that the Republic of Macedonia belongs to the *dispersed* model of welfare.

4. Measurement and Analysis of Inequality

The increased inequality in the income distribution, among others, is a well-known cause for the poverty rate growth. The transition economies, without exception, with their transition to market-based economies, have suffered a significant increase of the inequality in the income distribution, measured by the standard Gini coefficient. Unlike some of them, for example Russia, where the inequality rapidly and dramatically increased in less than a decade, the inequality in the Republic of Macedonia rises slowly and moderately (Table number 4.16.).

Table 4.16. Gini Coefficient by Type of Household (1997-2000)

Year	Total	Agricultural	Nonagricultural	Mixed
1997	31,55	31,81	29,93	32,89
1998	33,08	36,39	31,62	32,10
1999	32,47	27,74	36,32	25,21
2000	34,74	25,93	35,96	30,84

The highest increase in the inequality is evident for the nonagricultural and mixed households. At the agricultural households, declining trend of the inequality is noted. Main reasons for these trends are the positions of the household type on the labor market. Nonagricultural and mixed households, due to the whole economic situation, can hardly find income sources and the impoverishment process is accelerated. In the agricultural households the opportunities for self-employment are bigger.

5. Measurement and Analysis of Vulnerability

Poverty profiles indicate that, in relation to employed members of the households, serious impoverishment occurs at households with only one employed member (*the head count index* in 1997 was 19.18 and in 2000 increased to 22.22).

The category of unemployed is considered as the most vulnerable population group (head count index in 1997 was 23.53 and in 1999 was 31.36), followed by individuals without education, uncompleted primary as well as those who completed only primary education. The head count index for individuals without education in 1999 was 37.50, and in 2000 increased to 42.62.

In the period 1997-1999, trend of rise and deepening of poverty of the households with and without children under the age of seven is evident.

Main risk groups of the population in the Republic of Macedonia on which the economic and social policy should focus are the following:

- Employed without education, with low education and low-skilled;
- Long-term unemployed out of which 60 percent wait for employment more than four years;

- Poor households from rural areas and small urban areas;
- Disabled people;
- Institutionalized persons; and
- Elderly.

As result of increased population impoverishment, the country is facing a rise in the already existing social problems (addiction, juvenile delinquency, and criminality), and new social problems have emerged as negative consequences of social development, deviant human behavior, and environmental conditions.

a) Impeded Biological, Psychological and Social Development of Children

The poverty threatens the biological psychological and the social development of the people, especially the children. The family budget allocated to satisfying cultural, educational, recreational and other needs is constantly decreasing. This situation is limiting the aspirations and leads to degradation of the current values and developed needs.

b) Disturbed Social Relations in Families with Low Standard and Large Families

The families, which have suffered rapid worsening of their material condition, simultaneously show a significantly increased degree of deteriorated family relations.

The analysis of the condition of some of the risk groups, for example, single parents – welfare beneficiaries, shows an increase in their number, especially of those aged 16 to 36. According to the 1994 Census, out of the total number of families, 7.6 percent are families of single mothers and 1.9 percent of single fathers. These are mostly individuals with no education, or uncompleted primary education, unmarried, of Roma nationality with an unsolved housing problem. At the same time, most divorces happen after 14 years of marriage. Thus, a group of single parents with children aged from 1 to 14 is formed.

c) Health Problems

A rise in the rate of certain health problems including lice, hepatitis, mange, tuberculosis, and rheumatics, due to the impoverishment is evident.

Although there are no more thorough analyses, media and some NGO's indicate the problems connected to violence on children and women, homelessness and wandering.

Furthermore, the war crisis that Macedonia experienced in 2001 caused problems, which burden the state budget. According to the Read Cross of the Republic of Macedonia, in March 2002, still there were 3,367 refugees from Kosovo. Additionally, the number of displaced persons due to the war activities in Macedonia is 17,251 (4,350 households) (February, 2002). The biggest part of displaced families is temporary accommodated in camps or boarding houses. The war conflict was mostly concentrated in the rural areas, which are risk areas in relation to poverty. The homes of many families are fully or partially destroyed, thus decreasing the possibility for returning to their homes in near future, which means that the state and the donors should play the key role in providing adequate solution for them.

CHAPTER V. CHARACTERISTICS OF POVERTY: WHAT THE POOR TELL US

Introduction

In this Chapter, the quantitative analysis conducted by the working subgroup for "Poverty profiles and indicators" is complemented with the results of an equally important survey, which sheds additional light on the problems of poverty in the Republic of Macedonia. The importance of this survey lies in the opportunity for the poor households and individuals to express their views about their own poverty and discuss the ways for coping with it.

On the basis of information obtained from interviews with 154 poor households, a *qualitative study* has been completed, whereby representatives of these households or families had a direct conversation in a form of interview with specially trained persons. The previously established mutual confidence between the interviewees and the interviewers resulted in providing frank answers and overcoming the problem of stigma within poor families.

The analysis of the results from the evaluation of the *relative poverty* in the Republic of Macedonia in the course of the past several years indicates increase in the number of poor households apart from the positive economic results realized in the same period.

The increase in the number of households – welfare beneficiaries, and the results for the individual poverty of the households in the same period confirm that the living standard of the population is constantly dropping, and that certain vulnerable groups of the population are facing great risk of further impoverishment.

Data on the living standard of the population and on the poverty profiles show who is poor and how poor he or she is, but, do not provide information on how the poor people and households cope with poverty, how they experience it and which are the basic mechanisms they use to fight further impoverishment.

In order to gather basic information on the living conditions of the poor households and persons in the Republic of Macedonia, on the access to the basic services (health, education, infrastructure), on the manner of providing income for living and other information on the life of the poor, qualitative analysis of poverty was conducted on the basis of semi-structured interview of 154 poor households throughout the country.

Selection of the interviewed households

To the end of providing the necessary information for the qualitative analysis of poverty in the Republic of Macedonia, a sample of 200 households was used. When selecting the planned sample, socio-demographic data on the welfare beneficiaries were used. Basic criteria used in selecting the households were the following: place of living (urban/rural), ethnicity, and size of the household – welfare beneficiary. Pursuant to the basic criteria for selection of the sample on random basis, 155 households were selected throughout the country. For the purpose of testing the contents of the semi-structured interview, 5 households were visited in Skopje, the biggest urban center in the country, as well as the region with the most dynamic process of impoverishment according to the quantitative analyses of poverty.

The testing the prepared contents of the semi-structured interview has shown highly positive response of the poor households to the posed questions and the confidence in the interviewers.

The selected interviewed households (150) were sent letters informing them about the objective of the interview in which they will participate, its contents and the period when they will

be visited by the interviewers, specially trained for that purpose. Participation in the analysis on poverty was refused by only one of the chosen households.

The interviewers were obliged to prepare a note following the visit of each of the selected households according to the instruction designed for the purpose of qualitative analysis of poverty.

The analyses of the qualitative aspects of poverty, presented in this project, are based on the information obtained from 154 households throughout the country.

Interview implementation period

The interview with the selected households was carried out in the period from 14th to 22nd April 2002. To the end of conducting this activity, 18 interviewers were engaged. One-day training was organized for them, and they were precisely informed about the following: objective of the qualitative analysis of poverty, method of conducting the interview and the contents of the interview.

Contents of the interview

The following topics were discussed with the selected households:

- Socio-demographic features of the household members;
- Living conditions of the household;
- How do they cope with poverty;
- Social policy, benefits necessary for overcoming poverty;
- Access to health and educational services;
- Position on the labor market;
- Social consequences of poverty;
- Defining poverty.

Cooperation with the selected households

Out of the total of 200 selected households, 155 were sent information that they had been selected on a random basis for the purpose of analyzing their living standard, all that for the needs to prepare an appropriate poverty reduction strategy in the Republic of Macedonia. Only one out of these households refused to participate in the planned interview, without providing any special reasons.

All visited households cooperated well, and the conclusion by all interviewers is that the poor households expressed full confidence, wishing to sincerely say as much as possible about the poverty they face.

Basic statistical data on the selected households

By interviewing the 154 poor households, 96 urban and 58 rural households were covered, 569 persons, the largest part of which direct participants in the interview. According to ethnicity, in the total number of interviewed persons, 47.3 percent were Macedonians, 24.1 percent Albanians, 18.5 percent Roma, 6.3 percent Turks, while the rest belonged to other ethnicities.

According to the age, most of the interviewed persons were at the age of 6 to 14 (27.4 percent), 17.4 percent were at the age of 15 to 24, while 12.1 percent were at the age of 35 to 44.

Table 5.1 Number of Persons on the Basis of Nationality and Age

	Total	Macedonians	Albanians	Turks	Roma	Other
Total	569	269	137	36	105	22
0 - 5	59	31	17	4	5	2
6 - 14	156	65	42	7	34	8
15 - 24	99	40	26	6	24	3
25 - 34	68	32	12	8	14	2
35 - 44	89	46	20	6	14	3
45 - 54	55	30	10	2	11	2
55 - +	43	25	10	3	3	2

Statistics on the structure of the interviewed persons according to the economic status indicate very unfavorable situation for the poor people, regardless of the ethnicity. Most of the poor persons are either unemployed or have the status of housewives.

Table 5.2. Number of persons according to nationality and economic status

	Total	Emp-loyed	Unemp-loyed	Hous-ewives	Farm-ers	Pensi-oners	Stude-nts	Other
Total	569	28	224	156	3	9	9	140
Macedo-nians	269	13	114	79	1	5	2	55
Albanians	137	3	32	33	2	3	6	58
Turks	36	2	16	12			1	5
Roma	105	2	54	30		1		18
Other	22	8	8	2				4

1. Living Conditions of the Poor Households

Most of the visited households live in their own dwellings. Small portion of the households live in rented dwellings or in premises that are not standard for living (garages, warehouse), but are being used by some households.

Major part of the own dwellings of the poor households are old houses that need to be renovated. However, the households do not have the needed funds. The situation inside these dwellings can be evaluated as "miserable" due to the following: broken windows, doors, old and bad quality woodenware, yellow walls not being varnished for years. These conditions are the general impression for almost all visited houses. The condition is similar in both the urban and the rural areas, without much difference regarding ethnicity.

Regarding housing conditions, it can be concluded that they are slightly better for those households living in their own apartments, obtained from the enterprises they used to work for or bought in the "better times". However, large part of these households are still repaying the installments for the apartments.

The households accommodated in premises which under no standard can be called living premises (garages, warehouses, sheds...) face the most miserable living conditions.

Regardless of the type of dwelling, what is common is that the dwellings comprise one, two or at the best, three rooms used for all activities: sleeping, eating, daily activities, hygiene maintenance. The average size of the dwellings, regardless of the size of the households, ethnicity or regional affiliation, ranges between 15 and 25 square meters.

Four-member Roma family: The house in which this family lives is an unlicensed construction, having only one room with an earth floor which they use for sleeping, keeping the cloths, and simultaneously for storage of food. They use the hall as a living room, and possess an old wood oven, table with chairs and two mattresses as furniture. The whole construction of this dwelling is pile of boards, bricks and metal sheets. The doors are made of boards nailed together.

Better living premises are noticeable among the households with members who used to work abroad, but most often they are not fully built houses, or they are built houses having only two to three rooms adjusted for living. Almost none of them hopes that they will manage to complete the house in the near future, but, they hope for a better future for their children, who will complete the commenced construction.

Small number of households have bathrooms, TV sets, refrigerators, telephone connections. Only several households have cars, which are very old and bought many years ago, when these households had a much higher living standard.

Still, the living conditions of only a few households can be assessed as very good. At the same time, their living standard is much better than the standard of the other households – welfare beneficiaries. The impression is that the financial social aid they receive only supplements the other incomes generated, most often, by working illegally. The position – welfare beneficiaries is their basis for using other benefits as well (health care, etc.).

Four-member urban household: they live in a nicely decorated apartment with modern furniture, and they have all indispensable household appliances. They do not pay electricity, heating and water bills regularly. They only pay the telephone bills on a regular basis. When they receive a notice for unpaid utilities, they present the documentation proving that they are social cases, and they are exempt from paying or are allowed to pay the arrears in installments.

1.1 Equipping in the households

Regardless of the ethnicity and the regional dispersion of the poor households, a common feature is the very poor equipping of the households with durable consumer goods.

The basic durable consumer good almost every poor household possesses is the wood oven. The households use it for heating and cooking, as well as for heating water for maintaining personal hygiene. A small number of households have bathrooms, washing machines, stoves, refrigerators, and TV sets. An even smaller portion of the households have radios or TV sets. This affects the possibility for them to be informed, and according to them, they acquire the information about the social centers and the humanitarian organizations randomly or from the neighbors.

The households that are better equipped have bought the furniture and the other equipment many years ago, when their living standard was higher and when they could afford to buy on credit. The impoverishment made them create priorities in the expenses. First, they allocate money for food, clothes and medicine, and then for repairing or buying furniture or household appliances. Insignificant number of households possesses a car, and most often it is very old, bought many years ago, when these households had much better living standard.

The main furniture poor households possess is a table, chairs, and beds. If they have floor covers, most often they are very old. Only a small number of households have wardrobes, while the other keep the clothes in the room they use for sleeping, in the corner.

The only piece of furniture part of the newly formed households possesses is either the furniture they have received as a wedding present or that they borrowed from their parents or relatives.

1.2 Heating and water supply

The majority of the households heat their living spaces on wood. In the urban areas, they pay for it in installments, and in the rural areas, they collect it in the forests or buy it at a much lower price from the lumber-thieves. They usually heat one room, and most frequently, it is the room where they cook because many households both cook and heat on wood.

An urban Macedonian family: “This winter, during the harshest cold, we didn’t have wood, so we burned cardboard in order to at least warm the air in the room a little bit”.

In the urban areas, part of the households use combined heating, by both electricity and wood. Most of the households from both the urban and the rural areas have not paid their electricity bills for several months, and part of the households have not paid for several years. According to the households, the electric power company was willing to assist them after they proved they were welfare beneficiaries, and it would allow them to pay the debt in installments, but, the electricity in some households was shut down.

Part of the poor households, to which the electricity has been shut down due to the great number of unpaid bills, turned on the electricity again illegally, aware of the risk, justified by their severe poverty.

Water supply is one of the greater problems in the rural households. Almost all the households from the rural areas lack water in their dwellings and use the water from fountains and wells built in the yards or from the village fountains. This influences the hygiene maintenance and health of the poor, above all, of the children and the elderly.

Conclusions

- Living conditions of the poor are very bad, especially for the households with greater number of members or in the peripheral settlements in the urban areas. The ethnicity does not have any special impact on the differences in the living conditions;
- Due to the low standard of living, the households are continuously reducing the expenses for improvement of the living conditions;
- Large number of the rural households, but also part of the urban ones, live in dwellings without access to water, baths and toilets. For the urban households living in flats, it is an advantage that the heating and the water supply issues are solved for all tenants, but the bill payment remains as a problem. The households receiving welfare are allowed to pay the expenses for different services (water, electricity, heating) in installments.

2. Education and access to the education services

2.1 Education and poverty

Within the poor households included in the qualitative poverty analysis, the *low level of education* of all members, regardless of their age, gender or ethnicity is prevailing. Still, certain specifics were identified related to the education and the motivation for higher education, resulting from the personal experience of the poor, the environment they live in, and from the degree of their poverty.

According to the poor, the risk factor having the greatest impact on their poverty is their education level. The fundamental reason is the strong link between the education and the opportunities to find a job or to keep the present one. The persons who used to be employed, but were laid off, consider their education level as the basic reason for the job loss. The largest part of the poor are unemployed and have low level of education. In order to acquire certain benefits, most of them are registered in the Employment Bureau, but almost none of them believes to find a job through it. Part of the younger persons do not register at the Employment Bureau despite the higher education level. The reason for this is that for them, the main job finding method is “to have friends who can help”.

“Why should I register myself at the Employment Bureau? All my friends who registered themselves years ago are still unemployed. I find out about job opportunities through friends and relatives. I have worked in a café several times”.

Turk from an urban area, 25, high school education

Despite the low level of education and the unemployment, all people have an equal feeling that education is a precondition for a better life. According to all households, the completion of the primary education is necessary, and the majority of them desire to provide their children at least with high school education. Since they identify their low level of education as the main reason for the low standard of living, large part of the parents are prepared to make big sacrifices in order to provide their children with as high education as possible. Although both the parents and the children agree that the education without “connections” is insufficient for a better life, still, the parents repeat the fact that without an education one is “nothing and nobody”.

The Roma show the least interest in education, although in relation to the need of education, they have an attitude that one should have at least primary education, but according to the conditions in their families, one could not escape the impression that it refers to the children of others, not to theirs. They state many reasons for their children being out of the education process, or they have a selective attitude regarding the girls and the boys.

“Our Roma girls don't obtain more than primary education, and as for the boys, if they want to, we will try to enable them higher education.” - a Roma from Skopje.

An urban seven-member Roma household: None of the children (5) has attended school; the mother completed only the 4th grade. The father cannot read nor write, although he is 44 years old. Both parents are chronically ill and incapable of finding a job. The children do not go to school due to the poor financial situation, but according to the parents, regardless of the gender, all children should have at least primary education.

Part of the welfare beneficiaries have higher education, but, anyhow, they are unemployed for a long time and due to that, they cope with their poverty even more hopelessly.

“While studying, I believed that, after graduating from University, I would be able to find a job in a very short time. Because I didn't succeed to find a job, while looking, I prepared and passed the bar exam. I got married. My husband is also unemployed and we are both looking for a job now. We would work anything in order to generate any income for our child and us. Now, we are living on 1,900 denars, which we receive as social case. Our parents help us with food, but this can't last any longer, because our parents themselves are in bad financial situation”.

S.M. Macedonian, mother of one child.

Some poor children provide their own resources for getting higher education. The main motive to work and study is to “escape the poverty”.

“My daughter studies English language at University and supports herself. She is fluent in English and she works temporarily for the humanitarian organizations. She gives part of her income first at home, she buys things which would at least alleviate the life to her brother and me. And instead of me helping her, as a parent, to complete her education, she takes care for herself and for us”.

Single mother, Macedonian, D.N. Gostivar.

2.2 Participation of the poor in the education system

2.2.1 Pre-school Institutions

The participation of the poor children in the pre-school institutions is very limited due to several reasons. There is not such type of education organized in the rural areas, while in the urban areas the poor households, due to the low standard of living, cannot enable their children to attend the kindergartens. The children stay at home, and they are taken care by their mothers or the older members of the family. Part of the younger households have tried to enroll their children in kindergartens, but they have taken them back at home after a while. The basic motive for enrolling was the desire for their children to socialize, and the basic reason for taking them back home was the poor financial situation (lack of appropriate clothes, and inability to cover some other expenses related with the children's attendance in the kindergartens). The majority of mothers with small children cannot look for a job exactly because they have to take care of their children, which is an additional limitation of the possibility to improve the material conditions in these families.

The access to the pre-school institutions is in strong correlation with the level of the standard and place of living, and much less with the ethnicity. In the Muslim families, the women are much more frequently present at home and the basic obligations are taking care of the house and the children, and there is much less consideration of including the children in the pre-school institutions.

2.2.2 Education: Primary, High School, Higher

Part of the poor children included in this analysis have completed primary education only. Smaller part of the poor children do not even have completed primary education. This is a common case among the Roma households, where the parents are without primary school education or are illiterate. Regarding the children that have dropped out of primary school, the share of the girls is higher, especially of the ones coming from the rural Albanian families. Such cases are more frequent among the households with many members. The main responsibility of the girls after leaving the primary school is doing the domestic chores, taking care of the younger children and preparation of meals.

The number of the children included in the high school education is very small, and as for the higher education; it is almost symbolic (9 persons). The underlying reason is the material resources.

The place of living has strong limiting effect on the opportunities for continuation of the education in the high schools. In the rural areas, the young people remain only with primary education. In order to continue the education, it is necessary to provide funds for it, but funds for transport, accommodation, clothes and other expenses have to be provided as well, and the parents do not have financial resources to support that. The majority of these children want to continue their education in order to create preconditions for better life, but also to leave the place where they live.

Primary education

The poor households put great efforts to provide the children at least with primary education. But the children and the parents face a lot of problems on a daily basis. The majority of the children receive their textbooks free of charge, but the remaining expenses pose large burden for the parents. The children not receiving free textbooks manage to provide them in different ways: they borrow from relatives, friends or they buy them second-hand.

These children cannot afford to go on school excursions, to celebrate birthdays or to go to the birthday parties of their friends.

The parents of the children attending new programs envisaging outdoor classes, visits to other places etc., cannot afford such activities, so their children do not take part in that part of the classes.

In some schools, the children from the households receiving welfare are given free snacks, but a greater part of the poor children must pay if they want to eat at school. Understandingly, due to the material possibilities of their parents, the number of the poor children capable of paying for the snacks is very small. According to the words of the poor children, if they do not eat at school like their friends, they feel very sad because that way the difference from the others is even more evident.

“From tomorrow, anyone who will not pay for the snacks will be taken off the list and will not get anything.” My daughter knew that we do not have the money and that we would not be able to pay and that is why she said that she would not go to school until we found money to pay. She is an excellent student and is very ashamed of our poverty” – single mother, Macedonian from Skopje.

The clothes are one of the permanently present problems. The children are sensitive to the way they are dressed and what kind of clothes they have. Most frequently they wear old clothes, inherited from the older brothers and sisters, or received from relatives and friends. Through the clothes, they feel the differences in the living standard the most.

None of the poor children has an opportunity to attend foreign language or computer courses. This causes a feeling that they are discriminated and that they have limited possibilities for better future.

Some parents put great efforts in order to provide their children with as better stay at school as possible.

“My brother, who works in Switzerland, gave me money to build the house and to buy a tractor in order to work at other people’s farms and to support the family. But, two years ago I sold the tractor in order to enable my children to complete at least primary school”.

I.T., Albanian, six-member rural household

High school and higher education

A symbolic number of children from the poor households continue their education in high schools or universities. The higher the level of education is, the higher the education expenses. The poor children from the rural areas remain only with primary education, and the poor children in the urban areas attend only the high schools in their place of residence. That means that regardless of their predisposition and desire, they educate themselves only for the vocations they have an access to. By this, they are discriminated even in the choice of profession. The professions the poor children have an access to are the ones least competitive at the labor market.

Out of the total number of young people that study at university, the largest was the share of the Albanians. Part of them study at Tetovo University, and part in Kosovo. They receive financial support from the relatives or have a job and provide their own resources for their education.

2.3 Scholarships, credits and other type of financial assistance

From the poor households included in the qualitative analysis, none of the children uses scholarships, credits, or any other kind of financial support from the state institutions. There are many reasons for this: the unawareness about how and according to which criteria one can apply for receiving financial assistance, the distrust that they could get a loan even if they apply, because “the loans and scholarships are granted to the ones who have money and who use them as additional pocket-money”. But even if they get a credit or a scholarship, the poor children consider it to be insufficient resource in order to be able to continue the education because they need funds for: books, food, clothes, transportation, and if they educate themselves outside the place of residence, they would need funds for accommodation as well.

“After completing the primary education, the children have stayed at home. They help us with the domestic chores. We could not provide them enrollment in high school because they would need 45 denars each day for transport costs only, and that is to travel by van or public transport to a certain village, and then to walk an hour and a half. Buses do not come to our village, only vans. We live on 2,400 denars per month, as welfare beneficiaries and we are not able to provide the children with a better education than we have. Now all of us are with primary education”.- D.I rural 5-member Macedonian household from Skopje.

2.4 Discrimination of the poor children

One of the most sensitive problems, which the poor children face, is the behavior of the environment towards them and the feeling of being discriminated. At the schools, the wealthier children do not associate with them and the teachers behave differently towards them and towards the children coming from wealthier families or whose parents are at high positions. Such behavior has negative impact on their motive to attend the classes regularly and to study harder. Many negative experiences were expressed by the Roma families, whose children were mocked by the other children and the teachers because of the poor hygiene, old clothes, and lack of suitable accessories. Due to those reasons, their children often run away from classes and do not attend school for days.

2.5 Participation of the parents in the education of their children

The parents of the poor children rarely visit the schools where their children study. Not one case of their participation at the parents' councils has been registered, and most of them are not informed of the existing forms of parents participation in the schools operations.

Because of the low education level of the parents themselves, they are unable to help their children in the process of studying, and because of that, the participation of the parents in the education of their children can be assessed as minimal.

Conclusions

- The possibilities for greater participation of the poor children in the education process are very limited;
- The limiting factors are the following: the low level of education of the parents, the low financial opportunities of the poor households to invest in the education of their children, the low financial support provided by the state for the education of the poor children, the place of residence;

- The limiting factors have greater intensity for the poor households from the rural areas. The lowest involvement even in the primary school education is of the rural households with greater number of members;
- A strong disincentive of the young people for higher education is noted since they consider that even the more educated persons, but without influential friends, have no chance of employment;
- Compared to the period before the transition, at present conditions, the persons from the families with lower standard of living have fewer chances for higher education level.

3. Health and nutrition

The standard of the households in the past few years has been constantly deteriorating, as well as their health condition. The immunity of the children is weakened due to the poor and repetitious nutrition and they are more frequently susceptible to viral diseases. Among the adults, several cases of schizophrenia, disability, depression and hypertension were registered. The drug abuse was neither mentioned nor noted among the members of these households, unlike the overuse of alcohol. The relation between the alcohol abuse and the economic status of the persons was evident. The share of the persons that used to be employed, but lost their job during the privatization or the bankruptcy of the enterprises was the largest in the group of poor persons turned alcoholics during the past several years.

