

Draft for Discussion

Private Sector Development in Education

in

South East Europe

COUNTRY REPORT

**FORMER YUGOSLAV REPUBLIC OF
MACEDONIA**

Frances Tsakonas

March 2002

Foreword

The Kosovo crisis has brought to the forefront the urgent need for sustainable development, lasting peace, prosperity and stability in South Eastern Europe. It has, moreover, placed education at the forefront of the bridging process that will afford South Eastern Europe equal socio-economic opportunities in the 21st century to that of other European nations. However, although the education systems of South Eastern Europe were a 'good fit' with the planned economies of authoritarian political systems, they are a 'bad fit' with the global economic structure of open political systems. To make matters worse, budget pressures on the education sector in conjunction with the increase in price for some education inputs, have led to less public funds for education.

Private sector development in education in South Eastern Europe needs to be seriously considered. Within education there are many private sector investment possibilities, including primary and secondary schools, vocational schools, and universities, as well as supporting activities such as textbook publishing, student loan financing, and computer learning centers.

This study then aims to analyze the current role of private sector activity in the education sector and to project the outlook for private sector investment in education in South East Europe (specifically in: Albania, Bulgaria, Croatia, the Former Yugoslav Republic of Macedonia and Romania). Information currently available from national, regional and international sources will be drawn upon to review the existing structure of private sector participation in the education sector along a number of dimensions including: the present level of private activity; the structure (legal status, size, etc) and kinds (level and focus area/s) of private institutions currently operating; key drivers and expected growth areas for private education; and key issues and constraints faced by the private education sector.

The main source of data for this study is interviews and meetings with government officials, senior politicians, businessmen and women, educationalists, researchers, NGO representatives, directors of educational institutions, bank managers, and others. This data is supplemented by: (a) published data provided by the World Bank, IFC, OECD, UNDP and other national and international organizations; (b) unpublished information provided by public and private local and international organizations; and (c) background information provided locally by government agencies. Information gathered will be used to: (a) analyze the legal and regulatory framework; (b) create an inventory of market opportunities in private education; and (c) develop a regional, on-line information platform for education investment exchange (<http://edco.orama.net>).

Funding for this study was provided by the World Bank/Hellenic Consultant Trust Fund, administered by the Hellenic NGO European Perspective (Hellenic Consultant) and managed by Harry Anthony Patrinos (World Bank). Field research for the country reports was carried out by Frances Tsakonas (Education Specialist), who is also the author of the country reports. Research assistants for this study were Pandelis Sklias and Aggelos Laskaris.

The findings of this study will be presented at a regional forum in Athens, Greece in June 2002, at which a platform for discussion on policy issues and investment opportunities in education will be established.

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ABBREVIATIONS

AIMS	American International School Macedonia
ASM	American School of Macedonia
BDE	Bureau for Development of Education
CEPS	Center for Educational Policy Studies
CITA	Commission for International and Trans-Regional Accreditation
DM	German Marks
EBRD	European Bank for Reconstruction and Development
ECT	Education Credit Transfer
EU	European Union
FDI	Foreign Direct Investment
FIAS	Foreign Investment Advisory Service
FYROM	Former Yugoslav Republic of Macedonia
GDP	Gross Domestic Product
GNP	Gross National Product
IFC	International Finance Corporation
ILO	International Labor Organization
IMF	International Monetary Fund
MBRC	Macedonian Business Resource Center
MES	Ministry of Education and Science
MOF	Ministry of Finance
MSE	Macedonian Stock Exchange
NEPA	National Enterprise Promotion Agency
NGO	Non-governmental Organization
OECD	Organization for Economic Co-operation and Development
OSCE	Organization for Security and Co-operation in Europe
SAA	Stabilization and Association Agreement
SEED	Southeast Europe Enterprise Development
SEEU	South East Europe University
FRY	Socialist Federal Republic of Yugoslavia
SME	Small and Medium Size Enterprise
UNDP	United Nations Development Program
UNESCO	United Nations Educational, Scientific and Cultural Organization
UNICEF	United Nations International Children's Emergency Fund
USD	United States Dollars
USAID	United States Agency for International Development
VAT	Value Added Tax
VET	Vocational Education and Training
WB	World Bank
WHO	World Health Organization
WTO	World Trade Organization

Currency Dinar (MKD)

INTRODUCTION

1. Although the Ministry of Education and Science (MES) is positively inclined toward private secondary education (as it sees the development of private secondary education as a way of releasing state funds for basic/compulsory education) and has explicitly recognized it in legislation, it has been slow to develop. Likewise, although there is great potential for development of private pre-schools (which are permitted by law), almost all are public. The new law for higher education that was passed in 2000 and allows the establishment of private universities, is timely as university demand is not being met and many '*Slavo-Macedonians*'¹ are forced to go abroad to study. The State moreover, has been slow in supporting the area of post-secondary education and training even though there is urgent need for private sector development in this area in order to curb rising unemployment. Nevertheless, one of the biggest problems in stimulating private investment in education is the lack of incentives and financing possibilities.² There is on the other hand, considerable activity in terms of public-private partnerships at local and individual school level, creating extra income for state schools, although motivation in doing so has recently been curbed due to fear that under the new financial management restructuring by the Ministry of Finance, school-generated income will go to the Government rather than remain for use by the school (as is presently the case).

COUNTRY BACKGROUND

2. The Former Yugoslav Republic of Macedonia (FYROM) is a landlocked country of 25,713 sq. km. located in the heart of the Balkans bordering Albania, Bulgaria, Greece, and Serbia-Montenegro. FYROM shares a common border with Kosovo and its ethnic Albanian minority has extensive family ties with Kosovar Albanians - a key factor in the 1999 Kosovo crisis, when the country was confronted with the dramatic inflow of more than 350,000 Kosovar refugees.³
3. FYROM is composed of an ethnically diverse population of 2,046,209 people (July 2001 est.).⁴ According to the 1994 census, 66.6 percent of the population is '*Slavo-Macedonian*', 22.7 percent Albanian, 4 percent Vlach, 0.4 percent Turk, 2.2 percent Roma, 2.1 percent Serb and 2.0 percent are of

¹ Throughout this paper the term '*Slavo-Macedonian*' will be used to refer to the language and ethnicity of the majority population of FYROM.

² For example: tax regulations apply to private education initiatives as they do for any private business; interest rates are high at 15-20 percent even where bank loans are possible.

³ World Bank Country Brief, November 7, 2000.

⁴ CIA World Factbook, 2001

other ethnic background (or have not declared their ethnic background).⁵ Of these, 59 percent are Orthodox, 26 percent Muslim, 4 percent Roman Catholic, and 11 percent have some other or no religious orientation.⁶

4. According to the CIA World Factbook (2001), the majority of the population (70 percent) uses '*Slavo-Macedonian*' (written in the Cyrillic alphabet) as their primary language of communication, 21 percent Albanian, 3 percent Turkish, 3 percent Serbo-Croatian and 3 percent some other language. Although '*Slavo-Macedonian*' is considered the official language of the State and therefore, also the official language for schooling purposes, where there is a majority or large concentration of groups using other languages, the law permits the use of national languages and alphabets for basic/compulsory education alongside '*Slavo-Macedonian*'. With regard to the use of the English language, only 15 percent of the population (and mostly the younger generations) is proficient in English, due mainly to the fact that English has only recently been introduced in the school curriculum as the first foreign language.⁷ However, with regard to the use of the Greek language, a significant proportion of the population understands and/or speaks Greek (although official data as to the percentage that do so is unavailable), mainly as a result of extensive commercial and tourist relations with Greece.
5. The majority of the population (67 percent) is aged 15-65 years. Only 23 percent is aged 0-14 years and 10 percent is over 65 years.⁸ Population growth-rate, which is changing rapidly, stands at 0.6 percent per 1000 (higher among Albanian and Roma populations), but is negative in some regions (e.g. Orasec at -22.7 per 1000).⁹
6. The capital of FYROM is Skopje with a growing population of about half a million at present. Other relatively large cities are Bitola with a population of about 100,000 people, Prilep with close to 70,000, Kumanovo with about 66,000 and Tetovo with about 50,000.¹⁰ Urban concentration has rapidly increased in the last 30 years. In 1961 for example, only 38 percent of the total population lived in urban areas. Today however, the situation is reversed with 61 percent of the population residing in urban areas and 39 percent in rural.¹¹
7. Until 1991, FYROM was a constituent republic of the Socialist Federal Republic of Yugoslavia (SFRY). After the disintegration of the federation in the early 1990s, FYROM elected its first democratic parliamentary assembly

⁵ According to the OECD Thematic Review of National Policies for Education – FYROM, unofficial estimates indicate that Albanian minority currently exceeds 30 percent, of which most live in the north-west regions of Tetovo and Debar, and the Roma population (unofficially) is estimated at 3 percent.

⁶ OECD Thematic Review of National Policies for Education – FYROM.

⁷ Followed by French and German; and to a lesser extent, Russian.

⁸ CIA World Factbook, 2001.

⁹ OECD Thematic Review of National Policies for Education – FYROM.

¹⁰ Economic Chamber of Macedonia. <http://www.mchamber.org.mk/>

¹¹ Bureau of Statistics.

(*Sobranje*). Following a referendum on independence that was held in September 1991, the *Sobranje* declared the independence and sovereignty of the state of FYROM, adopting a constitution and establishing the foundations of parliamentary democracy, civil society, the rule of law and a market economy.

8. The *Sobranje* has 120 members (85 members in single seat constituencies and 35 by proportional representation), elected for a four-year term. Although the head of the State is the President (elected for a period of five years), executive authority rests with the Government (composed of the president of the government – the Prime Minister – and the ministers). Following world trends, authority has been decentralized and is now being strengthened through the *Public Administration Reform* process whereby more power will be transferred to municipalities. The constitution moreover, guarantees the citizens' right to local self-government.¹² This right is exercised in the municipalities as units of local self-government. Each municipality is autonomous in the execution of its constitutionally and legally determined competencies and financed from its own resources and revenues, as well as budgetary allocations from the Government. It should be noted however, that 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 part of the respective ministry.¹³
9. At the time of independence in November 1991, FYROM was the least developed of the Yugoslav republics, producing a mere 5 percent of the total federal output of goods and services.¹⁴ According to the *World Bank (2000)*,¹⁵ FYROM benefited from relative political stability in the early years of transition due to the fact that the same coalition government remained in power from 1992 to 1998. As a result, in 1997 the economy began a long-awaited recovery - albeit a fragile one - given regional circumstances. Following a sharp decline during 1994-1995 output stabilized in 1996 and increased modestly by 1.5 percent in 1997, 2.9 percent in 1998, and 2.7 percent in 1999. Recovery has generally reflected strong growth of agriculture and trade, somewhat offset by continuing poor performance of the industrial and financial sectors. GDP growth rate in 2000 was 5.1 percent and inflation at 10.6 percent.¹⁶ However, the "grey" economy (i.e. the economic activity outside tax and social security laws) remains large and is said to account for half the Republic's GDP.¹⁷

¹² In May 1997, FYROM ratified the European Charter for local self-government.

¹³ SIGMA, Public Management Profiles – Republic of Macedonia.
<http://www1.oecd.org/puma/signaweb/profiles/maced/mac-toc.htm>

¹⁴ CIA World Factbook, 2001.

¹⁵ Country Brief-FYROM. The World Bank. <http://www.worldbank.org/ECA/>

¹⁶ Economic Chamber of Macedonia.

¹⁷ Although the range of informal activity has decreased in recent years, *un-registered* employment is still relatively high. It represents a critical portion of total employment. According to the 1999 Survey of the Working Force, the informal sector recorded for the first time 152,000 people, representing 27.8 percent of the total number of employed (with 95percent in the private sector). (Country Report: FYROM. Stability Pact for South East Europe, October 30, 2000).