“My husband became an alcoholic after both of us lost our jobs and after the flat, given to us by the enterprise we worked for, was taken away. He sought relief in the alcohol”.

Macedonian, urban area

3.1 Poverty and health

The members of the poor households, registered in the Employment Bureau, receive “blue coupons”. They use these “blue coupons” only when the children or the elderly members of the household are in an urgent need of visiting a doctor. They cure the viral diseases and the colds with teas and homemade medicines. They rarely visit doctors, above all due to the expenses, which they have to cover and which would represent major expenditures of the family budget, even when spent for smaller interventions. In the poor households, there has not been any registered case of a person visiting a doctor solely in order to perform a physical examination. The many-member households from the rural areas and the smaller urban districts are in the worst position. Their condition is made even more difficult because of the big distance from the major clinical centers, thus for every more serious intervention their condition worsens. For the families with more members the health insurance is limited to covering the expenses for three children only. Especially serious is the condition of the chronically ill persons. The medicines for the more serious diseases are expensive and have to be used on regular basis.

Rural Albanian family: They receive welfare in the amount of 2,300 denars for their six-member household. When they receive the welfare, they put aside means for paying the bills and then the medicines. A.A. has to take medicines every day. For some of the medicines he spends 500 denars a month and he has to take them every day. On recommendation of the doctor he has to take other medicine, which, when not used regularly and according to the doctor’s recommendations can greatly worsen his health condition. In such moments he is very nervous, he talks to himself and is unpleasant for the persons around him. His children are small, but in those moments they are the ones who provide the greatest help in overcoming the difficult condition. Due to the hard financial

situation and his bad health, his 17-year-old daughter has not continued her education and helps her mother to take care of the household, the ill father and the younger brothers and sisters, who attend the primary school.

For more difficult and more serious interventions it is necessary to put aside more funds. Very often, the ill, if they want an timely intervention with a high quality, face with the problems of the corruption in the health system. The following case is an example of that.

R.A. Albanian from Skopje: “Ten years ago I had my hip operated (he had a titanium hip implanted), but a couple of months ago I had to have the other hip operated as well and I had to buy a hip from Slovenia because I could not find my size here. I paid €1,400. When I went to the hospital to arrange the implantation of the hip with the doctor, he said that there was no need to fool each other with coffee and brandy and that it would cost €500. I collected the money in mosques as charity and also borrowed from friends and relatives. I do not know when and how I will manage to return my debts”.

3.2 Poverty and nutrition

The health condition of the household members differs and depends on the quality of nutrition. Concerning the nutrition, in all the households, not taking into account the size of the household or the ethnicity, the same rule is applied: first there has to be food for the children, then for the ill and if something is left, then the others will eat as well. In the poorer families, sometimes the adults spend the day without food or for a longer period take only one meal a day. The conclusion in all households is that before the transition process they had better nutrition, better health and easier access to the health services.

“Before the transition process both me and my husband had a job. We used to get salary regularly and the children always had food and clothes. Our son was young then and when we asked him what he would like to eat he used to answer – I don’t know, and the refrigerator was full. Now, he knows what he wants to eat, but the refrigerator is empty.” – Urban Macedonian four-member family.

Regarding the nutrition, the rural households have better possibilities to provide food. Most of the rural households have small pieces of land mostly around their houses and they use them for growing vegetables for their own use. In a small number of households cases of breeding animals (hens, rabbits) was registered. However, only several households had cows. The urban households are in a very bad condition regarding the nutrition. They do not have any possibilities to breed livestock or poultry or to grow vegetables. Therefore their nutrition is very repetitious and usually they prepare two or three different meals in which the meat is almost never included. They can treat themselves with a richer dining table during the religious or the other more important holidays, such as New Year. Only the poor Roma households in the urban areas have mentioned collecting food from garbage containers.

The basic food product in the nutrition of the urban and the rural households is *bread*. In many households (regardless of the nationality) the women bake their own bread. They consider that it is cheaper that way and sometimes they receive the humanitarian aid in flour. The dominating products in the nutrition are: potato, beans, flour, and eggs. The food in the rural households which breed livestock is more diverse, but indeed it can not be stated that it contains enough nutritious components and is appropriate for the needs of the members of these households.

The preparation of winter supplies (conserving food for the winter period) is typical for Macedonia. Only several poor Macedonian families have mentioned preparing winter supplies in small amounts and only for the children. But many poor households, several years ago, could not

imagine not to prepared several types of winter supplies. The inability of preparing winter supplies was considered as a clear indicator for their impoverishment.

3.3 Physical and psychological consequences from the poverty

For most of the poor people the decrease of the life standard, the impoverishment and the sense of helplessness are the basic reasons for their depression, sensitivity, and anxiety. In many families there are members who are invalids, have heart diseases, mental diseases.

The economical situation is a reason for the increase of alcoholism, especially among men. Women more often suffer from depressions, problems with blood pressure and heart diseases.

Conclusions

- Poverty and the insufficient nutrition have a strong impact on the health condition of the poor persons. They cause weakened immunity, inappropriate disease treatment, depression, illnesses of the nervous system;
- Among the poor persons there are many disabled persons and people with chronic illnesses; and
- There are many smokers and alcoholics among the men. As a main excuse for their conditions they state the impossibility to provide better life to their families. Some of them have been treated in appropriate institutions. Those conditions are found more often in the urban areas, above all among the Macedonians and the Roma.
- The care for their own health, especially for the birth control among the women is at very low level.
- The children are vaccinated regularly.

4. The labor market and poverty

Only 28 of the interviewed persons stated that they were registered employees or part of the formal labor market. This category includes persons from different ethnic groups in the urban areas. Most of them were sure that in the near future they would become part of the category of unemployed persons. The main reason for their fear is that they are all employed in companies, which are in the phase of privatization. None of them believes that they will remain in the same company after the privatization, above all due to the low qualifications and also to the experience of their relatives, friends, neighbors, which have been in the same situation. None of them believes that they will be able to find another job, above all because of their low qualifications and their age.

The companies in which the poor people are employed do not pay the salaries to their employees even for several months. Besides this situation, the persons employed in such companies go to work regularly, above all because of the hope that after the transformation they will at least be able to use the benefits from the pension fund. Some of them hope that maybe they will remain in the companies even after their privatization, mostly because of their great working experience. As a result of their age, most of them being over forty, they do not believe that anyone will invest in their pre-qualification or specialization. Because of the fact that the private sector in which majority of people are employed increases and is primarily interested in young and educated persons, the situation of these people is more than hopeless.

4.1 Employees in the informal labor market

Regardless of the age, the place of living or the ethnicity, the poor people are included in the informal activities. The type of activity and the level of income earning is most often determined by the person's education level, but also by the previous working experience. Most of them are engaged in seasonal or periodical activities.

4.1.1 Seasonal employment

The type of the seasonal employment depends on the place of living and the age of the person.

In the urban areas the younger persons irrespective of the sex easily find jobs in: cafés, as taxi drivers and shop assistants. The older men are usually engaged as: bricklayers, cargo carriers, cargo loaders/unloaders. The ones who are mostly engaged in loading and unloading of different goods are the Roma. The ones who are mostly engaged as bricklayers are the Macedonians and the Albanians.

The most frequent professions of the persons from the rest of the ethnic communities were: salesmen, dealers with agricultural products, construction workers. However, regardless of the ethnicity it was noted that also the physical capability of the persons influences the type of activity. All those persons with better health can much more easily find harder physical jobs, which are also better paid. Their previous working experience helps them to find better job and thus, to earn more money. Some of the poor persons used to be employed in construction companies, but in spite of the long working experience, they ended in the category of unemployed persons. Sometimes, the long working experience helps in finding job for a longer period of time.

The women in the urban areas are usually hired as cleaning ladies, salespersons, tailors, or engaged in administrative activities. The Roma women are mostly hired as cleaning ladies and the other ethnic groups are most often included in the other activities. Only the Albanian women from the urban areas are completely devoted to domestic affairs. None of them has had any working experience so far.

In the rural areas, regardless of the age, sex, education or ethnicity, all persons are engaged in agricultural activities as field workers. However, this type of activity is performed only for several months a year. The earnings are used for covering the living expenses all year long.

“I have a farmland under lease and I pay 1000 denars per decar (10,000 sq meters). But in order to do all the activities I ask the relatives and friends to assist me and then I pay them back with a similar favor. In this way my family survives because the welfare is not sufficient”.

Albanian five-member rural household.

Very often the men of the households are engaged as lumber transporters or lumbermen.

“I work on a seasonal base as a lumberman or lumber transporter. I transport the lumber on my horse from the place of cutting to the place of sorting out and measuring the lumber. I usually do this from May till November”.

Macedonian, rural six-member family

Some of the poor people try different activities in order to earn living resources.

Turk, urban area: “I learned how to make brooms. I sell them on the market and the profit is 20 denars per broom”.

The Albanian women, although symbolically, still take a certain part in the informal activities. Most often, they prepare hand-made products and sell them through their friends or neighbors. It could be noticed among the younger women that they have attended courses for tailoring and sewing and that they sew for their neighbors, friends and earn in that way.

Macedonian woman, 4-member household of, urban area: “In my neighborhood there is a tailor, who understands the situation of my family. When there is more work, she calls me to help her and pays me 200 denars for an activity of 3-4 hours”.

Yet, the participation in the informal activities is greater by the urban area women.

A common fact for all the types of informal activities is that the profit is very low.

In the private construction companies the daily allowance is 300 denars, but if the persons are engaged on a monthly basis, the monthly payment is 4,000 denars.

The engagement in the informal sector always brings along risks, for which the poor people are aware, but have no other choice.

A single mother, Macedonian woman from Skopje was engaged through a youth association in a private food production company. She worked 10 months and was not paid at all. She stayed several months more in the company because every month it was promised to her that very soon the earned money would be given to her. When that did not happen after 10 months, she left the company and now she is not looking for a job at all. She knits hand-made products at home, and her mother sells them on the market. The net monthly profit from this activity is 500-600 denars.

Apart from the welfare, some households have other sources of income as well. Usually, a basic source of additional income is the work on the black market, but in the rural areas some of the households have small agricultural properties, from which they also provide certain incomes.

Albanian three-member rural household: Both of the adults in this household are registered in the Employment Bureau, but they both work on the black market. The woman works in a pastry and the man as a manual worker. They own a small agricultural property, where they grow basic products for nutrition for their own needs and for sale.

Some of the Roma households earn money by dealing with second-hand products. But, according to them, until several years ago they earned much more with this activity. However, now, due to the increase of the poor households, more and more people become engaged in the same activity and they make less profit.

Roma ten-member household from Skopje, composed of three families:

The oldest member of the household collected used stuff from the households, which were no longer needed, fixed them and decorated them at home and then sold them on the Bit-pazar open market. Until several years ago this way he earned 500-600 denars per day. But today he earns much less due to the increased competition. The younger members of this household earn money by fixing different devices that belong to their friends or neighbors and in that way earn 500-1,000 denars monthly. However, the profit made by this activity is just periodical. One of the women works as a baby-sitter and she is paid 40 denars per hour. From all the activities on the black market, all the members of this household earn 3000-4000 denars a month. As separate families they get different amounts of welfare, which totally, at a household level is 6,400 denars.

According to the poor households welfare-beneficiaries, this amount is insufficient to cover their needs. The households, which have relatives who can help them, bear the poverty more easily. But this kind of solidarity was noticed much more often among the Albanian households.

R.D., Albanian, four-member family in Skopje: They live with his parents and his brother's family. His family receives welfare in the amount of 2400 denars and that is the greatest part of his incomes. He has completed primary school only and he can hardly find a regular job although he is only 32. From time to time he works in the loading and unloading activities on the open market. The only material aid they get is from the wife's brother, who works for KFOR, but they do not expect this help to last much longer because when he forms a family of his own, he will not be able

to help them. The wife knits hand-made products and earns money from the sale, although she rarely finds buyers interested for her products.

4.1.2 Other activities

According to the statements of the interviewed persons, it can be concluded that a symbolic number of persons from the poor households have been included in illegal activities, drug dealing, burglaries or other criminal activities. They justify the motive for engaging in such activities with the very low standard of living and the unsuccessful long-lasting search of job.

Macedonian, father of two minors was convicted of drug dealing to six-month imprisonment. After servicing the sentence, with the help of his friends he found a job on the black market as a waiter. He hopes that he will succeed in finding a formal employment in order to provide secure income for his family.

A very symbolic number of poor persons are engaged in semi-legal activities, most often clothes, agricultural products or food dealing. Most often the profit from these activities is very low, but these persons consider that it is the only possible source for making any kind of profit.

By just one urban household it was mentioned that the parents are unhappy because of the behavior of one of the daughters, who has dropped out of high school and is suspected of being engaged in prostitution.

Part of the poor persons, Albanians above all, tried to find a job abroad, assisted by their relatives or friends. Some of them, in order to go abroad (the usual destination is Italy) have borrowed significant amounts of money, however they are not sure when they will be able to pay it back. Some of these persons managed to get employed abroad for a certain period and to invest the earned money in improving their living conditions. But the majority of them came back after a short period. It was noticeable that the best living conditions were present in the households the members of which have worked abroad or have relatives who work abroad and help them.

Households with several members, regardless of the ethnicity and regional affiliation, seek better living standard in working “on the black market”. Almost all adult members of these households are registered in the Employment Bureau, but none of them has been employed in the formal labor market, not even for a limited period.

S.A. Albanian, 8-member household from Skopje: In order to provide food for his household, most frequently he loads and unloads flour, digs basements, cuts wood, and other manual works for which he is hired, most often by his neighbors when they build new houses. He usually earns around 1,500 denars monthly from these activities. His family receives welfare in the amount of 2,900 denars and with the extra earnings from his work “on the black market” he pays for the education for 5 out of his 6 children who attend school. S.A. worked as a construction worker until five years ago, but now he is unemployed and does not receive any pension, although his contributions were paid on regular basis by the enterprise where he was employed.

4.1.3 Self-owned businesses

Joint belief of all working-age members of the poor households is that the basic mechanism through which they can really fight against poverty is having a job. Due to their education, but also due to their status as poor persons without friends, they do not believe that they have opportunities for getting employed on the formal labor market. Part of them, who worked as construction workers or in various production companies and who lost their jobs, consider that if they receive financial support under favorable conditions they will be able to use their working experience and to earn through their own businesses.

Part of the poor persons who have never been formally employed, are engaged in crafts on the “black market”, but they think that it would be more secure and more productive if they had opportunities to organize their own businesses.

Due to the limited individual financial possibilities, none of them is brave enough to begin some activity in that direction. None of them wants to borrow from their friends or relatives because of several reasons. Friends and relatives of the poor are most often poor themselves and if they borrow from someone they will not be able to repay the debts in a reasonable period.

In their view, the most appropriate way to cope with poverty is to receive loans under favorable conditions. With these funds, they would start activities and would engage all working-age members of the household.

Such support for them is a way to provide more secure future for their children.

4.2 Profile of unemployed poor persons

Within the interviewed households, more than 90 percent of the unemployed working-age persons are registered in the Employment Bureau. The main reason for this is that in this manner they can use the “blue coupons” that provide them health insurance. Small part of the poor is not registered as unemployed because of two basic reasons: low education level and lack of faith that in that manner they will find a job. However, these persons are members of households in which other members are registered, so the right to health insurance is provided through them.

Out of the total number of unemployed persons, one part (the smaller one) are persons who used to work at certain period of time, but they have lost their jobs, mostly due to the privatization of the company they worked for or its bankruptcy. The majority of unemployed persons have never been employed and they are part of the category *long-term unemployed persons*.

4.2.1 Methods of seeking a job

The basic methods of seeking a job are the following: the Employment Bureau, relatives, friends and directly offering their force.

It is evident that none of the unemployed persons believes that they can find a job through the Employment Bureau. What was also noticeable was the poor information on modifications to the laws, activities undertaken for employment, additional qualification of persons with poor qualifications. The basic reason is that majority of poor households from rural areas possess neither TV sets nor radios. Part of them had only old radios. The only way of getting information on any event is their communication with the other people in the village.

The greater level of information of the unemployed poor persons from the urban areas is precisely the thing that gives them an opportunity to find jobs more frequently (mostly on the “black market”), but also to follow the advertisements, information on the events at the labor market and the measures planned by appropriate institutions.

According to the opinion of all unemployed persons, the most successful method for getting a job is to know people who can provide you employment. They think that, due to the poverty, they even lost the friends they used to have, and they have never had some more influential friends.

The need to have influential friends in order to find employment was emphasized by all persons, but it was mostly pointed out in the views of the Macedonians and Albanians.

Physical presence early in the morning on the informal labor markets, along with other unemployed persons was defined as an easiest method of finding a job by the unemployed people, who would do any kind of manual work in order to earn some money. In those places, they could be hired to do manual work.

According to the unemployed poor persons, the most expressed limiting factors for finding a job are their education and age. According to the majority of them, gender and ethnicity do not have risky influence on the employment opportunities.

Conclusions

- Symbolic part of the poor persons are employed in companies in the process of privatization, with insecure employment future and small and late payment of their income.
- Most of the unemployed persons are registered in the Employment Bureau, but at the same time they are part of the persons employed on the “black market”.
- The most frequent types of informal activities of the poor persons are: seasonal activities in the agriculture, temporary activities such as manual workers (adult male persons), service activities (younger persons) or production of hand-made products (female persons). Common characteristic of all these activities is the high risk due to the illegal nature of the job and the low earnings. However, these activities are the basic source of additional income for the poor households.
- According to the poor persons, the provision of financial support for starting own businesses can be considered as safe mechanism for providing more secure employment future and higher living standard for the poor households. They expect such support from the government institutions.

5. How do poor persons cope with poverty

5.1 Sources for funds that provide life

Basic sources of funds that provide life for the poor households are *social transfers* and revenues from *illicit activities*. They gather the information on social benefits through the media, as well as through their friends and relatives. The least informed are the persons – members of the rural households who are very poor and unable to follow the media.

All interviewed households were many-year welfare beneficiaries.

They receive welfare on time, but according to all beneficiaries of these funds, they are not sufficient to cover even the costs for bare necessities. According to the poor persons, the welfare is only a support to their life on temporary loans. The households that do not have other income and live only with the funds they receive as welfare had an identical story of how they use their funds. These funds are sufficient only for covering the food costs and a few other basic needs. They buy the necessary products in the first store where they are allowed to buy on a temporary loan. When they receive the money, they pay the debt from the previous period and, as the poor persons say, “start the following cycle of life on temporary loans”.

The conclusion, from the visits to the households, welfare beneficiaries and discussions for all aspects of their life, but also according to the impressions on the living conditions, is that there are households that have far better living conditions than many households that do not use any social benefits. Such households, since they are on welfare, also use other benefits or incentives when paying electricity, water, gas heating bills or other fees.

The households, which according to the assessment of the interviewers can be categorized as miserable, very frequently mentioned the injustice in welfare granting. They pointed out examples of households in their neighborhood that have much better living standard than theirs, but still receive more funds.

Households with good living standard, but at the same time welfare beneficiaries were noticed at Macedonian, Albanian and Roma households. All these households were from urban areas.

In the past year, due to the military crisis in the country, part of the poor households in certain parts of the country treated as crisis regions also received various types of humanitarian aid. However, the experience of the poor households, with regard to the usage of the humanitarian aid, varies a lot.

“Our household has always been on the lists for receiving humanitarian aid. So far we have received aid several times, mattresses, spoons, forks. In food we have received: macaroni, rice, vegetable oil, sugar. We have also received some fodder”.

S.H. rural six-member Albanian household.

“We have never received anything from humanitarian organizations except for 2 cubic meters wood this winter. The reason for this is because we are not on the ‘list of those who should receive it’. The aid is either resold or given to those that do not have the very necessity of it”.

M.A. rural 7-member Albanian household

The poor households referred to several factors that reduce the possibilities of using different types of humanitarian aid. For example: unawareness of the conditions for receiving humanitarian aid, non-transparency in allocation and abuses during allocation.

5.2 Social consequences from poverty

According to the poor households, their poverty is the basic reason why they are directed only towards their own survival. As they were becoming poorer, their contacts with the relatives and friends were getting rarer. Not a single household celebrates children’s birthdays, and due to the poverty and everyday problems how to survive, no one remembers the adults’ birthdays. The number of households that modestly celebrate holidays, such as New Year’s holidays, is symbolic. All households said that they save funds only for celebrating religious holidays or borrow for the sole purpose of celebration in a proper manner.

The most concerning fact is that younger members of the poor households are noticeably socially excluded. The reason is the double impact of the poverty. Wealthier children at their age avoid them, and they isolate themselves from the environment where they live, ashamed of the poverty.

The only contacts present at all types of households are communications between children and parents, if they live as separate households. The poor persons named this as “*joint fight against poverty*”.

Comparing the current situation with the situations several years ago, almost everyone had the same opinion that in the past the people helped each other more. But at the same time they had same conclusion regarding the reasons for the great alienation among people. The basic reasons are the dynamic decline of the living standard of great number of households and the conflicts in the region and the country, which deteriorated the confidence among people.

“The people were more human prior to the beginning of the transition process, and today they have doubts whether to give you 5 denars or not”.

A Roma, Gostivar

“We cannot circumcise our son, so we are forced to do it in a hospital with an explanation to our neighbors that the child was in the hospital because of an illness”.

Albanian woman, urban area

Conclusions:

- For the poor households, the main source of funds for life are social transfers;
- They receive the welfare more regularly compared to the period several years ago;
- Granting welfare to households that have good living standard is practiced;
- Households from crisis region received various types of humanitarian aid. For this type of social transfers, the position of majority of households is that it is not allocated in a proper manner and there is abuse both in its allocation and utilization.
- Social consequences are expressed through social exclusion of ever greater number of poor households;
- Social exclusion is worryingly present within young persons and the persons living in rural areas;
- Greater solidarity is noticed in rural areas;
- Opinions on welfare, humanitarian aid or other types of social transfers did not depend on the ethnicity or regional affiliation, but on the own experience.

6. *Definition of poverty*

All members of households engaged in this qualitative analysis were required to define the poverty as they experience it. Regardless of the ethnicity and regional affiliation, the most frequent definition was "poverty is what has happened to us" or "poverty is when you don't have food and you go to bed hungry, taking care at least your children to eat something".

Poverty is when you wake up in the morning with only one wish - during the day, no one to take the hope that the day will come when you will be better off away from you. Macedonian, Skopje

Poverty is when you live on temporary loans. Albanian, Gostivar

Poverty is when you see that there is no hope that at least your children would be better-off. Turk, Skopje

There were several single fathers among the interviewed households, and maybe the most illustrative definition was given by a single father from an urban area, Macedonian:

"Poverty is like a disease, it comes when not expected and without our fault. As the sick person hopes to get better, the poor person is dreaming of a rich-set table. But my dream will hardly ever become a reality"

7. *Final conclusions*

- Poverty is spread throughout the country;
- The risk factors with the greatest influence on the living standard of the population, and above all, of the poor persons and households, are the *education level* and *place of residence*.

- Poverty in the urban and rural areas varies in its intensity, possible conditions and mechanisms for poverty reduction;
- Poverty in rural areas is more expressed, due to the lower level of education, greater number of several-member households;
- Impoverishment is more dynamic in rural areas due to the restricted access of young persons to higher levels of education;
- Living conditions of poor households in urban areas are better than the living conditions in rural areas;
- Possibilities for better and various types of food are greater in rural areas;
- Ethnicity is not a risk factor for impoverishment;
- Poverty has a strong influence on the health condition of the poor;
- Chronic illnesses are present both in the rural and in the urban households;
- Poverty has strong influence on the level of education of persons in poor households. The level of education of poor persons has strong influence on deepening the poverty;
- Children in poor households do not attend pre-school education;
- The number of children, especially in Roma households, who do not complete primary education is increasing;
- Poor persons have limited access to more quality educational and health services;
- The majority of poor persons are welfare beneficiaries. Welfare is also granted to households, which, according to their revenues and living conditions are in a much better position than the persons and households that are not welfare beneficiaries (pensioners, employed persons with low income). In the households visited for the purpose of this analysis, such households were also interviewed;
- Part of poor households also received various types of humanitarian aid. The experience is mostly negative due to: non-transparent allocation of humanitarian aid, granting aid to persons not entitled to be granted under any criteria. The majority of poor households did not have any or sufficient information on the types of humanitarian aid, conditions under which it can be received;
- The majority of welfare beneficiaries are registered in the Employment Bureau as unemployed persons, but at the same time they are engaged in different types of informal activities.

CHAPTER VI. ASSISTANCE TO THE POOR AND THEIR ACCESS TO SERVICES: REVIEW OF THE CURRENT SITUATION

Poor people, along with all other citizens, use public services. The manner in which these services are provided can have significant consequences for the poor, both positive and negative. Policies in respect of employment, environment, housing, transport, agriculture, law enforcement etc all impact on the lives of the poor. However, there are three services in particular the provision of which has widespread significance for poor people: these are Social Protection, Health and Education. This Chapter therefore addresses the issues surrounding the provision these services and the context in which they are delivered.

A. SOCIAL PROTECTION

1. The current situation in the field of social protection in the Republic of Macedonia

The social protection system in the Republic of Macedonia is provided through the systems for *social insurance* and *social protection*. Social insurance represents a framework of measures, which provides insurance against risks, such as: illness, motherhood, old age, disability and death, and is realized through the systems of health insurance and health care; pension and disability insurance; and unemployment insurance. These systems are mainly financed by contributions on employees' gross wages, and, when needed, certain deficits are covered by the state Budget.

Social protection services provide welfare and social services on the basis of need, that is, to people who are unable to provide for themselves. Unlike social insurance, social protection is financed through the state Budget. The Ministry of Labor and Social Policy is responsible for the implementation of the Law on Pension and Disability Insurance, the Law on Employment and Unemployment Insurance, the Child Protection Law and the Law on Social Protection. This Ministry creates policy, proposes the legal framework and executes control and supervision over the implementation of the laws and the relevant bylaws. The direct services are provided by the centers for social work, which have authority in one or more local communities. There are 30 centers for social work on the territory of the Republic of Macedonia.

The Pension and Disability Insurance Law is implemented by the Pension and Disability Insurance Fund, which is an independent legal entity. According to this Law, services to the citizens are provided by 30 divisions of the Fund (regional units).

The State Employment Bureau is an institution through which the Law on Employment and Unemployment Insurance is implemented. The unemployed exercise their rights deriving from this Law in the regional units – employment bureaus.

The Child Protection Unit, within the Ministry of Labor and Social Policy, takes care of the implementation of the Child Protection Law, while the Social Protection Unit is in charge of the implementation of the Law on Social Protection.

The Ministry of Health is responsible for the implementation of the Law on Health Care. Financing the activity and the services is realized through the Health Insurance Fund, as a separate organizational unit.

1.1 The social protection system in the Republic of Macedonia

The system for social protection in the Republic of Macedonia is based on the provisions of the Law on Social Protection, enacted in 1997, and the associated regulations defining the conditions, criteria, manner and procedures for granting welfare.

According to the regulations, the central government performs the role of a main organizer of the activities in the field of social protection, the objective of which is prevention and elimination of the basic social risks faced by some citizens. The social protection system in our country involves:

1. *Social prevention* measures (incidence of social risks);
2. *Off-institutional protection* (assistance to individuals and families facing nuptial problems, housing problems, nursing of old and disabled persons);
3. *Institutional protection* (assistance to people having certain psychic and physical disabilities in appropriate institutions); and
4. *Welfare*.

Taking into consideration the character of the National Poverty Reduction Strategy, the focus in this chapter will be put on the field of welfare and support of the socially unsecured persons. Although each of the above-mentioned measures has a specific influence in poverty reduction, the main role belongs to the last measure, especially according to the funds allocated for its realization. According to the regulations, socially unsecured individuals, able and unable to work, as well as individuals with health problems, who need special care, can apply for welfare under certain conditions. The welfare can be received in money, as permanent financial assistance (for individuals unable to work) and as financial welfare (for individuals able to work), as well as in kind and in rights (right to health care).

According to the regulation, households eligible to receive welfare are those, the total monthly income of which, regardless of the source, is less than the pre-determined amount of welfare for a household of an adequate size, amounting from 1,700 denars for a one-member family, up to 4,200 denars for a family of 5 or more members⁷. The particular amount of assistance for a family is calculated as difference between the income earned and the maximum sum determined for a family of the appropriate size.

In order to give the system a stronger economic dimension, the right to receive a welfare has been limited in time, for a period of 60 months with a gradual reduce in the amount of the assistance, to the level of 50 percent of the initial amount, in the last year of the receiving period. After this period, in order to stimulate the individuals' employment efforts, they are not allowed to apply for this kind of protection in the following two years.

In addition to the above mentioned, the social protection system in the Republic of Macedonia involves certain number of other instruments which contribute to the reduction of the level of social risk, the members of the vulnerable population groups face. Part of these measures takes the form of social protection measures, while the others represent economic measures, which, beside their basic role, play an additional, social protection role. Among them, it is necessary to mention the following:

1. *Unemployment benefits* due to structural changes. In accordance with the Law on Employment and Unemployment Insurance, a special compensation from the Budget for covering the living expenses, health and pensions insurance is provided for part of the people who lost their jobs because of the structural changes.

⁷ According to the official exchange rate, the amount ranges from 25 to 65 US\$.

2. *Public works*. The Law on Employment enables organization of such activities primarily aimed at facilitation of the problem of unemployment, having at the same time an impact of alleviation of the social risk for this category of the population.
3. *Public housing*. The provision of public housing has played an important role in the facilitation of the housing problems for a part of the population, especially in the past.
4. *Controlled prices* of some of the basic food products, electricity, heating, gasoline, etc. aimed at preventing monopolistic behaviour, involves a significant social protection element.
5. *Free education* enables deduction of part of the risks of impoverishment;
6. *Child allowance*. This measure is implemented as a financial assistance for families the total income of which is below certain amount, and is determined according to the number of children in the family, limited up to three children. This amount is treated as part of the family income and is deducted from the amount of other assistance approved to the same family.
7. *Minimum wage* regulations. Being a part of the collective bargaining, these rules prevent certain number of employees from falling into the vulnerable population groups.
8. *The activities of the humanitarian aid organisations*, which provide certain amounts of assistance in kind for the socially vulnerable population.
9. *Redeployment and re-training programs*, which were mostly introduced through the Privatisation Agency in the period of transition.
10. *Other measures and instruments*, such as scholarships and student loans, labour relations regulations, etc.⁸

1.2 Identification of the basic sources of risk and vulnerability and the most vulnerable groups of population

The analysis of the current situation in the field of social protection in Macedonia has resulted in several findings:

1. The total amount of welfare granted in the Republic of Macedonia has been relatively stable during the last three years and it amounts to about 2.500.000.000 denars annually (app. 38,000,000 US\$ – see Table 6.1). The permanent financial assistance amounts to about 140,000,000 denars annually (app. 2,100,000 US\$).

This amount represents about 1.2 percent of the country's GDP. However, according to the state budget data, various transfers amount 5.1 percent of the GDP⁹. What is concerning is the fact that the expenditures of the social protection system (various monetary transfers, welfare, salaries and operating costs of the public social protection institutions – excluding the costs of the Ministry of Labour and Social Policy) represent 26.26 percent of the total expenditures in the state Budget in 2000, and approximately 19.5 percent of the total budgetary revenues¹⁰.

⁸ As a very important element, beyond to the system, one should mention the tolerance of a very high level of “grey economy”, through which the state, unofficially, secures the survival for a part of the poor population.

⁹ This amount consists of transfers to the Pension and Disability Insurance Fund, as well as transfers for payments to the workers who had lost their jobs in the process of restructuring of loss making enterprises. These transfers go beyond the narrower social protection system.

¹⁰ According to the final statement of the Budget of the Republic of Macedonia for 2000.

The same table shows that the number of households – welfare beneficiaries gradually increases, reaching the number of 75,222 as an average for the year 2000 (77,309 in December 2000). At the same time, the number of households – permanent financial assistance beneficiaries, slightly decreases and amounts to about 5,000 in 2000. These figures show that only these two programs cover about 80,000 families or 300,000 people¹¹.

2. Most of the welfare beneficiaries are unemployed people (See Table. 6.2). Their share in the total number of holders of the right to assistance is as high as 90 percent, which shows a high degree of correlation between these two problems.

3. From the educational point of view, most of the holders of the right are people with low level of education (See Table 6.3). There are almost no beneficiaries among the population with higher education. It proves that the problems of poverty and access to education should be treated integrally.

4. Table 6.4 shows the structure of the welfare beneficiaries according to the family size and provides some interesting findings. More than 50 percent of these people live in families consisting of 4 or more members. It might appear useful if we observe this fact in relation to the ethnical structure of the beneficiaries. Namely, the share of the Albanian and the Roma population is larger than their share in the total population. Taking into account that the average family size among these people is bigger, the interrelationship between these two issues becomes obvious.

Table 6.1 Average Number of Households – Welfare Beneficiaries and the Total Amount Spent by Years

Type of assistance	1998		1999		2000	
	Avg. no. of users	Total amount	Avg. no. of users	Total amount	Avg. no. of users	Total amount
Welfare	62.092	2.333.298.777	68.143	2.520.283.791	75.222	2.437.630.856 ¹²
Permanent pecuniary assistance	5.957	141.514.112	5.099	134.038.276	4.953	144.808.974

Source: Ministry of Labour and Social Policy

Table 6.2 Categories of Households – Welfare Beneficiaries According to the Status of the Holder of the Right

Category of household	Share (in percent)
Employed	5,2
Retired persons	0,3
Unemployed	88,9
Permanent financial assistance beneficiaries	0,1
Other	5,5

Source: Ministry of Labour and Social Policy

¹¹ Calculated by using the average size of a family in the country which is 3,85 members, according to the census in 1994.

¹² In the year 2000 the total amount spent is lower than in 1999 because in April the same year, the amount has been lowered by 30 percent for the first group of beneficiaries. This is a result of the provisions the objective of which is encouraging the abandoning of this regime.

Table 6.3 Educational Structure of the Holder of the Right to Assistance

Qualification (level of education)	Share (in percent)
Unskilled	45,8
Low (primary) education	13,5
Semiskilled	4,6
Skilled	4,1
Highly skilled	0,6
High school education	21,7
Advanced education	0,8
University education	0,7
Others	8,2
TOTAL	100

Source: Ministry of Labour and Social Policy

Table 6.4 Structure of the Households – Welfare Beneficiaries, According to the Family Size

Family size (number of members)	Share (in percent)
Single	12
Two members	12
Three members	20
Four members	31
Five and more members	25
TOTAL	100

Source: Ministry of Labour and Social Policy

Table 6.5 shows the basic risk groups from the poor population and the basic forms for their protection through the system for welfare and protection. Most of the sources of vulnerability can be considered *structural*, i.e. long-lasting. However, the case of the displaced population due to the military actions in the crisis regions in the country may, hopefully, be considered as a *transitory* (temporary) reason for poverty. Although the period of economic transition and the problems deriving from it are most often considered transitory reasons for poverty, that is not the case in our country. Namely, the unemployment rate of more than 30 percent, the bankruptcy of entire industries, the impoverishment of whole areas dependent on a specific industry, the inappropriate education, the religious convictions and weak birth control among certain ethnic groups cannot be considered to be transitory problems. The fact that the transition has caused enormous social and economic costs, that it has lasted for more than a decade without significant achievements in the field of economic development, economic efficiency and the life standard, shows that the risks of impoverishment will exist for a considerable time in the future.

From this significant conclusion derives the strategic decision concerning the measures for poverty reduction. Namely, the measures that should be taken should be based primarily on *the economic policy* (economic stabilization, investment activity, rapid economic growth, as well as, creating new employment possibilities, as a summary result from all of the above). However, taking into account that the effects of these measures cannot be expected in short term, for those population groups who will continue facing the risks for their social security, *programs and*

measures for risk diminishing should be designed (re-training, loans, etc.) as well as *adaptation for living with risks* should be provided (social transfers).

Table 6.5. Vulnerable Groups, Sources of Vulnerability and Their Coverage with Social Protection Measures

Vulnerable group	Indicator	Reason (source)	Coverage within the current system
Unemployed	90 percent of all the welfare beneficiaries	The period of transition and the collapse of entire industrial branches	Compensation for unemployed persons due to structural changes Welfare Public works Re-employment and retraining programs
People with low level of education	60 percent of all the beneficiaries	Mostly exposed to the transition and the loss of jobs	Welfare Re-employment and re-training programs
Retired people and elderly		Weak pensions system, low and irregular pensions	Budgetary transfers to the Pensions Fund Pension system reforms
Large households	56 percent of all the beneficiaries (45.000 families have been using child allowance in 1997)	Often found among the low educated people and some nationalities (Albanians, Roma)	Child allowance Welfare
A new category: Casualties of war	Several tens of thousands of people temporary left their homes	Movement of large numbers of people due to the war conflict	

2. Distribution of Responsibilities in the Field of Social Protection Among Different Levels of Government

According to the law, the responsibility for planning, organisation, implementation and financing of social protection belongs to the central government. With respect to this, the state is responsible for almost all the significant components of the system, such as:

- *The state, i.e. the Government gives approval for establishment of institutions for social protection (which, on certain conditions, can be established by the municipalities);*
- *The government regulates the eligibility criteria for the intended welfare beneficiaries;*

- *The Minister of Labour and Social Policy assigns and dismisses the general managers of the institutions within the system;*
- *The entire financing of the social protection is a part of the central budget;*
- *The government, i.e. the competent ministry supervises the work of the whole system for social protection and its institutions, etc.*

However, the social protection system in the Republic of Macedonia contains a particular, but very important degree of *decentralization* of its activities. Namely, the system involves a network of social protection institutions dispersed all over the country. The basis of the system consists of the 30 so-called *inter-municipal centres for social protection*, located and organised in all the municipalities, according to the previous territorial division of the country. The purpose of this kind of dispersion is to place the activities of social protection as close as possible to its direct beneficiaries. This is especially evident in Skopje, the capital, where in all individual municipalities (according to the previous territorial division) centres are organised and operate under the co-ordination of the *inter-municipal centre*. The municipal, i.e. inter-municipal centres receive and review the applications submitted by the potential beneficiaries, decide upon the eligibility of the applicants and perform the approved monetary transfers. This facilitates the access to the necessary assistance and lowers its costs, while the higher government bodies are not disturbed with routine work, which is one of the main aims of every decentralization.

In addition, the social protection system involves 12 other institutions for *nursing and care* of old persons, disabled and ill people, young children, etc., predominantly located in the capital city.

3. Recommendations for Improvement of the Social Protection System in the Republic of Macedonia

3.1 Recommendations Regarding the Decentralization of the Social Protection Plans

Expected significant effect of decentralization is empowering citizens – users of certain kind of services – with influence on the planning and management functions with regards to provision of social services. This should contribute to more realistic identification of their needs, and the problems in the implementation of policies, as well, thus leaving more room for policymakers in creation of policies.

Having in mind the current situation in our country in this area, the directions of the local self-government reforms, the experience in the area of decentralisation from other countries, especially those from Central and Eastern Europe, several suggestions could be drawn regarding the character of the possible decentralisation of the social protection system in Macedonia, as well as several issues deserving special attention are to be stressed:

1) The existing *administrative decentralisation* of the system can be considered very favourable basis for the forthcoming steps in this direction. The existing institutions possess most of the necessary technical facilities, appropriate staff, the procedures are made operational and are performed efficiently. The existing network of institutions will provide cushion against the increase of the administrative costs (at the local level), which is inevitable in cases of such changes.

Therefore, we would recommend to keep the existing inter-municipal centres, and some of the activities transferred to the local level may be performed by two or more municipalities jointly. Of course, in order to improve the access to the system, the highly populated municipalities, or those

which are geographically more dispersed, should have the opportunity to establish their own centres at municipal level, following the example of Skopje, or, possibly, at an inter-municipal level.

2) In order to achieve the expected effects from the decentralisation and transfer of responsibilities at the local level, it is supposed to be accompanied by an appropriate *fiscal decentralisation* and *transfer of decision-making authority* to the same levels of government. The decision-making regarding eligibility criteria and conditions requires careful consideration of the financial potential for realisation of such programs.

In order to provide the necessary funding, some of the fiscal revenues will have to be transferred from the central government to local level. Even in the case of a selection of the best possible funding solutions, the very nature of the social protection is likely to create deficient financing if left entirely to municipal funding. Namely, one could expect that the poorest regions would have lowest revenues, and vice versa. Because of that, a certain amount of state transfer is supposed to be retained, in the form of a “specified” transfer, with strictly defined purposes, conditions and criteria, and a rigorous supervision over the accomplishment of the obligations at the local level.

3) In order to intensify the engagement of the municipalities in this field, an interesting mechanism is available which has already proved efficient in different countries. It refers to the utilisation of what are known as “matching” grants. For instance, a poorer municipality might receive two denars from the central budget for every one denar it raises and spends on social protection, while the richer municipality would receive one denar for every two denars it raises and spends for the same purpose.

4) It is extremely important to provide *supervision* to insure a correct implementation of the new system. The ministry that is competent will still have to supervise the utilisation of the collected and especially of the transferred funds, as well as to supervise the proper application of the criteria and conditions set by the government. The experience from other countries shows that the increased fiscal decentralisation and control over larger amounts of money might stimulate the increase of *corruption* or lead to misallocation of the funds. Another problem is the possibility of failure of the system in certain regions, where the insufficiency of the funds collected might have its impact on the quality of the provided services.

3.2 An Assessment of the Current Social Protection System

The analysis of the current situation in the field of social protection provides us with several indicators, which might be very useful in making suggestions for the appropriate actions to improve it:

- The number of employed, i.e. people who contribute to the system, has successively decreased over the last few years, especially compared to the number of the beneficiaries of the system. If we add the number of people using nursing services and the number of retired people, whose incomes are also derived from the value created by the active and employed population, the ratio amounts to less than one employed person per one beneficiary.
- This brings us to the conclusion for the *weak fiscal sustainability* of the system, which might lose the basis for self-financing if such tendencies persist.
- The assessment of *the cost-effectiveness of the system* indicates that the centres for social protection make operating costs of about 50 denars for the distribution of every 1,000 denars of monetary assistance, i.e. the ratio is 50:1000, which might be considered as *satisfactory level of efficiency*.

- *Adequacy of benefits.* The highest amount of assistance (for a five member family) amounts to 4.200 denars a month (approximately 65 US\$, or 15 US\$ per family member), a sum which is far from being sufficient to leave the poverty group.
- The system already contains elements to avoid *vulnerability-raising incentives*. One of them is the limitation of 5 years as a period, over which welfare can be received, which is supposed to stimulate the workers' return to normal employment. On the other hand, the amount of monetary assistance is too low to cause the effect of *crowding-out* of the other potential instruments within the system.
- A closely related problem is the high number of employees whose salaries have been overdue for months. This creates a category of workers whose salaries are high enough to exclude them from being eligible to receive some kind of financial assistance, while their actual incomes are below the level of the help provided for the poor.

The changes in the system in the last few years were predominantly aimed at introducing more severe conditions for eligibility and motivating the beneficiaries to make more efforts for their re-employment. However, the overall state in the economy and at the labor market developed in the opposite direction than expected. This particularly applies to the extremely critical 2001, and partially 2002, when recovery is expected from the shock caused by the security crisis in the Republic of Macedonia. Therefore, it is time to reconsider the regulation for successive reduction in the amount of social assistance. This provision makes sense in normal circumstances in the economy, economic growth and creation of new jobs. The situation in Macedonia during the last 18 months (since the beginning of 2001) was not conducive for such a policy.

Basing the social care exclusively upon the social transfers could not significantly contribute to poverty reduction, particularly due to the fact that its causes are not temporary, but are structural in nature. Although there is a good reason to keep this system operating, the essence of the interventions must be focussed outside the social protection and in complementarity with the other proposed measures, especially those from the economic domain.

3.3 Selection of the optimal mix of social protection measures

Taking into account the limited resources available, as well as the poverty profile in our country, a number of protection measures and interventions could be suggested which would fill some of the gaps in the system. These measures are usually classified into three broad domains:

A) *Labor market.* The labor market is usually pointed as the first segment to be transformed as a part of the changes of the social protection system. With respect to this, the suggestions are mostly directed towards creating more *flexible* labour market, providing unemployment insurance, decentralised collective bargaining, lower minimum wages, active labour market programs, etc. The labor market has been the subject of a different chapter in this strategy.

B) *Pension system reforms.* Pension system reforms are being implemented in many countries worldwide, because of the problems these systems have faced in the last decade. The aim of these reforms is to secure the financial sustainability of the system, mainly through the establishment of multi-pillar pension systems. The Strategy for pension system reforms in Macedonia has already been completed and the implementation of the system is expected to begin the next year.

C) *Social protection.* Although all of the measures mentioned below do not fall exclusively under the heading of social protection, the following interventions could be suggested as opportunities for reducing the social risks:

1) The scope for changes strictly into the social protection system is severely limited because of the exhausted financial potential. Some opportunities for improvements in the social status of the

vulnerable population lie in some *subsidiary facilities*, such as free health insurance for the welfare beneficiaries¹³, school fee waivers, providing better information about the employment opportunities, scholarships, adaptation of some objects into facilities for accommodation and food delivery for the homeless, etc.

2) *In-kind transfers*. Although this kind of assistance to the poor has been mentioned in the law, in practice, it has only been implemented through the activity of the humanitarian organisations. In-kind transfers, consisting of commodities for meeting the basic needs, mostly food products, or in the form of utilities like electricity, water, heating, etc. serve more useful purposes. First, they secure better utilisation of the funds allocated as welfare for the poor, unlike monetary transfers, the spending of which is left entirely to the recipient. Second, the usage of in-kind transfers stimulates the utilisation of the domestic production capacities. It is important here to emphasize, due to the corruption threat, the need for supervision of the public procurement process, through which the goods will be obtained.

3) *Public works*. There is already some positive experience in the organisation of public works in Macedonia (adaptation of recreational amenities, provision of public infrastructure). Assessing their current level as insufficient, it would be advisable to introduce some stimulus for their implementation at the local level, or even to make them obligatory for the local authorities. The most important element of this instrument would be to secure priority in the recruitment of workers from the pool of social protection beneficiaries. It is also important to raise the educational level of the local public administrators, to provide them with the skills necessary to initiate and organise such activities.

4) Small *credit lines* for the households. This instrument has also already been implemented in small scale in our country (the PRIZMA project). It refers to provision of small credit lines (from the World Bank, for instance), to help poor households with specific skills in starting their own businesses, enabling them to earn individually in the future. This is especially applicable for those regions where entire industries (textile, leather, food processing) have collapsed, and the majority of the skilled labour force dependent on these industries has been released. Such programs are supposed to be co-ordinated with the activities of the National Enterprise Promotion Agency.

5) *Education* of mothers and birth control. Taking into consideration the fact that the poverty is closely connected with the education level and the size of the families, it would be useful to undertake measures for education of the women regarding birth control and family planning.

6) Support to the NGO's in the provision of assistance to poor people. Lately a number of non-governmental and voluntary organizations have provided assistance to poor people, in particular organizations for protection of handicapped persons, women organizations, organizations for protection of children, NGO's against drug abuse, alcoholism, smoking, AIDS, self-help groups etc.

¹³ Currently, only the recipients of permanent monetary assistance have been included.

B. HEALTH CARE

1. Description of the Existing System

1.1 Disposition and Capacities

The right to health care of the citizens of the Republic of Macedonia is guaranteed by the Constitution. The Law on Health Care enacted in August 1991, promotes the right to health protection of every citizen of the Republic of Macedonia. Macedonia belongs to the group of countries with a *national system* for health insurance and health protection. The main pillar of the system is the *public health*, which represents an object of strong reforms, including plans for privatisation of some of its components. The Health Protection Law allowed the development of private sector health care activities. Private practice in medicine, dentistry and pharmaceuticals can be performed, alone or in a private office or pharmacy, by all who meet the conditions stipulated by Law.

In terms of the existing capacities, the Republic of Macedonia is not far behind the highly developed countries. As far as total number of doctors, dentists and pharmacists per 1,000 inhabitants, as well as hospital beds per 1000 inhabitants is concerned, Macedonia is equal to the developed countries of Western Europe. Health care capacity indicators show that in 1999 in the Republic of Macedonia one general practitioner covered 1,700 inhabitants, a paediatrician 873 children, school medicine specialist 1,900 high school students and young people, labour medicine specialist 6,400 employees, a gynaecologist 7,000 women older than 13 years, while one dentist (dentists and specialists) 1,900 inhabitants. In the patronage service one nurse covered 1,700 inhabitants.

The picture changes when the average duration of a hospital treatment is concerned (it is a little bit higher than in the countries with which the comparison was made), as well as the degree of exploitation of the capacities (lower than in the other countries). This shows that our health system faces a *lower degree of efficiency* compared to the relevant countries.

The number of employees in the public sector has remained almost unchanged in the last few years and consists of about 24,000 people. At the same time, the number of private health care organisations is increasing daily. By 31 of December 1997 there were 1,155 private health care organisations, 464 in the area of medicine (261 general practices, 175 specialised practices and 28 bio-chemical laboratories), 361 dental practices and 330 pharmacies. This trend continued in 1998 and by 31 December 1998 the number of private health care organisations amounted to 1,316. Most of them employ 1 to 2 doctors, dentists or pharmacists. Over 300 private health care organisations, mostly general and specialised practices have signed contracts with the Health Insurance Fund.

Regarding the *location* of the private practices, it can be noted that most of them are established in urban areas, whereas very small number in rural ones. Thus, more than 85 percent of the private practices are located in cities. This percentage is even higher as far as dental practices and pharmacies are concerned: more than 90 percent (precisely 93 percent) of the private dental practices and pharmacies are in the cities throughout Macedonia.

1.2 Financing and Basic Kinds of Health Protection

The health care system is basically financed by the *compulsory health insurance*, which provides health insurance for all citizens (employed in public and private sector, pensioners, social cases, disabled, unemployed, students, farmers and others, as well as for the members of their families.) The compulsory health insurance is financed through health care contributions determined by the

Parliament of the Republic of Macedonia. Besides from the health insurance contributions, part of the preventive health programs, submitted every year, are financed from the Budget of the Republic of Macedonia. For those citizens to whom the aforementioned health insurance bases do not apply, health care is financed from the Budget of the Republic of Macedonia, too. These citizens are children up to the age of 18 years (if they continue their education up to 26 year of age); women in relation to pregnancy and delivery, childcare and contraception; people older than 65 years, as well as people carrying infectious or other heavy diseases.