10. According to the Government's *Poverty Reduction Strategy Paper (2000)*, about 20 percent of the total population in FYROM live under the official poverty line (i.e. have minimum resources for living). With the official poverty line of about \$ 75 per month in 1996 prices therefore, the poor in FYROM are "households with less than 60 percent of median household income".¹⁸ The current Human Development Index (HDI) for FYROM (0.749) moreover, is much lower than that of developed countries and also lower than the average for eastern European countries (0.756).¹⁹ Furthermore, beyond the fact that poverty in FYROM is most widespread in the rural areas²⁰ and in larger households with more members unemployed or with low education, what is even more alarming is the fact that quantitative studies show that poverty is increasing both in breadth and depth.²¹ The Government has set a medium-term goal to reduce poverty by three percentage points (from the current 20 percent to 17 percent) through the acceleration of economic growth. This will be fostered by ongoing reforms and other elements such as job creation and construction of an efficient social safety net.
11. In FYROM however, there is a strong correlation between the level of education and poverty. According to the *Poverty Reduction Strategy Paper (2000)*, secondary and university education guarantee a higher living standard, while the highest poverty rate is observed among households *where the breadwinner has only primary education*. Those with the lowest level of education are also mainly unemployed. The *Education Development Strategy 2001-2010* moreover, identifies poverty as *a major and deepening threat to the social and educational development of the country*. It forecasts that by 2010, *more than 30 percent of the population may be living below the poverty line, up from 20 percent in 2000*. This forecast moreover, may not be far from reality considering that 52.67 percent of the population has no education or incomplete education (i.e. have not completed basic/compulsory or secondary schooling) and only 37.7 percent has 3 or 4 years' secondary education.²² Keeping in mind that a modern economy requires a highly skilled labor force, the population that is leaving (i.e. dropping out of) elementary and secondary school is doomed to long-term unemployment, with minimal chances for active participation the labor market. The need for greater effort in adult education and re-training therefore is vital if the country's economic situation is to improve.
12. The correlation between (un)employment and poverty is also very strong. Not surprisingly, the most vulnerable groups have been identified as: (i)

¹⁸ Poverty Reduction Strategy Paper, Government of the Republic of Macedonia. November 10, 2000.

¹⁹ Education Development Strategy 2001-2010. Ministry of Education and Science.

²⁰ Two-thirds of poor households live in rural areas under bad living conditions. In 1998, the poverty rate for the rural areas was 25.1 percent. In Skopje (the capital city) the poverty rate was 13.9 percent in the same year and 21.5 percent in provincial cities. (Poverty Reduction Strategy Paper, 2000)

²¹ The poverty rate increased from 18.1 percent of the population in 1996 to 20.7 percent in 1998 while the index of poverty depth moved from 3.9 to 5.3 percent. (Poverty Reduction Strategy Paper, 2000)

²² Draft Strategy for Development of Education in The Republic of Macedonia. Skopje, June 2000.

unemployed poorly-qualified middle-aged people who have lost their jobs and first-time young job-seekers; (ii) people employed in companies with uncertain futures; (iii) households with no employed members; (iv) self-employed in the farming sector; (v) and multi-member families in rural areas.²³

13. Unemployment²⁴ rose steadily from over 33 percent in 1995 to 40 percent in 1998 and although it decreased, it remains exceptionally high at 32 percent (in 2000).²⁵ A very large proportion of the unemployed (82.8 percent) are long-term unemployed (over one year), while women make up 40 percent of the unemployed.²⁶ However, when one considers that for instance, during the school year 1996/97, 0.85 percent of the student body dropped out of elementary school after the first four years of schooling and almost 20 percent dropped out of secondary school, it is not surprising that nearly 70 percent of the total unemployed are younger than 40 years (with about 43.4 percent of these under the age of 30), while 26.6 percent are from 30-40 years of age.²⁷
14. Furthermore, unemployment is an urban phenomenon since of the total number of unemployed people, 64.4 percent live in towns while 35.6 percent live in rural areas. Skopje has the largest number of recorded unemployed with 24.5 percent, followed by Kumanovo with 8.4 percent, Prilep with 7.2 percent and Bitola with 6.0 percent.²⁸ According to the European Training Foundation moreover, in general, unemployment does not effect only particular professions but almost all profiles.
15. In response to rising poverty and falling employment, the Government put into place in 1992, a safety net for its citizens, which includes annual programs and resolutions setting eligibility criteria for social assistance benefits. These are restricted to citizens with income levels below the official poverty line, irrespective of religious, ethnic, political or other background. However, in more recent years, in order to contain pressures on the public budget and to improve targeting of assistance, the Government has tightened eligibility. In 1996, the income ceiling was set at half of the official poverty line, reducing eligibility to about 10 percent of the population. In the future, ongoing improvements of eligibility are planned to target more closely the poorest households.²⁹
16. Nevertheless, FYROM is the first country in the region to negotiate a Stabilization and Association Agreement with the European Union (EU). The main reform challenges the country will need to face in the near future therefore, in order to meet EU standards are: (i) promoting private sector

²³ Ministry of Labor.

²⁴ That is, official unemployment as indicated by those registered as unemployed.

²⁵ Bureau of Statistics.

²⁶ Ibid.

²⁷ Country Report: FYROM. Stability Pact for South East Europe. October 30, 2000.

²⁸ Ibid.

²⁹ Poverty Reduction Strategy Paper. Government of the Republic of Macedonia. November 10, 2000.

growth and job creation; (ii) enhancing the efficiency of the state; and (iii) alleviating poverty and developing human capital. These challenges will be met through improving corporate governance, enhancing the business environment, strengthening judicial and regulatory systems, attracting foreign investment, and increasing financial sector discipline and competitiveness. Growth will serve as the main vehicle for employment generation. Reforms are needed to rationalize public expenditures, restructure state institutions and civil service, and redefine the scope of state intervention in the economy. Measures to better target the poor, improve the financial management of the health system and adapt education systems to the needs of a market economy are underway.³⁰

THE EDUCATION SECTOR

Regulatory Framework

17. The education system of FYROM is under the jurisdiction of the State. The 1991 Constitution ensures the right to education³¹ for all citizens of FYROM. Article 4 for example, states that parents have the right and responsibility to ensure their children's education, while Article 44, that all citizens not only have an equal right to education, but that basic education (Grades 1-8) is compulsory and free³². Article 48 moreover, of the Constitution states that although minorities have the right to instruction in their mother tongue at basic and secondary education, in all minority schools the teaching of "*Slavo-Macedonian*" is compulsory.³³
18. Pre-school education – from 6 months of age up to 6 years - is the responsibility of the Ministry of Labor and Social Affairs and (still) regulated by the 1983 Law on Child Protection and Pre-School Education.³⁴ From age 6, pre-school education is the responsibility of the MES. It is not yet clear what the new laws on local autonomy will mean for pre-schools, nor what the responsibilities of the respective Ministries will be.
19. As noted above (par. 17), according to Article 44 of the Constitution basic education (i.e. Grades 1-8) is compulsory and free (at public/state schools) and available to everyone under equal conditions. Furthermore, the Basic/Compulsory Education Law of 1995 defines and details the structure, as well as the organization and duration of this level of education. Article 3 of this Law moreover, states that basic/compulsory education is undertaken

³⁰ <http://www.seerecon.org/Macedonia/>

³¹ In state/public schools.

³² That is, no tuition fees are charged. Furthermore, basic education can only be provided by the State – that is, no private basic/compulsory education schools may be established.

³³ This however, has resulted in most schools operating on a two- and three-shift system, in order to accommodate numbers of students and languages of instruction. (Draft Strategy for Development of Education, MES, 2000)

³⁴ The Law on Child Protection and Pre-School Education is being revised to bring it in line with the Convention on the Rights of the Child, the UN Standard Rules on Equalization of Opportunities for Disabled People and with European trends. There is also a Children's Ombudsman to protect children's interests.

from age 7 to age 15 as a rule and that citizens who beyond age 15 who have not completed their basic education, have the right to complete basic/compulsory education at state/public adult education institutions. Basic/compulsory education is also conducted (i.e. beyond the regular state/public schools) in health facilities, correction homes, in special schools (i.e. schools for children with special education needs).

20. Although high school (secondary) education (Grades 9-12) is non-compulsory it is ensured as a right for all citizens by the Constitution and provided free (of tuition charge) at state/public schools for all those who wish to attend. Article 1 of the Secondary Education Law (16/5/1996, No. 10-1686/1) regulates *the organization, function and management of the secondary education as a part of the education system*. Article 2 moreover, states that *secondary education shall be realized in secondary schools organized as public schools (state and municipal) and private schools*. Furthermore, Article 32 states that secondary education is provided through (general) high schools, vocational schools, secondary art schools, and secondary schools for students with special needs.
21. Although Article 46 of the Constitution granted autonomy to universities and required that higher education be covered by a separate law, it was not until 2000 that the new law for Higher Education replaced the 1985 Socialist Federal Republic of Yugoslavia (SFRY) Law on Vocational Education, which regulated both vocational secondary and all tertiary education.³⁵ Most importantly, the new law permits the establishment of private higher education institutions and also provides a system for quality assessment of higher education. Furthermore, it allows financing not only from the State budget but from other sources also, including student fees (even at public/state institutions) under certain conditions. It also allows for full- and part- time studies, distance study, transfers under the Education Credit Transfer (ECT) system and simultaneous study at more than one higher education institution. It also specifies the qualifications and degrees awarded after successful completion of study.
22. However, the 1985 SFRY Law on Vocational Education (mentioned above) continues to regulate all levels of vocational education and training (VET). Needless to say, a new (separate) law specifically designed to appropriately regulate the VET sector as it struggles to meet the labor needs of an emerging market economy, is urgently needed – especially if VET is to play a key role in the country’s economic development and restructuring process as indicated in the *‘Education Development Strategy 2001-2010’*.

³⁵ The 1985 SFRY Law on Vocational Education divides the post-basic education (that is, beyond Grade 8) into levels of vocational specialisation expressed in *‘degrees’* ranging from Degree I (equivalent to one year of secondary education), to Degree VIII (equivalent to the degree of *‘Doctor of Sciences’*).

23. Curricula, assessment and in-service teacher training are the responsibility of the Bureau for Development of Education (former Pedagogical Institute) – a division of the MES - and its 12 district offices.

Reforms

24. According to the ‘Poverty Reduction Strategy’ (that was produced by the Government in November 2000), *reforms of the education system are being implemented to produce positive qualitative and quantitative effects on educational outcomes. The reforms are aimed at raising enrollment rates and raising the average level of education completed. Some improvements have already occurred, but further efforts are required to reach this goal [since] according to the last census, those with no education constituted 10 percent of the population, those with less than a primary education 20 percent, those with only primary education 30 percent, those with only secondary education 33 percent and those with more than secondary education 8 percent.*
25. The ‘Poverty Reduction Strategy’ moreover, recommends that in order to fight poverty in FYROM, education reforms ought to be directed at two levels: (a) a general level – in order to raise the average level of education of the population so that they are better able to face the economic development challenges; and (b) a targeted level – in order to create higher inclusion in the educational process of the members of risk groups, who without such help, are destined to remain poor and unemployed.
26. The ‘Poverty Reduction Strategy’ therefore, serves to reinforce the proposals set forth in the *Draft Strategy for Development of Education in the Republic of Macedonia* that was produced earlier the same year (i.e. in June 2000). This *Draft Strategy for Development of Education* was submitted to the public for discussion and feedback in late 2000. It is one of the two³⁶ most important documents for the reform of education in FYROM since the transition (in 1991), not only because it makes a broad analysis of the education system in FYROM and provides a comprehensive list of reform issues for the next 10-year period, but especially because it stresses “*the need for greater private investment in education.*” However, as this document was considered too broad, the new Minister of Education and Science who took office in early 2001, was asked by the funding agencies (including the World Bank and IMF) to define more precisely the most immediate priorities. These are outlined in the ‘*Education Development Strategy 2001-2010*’ that was adopted by the Government in March 2001. **Appendix 1** shows the matrix of priorities for the period 2001-2010 as put forth in the ‘*Education Development Strategy 2001-2010*’ and includes the proposed budget and financing of these priorities.
27. The reform priorities outlined in the ‘*Education Development Strategy 2001-2010*’ are aimed at: raising enrollment rates and the average level of education completed by the population; renovating educational infrastructure

³⁶ The other being its successor, the ‘*Education Development Strategy 2001-2010*’ adopted by the Government in March 2001.

and upgrading teaching equipment; bringing the curricula in line with European models; focusing on practical knowledge and development entrepreneurial skills; and training staff to carrying out these changes. Some reforms have already been implemented, but further efforts are necessary especially in terms of: providing equity of access; meeting the individual needs of each child (especially gifted children and children with impaired development); and adjusting to the needs of various target groups, especially those suffering from social discrimination. High-risk groups, whose members are unlikely to achieve a satisfactory level of education, include: rural children; Muslims, especially females; Roma; and those with special physical or psychological needs.