The compulsory health insurance provides the following rights to basic health care for the insured:

- Doctor visits, examination to determine the illness, health condition follow up, medical measures for prevention, fighting and early discovery of illnesses;
- Urgent medical help, ordination and home treatment;
- Health care for women related to pregnancy and delivery;
- Prevention, treatment and correction of mouth and dental diseases;
- Specialised-consulting examinations and testing;
- Hospital treatment, accommodation, care and rehabilitation;
- Medication and medical means according to the list of the Health Ministry;
- Prostheses, orthopaedic parts and apparatuses according to the list of the Health Ministry.

With the compulsory health insurance, the employed persons have, besides the right to basic health protection, also the right to wage compensation due to illness, injury, pregnancy and birth.

The Health Care Law pays special attention to *preventive health care*, that is health security related to protection of the health of the overall population. These are measures and activities for health protection from damaging effects of gas, noise, ion rays, pollution of the water, the air, the soil and the food products, as well as other harmful exposures. The Law prescribes, and in practice are implemented eight (8) preventive health protection programs: vaccination of the population, program for the detection, prevention and fight against infectious diseases, programs for the prevention of AIDS, tuberculosis, drug addiction, brucellosis, mother and child health protection program, family planning program and program to encourage blood donation.

Besides the compulsory insurance prescribed by Law there is an additional compulsory insurance for certain categories of insured (employed in public and private sector and farmers) aimed to provide health care in case of injure at work or professional diseases. There is a possibility for *supplementary voluntary insurance*, which is very rarely practised.

The money collected in the *Health Insurance Fund* come from several sources, but most of it comes from health insurance *contributions*, according to the determined rates and bases for the calculation and payment of contributions. The compulsory health insurance contribution rate for persons employed in state and private companies amounts to 9.2 percent of the gross wage.

The contribution of the pensioners is paid by the Pension and Disability Insurance Fund (PDIF) with paying the pensions. For the unemployed who receive health insurance the contribution is paid by the Employment Bureau, whereas for the social cases the contribution is paid by the Ministry of Labour and Social Policy.

For a better quality of the services, *co-financing* by the users is introduced. However, the welfare-beneficiaries, as well as some other categories of poor have a beneficiated approach in using any kind of health-care services:

- *welfare beneficiaries* are exempt from payments;
- *poor segments* of the population are categorised according to the income of the family and symbolic sums of co-payment have been determined for them;
- *the vulnerable categories* of the population (mainly children) are either exempt from co-payment (through special programs) or set at lower levels of co-payment, dependent of the age group (0-1, 1-6, 7-18, over 65);
- with special programs, protected and exempt from co-payment are several categories of people or patients with certain diseases, while a novelty is the inclusion of an enlarging group of uninsured persons who have been given treatment free of charge in case of urgent medical interventions and with certain diseases (29 in number) that are a social and medical burden in the pathology of our population.

1.3 Positive effects from the functioning of the system so far

The direct and standard health indicators in the Republic of Macedonia mark a continuous progress. *The mortality rate* marks a constant decrease, so in 1999 it reaches the level of 8.291 per 1,000. Among the causes of death most frequent are diseases of the circulatory system (55 percent), followed by malign neoplasms (17 percent) and symptoms, signs and insufficiently defined conditions (9 percent). Similar positive movement, that is, decrease has been noted in the morbidity. At the end of last century a decrease of 4.1 percent was noted in 1999 compared to 1998. In the structure of illnesses most present are illnesses of the respiratory, circulatory and digestive systems.

In the period 1961-1991, life expectancy increased from 61 to 72 years, which speaks of a relatively efficient health protection system in the past. The Macedonian citizen can expect at the turn of the 20th to the 21st century an average life expectancy of about 73 years. The usual life expectancy of women is somewhat higher and amounts to a little less than 75 years, whereas among men it is 70.5 years. In the period 1995-2001, these indicators show minimum, but constant, positive changes, which means that, besides the negative effects in the economic and the social sphere, the transition in the Republic of Macedonia has not provoked a drastic decrease in the average life expectancy of the population, as it was the case in some of the less successful transitional economies.

Most of the insured persons are satisfied with the situation in the primary health care, since they have no major problems accessing the general practitioner¹⁴. Certain dissatisfaction can be noted in ¼ of the insured, caused by the fact that they have to wait for a relatively long time. There are very little complaints as far as distance from the general practitioner is concerned, i.e., only 2-3 percent of the citizens have problems in accessing their general practitioner because his/her office is relatively far from their home. This entirely corresponds with the fact that the distribution of public health institutions in Macedonia is quite satisfactory.

Namely, the public health care sector with more than 1,500 organisational units and centres provides a relatively easy access for all insured. Having in mind the small territory of the country as a whole, more than 90 percent of the population can contact the health services in less than 30 minutes. More specifically, 60-70 percent of the population needs only 15 minutes to reach the doctor of choice, while only 1 percent of the population travels over an hour to reach the doctor of choice. This is especially important for the rural areas. Nevertheless, we have to point out that

¹⁴ According to the "Public opinion on the reforms in health care" survey, Institute for social, political and juridical research, Skopje, June 2001.

precisely the medical centres in the mountainous area villages are not fully covered by permanent presence of a doctor. Of course, this reduces to some extent the aforementioned positive assessment. Regarding accessibility of dentists, the picture is almost unchanged. Namely, almost half of the total number of inhabitants does not have problems accessing their dentist. Yet, the situation in the villages is more problematic, since only 30 percent of the population in the village has easy access to a dentist. This, by all means, is not the case with the other 70 percent. For them, distance is the greatest problem.

2. Reforms in the Health Care System and Their Influence on the Poor People

The basic premises of the former health care system derived from the efforts to provide a *full coverage* and *access* to health care. As such, they led to an over-dimensioned network of health care organizations. Besides the above-mentioned positive effects of the existing system, in the newly created situation, the negative sides also appeared. There is a wide network of health care organizations, which is dislocated and accessible to the population of all the parts of the country, but, it is irrational and expensive. This network of the public health care organizations, which represent the basis of the health protection of the population, was planned in the previous system. The weaknesses of the previous system, the high decentralization and local financing of the health system led to a great fragmentation of the system, and resulted in duplicating facilities, equipment and services.

The current *unique, centrally financed health care system* managed to eliminate part of the weaknesses of the former decentralized system. Namely:

- having in mind the size of the country, it contributes to the financial stability of the system;
- enables re-distribution of resources to achieve inter-regional equality;
- due to the centralized administration, the administrative costs of the system are reduced.

In the transition period up to now, on the basis of own experience and knowledge and the recommendations from international institutions, the process of designing a *national health reform project*¹⁵ commenced. The need to build a reform project in health care was imposed because of its worse efficiency. The external factors and the structural problems in the Macedonian economy resulted in economic and fiscal crisis, which led to a decrease in the level of GDP, followed by a decrease in the funds allocated for health protection. As a consequence, a significant decrease in the quality of the basic health services appeared. Thanks to this reform the problems were partially amortized, that is, the fall of the previous system was prevented and the introduction of the private sector was made possible. Besides, one of the basic advantages achieved up to now is the significant improvement in the financial situation of the Health Insurance Fund.

The basic goals of the health sector reforms are:

- providing *universal access* to highly quality, basic preventive and curative health care services and essential medications;
- establishment of more adequate roles for the *public* and the *private* sector;

¹⁵ This project on the transition in the health care system is supported by the World Bank and by the state Budget. For this cause, the World Bank, in September 1996 approved the Loan for transition of the health care sector (under IDA conditions), which amounted \$16.9 million.

- enabling *fiscal sustainability* of the public consumption in the health area;
- increase in efficiency in the use and utilization of the resources;
- pursuant to WHO Strategy, an adequate significance is given to the protection of persons with mental illness and addictions with a special Program.

The goal of the planned reforms in the field of the basic health care services is establishing an economical, preventive and curative health protection as a basic pillar of the health care system. Simultaneously, the complex task for re-structuring and consolidation of the existent network of public sector facilities has been started.

New manner of payment for the health services was introduced, i.e. the so-called "capitation". Payment by capitation motivates the doctors to work with higher quality on one hand (in order to achieve better health and greater satisfaction of their patients), and imposes economic responsibility and rational operations, on the other.

The new model of compensating the doctors will bring the following benefits to the population: more efficient protection of the rights of the patients, provision of affordable and continuous protection of the population anywhere and anytime (the doctors will receive special financial incentives to work in the rural areas), provision of higher-quality and more efficient health protection, improvement of the health status of the population, increase of the satisfaction of the patients when using the medical services, solidarity in health insurance and equality in the usage of medical services, reduction of financial risk and the cost of the medical services, protection from large financial expenses for certain medical services, with small participation of the beneficiaries in the total costs etc.

In the *pharmaceutical sector*, the purpose is to increase the affordability of certain medications by creating more competitive pharmaceutical market, establishing efficient procedures for procurement of the medications in generic form and promotion of rational practices in prescription of drugs, via adequate training of doctors in the primary health protection.

3. *Recommendations*

The sustainable health care financing system should have as its principles: equal access, cost-benefit analysis, solidarity, optimum quality of services, and equalization of conditions in primary health care. The goals in this sense would be:

- Adequate allocation of funds (sources)
- Correction of co-payment in primary health care and hospitals;
- Fiscally sustainable package of services with benefits;
- Privatization.

Special attention should be given to *co-payment i.e. co-financing* since it includes the confrontation between the need for higher efficiency and reduction of possibilities for social exclusion.¹⁶ In the short run, a more precise definition of the list of co-payment exemptions, a basic criterion for which, should be the social one.

¹⁶ The danger of social exclusion related to co-payment can be sensed also from the way of thinking of the insured persons themselves. The vulnerable categories of citizens (mainly those of older age groups) most frequently state that they are against co-payment and consider it too high or not necessary at all.

In the health system reforms a special place is given to the changes in the *primary health care*. It is the first level of health care where the citizen/patient gets involved in the system and where the state tries to provide the most adequate system of health services to meet his basic needs (regardless of the financial situation and ability to pay). Having this in mind, it is an obligation of the state to undertake measures for the development of primary health care that would start from:

- Protection of the health of mothers and children, i.e. family planning;
- Prevention and control of diseases typical for our environment;
- Immunization – vaccination, as a system for massive protection of the population;
- Provision of essential medications;
- Promotion of healthy way of life;
- Promotion programs for reducing morbidity and mortality that are not a result of diseases (injuries at work, traffic accident trauma).

In order to provide an equitable access to health services it is necessary to provide *adequate information* to the population about health care rights and the possibilities offered in health protection. Thus, it is assessed that in Macedonia only about 1/3 of the insured persons are aware of their rights in the area of health protection and health insurance. If we add the fact that most of the insured persons do not follow the reforms that are introduced in health care, that the need for greater information to the public gains in importance.

Reduction of social exclusion in health protection understands wider (and free of charge) health protection of pre-school children. The pre-school children, as a whole, must be provided with adequate preventive and curative health protection. Special attention must be given to children of families belonging to the specially endangered groups. The aim of the preventive examinations is to learn about the health condition of the children (individually or as group), active health supervision, discovery of health problems and counseling to improve the situation.

The Government of the Republic of Macedonia has already determined minimum personnel standards in health protection. The plan is, by 2004, to reduce the inequalities between different gravitation areas with at least 10 percent fallback, that is, surpassing the Macedonian average. By the year 2004 in Macedonia there should be one doctor at all levels of health protection for every 503 to 593 inhabitants, one dentist for 1,211 to 1,995 inhabitants, one pharmacist for 2,933 to 4,077 inhabitants, one nurse for 150 to 192 inhabitants and one employee in health care for every 56 to 71 inhabitants.

The reduction of inequalities in access to health services, as well as the partial elimination of inequalities in this domain can be achieved also through larger and continuous education of the population. It seems that Macedonia at this moment lacks modern health education means and accessories for continuous education and information of the population.

C. EDUCATION

Education and Poverty

Individuals, as well as households with a head of the household without any or with a low level of education (qualifications) have a relatively high possibility of impoverishment (see chapter 4).

A recommendation to all the citizens is that they should consider the education of their children as a *profitable investment in human capital*. The state has to help the poor in providing adequate access to quality education.

The education has to be primarily considered as a *long-term solution* of poverty, i.e. as a long-term generator of quality human capital, capable of self-employment. The education, especially primary and high school education, as a process in which the young spend a great part of their time while forming their personalities, can serve for correcting the distribution of the income and thus provide conditions for an equal start, disregarding the social status of the families. Well-equipped classrooms and sports facilities, competent and motivated teachers, school kitchens where children will receive free meals, free class books, which after the usage will be returned and used by others, regular health checkups, including dental hygiene, etc., can dramatically improve the standard of the poor children. There is no reason to explain the positive effects of these measures.

Access to Education and Poverty

Currently, almost the entire education system in Macedonia, perceived from ownership point of view of education institutions is state owned¹⁷. This determines almost entire budget financing of education in Macedonia, or *financing through redistribution*. The only exemption is higher (university) education where from the school year 2002/2003 the students from the university “Sts. Cyril and Methodius”, following the introduced practise by the Bitola University and the newly opened “University Southeast Europe” in Tetovo last year, will co-finance their studies, too.¹⁸ Furthermore, it should also be emphasized that a centralized (at national level) scheme of granting scholarships to poor pupils and students in Macedonia exists (scholarships due *needs*), and the same is true for the especially talented pupils and students (scholarships due to *achievements*).

The education in Macedonia, especially in the part of basic kinds of education (primary, secondary and university education), is *centralized at national level*. Differences and specificity in the education curriculum and in the cost are forbidden by law. The courses in *primary education* in Macedonia are unified in the entire country, and the only differences appear in the language in which courses are taught (nationalities in Macedonia have primary education in their own language). *Primary education is compulsory*. In *secondary education* different educational profiles appear, but within each profile the courses are unified in all schools. Secondary education is not compulsory.

The stated facts lead in the following important conclusions:

Considering the education *accessibility* level in Macedonia in the case of primary education complete unification in all regions of the country is achieved¹⁹. Not one individual – regardless whether poor or not – cannot be restrained or discouraged from gaining education due to eventual social aspects. Due to the existing legal compulsion requisite, the state achieves to include 95 percent of the population in primary education, and permanently attempts to achieve 100 percent comprehension.

¹⁷ Private education institutions in Macedonia encompass minimal part of the population, especially in the "basic" kinds of education (primary, secondary and university education), so this segment is totally unimportant from the poverty reduction point of view. In the case of the “additional” education (foreign languages schools, computer education centres, etc.), the ratio private/state owned schools is completely different (in fact opposite), and this segment should, and has to be a special dimension in the poverty reduction strategy of Macedonia.

¹⁸ There are differences in the enrolment policies of the three universities, which, anyhow, from the co-financing fee point of view, do not have any significant influence on the accessibility. On the other hand, the access to primary and high school education is of a far greater importance in the context of poverty.

¹⁹ However, even though they aren't measurable (measured), qualitative differences in the educational process do exist. Educational institutions in urban areas are better equipped and tend to attract better teachers. On the other hand, the classes in the rural areas are with a smaller number of students, as opposed to the relatively higher number of students in the classes in the urban areas, which, per se, is an advantage from a point of view of the lectures quality.

Considering the education accessibility level in the case of *secondary* and *higher* education noticeable inequalities by regions exist, but only concerning the proximity of education institutions. The secondary schools, and especially universities, are concentrated in the larger urban centres. Other than that, just like in primary education, no individual – poor or not – can be restrained or discouraged from gaining secondary or university education due to eventual social aspects. The unevenness of regions in education institutions proximity has influence on education accessibility, regardless of the fact that it is an objectively determined circumstance (in a country with the size of Macedonia, and in conditions of a centralized education, greater territorial and aggregate dispersion of secondary schools and universities can hardly be expected), still has a significant influence on the poverty aspect – equal access to educational services. Apart from that, the existing *level of comprehension in secondary education* is around 85 percent of the pupils that completed primary education, whereas the drop rate during the secondary education is 20 percent. The number of students who continue with the secondary education is as follows: 95 percent of pupils that complete primary education in Macedonian language, 52 percent of pupils in Albanian, and 29 percent of pupils in Turkish language. Since not only Macedonians are being educated in Macedonian language the number of pupils of nationalities that continue the education after primary school is higher than the stated percentages, but the fact remains that the number is smaller in the case of the nationalities. The comprehension rate in university education is 33.5 percent of pupils that complete secondary education.

In the case of *cost to quality of education* ratio, the same unification is present at the total territory of Macedonia. Namely, the education quality in Macedonia does not depend at all on the price paid by any service beneficiary. The basic price of education in Macedonia, in primary and secondary education as well as within the state quota in university education, is covered through redistribution according to unified cost parameters from the central government Budget, alimeted by the public taxes.

The case of the ratio *cost of education/payment capability of each individual (or family)* to access education in Macedonia can only be analysed from the point of *indirect or private education expenses*. The elementary and secondary education, and to a certain extent, the higher education in Macedonia is nominally "free", meaning that there is no direct participation in the financing of education by services beneficiaries. Only the ratio between the sum of costs of purchasing books and other learning materials, transport expenses to places where education is performed, living expenses in other cities during education period and clothing expenses during the same period, to the payment capability of each individual (or family), remains as issue which has influence on the accessibility of the poor to education.

D. LOCAL GOVERNMENT

In Macedonia there is a tendency towards decentralization, or “devolution” of some of the functions of the local government. It could not be expected that this process be completed in a short period of time, because of the need of strengthening of the capacity of local government. What follows is a short presentation of the local government system according to the latest legislation in the Republic of Macedonia.

1. Administration

State administration in Macedonia is decentralized, but almost all local governments are facing fiscal challenges to respond to developmental needs and upkeep of daily operations. There is no integrated regional state administration in the form of general-purpose central offices at the sub-national level. Instead, most ministries have their own regional units that are legally subordinated

part of to the respective ministry. Their legal basis is contained in the Law on Administrative Organs. Regional units work under the direct supervision of the corresponding ministry. The respective minister appoints the heads of the regional units, and they are obliged to act in accordance with the ministry's policy directives.

In November 1999, the Government adopted a Local Self-Government Reform Strategy in the Republic of Macedonia as a legal instrument of the public administration reform strategy. The fundamental principles promoted by this Strategy are: (a) development of the civic society; (b) adherence to the principle of subsidiarity; (c) transparency in government functions and performance; (d) improved operational and delivery capabilities; (e) flexibility and adjustments to respond to internal changes and external conditions. The local self-government reform should provide:

- Transfer of functional duties (particularly in the area of service delivery) to the administrative level closest to the citizen, thus releasing resources for the central government to focus on the strategic tasks of national importance;
- Creating conditions that allow citizens to scrutinize and monitor public service delivery and ensure efficient public expenditure;
- Development of the Macedonian state as a fully sovereign, capable and reliable partner in the area of international politics;
- Full membership of the Republic of Macedonia in the European and Euro-Atlantic organizations.

In the Ministry of Local Self Government assessment, the implementation of the Strategy to-date has been slow and partial, mainly due to:

- Slow implementation of the public administration reform and in particular due to partial functional review of the competencies of public administration bodies;
- Lack of coordination between the local self government reform, which is out of step with other public sector reforms in Macedonia such as, the health system and education reforms, as well as with the social security and financial areas, and other reform activities the implementation of which has a direct impact on the local self government; and
- Poor level of staffing and equipment of the Ministry of Local Self Government.

Based on the requirements of the August 2001 Framework Agreement for peace, Ministry of Local Self Government has recently compiled an "Action Plan for Implementation of the Local Government Reform 2002–2004" (MoLSG, October 2001). The Action Plan aims to define the priorities and objectives of reform, implementation deadlines and links with other projects and programs. The plan identifies parties that will take part in the implementation, as well as activities to be carried out, and ultimately encourage local self government units and non-governmental organizations to take a much more proactive role in the local self government and decentralization. Meantime, the Ministry of Local Self Government is suggesting consolidation into 73-80 municipalities.

2. Municipal Revenues

The municipal tax system, though small in volume, is quite complex in its structure. Municipalities are assigned three property related taxes. The most important is a recurrent tax on real and movable property. It includes non-agricultural land, residential buildings and apartments and business premises, as well as motor vehicles and boats. Agricultural land and commercial buildings on agricultural land are exempt. The tax is imposed on the basis of market values, at a uniform rate of

0.1 percent. The second is a property transfer tax, charged at the time of sale and based on the value of the transaction (at a rate of 3 percent). The third is an inheritance tax on real estate, which is imposed at varying rates depending on the relationship of the inheritor to the deceased – receipts from the inheritance tax accrue to the jurisdiction where the inheritor lives rather than where the property is located. In all three cases, national legislation sets the basis of taxation, the definition of the taxpayer, and tax rate and exemption policies.

The three taxes are subject to a tax sharing system, in which the revenues of each municipality are capped, and the excess transferred to a pool where it is available to other municipalities on the basis of “need”. The process for determining the caps and assessing “need” begins with setting of a so-called public expenditure limit (PEL) for each municipality. These ceilings were initially derived from actual revenue collections in the 34 municipalities that existed prior to 1996. These 34 municipalities were subsequently subdivided, yielding the 124 “new” municipal structure that exists at present. Since there is still no system for identifying the origin of tax collections in each of the new municipality, the Ministry of Finance (MOF) makes its initial calculation for the original 34 jurisdictions. In 2001, a new formula for allocation tax revenue became officially adopted among the new municipalities. The base of calculation of the formula includes the resident population, land area and 10 percent according to the number of settlements in each municipality. Metropolitan government of Skopje, for instance, receives 38.5 percent of PEL for the region, and its constituent municipalities, the remainder. During budget execution, municipalities are allowed to keep the revenue generated from the 3 taxes up to their respective PELs. The opaqueness of this process results in the perception that it is used as a tool of political favoritism. It also appears to widen, rather than narrow disparities in revenues. Nevertheless, the results in 2000-2001 point out that the system succeeded in the progressive redistribution of tax revenues, thus lifting the revenues of the poorest municipalities.

Municipalities also derive a significant proportion of revenues from fees. Communal fees are regulated by the law on Communal Fees, which also defines specific fees on business signs, advertisements and billboards, on the use of sidewalks in front of restaurants and cafes, on musical entertainment, on parking lots and parking spaces, on the use of squares, parks and open spaces for exhibits or commercial events. In 2000, fees accounted for nearly 15 percent of the total municipal revenues. The overall fiscal performance of municipalities has been fairly good in recent years. In each of the last four years (1997-2000) the municipalities ran an overall surplus. This largely reflects their tendency to cut expenditures in line with changes in revenues. In 1998, a 14 percent of nominal decline in revenues was accompanied by a 14 percent reduction in expenditures. Municipalities were not so quick to respond to a continued downturn in revenues in 1999. A four percent drop in revenues was accompanied by a six percent *increase* in expenditures. Revenues shot up in 2000, due to privatization and related payments of property transfer taxes. However, this was matched by a whopping (45 percent) increase in capital spending, the rate of increase in total spending was considerably less than the revenue increase, resulting in a positive overall balance for the year. (Excerpted from “Implementing the Framework Agreement”, the World Bank Document, June 2002)

E. C O N C L U S I O N

This chapter has provided an overview of the nature and impact of the three key services of social protection, health and education on the lives of the poor in Macedonia. As with such systems everywhere they have grown up over a considerable period of time and been subject to much change and development in the process.

Any efforts at reform or improvement will need to take account of the historic and contemporary backdrop and be alert to the potential inclusion and exclusion errors that are inherent risks associated with the attempt to target scarce resources to the most needy

CHAPTER VII. URBAN POVERTY AND URBAN DEVELOPMENT

1. Definition of Urban Poverty in Macedonia

Urban poverty has multiple dimensions and cannot be adequately defined through income-based poverty parameters. There are many non-monetary aspects of urban deprivation and multiple linkages between the different dimensions and dynamics of poverty. The economic criteria for poverty measurement direct us to the level of income/cash that is sufficient to provide minimal level of consumption of products and services, while social criteria direct us to issues of participation and/or social exclusion. The quantitative indicators show who the poor are and how poor they are. Qualitative analyses show the complexity and multi-dimensionality of the problem of poverty, including the elements that indicate the social exclusion of the individuals from the activities in the society and fulfillment of the human rights in general. Assessing urban poverty also requires looking both nationally (across all sizes of cities and towns) and within cities' boundaries (across neighborhoods) to identify location of target groups (i.e. pockets of poverty and who are the poor and where they live), causes of poverty, characteristics of poverty; living conditions of the urban poor, and to measure poverty trends over time.

Spontaneous settlements (a terminology which encompass here a broad range of informal settlements, tenement housing, substandard housing or slum settlements, is used hereafter) accommodate most of the urban poor in Macedonia (see section 4). Most are living at a very low standards and security, with absence of property rights and housing titles, proper connection to water and sewage networks and solid waste collection, the residents are permanently exposed to health risks and eviction threats. Public safety, drugs, high occupancy rates (person/room), growing informality, and living in ramshackle housing are part of life in the low-income areas. Due to sheer lack of educational facilities and/or teachers, or inadequate teaching curriculum, school dropout and illiteracy rates are also increasing, especially among the school age children of the Roma and Albanian ethnic groups. However, it must be noted that not all slum dwellers are necessarily the poorest, in terms of income, and not all poor live in slums. It has been observed during field visits that slum dwellers are not apathetic or indifferent; they play a vital role in the city economy and are part of the vibrant third sector of the economy (i.e. the informal economy). Poor informal workers complain of the temporary and seasonal nature of their work, often receiving a meager payment for their work, and sometimes with delays. They face hardship in surviving the cold winters, and difficulties of starting up small enterprises (due to costly fees, limited collateral and high interest rates). While such seasonal 'informal' workers are ranked among the lowest of the income groups among all workers, they are often screened out of social benefits because of the eligibility criteria. (World Bank 1999)

2. Characteristics and Typology of Urban Poverty

The analysis of the urbanization processes and trends during the past half a century in the Republic of Macedonia points out to a relatively high discrepancy between the quick pace of urbanization, measured by the increasing rates of population living in urban centers, and the dynamics of economic development, e.g. growth of urban employment in the formal economic activities, which could effectively absorb the available labour.

2.1 Urbanization and Urban Poverty Characteristics

While the population growth is increasing very slowly in Macedonia, 13.73 births/1,000 population, at a rate of 0.05 percent annually reaching 2.286 million people in 2030, urban population growth is increasing at a significantly faster rates. According to United Nations Population Division, Department of Economic and Social Affairs (2000), it is estimated that in relative terms the share of urban population will increase from 57.8 percent in 1990 to 66.4 percent in 2010. Such a figure will reach an unprecedented record of 74.4 percent in 2030. Skopje alone is expected to increase about 60,000 people between 2001-2020, adding to its current population of about half a million (485,000 population in 2000). Among the most vulnerable categories of urban population, beside the unemployed and the low paid workers, are those living in large households and in households with large number of underage children. Almost every fourth household with one or more children up to 7 years of age is in the poor category. The fact that large number of Albanian and Roma households have more children than the average Macedonian families, points out that a larger number of these households are in the poor category, especially in large cities including Skopje.

2.2 Urbanization Process, Urban Dynamics and Mobility

According to the 1994 census, the highest concentration of urban population is located in Skopje and Stip (82 percent of total population is urban), followed by Kavadarci (78 percent), Bitola, Prilep and Veles (72 percent) then Ohrid (68 percent), Sveti Nikole (62 percent), and Kratovo (60 percent). The lowest proportion of urban population is in Probistip (3.8 percent), Struga (25 percent) and Tetovo (29 percent).

The growth of Macedonia's cities during the last decades was characterized by a significantly high concentration of population in the larger cities, especially in Skopje, which absorbed over 40 percent of the urban population and nearly one quarter of the total population of the country. In just a few decades Skopje has quadrupled. The urbanization of the cities is of a centralist type, with impacts on the economic, environmental, social and ethnic issues. Skopje has turned into final destination for tens of thousands of poor immigrants, who seek a better life but, more often than not, end up living in substandard housing, and/or in ghettos. This is largely true for other large cities. The lack of affordable housing, high unemployment, poor education, ethnic segregation and internal conflicts are just a part of the vast array of problems that large cities are facing today.

The highest poverty rate (incidence of poverty)²⁰ in Macedonia exists outside the large cities. The highest reported poverty severity index (13.2) and highest poverty gap index (28.3) among all municipalities in Macedonia were in Brod (population of 28,336 but mainly rural – 69 percent Macedonians and 30 percent Turks), in the Northwest region, followed by Kratovo (population of 16,192 – 98 percent Macedonians), in the Northeast region, then in Radovis (population of 30,360 – 85 percent Macedonians and 14 percent Turks), which is also in the Northeast region. Radovis has also reported the highest poverty rate (81 percent), followed by Brod (61.7 percent), Struga (42 percent) then Kumanovo (35.1 percent) and Kratovo (31.1 percent). *These figures reveal that poverty is more associated with smaller cities in Macedonia.*

As for the regional distribution of poverty, the highest incidence of poverty (poverty rate) was recorded in the Northeast region (23.5 percent), which includes Kumanovo, Kriva Palanka, Kratovo, Probistip, Kocani, Delcevo, Vinica, Sveti Nikole, Veles, Stip, Radovis, and Berovo. While the poverty gap index was similar in Northeast and Northwest (5.2), recording the highest individual-based poverty measures among other regions, poverty severity index was slightly higher

²⁰ The poverty rate (the incidence of poverty) is the proportion of poor in a particular group. Groups with high poverty rates may be small in relation to the total poor population. The proportion of a particular group in the total poor population is therefore important for identifying the size of the poverty problem.

in Northwest (1.9) than in Northeast (1.8). Yet again, the composition of the poor was the highest in the Northeast region (36.7 percent), followed by Skopje (22.2 percent) and North West (21.6 percent). The lowest proportion was in the Southeast region (4.5 percent).

2.3 Who are the Urban Poor?

Chapter 3 provides information on statistical characteristics of poverty in Macedonia. The succeeding chapter complements it by going deeper into qualitative characteristics of poverty, including urban poverty. However, disaggregated and analyzed urban information on the social and economic circumstances of the poor households is scarce. There is no information about the dynamics and trends among the urban poor groups, i.e. those that enter poverty and those that managed to escape poverty. No data is available on the newly poor, i.e. those who were not poor about ten years ago, but still inhabit standard housing units. Nor about the urban poor who still have strong linkages to their rural place of origin, and benefit from food harvested from their land, and still own or receive income from other activities and sources, i.e. from 'informal' activities, which may provide them with additional income.

However, the following groups of urban poor could be pointed out:

- *Low income (slum settlements) dwellers*, which are caught in the poverty cycle for a long period of time. These households are located in spontaneous urban clusters or neighborhoods that are generally poorly serviced and have been neglected for a long period of time. Most of the settlements are located in the periphery of cities, but there are also pockets of poverty in the inner parts of cities, including Skopje. Most settlements are inhabited by Roma or ethnic Albanians, and sometimes mixed with Macedonians and other ethnic minorities. The majority of residents are unemployed, though they are active in the 'informal' sector of the economy.
- *Newly impoverished households* provoked by the structural social and economic changes during the past ten years. Most citizens in this category belong to the former middle class, with formal housing and employment. However, this group experienced a downturn as a consequence of the transition period. Typically, their incomes are irregular and their living standards have substantially declined. This group also includes pensioners, young unemployed, low-income strata, and large families with many children, and with aged people. These households can be found in regular neighborhoods, although the maintenance of their dwellings may have been neglected due to their meager incomes.
- *Refugees and displaced people*, victims of the recent armed conflict in Kosovo and Macedonia. An estimated 15 thousand people are living in provisional housing (i.e. hotels, students dormitories and temporary shelters) due to the destruction of their villages and homes in their places of origin. These dislocated households are presently receiving assistance from the Government programs and foreign aid.
- *Traditional poor* – rural agricultural households that have the highest risk of impoverishment. Members of this social group often migrate to urban areas in order to escape poverty and destitution. Presently, this social group may represent a small proportion among the urban poor, but the tendency is to increase if the economic plight in the depressed rural areas is not to improve. There are indications that young workers from villages and towns, particularly from the northeastern region of Macedonia, are migrating to cities. Specific surveys of rural-urban migration flows and livelihood circumstances of migrants should be conducted.
- *Chronically poor*, comprised by the most vulnerable social group, including elderly, disabled, institutionalized, and agricultural households without any permanent income.

The poor that live in the inner city tenement houses or informal settlements located on the urban periphery would certainly not be the poorest of the poor. However, there is a need to adopt a more precise technical definition and scale to classify different levels of social vulnerability and severity of poverty found in Macedonia. It is abundantly clear that the information gap on Macedonia's urban poverty calls for development of a reliable monitoring system about the liveability of the urban poor groups at the household level. These household surveys should be regularly conducted to complement the demographic and socio-economic information provided by the national census data.

3. Access and Quality of Infrastructure (Physical Welfare)

The recent Balkan wars have only exacerbated the pre-existing urban crisis and retarded the region's recovery. The return to long term physical planning and budget allocation, either at local level or from the center, seem to be a distant goal for which there is a great deal of international encouragement but only limited international funding.

3.1 Water Supply and wastewater

It is abundantly clear through literature that households' access to potable water and basic environmental sanitation is essential to the well-being and public health of the population. Thus, the improved access to water supply and provision of safe disposal of sewerage and drainage by the poor should be seen in the realm of public health concerns. Lack of these vital services are the main cause of high levels of morbidity and mortality among poor infants and children, low productivity and absenteeism from works among the youth and adults.

Although the water resources in the country are unevenly spread, with the western part having more water than the other parts, the availability of water for domestic consumption is not a major issue. However, rehabilitation and maintenance of the water network have been neglected for the last decade due to the weakening financial position of the utilities. This has led to situations where some urban areas, spontaneous settlements in particular, suffer from poor quality drinking water and sometimes insufficient quantities for normal use. Moreover, large sections of the infrastructure have deteriorated rapidly resulting in water losses through bursts and leaks. The network is also not well managed and, often, inadequate pressure zoning leads to unnecessary high pressures in certain areas resulting in increasing bursts and leaks. Cross-contamination between the sewer systems and drinking water pipes raises serious public health concerns. There have also been cases of wastewater overflow, creating environmental concerns, in pumping stations that are obsolete and not well run. The increases in physical and administrative water losses have led to high levels of unaccounted-for-water (UFW) – the percentage of water not billed to water produced. In some Macedonian utilities, UFW levels are as high as 60 percent compared to levels of less than 20 percent in well-run Western European utilities.

As for wastewater, the absence of safe disposal systems, more accentuated in some spontaneous settlements that are not considered in cities urban plans, is a serious threat to health and environment. Wastewater collected in most urban areas, it also not treated. There are only three wastewater treatment plants (in Ohrid/Struga, Prespa and Dojran). A Master Plan has been prepared which prioritizes investments related to wastewater based on water use and targets for pollution reduction. The Master Plan recommends the construction of wastewater treatment plants in Skopje, Bitola, Prilep and Strumica as a priority. However, the investment and operation costs related to wastewater treatment are not affordable to the consumers. The Government recognizes that as the economy grows and the country moves closer to EU integration, consumers' incomes would

increase and it would progressively become possible to raise tariffs to pay for wastewater treatment investments. Further, as the financial position of the water and wastewater utilities improves through better operations in the water sector, wastewater treatment investments would become more economically and financially feasible.

3.2 Solid Waste

Solid-waste management is a major problem in Macedonian cities. It is specific that, with an exception of the sanitary landfill for 'Drisla' municipal waste (Skopje), the majority of the municipalities use illegal locations for waste disposal, with technologies that do not comply with the modern approaches. Formal landfills can be found close to urban settlements; outlying areas are characterized by numerous smaller 'wild dumps' (10m³- 100m³) and extensive 'fly tipping' and littering. It should be noted that while many of the existing landfills are organized and managed by the municipalities, the great majority of these are illegal. This is particularly true to the realm of spontaneous settlements of the poor, many of which are built in close range or adjacent to garbage dumps. There, one often finds children and adults scavenging for food, clothing or any reusable material at the garbage dumps and collecting points. Scavenging is one of the survival activities of the very poor households.

Health issues associated with improper handling and disposal of domestic solid waste and inadequate removal of garbage, include the contamination of water sources, clogging of the wastewater drainage and sewerage systems, which may create stagnant pods of polluted water- a breeding ground for insects. The causal relationship of unsanitary environment and public health issues, the diarrhea and skin infections appear to be the most prevalent of public health problems.

3.3 Electricity

The availability of electricity is almost universal amongst Macedonian households. However, poorer Macedonians have considerable difficulty in meeting electricity payments. Poor urban families find keeping up with electricity bills one of their biggest problems; some state that after having their electricity cut once, they now pay their bills before they even purchase their foodstuff. Urban households rely mainly on electricity for lighting, electric appliances and heat. In the cities heating with electricity is commonly found, however it is one of the highest expense item in the monthly bill. Since the electric company cuts its services after a period of three months of non-payment, most households pay with only a two-month delay. Other households simply do not have electricity. In Topaana, a spontaneous settlement on the outskirts of Skopje, one can clearly see the number of households which are not directly connected to the electric supply system; these are getting the electricity through a neighbor – with whom they share the monthly bill, or simply from an illegal hook-up to the street lighting posts. This is clearly a "lose-lose" situation, in which a considerable number of households are deprived of essential source of energy – in quantities needed, and the electric power company and the municipality is losing portion of their revenues through illegal connections.

3.4 Heating

Large parts of Skopje are not connected to the central heating system, which almost does not exist in other cities (parts of Bitola being an exception). The price of heating a single room (the usual practice during the winter, when families shut off other rooms) ranges from MKD 20-50 per cubic meter. Poor families try to conserve energy by using the wood only to cook a midday meal, often spending the rest of the day without heating. Fuel wood is used by many other low-income households that cannot afford using electricity for heating and cooking. Fuel wood is one of the cheaper energy sources, and a good alternative for heating. However, unless there is an adequate

stove with a safe ventilation system of disposing the fumes, it can generate harmful indoor pollution.

4. Housing Typology

4.1 Apartment Housing

The total number of apartments in Republic of Macedonia increased from 435,929 units in 1981 to 580,342 in 1994 at a rate of 33.13 percent increase. Out of the total number of apartments in Republic of Macedonia in 1971, only 10.50 percent were socially owned. This ratio increased to 15 percent in 1989. In 1994, and as a result of the national policy to sell out public apartments to physical occupiers, the number of socially owned apartments decreased to 4.14 percent and remains almost unchanged until 2001.

Privately owned apartments represent 95.09 percent of the total number. The overwhelming majority of apartments are used for living (508,888) or mixed living and work (9,298); yet many are used for business (1,517), agricultural related uses (4,867), recreation and holidays (25,474), temporarily vacant (22,131) or abandoned (8,167). While most apartments (93.77 percent) are occupied by a single family, 18,437 apartments (3.79 percent) are shared between two families, whereas 2,384 apartments (0.49 percent) are shared between three or more families. Most of such multi-family housing units are actually occupied by rural migrants, where it is the norm in their village culture. Only 9,524 apartments (1.95 percent) are inhabited by a single person.

4.2 Informal Urban Settlements

General Plans prepared for most cities in the Republic of Macedonia identify and map location and size of the informal settlements (i.e. those that may contain substandard housing) housing the urban poor. It is estimated that there are about 100 urban spontaneous settlements in Macedonia, in which about 15-25 percent of the total urban population live. Typically the population faces problems of unemployment, high crime rate, families with social problems, juvenile delinquency, and presents high illiteracy rates. Skopje has 27 settlements with an estimated population of 80,000 inhabitants. The largest are Topaana, Shuto Orizari (Shutka), Lyria and Dizonska. These areas are mainly inhabited by the ethnic Roma (Gypsies) and Albanians groups. Examples of other cities with spontaneous settlements are Radovis (comprising 5 areas with 5,800 inhabitants), Prilep (two settlements with about 14,000 inhabitants) and Strumica (three settlement areas with about 6,800 inhabitants).

Typically, most households do not own the land on which their houses are built and do not have building permits. Most houses are built on municipal owned land that complicates the procedure of clearing the land tenure status. According to estimates, every fourth house in these areas was built without land ownership title. In Topaana, for instance, for nearly every third house, household could not determine the borderlines of their lot. Most of the people actually do not know to whom the lot may belong to, or when their houses were built. The lengthy legal procedures and the high transaction costs involved in the legalization of housing do not favor the poor. The law contains a three-step process through which the administration agrees to recognize the legal rights of those who occupy unauthorized dwellings. *First*, the urban plan must include the building, settlement and entire neighborhood. *Second*, an engineer and/or surveyor must take measurements of the plot and inspect whether the building is structurally sound. *Third*, city administration responsible for the approval will issue the ownership permit of the dwelling unit.

It has been noted that the poorest housing conditions are found among the Roma population living in the urban peripheries. According to official data, 95 percent (47,408) of the Roma

population in Macedonia lives in the cities. While old Roma areas, such as Topaana, are located within the city center, more recent settlements tend to be located on the city peripheries, or further out in places that are difficult to access. In many cities, Roma population live in small settlements, which are spatially and socially segregated, usually located near industrial zones or between housing projects (Zoon 2001; p. 144). These families depend on the social welfare support and by peddling products on the streets; others scavenge in garbage containers. About 85 percent of Macedonia Roma live in Shuto Orizari (Shutka), north of Skopje. This settlement is reasonably close to the city center and is well connected to it. Inhabitants use inexpensive public transportation to commute, as well as abundant taxis. This provides an opportunity for an easy access to informal employment, mostly for women, as cleaning ladies in houses and apartments in Skopje, and to several open markets, another source of earning for living. Shuto Orizari elects its own mayor, a Roma. It is interesting to point out that the flea market in Shutka, set by entrepreneurial Roma, by its offerings of inexpensive goods, imported mostly from Turkey, has become quite attractive for many people from Skopje and other cities in Macedonia. These activities certainly contribute to the local economy and welfare of the people.

In spite of many sociological and cultural studies available about the Roma population in Macedonia, there is a scarcity of reliable information regarding their housing environment in the informal settlements. Likewise, information on health implications of living in unsanitary conditions – i.e. without access to piped water, lack of safe sewage disposal, and infrequent solid waste removal. Conducting demographic, sociological and anthropological research, in action oriented and participatory research process should focus and analyze the existing situation and its impacts on the community and individual's health and well-being.

The Roma Population (Gypsies)

1. In Macedonia, many Roma communities live on the outskirts of cities, often in ghetto-like spontaneous settlements, which typically lack the basic infrastructure and services such as piped water, sewage disposal, paved roads and connections to electricity. Roma households located in Central and Eastern Macedonia are overcrowded and sparsely furnished. Often, their houses lack kitchen facilities and indoor toilets. Disposal and collection of the domestic solid waste is also a visible issue in the Roma communities. Due to few waste disposal containers and/or their infrequent collection, more often than not, there is an overspill of wastepaper, plastic bags and empty bottles in the streets, backyards and open space. Overall, Roma are poorer than other ethnic minorities and are worse off in nearly all basic social indicators including education and health status, housing conditions, and access to opportunities in the labor market and within the civil society.

2. In *Topaana*, a spontaneous settlement located 3 km from the center of Skopje, with an estimated population of 5.000 thousand people, most residents live in houses that have been incrementally built over a long period of time. Although nearly all of the houses are solidly built in reinforced concrete buildings with brick walls, some structures featuring 2 or 3 floors, most do not have city water connections, nor access to the public utility networks (i.e. wastewater drainage and disposal of domestic sewerage, and electric supply). Women and youngsters are often encumbered in a daily effort to fetch for water from public fountains or shared taps. Topaana is a neighborhood of Skopje, however it has yet to be officially recognized as such by the city authorities and included in its urban plans. In the past, many urban plans attempted to solve the “problem” of Topaana, using formal planning concepts and instruments. These plans were not executed. Some believe that there were insufficient resources committed, or lack of political will and support, or a combination of these and many other factors. Presently, experts claim that there is a lack of a clear understanding of the social, economic and cultural circumstances of the Roma community, and of their articulated priorities, which are not addressed in the urban plans. Rather than the radical “urban renewal approach”, i.e. eradicating the “sub-standard housing” and uprooting the whole community, to build a housing project on the site – a project which if implemented, the Roma community would certainly not be able to afford, a more adequate solution may be found in the problem itself.

3. Residents of Topaana reveal that their priority is to have *household water connections and improved provision of environmental sanitation services*. On-site upgrading alternative requires a relatively lower public investment. However, the *land tenure* is a central issue, which has yet to be adequately addressed. Topaana occupies public lands, and its houses are built without official permits. Thus, a large proportion of residents do not have titles to their property. Nevertheless, this has not prevented households to make substantive investments in the improvements, expansion and consolidation of their houses, over a period of time. The City Mayor has recognized the fact that Topaana and other similar informal settlements are a reality of Skopje, and of other cities of Macedonia, and that the residents are mostly unemployed and recipients of social aid, socially segregated, and concludes that this situation should be reconsidered by the authorities and an upgrading process should be organized.

Sources: (1) The World Bank (1999: p. 14): “FYR Macedonia, Focusing on the Poor”, (2) “The Time and Space of Topaana” Concept Draft, by Mr. Risto Penov, City Mayor of Skopje, 2002, and (3) informal interview conducted by Ephem Shluger with 2 households in Topaana, on June 26, 2002.

5. Urban Regulatory Framework

5.1 Institutions and urban management

The processes of issuing building permits are time consuming and cumbersome. Investors are required to obtain several approvals, certificates, and authorizations from various units within the Ministry of Transport, and pay utility taxes. The physical impact of these combined factors lead to high transaction costs and delays, which in turn is reflected in an increase of illegal construction, typically those without access to adequate connection to infrastructure and access to other urban services. Most of illegal constructions cater to the growing demand for residential and business units. Investors frequently use illegal construction as means to cut the costs of construction and realize substantial savings in time in accordance with their investment needs. While, because construction inspection and supervision are, by and large, ineffective, even those who obtain building permits often make changes during construction without proper sanctions, thus violating the urban regulations.

During the period of 1987 and 1995, 9,617 illegal units were constructed in Republic of Macedonia, mostly by the private sector (9,183 units). The majority of such units (70.09 percent or 6,741 units) were for housing. Most of the illegal buildings have been reported in Skopje (2,751), then Bitola (1,322), Prilep (824), Tetovo (730) and Kumanovo (588). This indicates that illegal construction is mostly associated with rapidly urbanizing centers, and relatively large cities. Illegal construction is also associated with low-income citizens, or citizens considered to be at “social-risk”.

There are 27 areas in Skopje accommodating illegal constructions covering 662.80 hectares; 19 of these areas are located outside the city boundaries either on agricultural land (13 areas), others are within the city boundaries. These settlements are also frequently developed in areas assigned previously for industrial use.

However, pending amendments to the Spatial and Urban Planning Law, as part of the overall reforms in social and political system, include, *inter alia*, simplification of requirements in the procedures and project documentation submitted for construction approvals, which will restrict illegal construction. Some provisions in the Local Government Law will transfer the authorizations that are currently held by the Ministry of Transport to the local governments. It is expected that this shall lead to a more efficient functioning of all the institutions on local level, increase accountability, and effectiveness of the local government units in resolving the vital problems in their areas.

5.2 Municipal Management Capacity

Given the prevailing vertical hierarchy system of governance, by which career development of public servants, senior local government officials always try to comply with the central government orientation rather than addressing the demands of their constituency, i.e. the public at large including the poor. The Law on Administrative Organs, collective agreements and decrees regulates appointments and promotions. Appointments are decided by the government, on the proposal of the relevant minister or other high-level functionaries in administrative bodies. Promotions are decided by individual ministers or other high-level functionaries in administrative bodies. However, on May 26, 1999, the government adopted the Strategy for Reform of the Public Administration, and approved a General Implementation Plan for Public Administration Reform. The strategy is geared to improving the structure and processes of public administration so as to enable it to support the development of a successful and democratic market economy. Reform activities will focus basically on: (a) public administration system; (b) restructuring of public finances; (c) protection of citizens’

rights; (d) system of local self-government; (e) public services; and (f) development of an information system.

As for municipal services, inadequate infrastructure utility operations is a major issue. About 65 percent of the Macedonian population is served by 31 urban water utilities which are owned by the local municipalities (the remaining 35 percent of the population is served by rural pipeline systems or through individual connections to wells). These public utilities, typically organized as departments of the municipalities that they served, have inadequate institutional capacity, do not have adequate incentives to run efficient operations, over-employed and face chronic financial difficulties. Although there has been an increasing trend towards establishing the utilities as independent municipal enterprises, as in Skopje, the utilities do not function as fully autonomous, commercially-oriented companies. There is a lack of incentives in the utilities to improve commercial and financial performance to levels found in comparable Western European utilities. The role of the private sector in the delivery of water and wastewater services has so far been extremely limited. Most utilities suffer from chronic cash flow constraints arising from the combined effect of: *Low Tariffs, Low Collection Rates, Network Deterioration/ inefficiency and High Staff Costs*. As a result, the quality of services to the consumers suffers. The Government's strategy is to continue to support the decentralization of responsibilities for the provision of water and wastewater services to the municipalities. This implies that the municipalities and their utilities will have to take the lead in improving operational efficiency and financing investments.

As for the human resource development, the personnel training budget in Macedonia is decentralized. Each Ministry develops its own staff training programs. Interviews with senior urban policy-makers in Skopje revealed that urban capacity is in general effective, yet needs capacity-building in specific areas related to city development strategy, participatory urban upgrading, land tenure programs, and housing finance.

5.3 Community Mobilization and Collective Action

Taking into consideration the fact that the local community is the basic social cell where citizens directly participate in decisions that may affect their lives, a dialogue must be conducted amongst the non-governmental sector, the civil society and the representatives of the central and local governments. The development of a strong partnership between local NGOs and citizens' association should be at the top of the list of priorities of local authorities in order to guarantee an enhanced level of communication between the local institutions and their electorate.