28. Curricula are also being adjusted to meet the needs of a market-oriented economy. There are ongoing activities to reorganize secondary education and preparations for reform of the high school system. More attention however needs to be paid to adult education and retraining, which can assist workers in switching careers and responding to market demand. The role of the student in the educational process is also being changed, which should contribute to forming individuals capable of creating jobs in the fast-changing economy and of active participation in the institutions of a democratic society.
29. Long-awaited reforms to secondary vocational education are also underway. The first phase started in 1998 (with reforms implemented in 16 pilot vocational secondary schools) and was completed in 2000. As noted in the 'Education Development Strategy 2001-2010', *a new reform program needs to be implemented to cover a much larger number of schools and professions and special attention needs to be paid to professions likely to be of interest to the eastern part of FYROM as there has been a great delay there in economic development and economic restructuring.*³⁷
30. However, as noted in the *OECD Thematic Review of National Policies for Education – FYROM (2001)*, although the 'Strategy for Development of Education in the Republic of Macedonia' (of 2000) devotes considerable attention to the centralization/decentralization issue, stating that *central planning has made the system rigid and uniform, disregarding the needs and characteristics of various communities*, the 'Education Development Strategy 2001-2010' (of 2001) does not deal with this issue. Rather, it leaves it to the Government to deal with under the overall reform of public administration currently being carried out,³⁸ with the justification that *ill-considered decentralization might make matters worse for poor and vulnerable groups.*
31. Nevertheless, funding for the reforms in education is expected from: the State Budget; special programs resulting from the sale of state-owned enterprises; donor countries; and the European Union.³⁹

³⁷ The second phase of reforms to secondary vocational education is currently underway.

³⁸ Under the auspices of the Ministry of Justice.

³⁹ Education Development Strategy 2001-2010. Ministry of Education and Science. Skopje, 200.

The Structure of the System

32. Prior to the transition in 1991, there was a well-functioning system of decentralized educational administration. However, during the transition period of constructing national institutions and building a market economy, this decentralized system was abolished following the reform of public administration (leading to the centralization of decision-making). Although the Ministry of Education⁴⁰ took over the responsibilities (i.e. of the governance and funding of all state schools) that had previously been largely assumed by local municipalities, the organizational structure of the central and the regional governance of education were retained.
33. The number of municipalities in the early 1990s was around 30. At present, there are 124. However, municipalities do not have a significant role in education although many of them make efforts to initiate the construction and renewing of schools (owned by the central authorities. Furthermore, they have the right to appoint some members to the School Boards (see par. 34). Nevertheless, the *Public Administration Reform Program* (which is being planned by the Ministry of Justice with little or no formal consultation with the MES) suggests that there are plans to transfer more power to municipalities (e.g. for the ownership of school buildings). If such transfer of power is realized, it could have far-reaching effects on the development and support for private education in terms of providing the appropriate conditions for building and strengthening public-private partnerships at the local level.
34. Organizationally therefore, there are 3 levels of education governance: (a) the Central Level comprising of the MES (which directly manages 1150 basic/compulsory and secondary schools, allocating budgets, authorizing payments and appointing school heads); (b) the District Level comprising of the 34 district offices of the MES, although the scope or responsibility of these regional units is rather limited; and (c) the Local Level comprising of the schools (which are governed by a School Board - the executive body that makes decisions on issues such as the use of the annual budget, collecting funds, and obtaining additional resources for their school⁴¹).
35. Pre-school education is provided through nurseries, which cater for children up to age 2, kindergartens, which cater for children aged 2-5 and pre-primary classes (or '*infant schools*'), which cater for children aged 5-7 and prepare them to enter primary school. Basic/compulsory education starts at age 7 and lasts for 8 years. It is composed of primary school (4 years) and lower secondary school (4 years). Upon completion of basic/compulsory education (i.e. after completion of Grade 8), students can continue at a 4-year general

⁴⁰ In late 2000, the Ministry of Education and the Ministry of Science were combined into one Ministry, now known as the Ministry of Education and Science (MES).

⁴¹ Representation on the School Board includes: the MES, teachers and parents. However, Parent Councils are also operating either at the school level or by class or grade. (OECD Thematic Review of National Policies of Education – FYROM.)

upper secondary school, or a 2-, 3- or 4-year technical/vocational school.⁴² There is a formal examination at the end of Grade 8 and a formal school-leaving examination at the end of Grade 12 (*Matura*⁴³). After secondary school, students may continue at post-secondary, non-university programs or at university (for which there are entrance examinations into most faculties).

Participation and Enrollment Rates

36. According to the 'Poverty Reduction Strategy' (2000), education levels in FYROM are reasonably high. However, although the average education status of the people has continued to rise (with literacy at almost 95 percent and basic/compulsory education enrollment rates close to universal), the gap between educational attainments of males and females, and also of rural/urban residents, has not only been narrowing, but gross enrollment rates are lower at all levels of the education system than in other countries in the region.⁴⁴ Furthermore, there is a high drop out rate, especially at the secondary school level and education continues to remain an issue for certain groups, especially the poor (with over three-quarters having less than primary school education).⁴⁵
37. As already noted above (see par. 24), according to the last census: those with no education constitute 10 percent of the population; those with less than a primary education, 20 percent; those with only basic/compulsory education, 30 percent; those with secondary education, 33 percent; and those with more than secondary education, 8 percent. **Table 1** (below) shows participation in school education by level, gender and percentage for the school year 1998/99.

Table 1: Participation in School Education by Level, Gender and Percentage

1998/1999	N° of all students	Percent of education system as a whole	Girls in n°	Girls in percent
Basic education (Grades 1-8; ages 7-14/15)	255,150	67.23	123,068	48.23
Secondary education - general and VET (Grades 9-12; ages 15-18/19)	87,420	23.04	42,507	48.62
Tertiary education (ages 19+) - university and non-university	36,922	9.73	20,325	55.05
TOTAL	379,492	100	185,900	48.99

Source: CEPS, 2001

⁴² After Grade 8, 67 percent of students continue on to technical or vocational education/training programs, while 33 percent enter general secondary education programs. (OECD Thematic Review of National Policies of Education – FYROM)

⁴³ The *Matura* exam is currently being revised. According to the MES, the new *Matura* exam will gradually replace university entrance exams.

⁴⁴ Poverty Reduction Strategy, Government of the Republic of Macedonia, Skopje, November 10, 2000.

⁴⁵ Ibid.

38. The demographic trends of FYROM however are shifting, with the percentage of rural population constantly decreasing. According to the 'Draft Strategy for Development of Education in the Republic of Macedonia' (2000), *the industrialization process has led to increased immigration of the population from the rural areas to the urban areas, where "by rule" there was concentration of larger industrial capacities. The migration from village to town moreover is especially typical for the younger generations.* The 'Draft Strategy for Development of Education in the Republic of Macedonia' (2000) moreover, foresees that *demographic shifts will have a significant impact on educational policy for the future* and warns that *there has to be a constant monitoring of the inflow of students at all levels, so there is a possibility for timely undertaking of actions in order to facilitate the successful implementation of the educational policy and creation of optimal conditions for educational development.*⁴⁶

Pre-School Education

39. As pre-school education is not compulsory, there are varying degrees of participation. Enrollments in pre-school (age cohort 0-6 years) have remained relatively stable over the ten-year period 1990-2000 with 38,065 children in pre-school in 1990/91 and 38,348 in 1999/2000.⁴⁷ These children are catered for by a total of 4,556 teachers (1,366 of which are unqualified) in 52 public/state pre-schools (most of which are concentrated in urban areas). However, these figures represent only 18-19 percent of the age cohort, although 79 percent of 6-year olds attend 'Zabaviste' classes (i.e. preparation classes for 6-year olds the year before they enter primary school).⁴⁸

40. Low pre-school participation has brought about significant differences in learning achievement among students in the first primary grades. The *Draft Strategy for the Development of Education in the Republic of Macedonia (2000)* notes that the MES is considering adding a compulsory grade 'zero' for 6-year olds in order to reverse the negative impact that low participation in pre-school education currently has on primary school achievement.⁴⁹ The *Education Development Strategy 2001-2010* moreover, lists this as a priority. However, if all 6-year olds are to be accommodated by the year 2005 (as indicated in the *Education Development Strategy 2001-2010*), additional pre-school places and qualified pre-school teachers will be required.⁵⁰

⁴⁶ According to data provided by the MES, the movement of students from rural to urban areas is as follows: for pre-school, approximately 30,000 children; for basic/compulsory education, approximately 32,000 students; in secondary education, approximately 30,000 students; and in tertiary education, approximately 17,000 students.

⁴⁷ Bureau of Statistics, Skopje, 2000

⁴⁸ From 1996, 'Zabaviste' classes (i.e. pre-school classes for 6-year olds) have been established in some primary schools and operate on a half-day schedule and some of these also cater for 1-7 year olds. (OECD Thematic Review of National Policies of Education – FYROM)

⁴⁹ This of course means that basic/compulsory education will have a duration of 9 years compared to the current, 8 years.

⁵⁰ A budget of 1.4 MEuro has been indicated of which only 0.4 MEuro will come from the budget and the rest is sought from the donor community.

41. Parents pay approximately \$ 16 per month for the cost of food. However, along with other fees this amount can increase to approximately \$ 50 per month, which is prohibitive for a large number of families.⁵¹
42. Although pre-school education is the responsibility of the Ministry of Labor and Social Affairs, curricula development and in-service teacher training is the responsibility of the MES through its division, the Bureau for Development of Education (BDE). According to the OECD Thematic Review of National Policies of Education – FYROM, pre-schools are centrally organized⁵² and *local authorities or organizations have no competence to be involved in pre-school education. However, they often actively co-operate with the management of kindergartens or primary schools in different activities and the parents are also sometimes involved. Almost all pre-schools moreover, are state/public and only a few are private.*⁵³
43. Although all pre-schools have the same curricula (including whole-day and half-day programs), other programs are also being used. These include: *Interactive Learning, Step Forward, Let's Go and Learn Together* and *Lifestart* supported by UNICEF; and *Step-by-Step* supported by the Open Society Institute. Furthermore, the NGO *Caritas* has started pre-school centers aimed at Roma children and in 1998/99, a pilot program called *Mosaic* started, aimed at 'Slavo-Macedonian' and Albanian groups.
44. Although the language used in pre-schools depends on the surrounding community and can be in four different languages ('Slavo-Macedonian', Albanian, Turkish and Serbian) in practice, many pre-schools have only 'Slavo-Macedonian'-speaking teachers since 90 percent of qualified⁵⁴ pre-school teachers are 'Slavo-Macedonian'.
45. Rural provision of early childhood and pre-school education is problematic, as is provision for ethnic minorities and disadvantaged (socially, physically and mentally) children. As noted in the OECD Thematic Review of National Policies of Education – FYROM, *mobilizing private financing and initiatives is one way of meeting the needs of this non-compulsory but important sector of education.*

Basic/Compulsory Education

46. Although enrollments in basic compulsory education (age cohort 7-14 years) have been steadily decreasing over the past 10-year period from 266,813 in 1990/1991 to 255,150 in 1999/2000, enrollment rates have improved from 93.2 percent of the 7-14/15 age group in 1990 to 98.35 percent in 1999.

⁵¹ OECD Thematic Review of National Policies of Education – FYROM.

⁵² That is, through the MLSA and MES.

⁵³ According to information provided by the Bureau of Statistics, there are no 'official' private kindergartens (i.e. registered with either the MLSA or the MES). The MES however, believes that there may be one or two private kindergartens operating 'unofficially' and therefore, not supervised by the State.

⁵⁴ That is, with two-year post-secondary qualifications at the Faculty of Pedagogy.

Given the economic and social conditions, this is a considerable achievement.⁵⁵ These students attend 1041 public/state schools⁵⁶ and are catered for by a total of 13,604 teachers (out of which 1,072 are unqualified⁵⁷).

47. Approximately 96 percent of those that complete the first cycle of basic/compulsory education (i.e. Grades 1- 4) continue on to the second cycle (i.e. Grades 5-8).
48. The common curriculum for basic/compulsory education (Grades 1-4 and Grades 5-8) is developed by the BDE (as required by the Education Law of 1995) and approved by the National Pedagogical Council. All subjects for Grades 1-4 are taught by the same class teacher. Compulsory numbers of class teaching hours per week increase from 18 hours in Grade 1 to 20-22 hours in Grade 4. Supplementary teaching (one hour per week) is provided for students who require extra help with their lessons and for 'gifted' students who would like to proceed through the school system more rapidly.⁵⁸ From Grade 5 onwards, students are taught by subject-specialist teachers. Elective subjects (e.g. computers) are offered. The number of teaching hours per week increases gradually from 22-25 in Grade 5 to 24-26 in Grade 8.
49. Although basic/compulsory education is provided by the State and free of tuition charge, other costs (such as school books and routine costs of exercise books, art materials, etc.) can amount to \$ 30-50 per month. This amount, added to the cost of food provided in schools (as much as \$ 30 per month) is beyond the reach of a large number of families.⁵⁹
50. Furthermore, according to information provided by the MES, schools can also ask for fees – *not* tuition fees - but rather, participation in expenses⁶⁰ and although the State owns the schools, the schools have the right to raise extra funds by renting/leasing space or undertaking extra-curricula programs or activities.

Secondary Education

51. Although secondary education is non-compulsory, both enrollments and enrollment rates for the age cohort 15-18 years have steadily increased over the past 10-year period from 70,696 in 1990/1991 (representing 56.8 percent of the age cohort) to 87,420 in 1998/1999 (representing 65.08 percent⁶¹ of the age cohort). These students are catered for by 5,372 teachers (of which 84 are

⁵⁵ However, education remains an issue for certain groups, especially the poor. Over three-quarters of the poor have less than primary school education. (Poverty Reduction Strategy, 2000)

⁵⁶ There are no private basic/compulsory education schools as these are not permitted by law.

⁵⁷ That is, do not possess at least two-years post-secondary study at the Faculty of Pedagogy.

⁵⁸ The 1995 Education Law allows 'gifted' students to take exams for advanced placement in order to proceed through the school system more rapidly.

⁵⁹ OECD Thematic Review of National Policies of Education – FYROM.

⁶⁰ Such fees depend on the school, the level for which the fee participation is applicable and location. Needless to say, this creates financial burden for poorer families.

⁶¹ Of these, 22.16 percent are in general secondary and 42.92 percent in secondary VET programs.

unqualified⁶²) through 95 public/state schools and 3 private schools. The MES however, is aiming for a coverage of 95 percent of the 140,000 15-18 year cohort projected in the year 2010 and is planning the construction of ten new high school buildings to cater for this increase.⁶³

52. It should be noted however, that although enrollments in general secondary education have increased from 13,790 in 1991/1992 to 29,774 in 1998/1999 (representing 22.16 percent of the age cohort),⁶⁴ enrollments in technical/vocational secondary schools dropped dramatically from 70,696 in 1990/1991 to 56,460 in 1991/1992 and then again in 1992/1993 to 51,241 and started increasing steadily in 1995/1996 climbing to 53,904, 55,696 in 1996/1997 and 56,858 in 1997/1998. Only about 27 percent of secondary school graduates continue their studies at tertiary level. Of these, only 12 percent are from the original Grade 1 cohort.
53. According to the OECD Thematic Review of National Policies for Education – FYROM, *the MES has now set special quotas for ethnic minorities, amounting to 23 percent of total enrollment. Entrance tests are provided in the Albanian language and courses in ‘Slavo-Macedonian’ are provided for Albanian minority students during secondary school to increase their chances of access to higher education and employment.*
54. Secondary education includes: general high-schools (or ‘*gymnasia*’), technical schools, vocational schools for trades and professions, and schools for the arts. *Gymnasia* have three streams – General, Natural Sciences and Mathematics, and Languages – but there is a core curriculum of 15 (currently) compulsory subjects, which make up 75 percent of a student’s program. The MES is trying to streamline the *gymnasia* curricula by integrating subjects or reclassifying art and music as optional rather than compulsory subjects.
55. Emphasis is being placed on the reform of secondary vocational education. The Draft Strategy for Development of Education (2000) outlines the importance of *arming the future job seekers* and providing *options for all the unemployed.....so they can gain at least minimum knowledge and skills needed for their efficient inclusion in the labor processes*. The Education Development Strategy 2001-2010 furthermore, recognizes that *education should allow for personal and professional training of youth and adults according to the changing demands of the labor market and life in general.*
56. The Education Development Strategy 2001-2010 moreover, places high priority on the introduction of final examinations at secondary level with the

⁶² That is, do not possess a university degree.

⁶³ ‘Education Development Strategy 2001-2010’, MES 2001.

⁶⁴ Drop-out rate during the secondary cycle has decreased from 20percent in 1996 to 15percent in 1999 (OECD Thematic Review of National Policies for Education – FYROM) and is highest during (a) the first year of secondary school; (b) the three-year vocational programs; and (c) “the less attractive professions”. (Draft Strategy for Development of Education, 2000)

objective of *making university entrance examinations unnecessary*. It envisages a *standard national final examination* by the year 2006.

57. Fees⁶⁵ at state/public secondary schools can be as high as \$ 350 per course for some secondary vocational courses (e.g. dental technicians). Textbooks, art materials and other routine expenses can amount to \$ 50-100 per month.⁶⁶
58. According to the MES, secondary schools can be owned by the MES or the local government. Moreover, they are located only in towns and can be rented/leased to raise extra funds for the school. Funds raised remain with the school to be used as needed by the school.⁶⁷

Tertiary Education

59. Enrollments in tertiary (university and non-university) education have steadily increased over the past 10-year period from 26,413 in 1990/1991 to 36,922 in 1999/2000 (representing approximately 23 percent of the age-cohort 19-23 years). Enrollments in tertiary, non-university programs however, steadily increased from 1990/1991 (with 1,567 enrollments) to 1994/1995 (with 2,098 enrollments) and dropped sharply in 1995/1996 to 817, increasing slightly to 1,026 in 1998/1999 and decreasing again in 1999/2000 to 927. Enrollments on the other hand, in university programs have steadily increased from 24,846 in 1990/91 to 35,995 in 1999/2000.
60. There are currently 2 state/public universities – the St. Cyril and Methodius (*Sv. Kiril I Metodij*) University in Skopje established in 1959, comprising 27 faculties (3 of which offer interdisciplinary studies), and the St. Clement of Ohrid (*Sv. Kliment Ohridski*) University in Bitola established in 1979, comprising 4 faculties and 2 higher schools (medicine and agriculture). University teaching staff totals 2,604 (out of which 144 are unqualified and 1,125 under-qualified) and 50 non-university teaching staff.
61. According to the new Law for Higher Education (Article 95), the language of instruction in universities is the official language (i.e. ‘*Slavo-Macedonian*’), but in certain circumstances (i.e. where there are concentrations of minorities) other languages alongside the national language can be used. Furthermore, the new Law states that a “world language” (such as English, German or French) may also be used as a language of instruction. Efforts are now therefore, also being made to widen coverage of subjects taught in Albanian at the two, state/public universities. (The Pedagogical Faculty in Skopje moreover, had since 1996, developed a separate teacher-training course for Albanian language teachers.)

⁶⁵ These are not tuition fees, but rather costs associated with equipment and supplies.

⁶⁶ OECD Thematic Review of National Policies for Education – FYROM.

⁶⁷ However, this is to change with the public administration reform and money raised by individual schools is to be deposited in a central account. Of course, this is a matter of great contention between schools and the Government.

62. Interestingly, although in recent years, the available numbers of places at higher education institutions have not been completely filled,⁶⁸ according to the MES, the number of students going abroad to study has steadily increased. This however, has more to do with the choices of study currently available at the two state/public universities (which do not adequately prepare students to obtain employment in the new market-economy) rather than with the availability of places.⁶⁹ Currently, there is a concentration of interest in the social sciences, languages and medical sciences (with 72.5 percent of students applying for places in these areas⁷⁰). University places available in the natural sciences are not being taken up and places are not being filled in a range of fields that are outdated (in terms of curricula and possibility for future employment).
63. According to Article 89 of the new Law for Higher Education, *a student who, with no justified reason, failed to meet the conditions laid down by the study rules, set forth by the state faculty and high vocational school, by law shall bear himself/herself the study costs of the discharge of the overdue study obligations.* In other words, students will be expected to pay for their studies (at state/public institutions) if they fail to meet the criteria for State funding or other criteria set by the higher education institution.⁷¹ A system of state-funded alongside fee-paying students is therefore developing at state/public tertiary institutions.
64. University faculties moreover, can increase their income by undertaking projects, providing consultancies or research for a fee. Such income remains within the faculty to be used as decided by the faculty.

Adult Education/Training

65. The *Draft Strategy for Development of Education (2000)* recommends *greater efforts in adult education and re-training if the country's economic situation is to improve.* **Table 2** (below) shows adult literacy/illiteracy for the 15-20 and 20-24 year-old populations as indicated by the 1994 census for 3 ethnic groups – ‘*Slavo-Macedonians*’, Albanians and Roma:

Table 2: Adult Literacy by Ethnic Group

	<i>'Slavo-Macedonians'</i>	<i>Illiterate</i>	<i>Albanians</i>	<i>Illiterate</i>	<i>Roma</i>	<i>Illiterate</i>
Age between 15 – 20 years						
TOTAL	99,627	337	44,052	409	4,818	738
Male	50,831	188	22,416	140	2,572	292
Female	48,796	149	21,636	269	2,246	446
Age between 20-24 years						

⁶⁸ According to the MES, about 7,000 students each year register for university study out of about 10,000 who actually apply. In 1993 for example, only 94 percent of the quota for full-time students and 83 percent of the quota for part-time students were filled. (OECD Thematic Review of National Policies for Education-FYROM)

⁶⁹ According to students and parents interviewed.

⁷⁰ Draft Strategy for Development of Education, 2000.

⁷¹ Such tuition ranges from approximately \$ 150 - \$ 250 per year for least popular courses, and from \$450 - \$650 for most popular courses (e.g. economics, law, medicine).

TOTAL	93,792	361	42,146	449	3,946	582
Male	48,223	181	20,977	103	2,051	186
Female	45,569	180	21,169	346	1,795	396

Source: Education for All (Report 2000)

66. However, a defined strategy for the development, organization and realization of the education and training of adults is currently non-existent in FYROM. Currently, the system of institutions and forms of education and training for adults are linked to legislation that relates it to the formal education system. Basic level education for adults is regulated by the Law for Elementary Education (1995), where there are separate paragraphs referring to the education of adults⁷².

67. Adult literacy classes are offered through what is known as the *Workers' University 'Kočo Račin'* (popular during socialist times)⁷³. However, one major problem is that there are no special textbooks written for adults and so adults are forced to use primary school textbooks written for school-aged children. Moreover, in the last decade the tendency has been to reduce the number of institutions providing elementary education for adults.⁷⁴ This decline is, according to the MES, due to the fact that: adults are not interested in attending such programs because the possibility of employment is low; companies (that used to invest in the education of their employees) are not as financially endowed as in the past and are therefore not interested in investing in the education of their workers; and there are now 'other' ways of acquiring wealth (e.g. the 'black' market).