The Action Plan recommends the establishment of a 'stable legal framework' which will ensure that the rights of the citizens to access information relevant for their community is realized. Likewise, the right to express their views and opinions on all matters relevant to the community interest. It emphasizes the necessity of: (a) promoting awareness and empowerment of communities and encourages citizens to assume responsibilities and participate in the destiny of their communities – this provision is particularly important for women and youth, as well as for disabled people, (b) ensuring that local leaders take the responsibility for the needs of and accountable to those they represent, as well as taking steps and the measures to promote, encourage and reinforce a broad based participation of citizens in all aspects of life of their communities; and (c) identifying the mechanisms for building a vibrant and strong civil society, which will be able to energize the governance at the local and national levels.

6. Stakeholders Consultation: Workshop on Urban Poverty Reduction Strategy

A two-day consultation workshop was held in Skopje in December 13-14, 2001 to assist the various working groups to formulate and design a poverty reduction strategy as a set of specific recommended actions based on a broad-based participatory process. The objective of the workshop was to involve a broader range of government official, including Mayors, experts, academics and NGOs, responsible for information gathering and dissemination, to engage in the (a) review and analyze main urban issues; (b) identification of the priority issues that require immediate intervention, and (c) identification of critical gaps in urban information system, data and knowledge related to urban poverty reduction work.

The workshop participants identified major urban issues and grouped them into a problem-tree with cause and effect brought to light. Participants raised issues based on their personal experience in an open and frank debate organized by themselves. Participants identified critical missing data and knowledge related to urban poverty. A list of priority actions was compiled by participants, i.e. those which will require immediate intervention by the government and donor agencies, namely:

- Precarious environmental conditions in the informal and substandard settlements, particularly related to insufficient and inadequate household access to potable water, drainage and sewerage system, household connections to electric power supply, and inability of the urban poor to improve/maintain their housing environment;
- Lack of land ownership and building permits;
- Lack of affordable housing and finance mechanisms for the poor.

Further causal issues, included:

- High percentage of unemployment and low levels of education among the poor;
- Incompatibility between the skills and qualifications of the unemployed workers and market demand;
- Lack of legal and regulatory framework to resolve the issue of illegally occupied state-owned land;
- Insufficient resources and low funding levels for preparation and implementation of detailed urban plans;
- Lack, and poor quality, of infrastructure and community facilities in substandard housing areas;
- Local governments lack of resources and funds, and alternative instruments for providing affordable housing for the poor.

Participants emphasized that in order to develop an urban poverty reduction strategy, it is important to develop a system of urban monitoring and indicators that can collect and update data systematically and be disaggregated both spatially and with respect to key socio-economic and environmental variables (i.e. household income and expenditure, secure tenure, housing conditions, access to and quality of infrastructure services and social services, ethnicity, inclusion etc.). The purpose of a new approach to address urban poverty is aimed at building local capacity among the groups, through appropriate expert and technical assistance, for independent tackling of existential issues and establishment of various organizational approaches for resolving the pressing problems

within the local communities. Unlike the old model for tackling poverty that was authoritarian and heteronymous, the new model should be cooperative, participatory, and self-reliant.

CHAPTER VIII. RURAL POVERTY AND RURAL DEVELOPMENT

Poverty is widespread among the 40 percent of the population of Macedonia that lives in rural areas. In 2001, approximately 29 percent of the rural population was poor, i.e., lived on less than 70 percent of median income. In 2000, 30 percent of the rural labor force was unemployed, and half of welfare recipients lived in rural areas, accounting 129,000 people or about one sixth of the rural population.

Rural poverty has many characteristics and causes, including underdevelopment of villages (poor public infrastructure and services), low incomes from agriculture, weak development of non-agricultural activities in rural areas, and low levels of pensions and social assistance.

Basic Issues of Rural Poverty in Macedonia

1. Social and community aspects of rural poverty

Residents of many rural settlements, and especially mountain and remote villages, experience poverty in the form of poor public infrastructure and services. They lack transportation connections to modern roads and bus lines, stores that offer basic supplies, clean drinking water, schools, ambulances, telephone networks, etc.

The population in rural areas has lower levels of education than in urban centers. Sixty two percent of adult Macedonians (over 15 years) without formal education and 58 percent of adults who did not complete elementary school live in rural areas. Forty one percent of rural adults have only a completed elementary education, while 27 percent have an incomplete elementary education. Gender differences are apparent among rural residents: 75 percent of those who are illiterate are women, as are 73 percent without formal education and 57 percent with incomplete primary education. Rates of illiteracy among adults are high in the Northeast (12.5 percent), Vardar (10.3 percent) and Eastern (10.0 percent) regions.

Many rural areas, especially mountain villages and less developed regions, are losing population. In comparison to 1948, the number of inhabitants in mountain villages has fallen by 46 percent. The elderly (over 64 years) constitute a large percentage of the population in villages in the Pelagonian (16.0 percent), Eastern (12.6 percent), Northeastern (11.4 percent) and Vardar (10.6 percent) regions. Many elderly households are unable to fully utilize existing opportunities in agriculture and therefore generate low incomes. The elderly in mountain regions belong to the poorest rural families.

2. Agriculture and poverty

Many poor rural families depend on incomes from their own farms and/or short-term labor on other private farms. Unlike non-agricultural employment and wage income, which fell sharply during the 1990s, private farm employment and production have increased. Nevertheless, low farm incomes continue to explain a large share of rural poverty, and conversely, initiatives to accelerate growth of the private farm sector could have a big impact on rural poverty.

From 1990 to 2000, real agricultural production in Macedonia increased by about 11 percent, which compares favorably with a 14 percent fall in US\$ value of GDP per capita over the period. The composition of this growth is interesting as well: from 1990 to 2000, agricultural production in agrokombinats and their successor agricultural enterprises fell by almost a half, while production on family farms increased by almost a third.

Major opportunities for increasing agricultural production in the short to long term include: (a) private investments in *irrigation* (especially groundwater and distribution technologies such as drip systems); (b) shifting management of cultivable land from extensive cultivation in over-large farms that are successors to *agrokombinats* to *intensive cultivation in small private farms*; and (c) relaxing controls on private introduction of agricultural technologies (especially import of new crop varieties, but also including animal genetics).

Consumption in-kind is an important component of household income for agricultural and mixed households. Many poor rural families with small holdings – in 1994, there were 96,000 holdings of 0-1 hectare – produce a significant share of their own food. Some poor rural families with minimal land and other resources may be able to increase intensive production on small parcels (e.g., vegetables in plastic rows or fish-farming in ponds). Others may derive income from exploitation of the commons (e.g, grazing livestock). Many poor rural families – including those with small or no own holdings – are able to find short-term employment on other private farms. The daily wage rate in season ranges as high as 750 denars, but off-season employment opportunities are limited and wages are lower.

3. Non-agricultural economy in rural areas

Most rural non-farm economic activities, such as trade and processing of agricultural inputs and outputs, depends on agricultural production and incomes. Also most rural demand for consumer goods and services – and hence economic opportunities in these sectors – comes from incomes earned in agriculture. There are, in addition, some rural economic activities unrelated to agriculture, such as government services, some manufacturing, transport, and tourist services.

According to Labor Force Surveys, roughly 131,000 or 44 percent of the rural active population of about 300,000 are active in agriculture, and over half of the remainder are unemployed. However, the State Statistical Office estimates that 20 percent-50 percent of value added in construction, manufacturing, trade, and transport are in the gray economy, so that actual levels of rural unemployment may be much lower. Currently well over half of total trade in agricultural outputs by value goes through informal channels, including local green markets. Much of the processing is also in the household and informal sector. Other important private non-farm enterprises in rural areas include construction and retail trade and services. The scale of such activities may be estimated from the use of funds in agricultural and mixed households, which show about 80 percent of funds (i.e., everything except consumption in kind) going to buy goods and services from others, including food, clothes, tobacco, etc. In rural areas, much of the activity in these sectors is in the gray economy.

Expansion of non-agricultural industry and services in rural areas could increase economic security for the rural population since agriculture has inherent risks associated with weather and markets. Non-farm employment brings economic security to the rural population, even if only one family member is employed. With much of the rural economy in the gray economy, entry costs for new small enterprises operating in the informal sector are low.

4. Pensions, health, and social assistance

Many – if not most – of the rural poor do not have access to *pensions and health insurance*. However, public health services and social assistance do reach the rural poor. Design issues for social programs related to poverty alleviation include targeting of social assistance and levels of pensions and social protection benefits.

Pension amounts for beneficiaries under the Pension and Disability Insurance Law depend on the number of years insured. However, many farmers have not paid into the pension scheme and

hence do not have access to pensions. This is one reason many farmers over 65 years old continue to be economically active.

The Law on Health Insurance (March 2000) provides compulsory health insurance to workers – including agricultural workers – who contribute to the health insurance fund. However, as for pensions, this is a payment that farmers who do not declare income for tax purposes can and do avoid. Over two-thirds are estimated to be without health insurance. In addition, the health care system is underdeveloped in rural areas, with few physicians and spatial dispersion of health care institutions.

Support for the poor in Macedonia throughout the period of transition has been organized through the Program for the Protection of the Socially Disadvantaged and the introduction of a minimum level of income for every household. The size of assistance is dependent on the number of family members. In 2000, 50.2 percent of recipients of social assistance lived in rural areas.

In allocating *social assistance*, errors of exclusion and inclusion have serious consequences. In a recent national survey, over 57 percent of those surveyed knew of poor people who had not received social assistance. On the other hand, 30 percent of those surveyed reported knowing persons in their region or workplace “who are materially secure (receive assistance from their parents or work without reporting it to the authorities) yet receive social aid under false pretence.” Of those who knew people receiving aid under false pretences 33.1 percent were coming from rural districts and 40.9 percent were agricultural workers. However, it is important to remember that social assistance is vital for households without other stable sources of income; it is an important safeguard against destitution and poverty.

5. Rural infrastructure and local government

Recent and ongoing international conditions create opportunities for improving rural infrastructure and local government. In 1994, the Law for Supporting the Development of Economically Insufficiently Developed Districts established a program to accelerate infrastructure development in 14 less developed rural regions through the Bureau for Insufficiently Developed Areas. During 1996-2000 a large proportion of Bureau funds have been directed to basic infrastructure, including 11,156 kilometers of roads, 261 waterworks, 86 electricity networks, 97 primary schools, 84 for medical/health stations, etc. As Macedonia gets closer to entering the EU, EU aid may be available for rural infrastructure.

The international community also urges stronger local governments, both to reduce ethnic tensions and to move toward common EU practices. On 24 January 2002, Parliament approved a new Law for Local Self-Government designed to increase devolution of government responsibilities and authorities to elected municipal governments. Under the new Law, the municipalities have more influence in local economic development and education and new responsibilities in agriculture, forestry, and water resource management.

Within the framework outlined in the law, municipalities can determine tax rates and fees and can borrow from local and foreign capital markets. In principal the new law increases the capacity of the municipality to address many local problems including poverty. However, an evaluation of its impact will only be possible after additional legal regulations, imperative for its implementation, are passed; a transition period of two years is expected.

6. Government measures to improve incomes of the poor farmers

Through 1994, Macedonian government subsidized output and input prices and agricultural loans. From 1996, government restricted subsidies on inputs, bread, and credits and shifted funds into development and investment programs. However, price supports for wheat and tobacco and export

incentives for mutton continue. Overall, agricultural subsidies in 2001 are estimated as less than 1.0 percent of the budget or 0.4 percent of GDP. However, the biggest item is off-budget: below-market leasing arrangements for state-owned land allotted to 120 newly privatized agricultural enterprises cost the government an estimated 1.5 billion denars in foregone revenue, equivalent to about 3 percent of the budget and 1 percent of GDP (estimating 10,000 denars per hectare for 150,000 hectares).

Ad hoc measures to support farming incomes during the last several years include:

- Free distribution of oil and oil derivatives in 2000 in an amount of 120 mil. denars to individual farmers for agricultural restructuring and increase in the individual farming competitiveness;
- All farmers leasing government owned land for agricultural production were freed from paying rent for the year 2000, because of the draught;
- To alleviate adverse consequences of the draught in fodder production, the government paid to the individual farmers and agricultural companies 2 denars premium on top of the market price of milk for the period February-April 2002;
- In April 2002 the government paid individual farmers, producers of sugar beets, 0.7 denars per kilogram of the sugar beets sold to the sugar producing company;
- It is expected that by the end of 2002 tobacco producers will receive a 15 denar premium on top of the price paid by tobacco companies. This measure has been explicitly labelled by the Minister of Agriculture, Forestry and Waters as “poverty reducing”.

It is expected that the newly established Agricultural Fund will contribute to more efficient development of agriculture, putting an emphasis on the overall agricultural development and farmers’ welfare.

7. Private institutions that impact rural poverty

A range of private organizations in Macedonia – including non-government organizations (NGOs), banks and other lending institutions, cooperatives, and associations – impact rural poverty both directly, by assisting economic growth, and indirectly, by targeting services to the poor. The work of NGOs for poverty alleviation has become increasingly important in Macedonia. In many instances NGOs complement the government in providing social support to the economically disadvantaged and socially excluded. With more effort to coordinate their interventions, NGOs could play a more significant role in alleviating rural poverty.

The rural population’s access to financial institutions (banks and savings banks) is poor, since these institutions are located exclusively in Skopje and other urban areas. In recent years there have been many initiatives to improve banking services to farmers and other rural residents. The National Agency for the Development of Small and Medium Enterprises promotes credit lines secured by foreign banks, whose placements are made through domestic banks. In 1999, the Republic of Macedonia, in cooperation with the World Council of Credit Unions (WOCCU), established the FULM Savings House, which operates as a savings and loan association (credit union) with its main objective being to improve the standard of living of its members (1,273 members at end-2001).

In Macedonia as in other market economies, small private farms often face difficulties in buying inputs, selling outputs, and arranging loans. As part of the process of transition, cooperatives as joint farms have been passing out of existence, while trade-oriented cooperatives and associations have emerged. Agricultural associations can be found dealing with bee-keeping, rice farming, dairy farming, sheep farming, gardening, fruit farming, etc. A number of donor-funded programs currently support formation and operations of agricultural associations. Land O’ Lakes,

for example, manages USAID's Project for Supporting the Individual Agricultural Manufacturers (PSIAM) and ACIDI-VOCA, also financed by USAID, has provided grants to associations to establish income-earning activities.

CHAPTER IX. CONSULTATIONS: POOR PEOPLE AND THEIR REPRESENTATIVES

A. THE VOICE OF THE POOR: FOCUS GROUPS

Within the project “**Poverty Reduction Strategy in the Republic of Macedonia**”, public opinion survey was conducted on urban and rural poverty in the Republic of Macedonia through the *focus groups* method. The aim of this survey is to get information directly from the poor people on the *reasons* for poverty, *the problems* they face on daily basis as well as to find out their attitudes and opinions on *overcoming* poverty.

A total of 16 focus groups were formed, 8 from the urban and 8 from the rural areas in the Republic of Macedonia. The number and the distribution of the focus groups were based on the new regional division of poverty prepared by a working group within the preparation framework of the National Poverty Reduction Strategy in the Republic of Macedonia, which took as basis data on people receiving welfare and on unemployed people in the rural and urban areas.

1. Methodology for Determining the Focus Groups

1.1 Selecting the Urban and the Rural Areas

For the purposes of studying poverty in the *urban areas*, the selection of the cities in which focus groups are formed was based on the number of the unemployed and the regional division prepared by the co-ordinators of the project’s groups. The reason for using this criterion for distribution of the urban focus groups emerges from the fact that *unemployment* and *welfare* are the fundamental reasons for poverty apart from housing, the number of the family members, etc.

Table 9.1 Registered Unemployed Persons by Cities (December, 2001)

	Number of unemployed	Population according to the 1994 census	Index
Skopje	86,026	545,228	0.1578
Veles	15,280	65,945	0.2317
Kumanovo	31,985	127,814	0.2502
Prilep	26,470	94,183	0.2810
Tetovo	23,530	172,171	0.1367
Ohrid	11,478	60,763	0.1889
Strumica	23,915	91,047	0.2627
Stip	7,717	50,714	0.1522

Source: State Employment Bureau

The selection of the rural areas in which the focus groups are formed, was based on the number of unemployed and people on welfare. In this case the “*welfare beneficiaries*” criterion was the prime criterion since this problem is mostly present in the rural areas. As it can be seen in the following table, there are municipalities in which 100 percent of the population are on welfare.

Table 9.2 Welfare Beneficiaries in March 2000 (in percent)

Municipality	Towns	Villages
Skopje – municipality of Gazi Baba	25.2	74.8
Skopje – municipality of Karpos	29.7	70.3
Skopje – municipality of Kisela Voda	32.6	67.4
Demir Hisar	0.0	100.0
Krusevo	24.8	75.2
Strumica	39.2	60.8
Tetovo	27.2	73.8
Struga	21.3	78.7
Probistip	0.0	100.0
Delcevo	31.3	68.7

Source: Working groups' papers

Focus group was created for every given rural area, while for the Skopje rural area one focus group was created, including people from the municipalities of Gazi Baba, Karpos and Kisela Voda.

The urban and the rural focus groups participants were selected using random sampling from the register of FORUM-CSR, which database contains 11,960 households.

The focus groups participants follow the criteria given in the methodology for focus groups activities for both urban and rural poverty:

- Unemployed younger than 40²¹;
- Laid-off workers over 50 years old;
- Welfare beneficiaries;
- People who live in households total income of which is lower than 60 percent of the average income;
- Disabled and chronically ill people;
- Homeless.

1.2 Methodology for the focus groups activities

1.2.1. Questionnaire

Special guidelines have been drafted for the discussion in both, the urban and rural focus groups. The guidelines consist of 10 to 15 questions with tables and additional questions that enable short, clear and unambiguous responses as well as explanations to previous answers.

1.2.2. Realisation

The discussions within the framework of the focus groups have been recorded both audio and video. The tapes from the focus groups are analysed in order to find out the most characteristic positions and opinions on urban and rural poverty in the Republic of Macedonia.

Also, the data gathered from the focus groups are software processed using the SPSS statistical package. The information gained from the focus groups should not replace the quantitative survey. They offer in-depth data from the selected groups of the respondents.

²¹ The criterion “unemployed younger than 40” refers to the urban poverty and it is taken into consideration as a result of the trend of increase in the number of unemployed at the age between 35 and 40 in the Republic of Macedonia.

1.2.3. Discussion topics in the focus groups

The discussion in the focus groups was concentrated on the following topics:

- Causes for poverty;
- Contribution of the institutions to poverty overcoming or its reduction;
- Employment;
- Social services;
- Infrastructure;
- Housing and everyday problems;
- Possibilities for overcoming poverty.

1.3 Subject of analysis

With the *comprehensive analysis*²² of the discussions in the focus groups on both urban and rural poverty we have established:

- A. Common views and differences with regard to the topics presented by the urban and rural poverty representatives;
- B. Measures and recommendations emerging from the focus groups participants as activities that should be undertaken in order to overcome and reduce poverty.

A. The common attitudes of the focus groups participants in regard to the situation and the reasons for poverty are:

1. With regard to the question “*Do you consider yourself to be poor?*”, all the participants answered affirmatively. The focus groups participants, both from the urban and the rural areas, expressed their anxiety and concern in regard to the opportunities for a way out of poverty. The respondents have lost their trust in the state and the institutions that could offer help, and they do not expect any changes in regard to their situation in the near future.

2. The focus groups participants underline the following *reasons for poverty*: unemployment, irregular and low monthly salaries, closing of enterprises or their reduced capacity operating, economy reforms, obsolete technology and lost markets, military crisis as well as too long transitional and privatisation process.

They also consider *corruption* to be one of the reasons for poverty, saying that it makes the citizens unequal with regard to exercising their fundamental rights.

The attitude of the respondents from the urban and the rural areas in regard to the reasons for the poverty the same, with the additional remark by the rural focus groups that *neglecting of agriculture* is also reason for the poverty.

3. The participants view as *responsible for the poverty*:

- The state and its “disorganisation”;
- The way politicians practice power;
- The system of “ruling and governing the state”;

²² The attitudes, conclusions and recommendations on urban and rural poverty can be seen separately in the separate analysis prepared for each of these groups.

- "The consciousness of the person as individual"²³.

B. Proposed Measures and Recommendations

- Drafting programmes for overcoming the bad economic situation;
- Introducing programmes and strategies for organised acting by the state institutions with regard to poverty reduction.
- Putting politics and political affiliation aside in the areas of the economy and other segments crucial for poverty reduction and improvement of the situation of the poor;
- Reducing the degree of corruption and nepotism when exercising one's rights that emerge from the social services sphere, the assistance and development programmes as well as with regard to the right to employment;

2. Analysis of the Views on Different issues

2.1 Access to Institutions

Asked about the *contribution by the institutions* such as the Employment Bureau, the Social Works Centre, the Red Cross, the line ministries and humanitarian organisations towards poverty reduction and improving the situation of the poor citizens, the focus groups participants from the urban and rural areas share common position that "the institutions do not contribute to poverty reduction". From the given grading scale from 1 to 6 (1 – does not contribute and 6 – contributes the most) for poverty reduction, the participants graded the institutions with an average grade 2 (two).

With regard to the *Employment Bureau*, all the participants underline that it has turned into an institution for registering and keeping count of the number of unemployed people and distribution of blue cards to exercise the right to health care.

With regard to the work of the *Social Works Centres*, the focus groups participants state the following faults:

- Irregular distribution of welfare;
- Need to prepare various numerous documents, which is expensive for the people with no incomes;
- Strict and unrealistic criteria for receiving welfare;
- Bad attitude of its employees towards the people who ask for assistance from this institution;
- Lack of information among the welfare beneficiaries with regard to the rights and benefits to which they are entitled as socially disadvantaged persons.

With regard to the *Red Cross*, the participants have positive attitude about the way the assistance is distributed. All the participants agree that even though the assistance they receive does not satisfy the minimum needs, still it goes to the people who need it the most.

²³ It is interesting to point out that almost no poor individual (focus group-member) expresses *their own responsibility* for their poverty when talking within the focus groups. They find solely the State and its institutions as responsible. The poor households, i.e. their representatives seem to be much more sincere when sharing their attitudes directly with the interviewers. Actually, in this case, the greater part of the poor people find themselves responsible for their own poverty. The most expressed reason is: *the low education level and qualifications*.

With regard to the *humanitarian organisations*, the common attitude of the focus groups participants is that these organisations donate help, but that assistance is improperly distributed. They support their opinions with examples. Namely, they believe that before reaching the people who need it the most, it is cut down on half and sold to grocery stores.

With regard to the work of the *line ministries*, the participants from the urban and the rural focus groups have common attitude that they do not have sufficient information on the work and the services the Ministries provide.

With regard to *the access to institutions*, the common attitude of the respondents is that they are not sufficiently or at all informed about the rights and the benefits the institutions provide to the socially disadvantaged people.

Recommendations by the poor with regard to the activities of the institutions are:

- Establishment of an independent institution that would inform, instruct and advise citizens where to seek help;
- Improvement of the degree of information about the rights and the benefits to which the beneficiaries of assistance are entitled to;
- Improvement of the attitude of the employees when communicating with the beneficiaries with regard to giving information about the competent institutions and services they could use;
- Increase of the amount of welfare, as a result of mobilizing the beneficiaries in certain activities.

2.2 Employment

All the focus groups participants *are looking* for jobs. The fundamental problems they face when looking for jobs could be located within the following areas: lack of vacancies, age limitations, in some cases party membership, as well as nepotism and corruption. Apart from these problems, the participants from the *urban areas* see the lack of knowledge of foreign languages and work with computers as an obstacle when applying for a job.

The poor people emphasize that they cannot afford to invest in themselves because they spend all their earnings on food and bills.

Typical for the focus groups participants from the rural areas, is that the incomes coming from agriculture do not satisfy their minimal monthly needs.

Differences with regard to earning subsistence incomes

- The focus groups participants from the *urban areas* earn subsistence income through temporary and seasonal jobs. Men are engaged into hard physical labour activities, including construction works, while women clean houses and flats, take care of elderly people and everything else they could find in order to earn for survival;
- The focus groups participants from the *rural areas*, who do not own land for cultivation – besides by doing hard physical labour activities, earn by selling forest fruits such as tea herbs, herbs, mushrooms, etc. Still, these are minimal seasonal incomes that do not satisfy the monthly needs of their households;
- The focus groups participants from the rural areas who *do own land for cultivation* earn subsistence income by selling small portion of their agricultural products at the markets.

The focus groups participants who own land for cultivation face the following problems:

Irrigation of the land;

Poor crops and non-competitiveness on the market;

Sale of agricultural products, since there is lack of organised sale or purchase;

High expenditures for procurement of intermediate goods such as seeds, fertilisers, etc.

Regarding commencement of *private businesses* both in the urban and the rural areas, as kind of possible way out of poverty, the participants point out the difficulties in getting business loans. In most of the cases, they do not fulfil the conditions to get one, and they openly say that the loans are allocated to people who are materially settled.

The focus groups participants from the *rural areas* finance, on their own, their agricultural activities. According to them, the state does not intervene in agriculture with donations or favourable conditions for procurement of intermediate goods and does not provide organised purchase of agricultural products.

The common view with respect to the private sector is that there is no respect for the workers' rights, i.e.: the working hours are between 12 and 13 hours per day, the daily wages are minimal (between 150 and 250 denars), workers have no health or pension insurance, there is always a chance to be laid off for no reason at all, etc.