68. Nevertheless, the *Workers' University 'Kočo Račin'* offers a wide-range of courses for special interest, personal and professional development including: computer literacy, foreign languages, mechanics, hair-dressing, secretarial skills, business skills, etc. for adults. There are currently 4,000 registered students taking courses at the *Workers' University 'Kočo Račin'*. According to the Director of this institution, it is expected that the number of registered students will double once the law for informal education and the law for adult education are passed by parliament after the September 2002 elections.

69. According to the *Draft Strategy for Development of Education (2000)*, re-training as an organized action of State bodies is slowly taking its place in the world of education of adults. However, the participation of the social and private enterprises in the training of unemployed is virtually non-existent.

Textbooks

70. Until recently, textbooks were distributed to students free of charge. However, with the liberalization of the textbook market and the fact that the textbook publishing house "*Prosvetno Delo*" is no longer State-owned but

⁷² Education of adults refers to people over 15 years of age.

⁷³ Although it is called a "University", it is not however a tertiary, degree granting institution.

⁷⁴ In 1989/90 for example, there were 28 institutions offering elementary education for adults. This decreased to 17 from 1994 to 1997 and rose to 21 in 1998.

operates as a ‘social enterprise’ (i.e. an independent body controlled by a governing council that includes representatives of the state and the public), textbooks are provided for a fee.

71. Prices for textbooks are agreed between the publishers and the MES. This has put smaller publishers at a disadvantage due to the high cost of translation and small print runs, since all titles for basic schools are published in ‘*Slavo-Macedonian*’ and in three minority languages (Albanian, Serbian and Turkish) and for secondary schools in at least two languages (‘*Slavo-Macedonian*’ and Albanian).⁷⁵
72. Since 1998 however, textbooks for basic/compulsory education (Grades 1-8) are (again) being provided free of charge, but parents are (still) required to pay for textbooks for secondary and tertiary education.
73. It should be noted that only those textbooks approved by the BDE may be used in basic/compulsory schools and secondary schools. One approved textbook for each subject at each grade level is still the general norm.
74. The university publishing house ‘*Studenski*’ caters for the textbook needs of higher education. However, according to the OECD Thematic Review of National Policies for Education, it is *a small and relatively ineffective institution with a small staff (of about 15) and a limited list of titles*. A small, but growing commercial sector in university textbook production has therefore emerged. Some textbooks for certain subjects (e.g. natural sciences, medicine and technology) are imported, but these are very expensive.
75. There is a flourishing general (book) publishing sector in FYROM, with some publishing houses having their own bookshops and marketing/distribution networks.
76. According to the OECD Thematic Review *parents have shown themselves willing to buy high-quality materials if they are available at a reasonable price*. The stage seems set therefore, for a rapid and successful opening-up of the school book-market, at present it is not attractive to private publishers unless unprofitable small productions are subsidized. The Government is obviously committed to supporting this sector and has listed ‘*establishing publishing competition*’ as one of the priorities of the Education Development Strategy 2001-2010 (see **Appendix 1- Matrix of Priorities for the Period 2001-2010**).

Teachers

77. There is no defined set of national standards for teachers’ qualifications. Most teachers are university graduates and qualified to teach one subject only. This creates problems in subject teaching grades (Grades 5-8) in primary education and also in secondary education. Small schools can offer

⁷⁵ All texts must show respect and tolerance for *all* cultures.

just a few teaching hours for each teacher, yet all schools must provide teachers to cover the compulsory curriculum subjects. This creates inefficiencies on the part of schools and limited job opportunities for teachers. Teachers are required to be in school for 26 hours a week and have to teach 20 hours per week. Part-time teaching jobs and very limited and well-qualified teachers in rural (and poorer) schools are scarce especially in foreign languages and computer literacy.⁷⁶

78. There is however, over-employment in the teaching force, as well as over-supply of teachers of certain subject areas due not only to the narrow specialization of teachers, but also to the geographical and ethnic/language conditions that make it necessary to retain smaller classes. According to IMF data for example, in 1997 teachers made up 3.9 percent of the working population in FYROM and non-teaching school personnel (at basic level) 19.4 percent. Both of these figures are much higher than in other transition countries.
79. Nevertheless, as indicated in the '*Matrix of Priorities for the Period 2001-2010*' (see **Appendix 1**), teacher training (both pre-service and in-service) is a key priority for the MES since *reforms in the education system can not be achieved if teachers are not trained in new methods and technologies*. Currently, teachers for pre-school education and the first cycle of basic/compulsory education (i.e. Grade 1-4) are trained at teacher colleges in Skopje, Bitola and Stip. Teachers for the second cycle of basic/compulsory education (i.e. Grade 5-8) and secondary education (i.e. Grades 9-12) are trained at university at the pedagogical faculties and subject teachers are prepared at the relevant faculties at the two universities of FYROM (in Skopje and Bitola).
80. According to information provided by the Ministry of Justice, Public Administration Reform Unit and the Finance Department of the MES, teacher salaries average approximately \$ 128 per month and are lower than some other civil servant categories. Moreover, there is no promotion scale and remuneration does not reflect performance, dedication or involvement. Teachers are not motivated therefore to support reforms or develop themselves professionally, preferring to focus more on supplementing their salary by undertaking extra-curricula school programs and private tutoring.⁷⁷
81. The planned public administration reforms moreover, require a reduction in the number of civil servants, which puts pressure on teachers and in particular on non-teaching support staff. Such reforms may have serious long-term impacts on the status of teachers.

⁷⁶ OECD Thematic Review of National Policies for Education – FYROM.

⁷⁷ Some teachers, especially teachers of vocational and technical subjects, supplement their salary by working in industry after school hours and some even have their own business. (Information provided by teachers interviewed.)

Financing

82. As already mentioned above (see par. 32), prior to 1991, FYROM had a well-functioning, decentralized system of educational administration and thus, financing. This meant that up to 1991, the management and financing of education was the authority of the local (municipal) governments. However, after the 1991 reforms in the public administration system, educational financing was centralized and became the responsibility of the MES. The main source of financing of state/public educational institutions is therefore the State budget. Other sources include funding provided by the local governments and charitable donations (e.g. gifts, legacies, inheritances) although such sources are usually ‘ear-marked’ (i.e. they must be used for particular purposes).⁷⁸
83. According to the Finance Department of the MES, the MES is responsible for State funding of all public educational institutions. The annual budget of each school is determined according to the number of classrooms and teachers it is comprised of. This (annual) budget is in turn divided into specified line items (e.g. salaries, goods and services, subsidies and capital expenditures). Financing moreover, is incremental and allocations are based mainly on automatism and basis data. Performance indicators (related to educational and management issues) therefore, have little (if no) impact on financing. Furthermore, changes in tasks (e.g. those linked with demographic trends) have little impact on resource allocation and social support elements are weakly connected with real needs (support does not necessarily go to the most needy).⁷⁹
84. Although schools have very little (if any) freedom to reallocate funds from one budget-line item to another according to specific need, they are on the other hand entitled to raise additional revenue (usually through extra-curricula activities or the renting of the school premises). Furthermore, institutions may have some off-budget revenues from various local resources (retained by each institution in a separate account), depending on the school’s fund-raising capability and although schools have to report these, they do not need to present them in the regular budget planning process. However, as transparency of public revenue and expenditure is one of the main issues of the *Public Administration Reform*, the Ministry of Finance proposes to include the ‘extra’ revenues raised by individual state/public schools within the uniform treasury system it is establishing.⁸⁰ If this proposal is accepted, then institutions will be seriously demotivated from seeking their own funds. This measure of course, is being strongly opposed by the institutions.

⁷⁸ Draft Strategy for Development of Education, 2000.

⁷⁹ The existing financing management capacities are used mainly for managing regular budget planning and disbursement actions. In general, finance is seen outside the professional domain, the linkages between professional (pedagogical) initiatives and their fiscal consequences are rarely elaborated.

⁸⁰ According to the Ministry of Finance, with these changes, there will be the introduction of monthly spending plans and the treasury will have direct access to the users’ account. The users (i.e. schools, university faculties) currently do not present an invoice – in the future they will have to present a payment order to receive money in their account.

85. According to the *Draft Strategy for Development of Education (2000)*, the percentage of GDP on education was 4 percent in 1999 (down from 4.38 percent in 1996).⁸¹ Most (80 percent) of the education budget goes to salaries, while goods and services (including books) receive only a small percentage - and capital investment even less.⁸² In 1999, basic education received 57 percent of the education budget, secondary education (general and VET) 24 percent and higher education 19 percent. Furthermore, according to the *Draft Strategy for the Development of Education (2000)*, although per student spending per annum at the basic level has increased from approximately \$ 230 in 1995 to approximately \$ 270 in 1999, in real terms it has actually declined steadily. The cost per student in secondary education has however decreased from approximately \$ 360 in 1995 to approximately \$ 295 in 1999. (It is not possible to calculate the costs per student in higher education due to the fact that many students are self-financed.)

86. Furthermore, according to the MES, although financing of pre-school education is the responsibility of the MLSA, the MES subsidizes about 15,000 children in 720 pre-school groups at approximately \$ 223 per teacher per month. Therefore, as pre-school education financed by both the MLSA and the MES, it can be said that it is heavily subsidized by the State. Likewise, as can be seen from **Table 3** (below) showing the financing of education by level and type of expenditure, it appears that tertiary education is also relatively over-funded compared to basic/compulsory education (especially since, as noted in the OECD Thematic Review, *both pre-school and post-secondary education are non-compulsory and accessible almost exclusively to urban and more well-off families.*)

Table 3: Financing of Education by Level and Type of Expenditure (in million USD)

Education Level	Salaries	Goods & Services	Subsidies*	Capital Expenditures
<i>Basic education</i> (Grades 1-8)	60.4	5.2	3.1	1.2
<i>Secondary education</i> (Grades 9-12)	25.4	2.3	1.08	1.1
<i>Tertiary education</i> (university & non-university)	17.4	2.1	3.6	0.46
TOTAL	103.2	9.6	7.78	2.7.6

Source: MES, 2000.

*Food and travel

87. According to the Finance Department of the MES, in 2000, there was a surplus in the budget that was distributed amongst the health, education and

⁸¹ This figure does not include private spending. Given the importance of human resource development in stimulating a successful long-term economic transition, the current share of GDP devoted to education therefore, will need to be protected at not lower than 4 percent, although it will be necessary to increase this amount.

⁸² Ministry of Education and Science.

social affairs sectors. The amount allocated to education was used for school construction and reconstruction. Under the *Public Investment Program for 2000-2002*, the Government has committed \$ 3.66 million for the reconstruction and additional construction of primary education facilities in rural areas \$ 0.40 million for the procurement of equipment for the newly built school facilities and renewal of the old equipment in the pre-school and primary education facilities; \$ 0.81 million for the construction and reconstruction of the primary school facilities in the economically deficient regions; \$ 2.20 million for reconstruction, rehabilitation and additional construction of secondary education facilities; \$ 0.48 million for equipping secondary education facilities; \$ 1.04 million for the reconstruction of the faculty of Natural Sciences and Mathematics in Skopje; \$ 0.14 million for the construction of four new laboratories in the Pharmaceutical faculty of the University of Skopje; \$ 0.22 million for the reconstruction and rehabilitation of the university facilities; and \$ 0.88 million for rehabilitation of student dormitories.

88. Furthermore, since 1993, the educational programs of pre-school, primary and secondary vocational schools have been supplemented and supported financially by contributions from local and international non-government organizations (such as the Soros Foundation, Catholic Relief Service, etc.), international organizations (such as UNESCO, UNICEF, World Bank, WHO, etc.), the EU, and foreign governments (for example, the British, Dutch and Japanese Governments, the United States Embassy, etc.).⁸³

THE PRIVATE EDUCATION SECTOR

89. As noted above (see section on *Regulatory Framework*), private provision of basic/compulsory education is not permitted. According to the Constitution, private educational institutions may be established at all levels except basic/compulsory education (Article 45).⁸⁴
90. According to the views expressed by officials of the MES, the development of private educational provision at all sectors and levels - *except basic/compulsory education* - is seen as a way of alleviating state funds from these sectors/levels so that more state funds can be used for the state basic/compulsory education sector. The Draft Strategy for the Development of Education (2000) moreover, notes that the decentralization process in education needs to focus on *opening for private capital penetration in the educational system* and the *[c]reation of possibilities for existence of three types of ownership – public, private and mixed* as this will *relieve the State*

⁸³ For example, in the last 5 years, contributions from major donors include: \$ 250,000 from the Dutch Government for assessment training; \$ 6,400,000 from UNICEF for interactive teaching, education for refugee children, health education and environmental protection; and approximately \$ 2.6 million from EU-PHARE for reforms in 16 pilot VET schools.

⁸⁴ There is however, a private elementary school based in the United States Embassy, but by law can only accept foreign students (i.e. students who are not citizens of FYROM). It has about 70-80 students and was set up by the former US Ambassador. Tuition is at \$12,000 and it is operated by the international chain, *Quality Schools International*.

financially and will create possibilities for improvement of the quality of the educational institutions.

91. However, the MES has not been proactive (for example, in terms of tax concessions, financing or even the establishment of a special directorate at the MES to deal with the key issues of related to the establishment of private schools⁸⁵) in supporting the development of the private sector in education and nor does it appear to be inclined to do so.⁸⁶ Furthermore, there does not seem to be any intention by the Government to develop a separate law specifically for private education.
92. According to the MES there are some private kindergartens/pre-schools that have been established but these are not licensed (and therefore not officially recognized) by either the MLSA or the MES. Consequently, official data on such kindergartens/pre-schools does not exist.
93. There are however 3 *licensed* private (general) secondary schools - *Nova*, *Jahja Kemal* and *AIMS* (American International School of Macedonia) and one, which is not licensed or accredited by the MES, nor registered with the courts.⁸⁷ These are all established as for-profit entities as there is no law for non-profit companies. Furthermore, although income from tuition is not taxed, VAT is payable, along with customs for equipment.
94. The *Nova School* (see **Box 1** below) has over 160 students and is operating out of purposefully-built premises in the outskirts of Skopje. *AIMS* had 24 students in 1999/2000 but only 19 in 2000/2001. Last year, seven students graduated and this year an additional seven. Tuition is at \$ 4,000 for citizens of FYROM and \$ 5,000 for foreign students. *Jahja Kemal College* is a Turkish school, which started with 30 students in 1996 (only in Skopje) and currently has 121 students in Skopje and 76 in Gostivar. Tuition is at \$ 2,000 and dormitory fees about \$ 1,500. About 80 percent of the students come from families that are financially well-off. Discounts and/or scholarships are given to the other 20 percent of the student body. The school follows the national curriculum of FYROM and provides instruction in three languages: Turkish, 'Slavo-Macedonian' and English.⁸⁸

Box 1: CASE STUDY - Nova School



⁸⁵ For example, the rules, regulations and licensing procedures for the establishment of private educational institutions.

⁸⁶ The *Education Development Strategy 2001-2010* for example, in contrast to its predecessor (i.e. the Draft Strategy for the Development of Education), makes no reference to the contribution private investment could make to education provision in the country (in terms of, for example, quality, equity, accessibility, etc.)

⁸⁷ This is the *American School Macedonia*, which advertises that: it follows an American curriculum; all instruction is in English; it has a kindergarten and an elementary school for foreign students with (north) American teachers; and that not only is it a member of the American Overseas Schools and College Board, but it is also accredited by the Northwest Association of Schools and Colleges. (*Balkan Express*, November 2000).

⁸⁸ That is, different subjects are taught in different languages.

Nova School started 10 years ago as a language school (since the law for private secondary schools did not exist at that time). It was the first language school to register with the Bureau for Intellectual Services. When the secondary school started in 2000, there were 40 students. Currently, there are 160 students. Instruction is in English and the American curriculum is followed. Tuition is at \$3,800 per year and five scholarships are given per year. Nova is now operating in its own, purposefully-built premises. Before the new building was built, Nova was renting space from a public elementary school (during the second year of operation of the secondary school).

During the first year of operation of the secondary school, Nova was using the premises of its language school. In the third year of operation of the secondary school, Nova rented the offices of a textile company and housed the school there until its new building was built (in September 2000). The land on which Nova is built is fully-owned. Nova was established with private funds, as interest rates of (commercial) bank loans are high at 15-20 percent. The cost of the building was approximately \$ 1.7 million. Parents provided credit of up to approximately \$200,000 at 6 percent interest; other parents paid tuition up front – 4 years in advance – in order to help with the costs. Most of the parents (i.e. 95 percent) that send their children to Nova are well-educated (i.e. have university degrees); the rest are financially well-off.

The academic year 2000-2001 was the first graduating class (40 students) – that is, students who have been at Nova from Grade 9. Currently, there are 50 students in the Grade 9. In 1999-2000 there were 40 students who graduated (out of which were 2 scholarship winners). All students continued their studies abroad or at the University of Skopje.

There is interest to expand the school vertically – that is, to establish a post-secondary division. The school is accredited by the MES of FYROM but is also applying for international accreditation through the Commission for International and Trans-regional Accreditation (CITA).

Currently, Nova is looking for a grant or loan to pay-off the construction company that built the school. (Nova repays them in instalments.) Half the value of the building has been paid but Nova owes approximately \$ 850,000 to the construction company. An application has been filed with the Agency for Development and Investment, which (theoretically) can approve credit of up to \$ 5000,000 with 6 +1 percent interest with a 1-2 year grace period. However, there is only a slight possibility that the Agency will give such a loan to an educational project.

Source: Interview with school owner

95. According to the Law on Secondary Education (Article 10), a private school may be founded by a domestic and foreign legal and physical entity on the basis of an approval in accordance with this Law. Furthermore, the Law stipulates that for the founding of a private school, the funds required, the curricula and equipment, space and staff for all subjects must be provided in accordance with the pedagogical standards and norms.
96. Approval is issued on the basis of an application (request) submitted by the legal/physical entity and includes: location, type of secondary education to be

offered (mission, etc.), teaching staff, equipment, facilities, number of pupils, language of instruction, curriculum, start of operation. (There is provision in the law for the changing of the type of school and extending the curriculum). A proposal must therefore be submitted to the Government.⁸⁹ The Government in turn, sends this proposal to the MES and asks for its opinion. The BDE then evaluates the curriculum and syllabi. Once the opinion of the BDE is received, the proposal is then submitted to the Government with a suggested opinion. The Government has the final say as to whether the school is approved.

97. Once the Government approves the private secondary school, the BDE undertakes a site-visit to accredit the facilities, teaching staff, etc. The MES has detailed regulations with regard to the manner of inspection of secondary schools (that apply to state/public schools also).
98. A registry is kept at the MES of all secondary schools. According to the Law, the Government may revoke the approval upon the proposal of the MES in cases where: *the founder establishes a private school contrary to the act for approval set forth in the law; the school no longer meets the conditions set forth in the law; or fails to implement the provisions of the law and by-laws. Approval may also cease upon the request of the founder. There is also a teach-out clause in the law for schools that are to cease operating.*
99. The MES is keen to support the development of vocational secondary and post-secondary schools - especially at post-secondary level, the interest is increasing as needs are not being met in preparing the labor force for the new market economy. There is urgent need for post-secondary vocational education and training and retraining due to the large number of unemployed. What is needed is the horizontal and vertical development of: training; re-qualification; further education/training; professional development. MES officials expressed the willingness of the MES to 'open-up' state/public secondary schools for the training and retraining of unemployed with the aim to bring the young unemployed back to school for further education/training and/or retraining. However, the need for the private sector to undertake this role was noted, as the State does not have either the physical or financial capacity to provide for such training and retraining.
100. Post-secondary education and training is offered primarily through the *Workers' University 'Kočo Račin'* mentioned above (see par. 67-68), which offers a wide-range of courses for special interest, personal development and professional development including: computer literacy, foreign languages, mechanics, hair-dressing, secretarial skills, business skills, etc. Until recently, the *Workers' University 'Kočo Račin'* was subsidized by the State. However, since 2001, it receives no state subsidy and operates as a private training enterprise charging tuition fees ranging from \$ 75 to 250 depending on the

⁸⁹ However, before one does so, it is advisable to visit the MES and speak with the relevant staff, as there are no specific guidelines or information packs available.

course. 'Kočo Račin' owns the buildings it operates in and has 60 full-time and 300 part-time instructors. It has links with German and American training institutions and is positive toward further links with other international organizations and training providers.⁹⁰

101. Beyond the *Worker's University 'Kočo Račin'*, there are a number of private training centers offering foreign languages, computer skills and business studies. These operate as small businesses and are not licensed or accredited by the MES as educational institutions, but rather register with the courts and the Chamber of Commerce as (for-profit) businesses.
102. There is also a large, informal, private tutoring market charging in the range of \$ 5-10 per hour depending on the subject and level (as well as the reputation of the teacher). Demand is high for private tutoring to prepare students for the university (faculty) entrance exams.⁹¹ Needless to say, this puts students of poor (and rural⁹²) families at a disadvantage, since students of 'better-off' (financially) and urban families are better prepared for the university/faculty entrance examinations and therefore, have a better chance to receive the state-funded places at the state/public universities.
103. There are currently two private universities operating in FYROM – the *South East Europe (SEE) University*, which is recognized by the Government (i.e. it is accredited) and the *University of Tetovo*, which is not (and therefore its degrees are not recognized by the State). In fact, the new Law for Higher Education (2000) was prepared in order to facilitate the establishment and operation of the *South East Europe University*.
104. For many years the question of Albanian-language, university education has been one of the most divisive political issues in FYROM. In 1995, a number of Albanian professors, led by Mr. Suleymani, took the initiative of founding a university in Tetovo (which they called the "University of Tetovo"). This is financed through student fees and donations from the Albanian diaspora, but as mentioned above (see par. 103), has not yet been recognized by the Government and is still in dispute. An article in *The Times Higher Education Supplement* (September 7, 2001) describes the situation as follows (see **Box 2**- "University of Tetovo"):

Box 2: "University of Tetovo"

The Albanian-taught University of Tetovo re-opens this autumn but its role in the reconciliation process between ethnic Albanians and the Macedonian authorities is still unclear. Founded in 1994, the university has had an uneasy relationship with the government, which refuses to recognize it, arguing that it contravenes the constitution. But a promised change in the law to permit Albanian-taught

⁹⁰ According to the Director of 'Kočo Račin'.

⁹¹ Entrance to university faculties depends on: (a) results obtained on the faculty-set entrance examination (70percent) and (b) evaluation of secondary-school grades or what is now known as 'Matura' examination results (30percent).

⁹² Since most tutoring is carried out in the cities where there is a greater concentration of students who can afford to pay for such tutoring.

higher education in the state system will play a critical part in agreement to end the conflict. NATO has a big interest in making the broader agreement work. Paul Rogers, Professor of Peace Studies at the University of Bradford, said NATO leaders were eager to avoid criticism of the Kosovo operation and to stop drawing neighboring countries in the conflict. "Usually, at the end of a war, there is a victor who imposes disarmament on the loser. In the case of Macedonia, the unusual thing is that disarmament is part of the negotiating process, not the outcome of it." "While early reports of the disarmament process were encouraging, big risks remained", he said. "Not all weapons would be handed in, and a hard core of ethnic Albanians would reject the agreement". James Pettifer, visiting professor at the Institute of Balkan Studies in Thessaloniki, said: "People often disagree afterwards on what was agreed. Unless Albanian is recognized as a second official language, the University of Tetovo will never be accepted in the state system. If Macedonia fails to fulfill its commitments on the university issue, then the Albanian community would see it as a betrayal and this, in the long run, could lead to more violence." Jim Dingley, head of the language unit at the School of Slavonic and East European Studies, questioned whether Macedonia had enough money to supply higher education in the two languages. "Macedonia would have to deliver and be seen to deliver in making both sets of courses, Albanian-taught and Macedonian, of equal status. But who would set the criteria? And who would carry out the necessary monitoring?"