Recommendations by the poor for action in the area of *employment*

- Drafting and carrying out an employment strategy and employment programs;
- Elimination of the age limit as an obstacle when applying for a job as well as resolving the problem with the workers from the bankrupted companies and those who were declared redundant;
- Employment of at least one member of the poor households;
- Increasing the minimum monthly incomes;
- Awarding business loans under favourable conditions as basis for private initiative;
- Corruption eradication;
- Control in the private sector and defining the rights of the workers;
- Improving the conditions in agriculture with donations or other ways of reducing the expenditures for procuring intermediate goods and finding markets for selling agricultural products.

2.3 Monthly Incomes

The average monthly income of the participants' households from the *urban* focus groups is 3,019 Denars, while the average monthly income of the participants' households from the *rural* focus groups is 4,359 Denars.

Compared to the average net income in February 2002, which was 10,662 Denars, the monthly income of the *rural* participants' households is 41 percent and of the urban participants' households 28.3 percent from the average net income. This is good illustration of the low purchase power of the poor households.

Regular income for these households is the *welfare* and the *allowance* they receive from the Employment Bureau if they are registered as unemployed who lost their job (redundant or bankruptcy workers). The amount of such received assistance varies between 1,200 and 3,000

Denars. The other incomes are temporary or seasonal, depending on the crops for the agriculture workers, or on finding some temporary job.

2.4 Social Services

2.4.1 Health Care

The common attitudes of the focus groups participants from both the rural and the urban areas on health care services are:

- Health care services are expensive;
- Medications cannot be found on the positive list at the state pharmacies and if there are any, they are given to friends;
- Medications in the private pharmacies are expensive;
- The state takes insufficient care of the disabled and the assistance they receive is too small and irregular;
- The dentist services and optic aids are very expensive;
- Bribe and corruption in health care, i.e. in order to get an appropriate and on-time service, one needs to bribe the doctor;
- Lack of information among the beneficiaries of welfare or other types of assistance on the benefits they are entitled to in the field of health care.

The focus groups participants from the *rural areas*, apart from the problem with the expensive health care services, also have problems with existence of polyclinics in their villages, medical personnel and necessary equipment.

Recommendations of the poor for action in the *health care* area:

Reforms in the health care system especially with regard to the co-payment.

2.4.2 Education

Common views of the focus groups participants with regard to *education* are the following:

- All degrees of education are expensive, especially higher education;
- High co-payment is an obstacle for enrolment at university;
- Over-appreciation of party membership and friendship at the expense of the under-appreciation of the university diploma and the completed education;
- Presence of bribery and corruption in education.

The focus groups from the urban and the rural areas have different views with regard to the issue whether education is a significant factor for overcoming of poverty. For the participants from the *urban* areas, education is not an important factor for overcoming of poverty. They think that the education is not a condition for employment. For the participants from the *rural* areas, the education *is* an important factor for overcoming of poverty, because an educated person knows his/her rights and it is easier for that person to get the necessary information on his/her road out of the poverty.

Recommendations of the poor for action in the area of *education*:

- Introducing free textbooks at all levels of education;
- Reforms in the education, with regard to school equipment and teaching personnel;

- Abolishing the co-financing for enrolment at university;
- Modifications in the faculty studies, with regard to paying greater attention to practice aimed at forming cadre capable of entering the economy immediately;
- Introducing employment programmes for educated persons in order to keep the intellectuals in the country.

2.5 Infrastructure

With regard to the *access to infrastructure*, it can be noticed that the urban areas and part of the rural areas have an access to infrastructure, while some of the rural areas do not have access to it.

In the urban areas covered by the survey, participants evaluated the following as the most accessible: water, electricity, sewerage, polyclinics, schools, roads and transportation. Typical for the towns of Veles and Prilep is that these towns have problems with the insufficiency of drinking water.

In part of the *rural* areas covered by the survey, the access to infrastructure is different, i.e.:

- The participants from Demir Hisar, Tetovo and Skopje rural areas state that they have access to infrastructure with a remark that there is no sewerage system in their villages and they collect the waste by themselves;
- In the Strumica, Delcevo and Struga rural areas the infrastructure is incomplete (there are no polyclinics or if there are any, there is no medical personnel, there are schools, but only up to the 4th grade, no sewerage system and they collect the waste by themselves);
- The Probistip rural area has insufficient drinking and irrigation water supply;
- The Krusevo rural area has no access to infrastructure (no real roads, no organised transportation, no polyclinics and schools, no water supply and sewerage system - they drink the water from the wells, no telephone lines, no sewerage, they collect the waste by themselves).

Recommendations of the poor for action in the area of *infrastructure*:

Building polyclinics and primary schools in the villages;

Building the necessary infrastructure where there is not any, or additional construction where it is insufficient;

Finding solutions for overcoming the water supply problems;

Building Zletovica hydro system in Probistip ,as a possible way out of poverty.

2.6 Housing and Everyday Problems

2.6.1 Housing

Most of the focus groups participants have dwellings. Most of them live in their parents' houses. More generations living in one house is a frequent phenomenon.

2.6.2 Everyday Problems

The everyday problems result from the bad financial situation of the focus groups participants. The common attitudes of the focus groups participants with regard to the everyday problems are the following:

- Lack of money;

- Dysfunctional family;
- Young people postpone marriages;
- The feeling of being deserted by the friends and the society;
- In the Tetovo area, the war crisis and the movement restriction.

In the villages covered by the survey, there are no cultural events and entertainment. The only entertainment for the young people is television. There are no opportunities for mobilizing the young population in the villages, and for these reasons, they leave the villages.

2.7 A way out of poverty

Recommendations of the poor for action in finding *possible ways for poverty reduction*:

- Restarting the existing industrial capacities;
- New employments;
- Foreign and domestic investment;
- Support for the small family businesses through grants based on previously prepared projects;
- Investments in agriculture and cattle breeding;
- Securing markets for the placement of domestic products;
- Revitalisation of the legal state;
- Intensifying the penalty policy concerning economic crime;
- Resolving the security situation in the country.

All focus groups participants are prepared to accept any activity organized by both the governmental and non-governmental organisations for finding ways for poverty overcoming or reduction.

The focus groups participants have different attitudes with regard to the way of informing if certain activities are organized. The participants from the urban areas point out television and radio as the best way of informing. The participants from the rural areas point out direct contacts or local community offices as the best way of informing.

The common attitude of the focus groups is that they *do not believe* in the implementation of the poverty reduction strategy. The participants say that the implementation would be possible if the project is carried out independently from the current authorities, based on realistic foundations and supported by international organizations and institutions.

The focus groups participants from the rural areas are doubtful that even if the project is realised, the positive results will not reach the villages.

It can be concluded that the degree of trust in the state and its institutions among the focus groups participants is very low.

B. REPRESENTATIVES OF THE POOR AND THE ADEQUATE SUPPORTING INSTITUTIONS

The Committee for preparation of the PRSP of the Republic of Macedonia organized Consultative Workshop, which took place on 18-20 April 2002 at the Metropol Hotel in Ohrid. The Minister of Finance of the Republic of Macedonia opened the workshop.

In addition to the Working Committee members, over 100 representatives from various institutions encountering poverty-related problems in their activities participated in the workshop. 30 representatives were invited from each of the following groups:

Local government bodies (mayors, council members, etc.);

NGOs

services providers (10 representatives from each of health care, education and labour and social policy sectors).

In addition, representatives from the major religious communities in the country were invited, such as: the Orthodox Church, the Islamic religious community, the Catholic Church, the Evangelist Church, etc.

Almost all invited persons took part in the workshop. Not only were they physically present at the workshop, but also, without exceptions, they actively participated in the discussions. There were two plenary sessions, one at the beginning, and one at the end of the workshop. On the second day, the participants were divided into eight working groups and each of the working groups consisted of a spectrum of participants from different professions and activities. Their activities were led by a moderator, elected by the working team members. The moderators were predominantly university professors or researchers in the field of economics, sociology and social work. In several cases, high officials from the Ministry of Labour and Social Policy, as well as the Bureau for improvement of social activities in the Republic of Macedonia, acted as moderators. Specially instructed reporters monitored the discussions of the working groups, and at the end of the day, they prepared high-quality reports on the major points of the work.

The working groups participants, with the assistance of the moderators, discussed *ten* questions, prepared in advance – 5 in the morning and 5 in the afternoon sessions. The major summarized points from the discussions are presented below, grouped according to the determined questions.

First question: Which are the Most Important Reasons for Poverty in Macedonia?

Having in mind the heterogeneity of the groups, number of reasons for poverty were suggested, whereby economic reasons were particularly pointed out. Here, in particular, the most important is *high unemployment rate* in the country, with an official rate of around 30 percent. The limited possibilities for earning income for many people and families are related to the unemployment and this is the major reason for their poverty. During the discussions, number of factors that contribute to high unemployment have been mentioned, such as: the transition process in the Macedonian economy, and above all, the insufficiently successful privatisation of state enterprises; the low level of foreign investment as result of the insecurity in the surrounding; relatively high degree of perceived corruption and nepotism in the country; etc.

Additional reason for the difficult living conditions of poor people is *the inadequate social and health protection* of the poor. The *educational system* of the country could also be added to this. Certain rural areas *lack basic infrastructure*, such as: roads, electricity, water, schools, etc. *Agriculture*, as one of the basic economic activities in these areas operates with outdated machinery and low-quality seeds. The care for placement of products is insufficient.

The poor are inadequately informed by the state institutions about exercising their individual rights, including social rights.

The low education level of certain individuals, particularly in cases where they are the head of their families, is on the top of the *subjective reasons* of poverty. For the persons employed that are under category poor, the reasons are low income, as a result of the low salaries, which sometimes are paid irregularly or with delay. This also applies to those employed in the informal sector.

Second question: What kind of Measures Should Be Undertaken to Improve the Income of the Poor?

With regard to the diagnosis given as an answer to the first, the fact that the proposals for *increasing the employment* in the country are dominant is not surprising. Even the need for comprehensive *Employment increase strategy* is being indicated. Such strategy has been announced by the Macedonian Government as a document, which should be prepared together with the other two social partners – the Association of trade unions and the Chamber of Commerce. Relatively *standard measures* for creating new jobs are being proposed, such as: assistance for the development of *small and medium enterprises* by favourable credits and tax incentives; enhancement of *agricultural development*; attracting *foreign investments*; organization of local public works; etc.

Some of the proposals are directed to increasing the efficiency in the functioning of the *labour market* and the Employment Bureau. The Government should continue the previous practice of programs for *re-qualification and additional qualification* of the labour, within the framework of the financial possibilities and the market needs.

One of the interesting recommendations from the workshop refers to the need for more active attitude on the part of the poor for self-organization and solving their own problems. This should be directed towards breaking the chain of poverty, i.e. finding a way out of the poverty. In their efforts, the poor should be supported by the Government institutions, as well as the media, particularly the electronic one.

In the long run, the role of *education* as a way out of poverty has been undoubtedly underlined. Education raises the individual capacities of the poor and increases the opportunity for their inclusion into society as equals. In the short run, the poor should be socially and medically insured.

Third question: What Kind of Measures Should Be Undertaken to Improve the Housing Conditions of the Poor?

The economic and social crisis in the Republic of Macedonia have drastically reduced the opportunities for lower income families to secure appropriate housing. Proposals in this sphere are particularly directed towards certain systematic assistance by the Government to the poor. This

primarily refers to: *construction of housing* for socially disadvantaged persons, providing *locations for construction* of housing, including housing units for poor families, i.e. low-cost housing; providing *housing loans under favourable conditions*; construction of *pensioners' and elderly homes*; improvement of *infrastructure* in certain areas, or parts of settlements with higher concentration of poor families; etc.

Fourth question: What Kind of Measures Should Be Undertaken to Improve the Health Services for the Poor?

The Republic of Macedonia has a *national system of health protection and insurance*. Reforms in this system, which are still in progress, particularly introduction of certain forms of *co-financing* by the users, have worsened the access of the poor to the health services. The rural poor families benefit from the modernization and additional equipment of the health care facilities in rural areas.

The co-financing should be in line with the financial situation of the users and certain groups, for instance, the children and elderly should be fully exempted from the co-financing. The same should also apply to chronically ill persons, who need relatively expensive drugs, pregnant women, patients with malign illness, etc. The need for the handicapped to be provided with quality orthopaedic devices, free of charge, is especially emphasized. With regard to the distribution of medicines, abolishment of monopolises and some other improper dealings is suggested, as well as increase of the competition in provision of medicines.

The extension of the list of drugs fully paid by the Health Insurance Fund is of particular importance to the poor people.

Fifth question: What Kind of Measures Should Be Undertaken to Improve the Educational Services to the Poor?

Education is an important factor in the efforts for poverty reduction in the Republic of Macedonia. Pre-school, primary and secondary education are of particular importance. In addition to the *approach*, the *quality of the education* is also important. There is a need for reduction in the costs for education of the poor. This could be achieved by a free pre-school care for poor family children, free textbooks, free lodging and transportation for the needy students, etc. Special care should be devoted for motivation and assistance to the talented students from poor families.

The quality of education could be increased by *equipping the schools* with basic technical equipment, as well as by *increasing the motivation* of the teachers through higher salaries and better social status. Living conditions in student dormitories should be improved. In this way, higher equality in the educational process between students from different social strata is achieved, which is positive from a social point of view. All kinds of *discrimination* in the field of education should be eradicated.

There is a decrease of the enrolment of children from certain age groups into the educational process. The state should aim towards *full enrolment* into the primary education and high ratio into the secondary education. *Education of parents* is considered as very important prerequisite for improvement of the access to educational services, particularly within certain ethnic groups. Increased interaction between the teachers, school authorities and parents could positively influence the increase of the education level of the students from poor families.

Sixth question: Out of These Measures, Which Should Be Considered as Priority Measures?

The participants in the consultative workshop emphasize the problem of *high unemployment*. Thus, all possibilities for *creation of new jobs* should be used. The need for development of a comprehensive Government strategy for increase of employment is underlined again. Issues related to health protection and education of the poor follow.

Certain participants suggested the need for strengthening the *role of local government authorities* in the implementation of poverty reduction measures. Of particular importance is their role in achieving *sustainable development* and protection of the environment.

Seventh question: Which Are the Advantages and Disadvantages of Establishment of a Special Unit in the Government with a Mandate to Develop Policies for Poverty Reduction and Care for Their Actual Implementation and Measuring of Their Efficiency?

There is prevailing opinion that establishment of a special unit with a mandate to monitor the implementation of the PRSP would contribute to *institutionalisation* of the approach towards solving the issues in the field of poverty and its alleviation. This unit should be highly *independent* and the *continuity* in its functioning should be maintained regardless of the changes in power. It should consist of and be governed by *independent experts* while closely collaborating with NGOs and representatives of the poor.

Eighth question: How to Provide Continuous Voice for the Poor in Development and Implementation of the Measures for Poverty Reduction?

There is a need for more frequent contact with the poor in order to provide them information about various issues. NGOs and religious communities, including humanitarian organizations have been pointed out as promoters of the voice of the poor.

Ninth question: How Could the NGO Sector Achieve Greater Inclusion in the Continuous Development, Implementation and Monitoring?

There is prevailing opinion that the non-governmental sector could play an important role in all phases of PRSP implementation, including its *monitoring*. The role of NGOs, including religious communities, in direct assistance to the poor is very important. NGOs in this sphere should act in a more transparent manner, which increases their credibility. Several interested NGOs could jointly present certain projects through consortium, thus securing funds for their activities from international sources. Finally, as it was mentioned before, the NGO sector should be represented in

the Government body in charge of implementation and monitoring of the realization of the poverty reduction measures in the Republic of Macedonia.

Tenth question: How Could the International Community Assist in Poverty Reduction in the Republic of Macedonia?

The international community has had an active role in the fight against poverty in the Republic of Macedonia. Higher *coordination* in the programs and projects between the major organizations for foreign assistance (European Union, international financial institutions, bilateral assistance, humanitarian organizations, etc) is recommended. Some participants thought that the international community could help Macedonia best by *opening markets* for Macedonian goods, i.e. higher trade liberalization. Having in mind the shortage of capital in the country and its relatively high price, the inflow of capital from abroad is of crucial importance for the country development. The international community could contribute for the improvement of the conditions in educational and health sectors through donations for purchase of equipment and reconstruction of facilities – schools, hospitals, etc.

CHAPTER X. FROM ANALYSIS TO ACTION

National Strategy on Poverty Reduction in the Republic of Macedonia serves the purpose of providing an analysis of the poverty issues in Macedonia and facilitating the construction of a strategic framework for addressing them.

The processes and studies that have been undertaken in its preparation represent an important stage in the continuing efforts to significantly reduce poverty in the country. However, the paper should not be seen as the final word on poverty analysis, or the definitive statement on the way ahead. What it represents is a systematic and coordinated effort to understand poverty better and to signal the steps that might be taken to reduce it.

All the proposals made in this document will be subject to further discussion and debate. Many of the measures will need to be piloted and tested before they can be confirmed as making a substantial and sustained contribution to poverty reduction.

In order to ensure that the issues associated with poverty and its reduction are given due priority and are formally institutionalised within an overarching strategic approach, it is recommended to consider the possibility for establishment of the institutions Poverty Reduction Commissioner and Poverty Reduction Partnership. Both institutions, by different means, will assist in the formulation, implementation and evaluation of poverty reduction policies, and will review other policy areas in the context of their impact on the lives of the poor.

Poverty Reduction Commissioner

In the course of the consultations that were undertaken during the preparation of this document, there was strong support for the suggestion the Government to have central point in promoting the policies for the benefit of the poor, consultation with the poor and their advocates and the evaluation of the effectiveness of poverty alleviating measures.

The creation of such an entity would need to be at minimal cost to the state budget. It would also need to be effective and independent of party political influences.

Bearing in mind the above, it is proposed to establish an *official position* – Poverty Reduction Commissioner. This person should be appointed by, but independent from, the Government. He/she should be supported by small staff of officers from those Ministries most closely associated with policy issues that impact the poor.

The main functions of the Commissioner and his/her staff would be the following:

- To prepare and present proposals for the reduction of poverty to the relevant Ministries.
- To review and comment on other policy measures in the context of their impact on the poor.
- To undertake, through the Poverty Reduction Partnership and through other means, a continuous dialogue with the poor, their advocates and other key parties, interested in poverty issues.
- To evaluate the impact of poverty reduction measures on the lives of the poor.
- To conduct research on subjects relevant to the reduction of poverty in the Republic of Macedonia.

Poverty Reduction Partnership

During the conference that was held in April 2002, as part of the consultations associated with the preparation of this paper, dynamic and constructive dialogue was held between representatives of central and municipal Government and the Non-Government Sector, including religious communities. At this gathering, there was overwhelming support for institutionalising the process that would enable the poor and their advocates to participate in the processes of poverty-related measures preparation, implementation and evaluation.

With this in mind, it is proposed a forum in form of Poverty Reduction Partnership to be established. It would meet at regular intervals to discuss and debate poverty issues and the approaches adopted in addressing it. It is recommended the Partnership to be afforded official recognition as an advisory group of the Government and the Poverty Reduction Commissioner to be given the responsibility of facilitating this forum.

Role of Local Government

The institutions of local government are well placed to provide a community focused response to the needs of the poor living within their boundaries. While the support of the income of the poor must be administered via national welfare system, there are other poverty reduction measures that could be initiated and delivered at local level. These could involve job creation initiatives, social support to children and families, care services to the poor or disabled etc. that go beyond the standard state measures and mechanisms.

It is recommended consideration to be given to the establishment of a programme whereby municipalities are encouraged to prepare *local poverty reduction plans*. The staff of the Poverty Reduction Commissioner could provide technical assistance to municipalities in preparing and monitoring these plans. Consideration should also be given to Government providing modest financial support to municipalities for implementing these proposals, perhaps on a matched funding basis, and accordingly, obtaining funds from the Government.

Increasing the Capacity for Understanding & Measuring Poverty

This paper provides information, analysis and insights that constitute a sufficient foundation for refining the existing measures and developing new policies focusing on the reduction of poverty in Macedonia.

In proposing the next steps towards these, there are some key points that must be born in mind.

Firstly, although the data analysis presented in this document is adequate for the purposes of moving ahead on the development of poverty reduction strategies on the short- mid- and long term, there is a need to enhance the capacity of the State Statistics Bureau, and of the other institutions that might be involved in the monitoring of poverty and the impact of the measures possibly undertaken to reduce poverty in Macedonia.

While the quantitative and qualitative profiles of poverty presented in this paper are the product of systematic and diligent social scientific endeavour, they are nonetheless incomplete. It is necessary within the national poverty reduction strategy for Macedonia the decision-making process to be carried out on the basis of fuller understanding of poverty in all its dimensions than it is presently the case.

Some of the initiatives proposed in this paper will have direct impact on the short term, some will produce results in the longer term. It is probable to expect unpredicted consequences, for example, related to inclusion and exclusion error, unforeseen in the planning stage, but becoming evident in the implementation of the strategy. To identify these problems at the very beginning so that the readjustments necessary to align them with the policy intentions can be made, requires detailed analysis of data that is accurate, comprehensive, relevant and up-to-date.

Measuring poverty and the efforts undertaken to reduce it is a complex task in any society. In a country in transition facing security crisis, caused by spillover of military actions in the immediate neighbourhood, this is even harder, but also more important.

It is therefore recommended to undertake efforts to enhance the capacity of the relevant state institutions to enable them to provide more accurate, comprehensive analysis of the nature and extent of poverty in Macedonia, to assist policy measures preparation and evaluation of poverty reduction measures. This will enable those responsible for preparing and implementing poverty reduction measures to bring better quality decisions. It will also assist the population to have a better understanding of poverty issues and the effectiveness of the steps undertaken to reduce it.

Job Creation

The majority of studies and consultations carried out during the preparation of this paper led to conclusion that job creation for the poor can be the most significant contribution to poverty reduction in the Republic of Macedonia.

The main mid-term goal of the Government of the Republic of Macedonia, in the field of employment policy, is *increase of employment*, termination of further unemployment increase, and initiation of process of its reduction. The main emphasis of the policy has been put on design and implementation of new concept of *active labour market policy* (ALMP), for creation of new employment possibilities through complex, integral, synchronized and coordinated action of the key partners on the labour market.

ALMP will encompass three types of measures: modernization of the *information system*, organization of *training programs* (re-training, qualification and additional qualification), as well as creation of conditions and support for *direct job creation* by means of number of active employment programs, such as: employment advice, different types of training for employed persons, training for managers, training for new jobs and institutional training, public works programs, incubators and assistance and support for small business development.

The *training programs* will be targeted to training persons for which at least there is demand for their skills. In the future, programs for training and re-training, which should mostly cover the people waiting for a job for a longer period of time, will be organized in cooperation with private and non-government institutions, specialized for this kind of services, the quality of which will be controlled by the services user – Employment Bureau.

The activities for preparation and adoption of the Action Plan (National program for employment) by the three key partners on the labour market – the Government, the trade union and employers' representatives – will resume as a high priority task. The priorities should refer to resolving the long-term unemployment and the engagement of "socially disadvantaged" people. The program should be based on active policy of the Government and close cooperation with the universities, the businessmen and the local government.

Emphasis will be put on development of permanent cooperation between the Government and non-government institutions and expert groups from abroad, engaged in the process of development

and creation of employment opportunities (projects by the World Bank, IMF, PHARE, the Stability Pact, the Social Council with the Council of Europe, specialized UN organizations, etc).

For the *Employment Bureau* of the Republic of Macedonia to become a real *labour exchange*, modernization and updating of its organizational structure and operations will continue and will be intensified. The local employment offices will closely cooperate with local authorities in their efforts to increase employment, thus providing an adequate answer depending on the specific conditions in each area. Occurrence and expansion of all kinds of illegal and unregistered employment will be prevented and eradicated by coordination and cooperation of the Employment Bureau with the centres for social works, labour inspection and other relevant state institutions. In order to achieve better coordination between the local employment offices, the activities for their network connection will continue, while the operations of the *job clubs* will be promoted.

The state will create conditions for development of *entrepreneurship* aimed at new jobs creation, through creation of conditions for increased investment activity, particularly in the private sector, whereby the emphasis will be put on the domestic savings, as well as on the creation of favourable climate for entrance of foreign capital, especially on non-credit basis.

The *public works* will focus on the construction of infrastructure buildings, as well as certain environmental activities to secure jobs for the poor. These programs will be focused on groups of workers that are in an inferior situation and on those that have been unemployed for longer period of time. Also, they will include training elements wherever possible.

The active labour market policy measures should contribute to achievement of, at least, two quite important goals. *First*, by providing temporary work in conditions of recession, certain groups are given opportunity for maintenance of their working experience and skills, which increases their chances for reemployment with revival of the economy. *Second*, it is expected to stop, i.e. reduce the misuse of pecuniary assistance and other benefits for unemployed persons by terminating the right to receiving assistance for those beneficiaries having unregistered jobs, or not seriously interested in seeking job, where the payment of benefits is conditioned on participation in temporary employment program or training program.

The strengthening of the economic links with the EU countries in the process of implementation of the Stabilization and Association Agreement and the Free Trade Agreement is expected to have positive impact.

Also, the process of reconstruction of the region and the inclusion of the Republic of Macedonia in certain projects, especially through the Stability Pact, will contribute to increase the economic activity for number of enterprises in the country, thus providing basis for job creation.

At the beginning of 2001, *personal income tax* rates were reduced to 15 percent and 18 percent and they are among the lowest in Europe. This would undoubtedly contribute to cost reduction and more profitable operation of the enterprises, job creation and more regular registering of the employed by the employers.