Source: The Times Higher Education Supplement, September 7, 2001

105. Although the Government has taken the position that the University of Tetovo does not meet the legal requirements for recognition (and therefore, does not recognize its diplomas), it does however tolerate it as a private educational institution. According to the Organization for Security and Co-operation in Europe (OSCE), the fact that the University of Tetovo did not meet the legal requirements for recognition and doubts about the quality of the teaching in a number of faculties, greatly reduced the significance of this University for the Albanian community in FYROM.⁹³
106. In an effort to find a more satisfactory solution therefore, the then High Commissioner for National Minorities of the OSCE, Mr. Max van der Stoel, took the initiative to establish a private university) which would meet both Albanian educational needs and governmental requirements as laid down in the Law for Higher Education of 2000. This effort succeeded and the SEE University (see **Box 3** below) was established on land⁹⁴ donated by the Government of FYROM.

Box 3: SEE University

The official opening of the SEE University took place on 20 November 2001. As of 24 November 2001, the University had enrolled 920 students, 40 percent of which are women and 10 percent of students speaking a native language other than Albanian. Although great effort was made to ensure that the academic program

⁹³ "South East Europe University Foundation", OSCE, 2002. (Unpublished note).

⁹⁴ Previously land used by the Agricultural High School of Tetovo. (It should be noted that according to an official of the SEE University, this land continues to be cultivated by the students of the Agricultural High School in the University's attempt to build links with the local community and local educational institutions.)

would meet the specific needs of the Albanian community in FYROM, the SEE University is not an exclusively Albanian university. Next to Albanian, 'Slavo-Macedonian' and English are the working languages, and there are both Albanian and 'Slavo-Macedonian' professors. Furthermore, the university accepts not only Albanian students, but also students of 'Slavo-Macedonian' ethnicity as well as other ethnicities. Most students (36 percent) are currently enrolled in business education programs, 26 percent are enrolled in law, 15 percent are undergoing teacher-training (of which 80 percent are training as English language teachers, 11 percent French, and 7 percent German), 15 percent communication sciences and 8 percent, public administration. There is also considerable interest in life sciences, which the University does not currently offer, as well as the arts and physical sciences. The University is therefore contemplating expanding its program offerings in this direction. The University estimates that by 2003 it will be enrolling 2,400 students.

According to the SEE University Catalog (2002/2003), the University disposes neither of public subsidies from the Government, nor of an endowment sizable enough to finance the entirety of its operations. It therefore depends on tuition fees to cover part of its running costs. At present, total annual running costs are estimated at about \$ 2.5 million, approximately one third of which will be financed from endowment income and the remainder from tuition fees. Tuition fees are currently set at 750 Euro per year. Students can offset some of the cost of tuition through scholarships, temporary student loan schemes (to be set up with the *Stopanska Banka*) and work-study programs. The University's tuition policy, as outlined in the University's Catalog, reflects the view that students' financial participation in the cost of higher education is a matter of social justice and of the efficient use of resources. University graduates generally enjoy higher incomes than those who enter the work force directly. At the same time, higher taxes on the income of University graduates do not offset the cost of such education.

Accordingly, in many countries, including FYROM, public universities increasingly require students to participate in the cost of their education. Fee-paying higher education institutions have also been shown to allocate financial resources more efficiently, both their own and those of their students. This result is in part attributable to shorter study times as well as in part to a more focused curriculum at many fee-paying institutions.

The SEE University owns buildings, equipment, and other infrastructure purchased from donations by OSCE Member States, the EU, and other international organizations, and agencies. The building currently has a capacity for 3000 students. There is also a dormitory with 166 beds costing 70 Euro per month, which opened in early 2002 and currently houses 150 students

The University benefits from an endowment maintained by the SEE University Foundation Zurich. The endowment may reach a value of 13 Million Euro during the course of 2001. The primary purpose of the endowment is to subsidize the running costs of the University and reduce the cost to students. International donors likewise sponsor the endowment. The University receives certain ongoing support in kind, in particular through academic and administrative secondments. To date, the United States Agency for International Development (USAID) has pledged continuing support for a period of three years beginning in 2001. Continuing international support is not counted towards the University's financial plan. Rather, the University seeks to demonstrate financial sustainability independently of any

continuing international financial support. At the time of the second donor meeting on 10 April 2001, the SEE University had received in its accounts donor funding from the Netherlands (\$ 4 million), the United States (\$ 4 Million), Norway (1 million Euro), the EU Commission (0.95 million Euro), and the United Kingdom (0.8 million Euro). By the end of June 2001, funding had also been received from Germany (0.5 million Euro), Luxembourg (0.125 million Euro) and Switzerland (0.263 million Euro). Furthermore, donor commitment, including pledges that had not been received in accounts – but had been confirmed – stood at 21.6 Million Euro which was equal to about 85 percent of the initial project budget.

The forecasts anticipate cumulative losses for the first years of operations of about 1.3 million Euro that will be financed at market rates. It is anticipated that the University will break even in 2005. The break-even scenario includes the cost of financing losses during the initial years of operation. It is estimated that average annual net profit after 2007 will be about 1.4 million Euro.

Source: SEE University Catalog 2002/3

INVESTMENT CLIMATE

General Characteristics

107. Before considering the investment climate, it is important to look at the current political climate in light of recent clashes between ethnic Albanian militants and Government forces in mid-February 2001.
108. Until February of this year, relations between the country's two main ethnic groups (i.e. 'Slavo-Macedonian' and Albanian) had improved and were constructive as the Government (a multi-party coalition based on a power-sharing arrangement between the two main ethnic nationalist parties) accommodated reforms proposed by the ethnic Albanian party, resulting in the appointment of ethnic Albanians to leadership posts and the establishment of an Albanian language university (in Tetovo). However, in mid-February fighting broke out near the border with Kosovo (perhaps as *spill-over* from the insurrection in the nearby Presevo Valley in Serbia⁹⁵) and spread to predominantly ethnic Albanian areas in the north and northwest of the country. Military escalation continued until early June, when the militants (calling themselves the National Liberation Army), held villages on the outskirts of the capital, Skopje.⁹⁶
109. According to the Transitional Support Strategy (2001), *the framework agreement for peace, is believed to contain provisions for constitutional changes to reinforce the principle of non-discrimination, greater use of the Albanian language in official business, increased ethnic Albanian representation in public service jobs, especially the police force,*

⁹⁵ FYROM Transitional Support Strategy, 2001, Report No. 22628-MK. South East Europe Country Unit. The World Bank.

⁹⁶ According to UNHCR and Macedonian Red Cross estimates (July 2001), casualties were relatively light. However, what is disturbing is that (according to the same source) about 34,000 ethnic Albanians and 'Slavo-Macedonians' have been displaced internally, and 60,000 ethnic Albanian refugees have fled to Kosovo where they remain.

decentralization of many government responsibilities to local governments, and increased opportunities for study in the Albanian language. However, the full implementation of the framework will require constitutional amendments, detailed legislation, executive orders, and budget decisions by the government for each of the components of the agreement.⁹⁷

Government Commitment to Change

110. Despite the Kosovo crisis in 1999 and inter-ethnic clashes during the first half of 2001, the Government has made progress in spite of a difficult political environment. Delayed economic policy reforms that had been stalled since before the elections of 1998, were taken up in 2000 and 2001. Recently for example, some bold steps were taken to revive the enterprise reform agenda, and measures to better target the poor and adapt the education system to the needs of a market economy are underway. Such measures will focus on: (i) promoting private sector growth and job creation; (ii) enhancing the efficiency of the state; and (iii) alleviating poverty and developing human capital.⁹⁸ The Government hopes to meet these challenges by: improving corporate governance; enhancing the business environment; strengthening the judicial and regulatory systems; attracting foreign investment; and increasing financial sector discipline and competitiveness.⁹⁹
111. Above all however, growth will serve as the main vehicle for employment generation. Before the conflict in early 2001, growth had risen to 5 percent - the country's highest rate of growth since transition began in the early 1990s. However, according to the *Transitional Support Strategy* (2001), continued growth at a rate of 5-6 percent per year over the medium term (i.e. 4-5 years from now), will depend on whether *the domestic security situation is resolved, [whether] regional economic and political conditions improve, and [whether] domestic macroeconomic and structural policies are supportive.* Furthermore, *[r]eaching this level of growth will be difficult and possible only if generous external financing by the donor community is made available, particularly in 2001-02, and if recovering investor confidence feeds strong inflows of private foreign investment from 2003 onwards.*¹⁰⁰
112. Nevertheless, the Government's commitment to change is evidenced by a number of recent actions. According to information provided by the Ministry of Economy for example, the country's largest bank, *Stopanska Banka*, was sold to foreign investors in late 1999, and a number of loss-making state-owned enterprises were sold or closed, including the oil refinery, *Okta* (sold in November 1999) and the nickel smelter, *Feni* (sold in October 2000). Other key reforms include: (a) the establishment of a treasury system (although it is not yet fully functional) to begin the transition away from the central payments system inherited from the former Socialist Federal Republic

⁹⁷ FYROM Transitional Support Strategy, 2001, Report No. 22628-MK. South East Europe Country Unit. The World Bank.

⁹⁸ Country Brief – FYROM. The World Bank. <http://www.worldbank.org/>

⁹⁹ Ibid.

¹⁰⁰ FYROM Transitional Support Strategy, 2001, Report No. 22628-MK. South East Europe Country Unit. The World Bank.

of Yugoslavia; (b) the implementation of VAT in April 2000; and (c) the reduction of personal income tax rate at the beginning of 2001. Moreover, key legislation was passed to reform labor regulations and the pension system in April 2000. A new banking law and a law to reform the deposit insurance system were adopted in July 2000. Most importantly however, amendments to the bankruptcy, collateral, securities, and company laws have improved the regime for private enterprise and foreign investment and creditors' rights. However, despite the revived momentum of policy actions in 2000-2001, structural reforms remain to be implemented over the next few years.

113. Perhaps of greatest significance for the medium term, is the fact that FYROM is the first country in the Balkans to negotiate a Stabilization and Association Agreement with the European Union (signed in April 2001), granting trade preferences and establishing a path for future closer relations with European institutions. This agreement assures FYROM continued asymmetric free trade rights, with no barriers for goods from FYROM to enter the EU.¹⁰¹

Regulatory Framework

114. Although excellent progress has been made on macroeconomic reforms, very little progress has been made on the micro-deregulation of private business critical for economic growth. According to the FIAS Report "Improving the Environment for Foreign Direct Investment" (1998), *there are a large number of counter-productive laws, regulations, and procedures that now harass investors, and do not produce benefits for the nation... [P]ermits are needed for everything; many ministries and other agencies must approve actions, and private business is forbidden to do many things and must petition, beg, or bribe government officials for permission to do most of the other things that it is not forbidden to do. Furthermore, [i]nconsistent and/or changing Government policies and the long Government decision-making process also pose a barrier to investment. So many public authorities are involved in the investment process that decisions take far too long and frustrate private enterprises who wish to negotiate with as few actors with decision-making capacities as possible.*¹⁰²
115. The Company Law regulates all aspects of corporate structure in FYROM. Five types of enterprises are recognized by law - public companies ("general partnerships"); limited partnerships; limited liability companies; joint-stock companies; and limited partnership joint-stock companies. The Company Law requires that all new businesses first register in the courts and then obtain the approval of at least four Ministries – the Ministry of Economics; Ministry of Labor and Social Affairs; Ministry of Health; and Ministry of Urban Planning, Buildings and Environmental Protection. This process can take several months.
116. Foreigners may establish general partnerships, limited partnerships, limited liability companies, joint stock companies or limited partnerships by shares.

¹⁰¹ EBRD Investment Profile 2001 – FYROM.

¹⁰² Improving the Environment for Foreign Direct Investment, FIAS, IFC-World Bank, August 1998.