The effects of the measures and activities undertaken in promoting the labour market conditions, despite the last-year armed conflict in our country and the created uncertain security climate are evident. In 2001 the trend of increase of the registered unemployment was ceased and a process of its decrease commenced, which, however modest it seems, is important compared to the total number of unemployed. It should also be noted that during 2001 total 90,308 employments were realized, out of which 63,346 full-time and 26,962 part-time and seasonal.

On these bases, solutions will be sought to provide stable and sustainable development in the country and reduction of poverty.

All undertaken labour market policies and measures by the state have undoubtedly produced results. But there is an undisputable fact that without stabilizing the conditions in the country and without an economic development, there would not be new jobs creation and more significant results in this plan cannot be expected.

Improving Services for the Poor

Particularly with regard to the three key services for the poor: *social protection, health protection and education*, there is considerable scope for improving targeting of services to the most needy and increasing the capacity of state organisations to deliver these services more effectively and efficiently. While additional, targeted resources would of course be to the benefit of the most needy, there are also measures that could be taken within the context of current budgetary constraints.

a) In the field of **social protection**, there is evidence suggesting that part of welfare beneficiaries, registered as unemployed are not available to work and yet others participate in the informal economy while using social benefits.

It is suggested for scientific study to be prepared, aimed at providing more accurate profile of beneficiaries, particularly with regard to their availability to work and unreported earnings.

In the light of this, consideration should be given to the following proposals.

- In circumstances where the motivation of welfare beneficiaries is to secure access to health care services, then a formula should be adopted that allows for such a declaration, without affecting the right to health care entitlement. In such cases the beneficiaries would be deleted from the Welfare Beneficiaries Register and the responsibility for administering and confirming their right to health protection can be transferred to the health institutions, i.e. Health Fund.
- With respect to the measures for increasing the employment opportunities, it is justified to call the persons without jobs “job seekers” rather than “unemployed”. This designation emphasises the obligation for persons to be actively looking for work, rather than being passive benefit users. In some European countries, benefit users have to provide proof of their job seeking efforts before benefits are paid. While in conditions of high unemployment it is difficult to find job, there is a justification for reinforcing the obligation of the unemployed actively seek job.
- Welfare serves as basic safety net for the most vulnerable in the community. Given the current modest amounts of welfare and the opportunities for temporary work and small scale trading, it is understandable that some people capable to work are engaged in these activities in the informal sector, simultaneously continuing to use the benefits. Although the true figure is unknown, there is a generally held opinion that this is widespread practice among the registered unemployed. In Macedonia, as in every other country in Europe, there is a certain level of irritation among the population in general at this practice.
- Using benefit while participating in the informal economy could be viewed as fraud and therefore, criminal offence. It could also be seen as poor people using what little opportunities they have to raise the standard of living for themselves and their families above the basic minimum provided by the state. Both views have validity and in addressing this issue, both should be taken into account.

- It is proposed to prepare *cost-benefit analysis* of the impact of the considerable increase of fraud detection activities, for the purpose of reducing unjustified usage of benefits and targeting the savings gained to increasing the benefits for those most in need.
- Any measures possibly undertaken with respect to the outcomes of the two abovementioned studies would need to be carefully managed and introduced only following pilot simulation studies and other tests of their feasibility and desirability.

b) Measures are already undertaken to improve the quality of overall **health protection** system in Macedonia with respect to some standard parameters, such as the number of professionals in the area of health protection per 1,000 citizens. What the researches undertaken within the preparation of this paper and the performed consultation indicate that there is need for the poor to have better access to health protection services and for their exemption from paying the expenses. This especially refers to medications issued on the basis of prescriptions and co-financing deemed to deprive the poor from the access to the necessary treatment.

It is recommended the issues associated with access of the poor to adequate health services to be reviewed and, where possible, barriers to usage of these services to be eliminated.

Concern has also been expressed about *access* of the poor to *health education* and their *rights* to health protection. In this context, it is recommended to prepare a detailed study conducted to determine the degree to which the inadequate access to health services and the rights by the poor is due to lack of information. Following this, the necessary measures should derive to ensure that poor people know their right in the area of health protection.

c) Regarding the **education**, it is obvious that educational system provides quality services, despite limited resources, to those children and young people who actually attend school. It is also obvious that poverty is closely related to poor achievements in the area of education. The evidence gathered in the course of preparing this paper indicates that not only do poor adults suffer from lack of adequate education, but majority of their children do not attend school, thus increasing the possibility for them to be poor.

The qualitative study on the lives of the poor designed within the preparation of this paper gives some insight into the reasons why poor persons do not attend school. It is important to conduct further research to identify precisely the nature and extent of the barriers for participation in education existing at poor families. In the light of the outcomes of this study, it is suggested to target resources to reduce these barriers for educational access.

It is also suggested to provide literacy for adults who missed regular school education.

Towards an Urban Poverty Reduction Strategy

a) Assumptions (Prerequisites) of the Urban Poverty Reduction Strategy

First, *provision/completion* of the infrastructure and urban services in substandard and informal settlements and *legalization* of the unlicensed buildings that could be made legal, i.e. recognition of these settlements as legitimate subjects of public action. Integrating informal settlements as *special areas*, as part of cities, will open the access to city budgets and attract other resources. These interventions may be incorporated into the multi-year city planning, urban master plans and sector interventions, with a clear recommendation that the priority will be awarded to those who have been neglected. It may successfully be implemented within the preparatory activities of urban plans, which are currently being finalized in most of the major cities in Macedonia--including Skopje as the largest city and with the most heavily pronounced differentiation in standards of living.

Second, the fundamentals of the planning strategy must undergo some essential changes in the sense of placing emphasis on those parts of cities where public services are not reaching the poor. While urban planning is, in theory, an “ideal field” for ironing out the differences, in practice it is rarely used to bring about the social and economic equity. Residents of the urban periphery are amongst those that may benefit from the new local action-planning approach and the positive effects it will engender. The results of the improvements will also alleviate the perception of isolation of the poor from the mainstream society.

It is worth noting the fact that in the fight against poverty in spontaneous settlements there is an incipient commerce and service sector. The economic opportunities for the poor to engage in micro and small enterprises (mostly based on self employment) are real. An array of income generating activities, such as incubators of micro-business, and opportunities for on-job training is in highly demanded in these communities.

b) Urban Upgrading of Informal and Substandard Settlements

The upgrading of living conditions in the informal and substandard settlements of the poor should be viewed as a *long-term process*. A detailed assessment of the situation, including socioeconomic research and geographic information system, is needed, as well as a clear methodological approach on ways to work with the poor by the local authorities. At the same time, local and central government planners must adopt a public policy of participatory urban upgrading and sustainable gradual renewal works to benefit the poor.

Public response to the problems of poverty in low-income settlements started about thirty years ago and was included during the preparations of the urban Master Plans (started in 1965), where, invariably, the solution proposed was for a complete eradication and reconstruction of these areas. Starting as small settlements with just a several hundred inhabitants back in the 1970's some of them located in the central area of Skopje have grown in size and density. Today, some settlements with tens of thousands inhabitants are becoming large informal neighborhoods, *asymmetrically connected*, to the formal cities. The state institutions involved in the process of planning and managing social and urban issues often did not have resources, working methods and expertise to draw strategy to effectively tackle the issues of spontaneous settlements of the poor. This is still reflected in the urban policy and regulations, which lack the necessary provisions to address the issues posed by the low-income urban settlements. For instance, the zoning regulations and the land tenure issues, contained in the urban development Master Plans, do not recognize the low income settlements, because these do not comply with or meet the established housing norms and/or urban planning standards.

The official designation of housing built by the poor by self-help methods – usually constructed without permits over a long period of time, as *sub-standard housing*, is very revealing. *First*, because the terminology used is not specific to any particular type of housing, but applied across the board to include all units that are not built according to pre-established norms or construction standards. *Second*, most of the consolidated dwellings in informal settlements may actually meet or exceed the required construction standards, however they are still classified as “sub-standard” because they were not inspected (i.e. officially sanctioned) and lack official permits or titles. *Third*, in a demand driven market place, housing markets will not perform optimally if the building standards will continue to be rigid and excessively high, inflexible or exclusionary, which will only foster more production of the informal dwellings by the poor and middle income families and their transaction in the informal market.

Affordability is an important criterion in housing production and marketing. In Macedonia, an estimated 30 percent of the urban population can hardly afford any type of housing offered on the market. The situation is further aggravated by the fact that government involvement in the housing

sector has been drastically reduced in recent years; while there is a very limited mortgage lending and the existing short-term commercial credit lines carry steep interest rates. The combination of above-mentioned measures will certainly contribute to the increase of “self-managed” arrangements in building new units and renovation and expansion of the existing housing stock. This trend will require adoption of new urban regulations and housing norms that will seek to enable households to engage in improvements of their housing stock rather than to continue prescribing rigid quality norms and standards that will hardly be met.

c) Guidelines for Affordable Housing

Affordable housing is a dream of every poor family, which aspires and seeks to a secure housing. Hence it is logical to try to find ways to design affordable housing units.

In the area of housing policy (construction, financing, allocation of dwellings) the state may define the need for social housing units (i.e. state subsidized housing); however these are limited by the lack of resources in the sector and public budget constraints. Most of the poor will rely on their own abilities to save and invest in housing, with differentiated solutions for their own needs, according to their means and priorities in the allocation of household incomes.

The basis for construction of low cost housing is:

- housing credit lines (low interest, long term lending), for dwelling improvement, targeted to families living in settlements;
- setting up of special housing funds which will target poor families to improve their dwelling units and alleviating the consequences of poverty for those living in public housing (apartments);
- setting up offices within local self government to lend various forms of technical assistance to the poor, such as urban design and architecture blueprints, aided self-help advice, and administrative formalities which the poor face when dealing with the bureaucracy;
- setting up of housing credit associations and housing funds drawing resources from various sources with a view of ensuring low cost housing.

In the future the state should demonstrate readiness for a higher degree of flexibility in construction of housing units:

- provision of locations for construction of low cost. Progressive construction of dwellings will increment council tax revenues and improve its capacity for provision of local infrastructure;
- provision of low interest loans;
- engagement of public enterprises tasked with shaping the construction of flats;
- provision of conditions for those who will try to resolve the housing issue with their own money, while they are in the category of socially deprived families who live in substandard conditions;
- plan a network of services and conditions for self employment, in particular in suburban areas with conditions for that. The goal is to strike a decisive blow to the poverty resulting from substandard living condition.

About one third of the urban poor live in informal settlements, as it has been in the past and will continue in the future. These are the most destitute families, and represent a burden to the society as a whole, and a challenge to the public sector as to how to transform it. In this case it is not about whether someone does not have enough means to buy food or clothing, but a condition in

which people feel deprived in all aspects of their lives. Poverty is understood as a complex issue that a family and an individual is faced with and cannot, without the help of the community and their own efforts, find a way out of it. The society that can not address the issues of poverty will certainly pay a high price of such neglect.

If we assume with a great degree of certainty that nearly 1/3 of poor lives in the towns in Macedonia, and if we also assume that at least half of those are well below the officially accepted poverty line, then a general strategy is justified which in itself should incorporate a number of specific actions and activities which make this category of poor different from the other categories of urban or rural poor.

The fact that in the cities around the country today there are over 100 informal and substandard settlements, possibly a large proportion is in precarious physical conditions which may need to be upgraded because of potential risks and threats to residents, then the plans have to address differentiated conditions with specific action-plans and interventions.

Each city and each settlement have their specificities, which should be carefully examined within the entirety of the urban planning and management processes and the urban reconstruction, and be an integral part of the urban master plans. These settlements have in common relative dense land-uses, ethnic composition, low level of employment and education, health problems, and poor environmental conditions in and around the dwellings. A common basis for a poverty reduction strategy can be identified. However, there is a need to gather more specific information and develop a concrete knowledge and understanding of ways to work with the poor. This may include:

- detailed identification of priority problems in each of the settlements;
- adopting a system of indicators depicting the economic, social and cultural, and physical living conditions;
- analysis of demographic, socio economic, ethnic characteristics of the population;
- analysis of the available public and private resources, funds and current plans for these settlements and on-going consultation with local government on ways to address the priority issues;
- analysis of the housing policy at local government level;
- identification and analysis of the lending mechanisms for concessionary credits for improving dwellings of the poor;
- analysis of the local informal economy and potentials for job creation in the settlements;
- analysis of the possibilities for emergency interventions at the settlement level which allow immediate response to urgent problems;
- analysis and recommendations on the role of local government to enhance its technical capacity in addressing settlement's priority issues;
- improving the general understanding of the role of the private sector involvement;
- improving the role of non-governmental organizations in settlement development programs;
- improved understanding of the most urgent activities to improve the quality of life for the slum residents;
- setting up a coordinating body to monitor activities, comprised by local government representatives, representatives and leaders of the local communities, and representatives of non-governmental organizations, financial institutions and donors.

The urban poverty group proposes that in the near future a comprehensive study on urban poverty to be initiated, which will examine poverty from a number of angles and shed light on the priority needs expressed by the communities in terms of their access to the basic urban infrastructure and services, improve access to employment and income generating activities, education and skills training programs, and the complex social, multiethnic, cultural and religious aspects to be taken into consideration. Most of the activities for poverty reduction are doable in the short and medium term, these may not require high public outlay, provided that plans respond to the local needs and priorities, and capacity of engaging local beneficiaries. The assistance of the international organizations and funding agencies is one of the indispensable conditions for the overall success of the strategy.

d) Specific recommendations for the initiation of the strategy, includes:

The main guiding principle in the preparation of the PRS for urban areas is that it shall contain both the priority actions (a plan and sequence of actions) as these are expressed by the communities concerned, and the resources and funds to implement them. Long term strategic goals may start with small steps, i.e. doable activities and interventions, at the level of settlements, that may bring immediate relief and improvements in the living conditions of the poor;

Most of the informal settlements lack basic infrastructure, i.e. piped water, safe drainage systems, garbage collection and disposal, paved streets and sidewalks, and street lighting. Provision of these services is of highest priority and demanded by the poor living in the informal settlements. In addition, resources and funds to repair and maintain housing units are clearly needed.

Specific actions are required in the area of employment of the poor and youth, particularly those caught in the “poverty cycle” for an extended period of time. Public officials in coordination with NGOs and funding agencies may develop programs designed to promote skills development among the poor, referral agencies and promotion of micro and small businesses within the communities;

Social and cultural integration of the poor living in the informal settlements is essential. To tackle this aspect, both the local self-government and the NGO’s have to cooperate with communities in order to generate a higher level of integration of the poor in the society;

During the preparation of the urban Master Plans, special priority and focus should be placed on the areas poorly or inadequately serviced, with the aim to upgrade and physically integrate these areas to the rest of the city. Reducing the disparities and physical exclusion of the poor, will improve living standards of a city as a whole;

Housing policy should integrate public and private resources and funds. The housing stock needs to be properly and routinely maintained. Regulation on homeowners and/or condominium associations should be in place to facilitate maintenance of tenement housing. For new housing supply, public authorities should strengthen its technical capacity to enable private investors and households in the activities of repair, maintenance and general improvement and expansion of urban dwellings. Presently, private investments in the construction of new dwelling units is the prevailing form of residential and commercial building in Macedonia. Public sector agencies may improve their capacity to expedite construction permits, supervise and inspect building activities, thus reducing time consumed in the review and approvals and transaction costs involved with licensing and permit issuance.

Mid-term Program for Rural Poverty Alleviation

The analysis of rural poverty in this chapter suggests policies and programs for rural poverty alleviation in *six* general areas. The first three deal with overall community and economic development in rural areas, with the assumption that these changes will improve quality of life and economic opportunities for poor people along with other rural residents. The next two areas deal with targeted social protection and economic programs. The last deals with arrangements for rural development plans and assessments.

However, in the short-term, there is a pressing need for an adequate answer to the devastating consequences for the Macedonian agriculture of the security crisis in the Republic of Macedonia that occurred in 2001. This crisis mostly affected the agricultural households in the crisis regions and significantly contributed in increase in poverty related to it.

a) Alleviation of the negative effects of the security crisis in agriculture

There is a need for state intervention for assistance and recovery of the endangered agricultural producers for alleviation of the damages inflicted to agricultural households during the military activities in specific regions where agriculture is the main economic activity. It is estimated that this assistance, primarily in seeds and fertilizers, should cover around 50,000 agricultural households. The necessary funds are thought to come from the state budget and from foreign assistance.

b) Strengthening rural infrastructure, social, and community development

Specific policies and programs are proposed as follows:

- Implementing – as planned – devolution of fiscal and administrative authority to elected municipal governments;
- Strengthening support for rural infrastructure investments;
- Improving education for children living in the mountain districts by maintaining elementary schools and student campuses, securing free school supplies and health insurance, thus encouraging children to remain in the educational system. Transportation to high schools needs to be organized;
- Promoting cultural development in rural areas through special school programs, NGOs, etc;
- Adult education programs in rural areas.

c) Accelerating growth of production and employment in private farms

This could be achieved through the following:

- Establishing programs to *lease or sell cultivable land* that is currently owned by government in small 2-10 hectare blocs to *private farmers*;
- *Promoting* private investment in minor irrigation, including especially extraction of groundwater and drip irrigation;
- Relaxing regulatory controls on introduction of new agricultural technologies, including new varieties of seeds and livestock genetics;

- Building or improving *roads* to remote mountain villages with declining population, to allow people to move back into the villages and to cultivate available land;
- Promoting *associations and cooperatives* of agricultural producers, traders, and processors to improve access to inputs, markets, and technology;
- Arranging for appropriate cultivable land to be certified for organic production. This can be done through private organizations without any involvement of the Macedonian government;
- Promoting *rural banking and credit institutions* and programs, including cooperative banks, to provide convenient banking services to farmers.

d) Promoting non-agricultural economic activities in rural areas

Establishing incentives for *business development* in less developed regions (e.g., as defined by the 1994 Law for Supporting the Development of Insufficiently Developed Districts);

Revise banking regulations to facilitate development of *cooperative banks* and/or *savings houses*;

Establishing low-cost public access to the web (*INTERNET*) in all rural districts (e.g., through elementary schools);

Promoting traditional and non-traditional *tourism* in remote mountain regions. A program could bring together representatives from a number of mountain villages.

e) Income transfer and targeted social protection programs

- Adjustments in pension, disability pension and health insurance to expand coverage among the agrarian and rural population. Consistent with the concept of an insurance program, coverage may be expanded by developing other options for enrolment that are less onerous for farmers, including, for example, attaching insurance payments to land rather than income taxes;
- Review levels of pension and social protection payments in rural areas, with attention to equity (e.g., pensions compared to lifetime contributions), cost of living, and absolute levels of poverty for pension and welfare recipients;
- Establish a role for municipal governments to assist design and targeting of social protection funds to maximize poverty reduction impact and to reduce both exclusion and inclusion errors;
- A system of social support may be developed for the elderly and impoverished persons living in villages in order to allow them to be taken care of by family members.

f) Targeted economic programs

One of the most difficult challenges in poverty alleviation is to teach and assist people to increase their income-earning capacity. The following policies and programs are proposed:

Encourage NGO programs to support small non-agricultural enterprise among the rural poor;

Encourage NGO programs to train and assist rural poor to make money from Macedonia's pastures and forests;

In conjunction with social protection programs, establish a program to cover payroll taxes for a defined period (e.g., 2 years) for companies hiring people that are currently receiving social assistance.

g) Planning and evaluating rural development

To continue rural development efforts over time, the following institutional arrangements for planning and evaluation are recognized and proposed:

- Some planning will be regional, including planning through new municipal governments, with their enhanced authority and fiscal strength;
- National planning continues, both to link regional plans as well as to provide additional financial support;
- Government is encouraged to establish a Rural Development Institute for continuous expert and scientific assistance in planning and evaluating rural development efforts and achievements.

CONCLUSION

In preparing the National Poverty Reduction Paper, considerable efforts were made to consult with the poor and their representatives, the service providers and policy makers. Much effort also went into securing as much as possible accurate and up-to-date data on which the poverty analysis and conclusions with regard to action are based.

This resulted in impressive meeting of minds between the poor, their representatives, the service providers and experts on the nature of poverty and its causes in Macedonia as well as on the ways the activities should be carried out in future.

The establishment of mechanisms for promoting effective poverty reduction, as recommended in this paper, will ensure for the issues of poverty to be subject of a continuous, co-ordinated effort by the key interested parties. Thus, this recommendation is characterized as an immediate first step towards commencing sustained strategic approach to improving the lives of the poor.

ANNEXES

A N N E X E S

Tables

Table 1. Relative poverty in the Republic of Macedonia by regions- (1997-2000)

	Poverty gap index			
	1997	1998	1999	2000
Total	4.5	5.1	6.0	6.0
Skopje	2.8	3.9	7.9	8.3
Urban	4.3	4.8	3.7	4.0
Rural	6.2	6.6	6.9	6.2

Source: State Statistical Bureau

Table 2. Relative Poverty in the Republic of Macedonia by Regions (1997-2000)

	Poverty severity index			
	1997	1998	1999	2000
Total	1.7	1.9	2.4	2.4
Skopje	1.1	1.7	3.6	4.3
Urban	1.5	1.5	1.2	1.3
Rural	2.3	2.5	2.8	2.0

Source: State Statistical Bureau

Table 3. Relative Poverty in the Republic of Macedonia by Economic Status of the Members of Households (1997-2000)

According to number of employed members	Head count index			
	1997	1998	1999	2000
Total	19.0	20.7	23.3	22.6
0	26.0	29.4	38.4	35.0
1	19.2	21.9	20.9	20.0
2	9.8	7.4	6.0	6.8

Source: State Statistical Bureau

Table 4. Relative Poverty in the Republic of Macedonia by Economic Status of the Members of Households (1997-2000)

According to number of employed members	Poverty gap			
	1997	1998	1999	2000
Total	4.5	5.1	6.0	6.0
0	7.1	8.3	10.3	10.1
1	4.3	4.6	5.0	4.9
2	1.6	1.4	1.3	0.8

Source: State Statistical Bureau

Table 5. Relative Poverty in the Republic of Macedonia by Economic Status of the Members of Households (1997-2000)

According to number of employed members	Poverty severity			
	1997	1998	1999	2000
Total	1.7	1.9	2.4	2.4
0	2.8	3.2	4.4	4.4
1	1.4	1.6	1.8	1.8
2	0.5	0.4	0.4	0.2

Source: State Statistical Bureau

Table 6. Relative Poverty in Republic of Macedonia According to the Economic Status of the Head of the Household, 1997-2000

According to number of employed members	1997	1998	1999	2000	Total
	Structure				
Total	100.0	100.0	100.0	100.0	100.0
0	49.2	55.3	64.0	64.7	58.8
1	36.3	34.6	28.5	27.2	31.3
2	14.5	10.1	7.5	8.1	9.9

Source: State Statistical Bureau

Table 7. Relative Poverty in Republic of Macedonia According to the Economic Status of the Head of the Household, 1997-2000

	Head count index			
	1997	1998	1999	2000
Total	19.0	20.7	23.3	22.6
Nonagricultural	13.9	13.8	14.3	15.3
Self-employed	18.3	24.4	21.9	22.4
Unemployed	35.1	38.8	34.2	32.0
Inactive	22.9	22.5	32.9	29.3

Source: State Statistical Bureau

Table 8. Relative Poverty in Republic of Macedonia According to the Economic Status of the Head of the Household, 1997-2000

	Poverty gap			
	1997	1998	1999	2000
Total	4.5	5.1	6.0	6.0
Nonagricultural	2.9	2.7	3.3	4.0
Self-employed	4.8	6.2	3.8	4.3
Unemployed	7.2	13.3	7.9	9.4
Inactive	6.2	5.4	9.8	8.2

Source: State Statistical Bureau

Table 9. Relative Poverty in Republic of Macedonia According to the Economic Status of the Head of the Household, 1997-2000

	Poverty severity			
	1997	1998	1999	2000
Total	1.7	1.9	2.4	2.4
Nonagricultural	0.9	0.9	1.1	1.7
Self-employed	1.7	2.3	1.3	1.2
Unemployed	2.3	5.9	3.1	4.7
Inactive	2.5	1.9	4.3	3.4

Source: State Statistical Bureau

Table 10. Relative Poverty in Republic of Macedonia According to the Economic Status of the Head of the Household, 1997-2000

	Poverty severity				
	1997	1998	1999	2000	Total
	Structure				
Total	100.0	100.0	100.0	100.0	100
Nonagricultural	32.1	26.9	26.4	28.5	28.3
Self-employed	17.1	19.2	14.2	14.8	16.2
Unemployed	13.5	15.9	10.0	10.3	12.3
Inactive	37.3	38.0	49.4	46.6	43.2

Source: State Statistical Bureau

Table 11. Relative Poverty in Republic of Macedonia According to the Economic Status of the Head of the Household and Education, 1997-2000

	Total	Without education	Uncompleted primary	Primary education	Secondary education	Higher education	University education
Nonagricultural workers	15.3	10.5	34.6	31.2	8.8	8.8	1.8
Self-employed	22.4	27.3	28.6	23.1	12.5		20
Unemployed	32.0		38.5	50.0	23.5		16.6
Inactive	29.0	54.3	38.5	33.7	15.7		

Source: State Statistical Bureau