They may also open representative offices or branches. Dispute resolution is governed by the Constitution, the Litigation Procedure Law, and the Law on Settlement of Disputes. FYROM moreover, is a signatory to the main international conventions on commercial arbitration, and ratified international agreements take precedence over domestic legislation.¹⁰³

117. Payroll contributions payable by the employer include health insurance (8.6 per cent), pension fund (20 per cent) and employment (1.5 per cent).¹⁰⁴

Public Promotional Institutions

118. The *Agency for Development and Investments* is a Government owned agency, but is currently operating as a trade company. It performs a variety of activities associated with: (a) the implementation of the Program for Development and Investments; (b) the identification of already established benefits for foreign and domestic investors and legal entities; (c) the agreement for transfer of capital; (d) the implementation of the investment policy measures and foreign investment; (e) the implementation of the investment activities of foreign investors in the FYROM; (f) the investment activities performed by domestic entities abroad; (g) the exchange of information related to investment possibilities; and (h) the promotion and realization of investments in FYROM and abroad.
119. The *Agency for Development and Investments* also provides grants and credit lines - for those enterprises that show a promising business performance. Such credit lines and grants are placed through the commercial banks. The *Agency for Development and Investments* however, has not yet considered investment in education as an investment area and as such, there is no program or budget line to support education initiatives.¹⁰⁵
120. According to the Executive Director of the *Agency*, there is a need for technical training centers to support the needs of companies – especially Small- and Medium-size Enterprises (SMEs).
121. There is also: (a) the *Macedonian Business Resource Center* (MBRC), which assists enterprises in their trade and investment efforts, establishing business linkages between domestic and foreign companies at no cost to either party; and (b) the *National Enterprise Promotion Agency* (NEPA), which was transformed into a government-owned limited liability company in 1999, linked directly to the Ministry of Economy, established at the end of 1997 with the support of the EU Phare program as the main national promotional body for the SME sector in FYROM.

Chambers of Commerce

¹⁰³ EBRD Investment Profile 2001 – FYROM.

¹⁰⁴ Ministry of Finance, Tax Department.

¹⁰⁵ The Executive Director expressed great interest in considering education as an investment area to be supported by the Agency. Already, two educational institutions (a private computer training center and the private secondary school, Nova School) have submitted proposals requesting credit.

122. The *Economic Chamber of Macedonia* is a business-professional, non-party and non-government organization, members of which, according to the statutory regulations, are all the entities engaged in economic activities. The basic tasks of chamber include: the representation of the interests of the economy with the aim of accomplishing successful results in the operation of the enterprises both in domestic and foreign markets; the increase of profitability of the operation of enterprises; the upgrading of the quality, the professional training of personnel and the technological development of enterprises; the promotion and representation of enterprise activities and information linking. These are believed to be the essential prerequisites for the development of trade with foreign countries.
123. The *Agency for Financial and Legal Consulting* operates under the auspices of the Chamber providing a wide range of services including: consulting on the problems of finances and financial operations; legal advice for foreign and domestic companies (including the registration and renewal of registration, as well as preparation of operation plans and proposals); the provision of expertise and business services to companies; assistance to small and medium-size enterprises in finding solutions to problems that arise in their operation; consultation and information on the domestic and international economy regarding development projects; and information on lending and monetary policy, taxation, customs and market policies; and other services after special agreement between the founder and the Agency.

Foreign Investment

124. With regard to foreign-owned companies, once established, they are treated on the same basis – in most respects¹⁰⁶ - as national companies and are governed by the same 1996 Law on Trade Enterprises (i.e. the “Company Law”).
125. Guarantees for foreign investment are included in the Constitution of FYROM. There are currently over 40 laws that affect the operations of foreign companies in FYROM but there is no Foreign Investment Law at present. Incentives for foreign investors include customs duty exemptions on imports of equipment and other assets to be used for capital contributions, and profit tax relief for the first three years. Another incentive is the standard 15 percent corporate tax rate.
126. According to the EBRD Investment Profile 2001, *the Government is undertaking a number of measures to address concerns raised by foreign investors, in view of inconsistencies in the legislation and cumbersome bureaucracy. These measures include plans to set up a one-stop shop for registration of foreign investors amendments to strengthen legislation on mortgages, bankruptcy and property rights, and possible increased tax exemptions. Furthermore, legislation on land ownership for foreign investors and on the right to repatriate profits also requires greater clarity.*

¹⁰⁶ There are some distinctions regarding incentives. For example, foreign investors are exempt from customs duties and receive certain tax breaks.

127. In March 1999 the Government adopted a program for stimulating investment, with special emphasis on attracting Foreign Direct Investment (FDI). While foreign investors remain cautious, their activities are increasing. After a surge in 1998, FDI fell back in 1999 to around \$ 30 million. The Kosovo crisis deterred investors, but the renewed stability in the region has led to increased interest. According to EBRD data, cumulative FDI from 1994 to 2000 totals some \$368 million. The largest foreign investments in 2000 were the acquisition (agreed in late 1999) of a 65 percent stake in *Stopanska banka* by the National Bank of Greece (see *Banking* section below) and the sale of 51 percent of the telecom monopoly *Makedonski Telekomunikacii* (known as “Maktel” or MT) to *Matav* (Hungary).¹⁰⁷
128. The leading source of foreign investment is Greece (see **Box 4** below), followed by Liechtenstein and Cyprus.

Box 4: Greek Investments in FYROM

Greece holds first place among foreign investors in FYROM followed by Liechtenstein and Cyprus. According to information provided by the Hellenic Ministry of National Economy, direct investments by Greek companies in FYROM surpass \$ 334 million creating or securing more than 5000 job placements. Greek investments include the following sectors primarily: banks, energy (petroleum), cement industry, food and beverage, tobacco, mining/marble, clothes and accessories, plastics, commerce. On April 23, 1999, Hellenic Petroleum S.A. signed a strategic energy deal in Skopje. Hellenic Petroleum S.A.'s total investment in FYROM is estimated at \$ 150 million. Greece's Alpha Credit Bank moreover, announced its cooperation with FYROM's fourth largest bank on December 28, 1999, for the acquisition of a 65 percent stake in Kreditna Banka AD for about \$ 8 million.

Source: Hellenic Ministry of National Economy.

129. Furthermore, according to the Hellenic Ministry of National Economy *Plan for the Economic Reconstruction of the Balkans* (2000-2004), FYROM is to receive a total of about \$ 50.5 million during the 5-year period (2000-2004) representing 15.5 percent of the total Hellenic Program for the Balkans, of which 16.26 percent will be distributed for social infrastructure and 20.75 percent for services and economic infrastructure.

Taxation

130. The taxation system is in the process of transformation. The declared intention of the Government is to revise the system so as to make it more attractive to foreign investors.¹⁰⁸
131. According to the Ministry of Finance, there is no distinction regarding taxation between non-profit and for-profit companies. There are no advantages at present to establish a non-profit.

¹⁰⁷ EBRD Investment Profile 2001 – FYROM.

¹⁰⁸ Ministry of Finance, Taxation Department.

132. Corporate tax is at 15 percent and personal tax is based on the average monthly salary and charged at rates ranging from 15 per cent to 18 percent. These rates were introduced in January 2001, in place of rates ranging from 23 to 35 percent. Regarding tax on dividends, if the dividend stays within the company it is taxed at the corporate tax; if it is divided among individuals, then it is taxed as personal tax.¹⁰⁹
133. There are double tax treaties with 20 countries.
134. According to the EBRD Investment Profile 2001, *the tax-base of companies with foreign share-holdings of at least 20 percent is reduced by the proportion of the foreign investment for the first three years after the investment is made and there is no tax on transferred profit*. It should be noted however, that investments in designated underdeveloped regions qualify for relief of up to 100 percent of taxable income.
135. Land can be bought at 3 percent tax if bought from the state; if from a trade company registered for tax, then it is 19 percent. The amount depends on who the owner is and the VAT structure. Building and procurements are taxed at 19 percent; electricity, water and heating at 5 percent. Special accounts are taxed at 19 percent for up to one million dinar (approximately \$15,000) and tax is calculated according to the revenue of the previous year. Furthermore, depreciation of equipment is not a tax deduction.¹¹⁰
136. According to the Ministry of Finance (Taxation Department), there is no tax on donations – however the tax authorities investigate the person who accepts the donation in order to make sure that the donation is being used as prescribed.¹¹¹

Banking

137. According to the Ministry of Finance, the banking system in FYROM is in a stage of extensive changes resulting from the current reforms in the overall economic system. The processes of restructuring, rehabilitation and privatization of the banks are underway, and are directed towards creation of sound banks capable of following and supporting the implementation of the overall reforms in the country and the development of the market economy. A new banking law passed in July 2000 has led to significant changes in legislation. The law brings supervisory standards closer to EU standards and sets new frameworks for credit approval procedures and for strengthening corporate governance of banks.¹¹²

¹⁰⁹ Ibid.

¹¹⁰ Ministry of Finance, Taxation Department.

¹¹¹ Ibid.

¹¹² This is positive, since according to the IMF Working Paper on *Banking Soundness and Recent Lessons (1998)*, for several years, major weaknesses in the banking and enterprise sectors have hampered faster economic growth and development, since “the banking system suffered from a low level of public confidence, a high level of bad debts, a high cost of capital, poor allocation of credit and a lack of competition”.

138. According to the EBRD Investment Profile 2001, at the end of 2000 there were 21 banks and the share of total bank capital in the country that was privately owned had reached 100 percent.¹¹³ According to the banking sector annual and semi-annual reports by the end of June 2001, there were 23 banks (of which 17 have full operating license and 6 limited operation license) and 18 saving houses.¹¹⁴
139. The number of banks therefore in FYROM at present, is large for a country with a population of approximately 2 million and where financial intermediation is relatively low. Nevertheless, the sector remains highly concentrated, with the two largest banks (*Stopanska banka* and *Komercijalna banka*) holding more than half of total assets and two-thirds of total deposits in the banking system.
140. The privatization of *Stopanska banka* (see **Box 5** below) in April 2000 marked an important step forward in bank restructuring and privatization.

Box 5: FYROM's Largest Bank Privatization

In support of the largest bank privatization in the Former Yugoslav Republic of Macedonia, the National Bank of Greece (NBG), the European Bank for Reconstruction and Development (EBRD) and the International Finance Corporation (IFC) are making equity investments in Stopanska Banka. NBG will acquire a majority stake of 68.4 percent for a total investment of up to DM 117 million (60 million Euro), while the EBRD and IFC will each take a stake of up to 10.5 percent worth DM 18 million (9.2 million Euro).

"The presence of the EBRD and IFC alongside NBG as a strategic investor will boost confidence in FYR Macedonia's banking system," said Henry Russell, the EBRD's Country Director for FYROM. "As it is the first bank to be privatized with a strategic foreign investor, it will help to attract further foreign investments in the country. As a large retail bank, Stopanska Banka will be better equipped to provide banking services and loans to small and medium-sized private sector businesses."

"Stopanska Banka's new management and transfer in ownership represents an important step in the government's economic reform plan," said Harold Rosen, IFC's Director for Central and Southern Europe. "We expect that the privatization will improve the Bank's corporate governance, overall management systems and controls, and will help to restore confidence in the financial sector. This, in turn, is likely to have a positive impact on the non-financial sector, domestic savings and economic growth."

"The acquisition of the majority stake in Stopanska Banka further enhances the NBG's presence and operations in the Balkans in accordance with its strategy to become a major regional bank in the area," said Apostolos Tamvakakis, Deputy Governor of NBG. "This investment amply demonstrates NBG's firm commitment to FYR Macedonia's economic growth and development."

The investment will strengthen the capital base of Stopanska Banka. It will facilitate the full privatization and restructuring of the bank and will support a capital investment

¹¹³ At the end of 1993, the banking system consisted of only 19 commercial banks, of universal type.

¹¹⁴ The number of the banks, which have full operating license is 17. The other 6 banks have limited operation license.

program, including modernization of the computer systems, branch network upgrading, and personnel training.

Incorporated in 1944 to serve the banking needs of local companies and other institutions, Stopanska Banka has always held a dominant position. It is the largest full-service universal bank, and as of the end of 1998, it handled around 35 percent of the country's payment operations, total customer deposits, and total customer loans in the sector. The National Bank of Greece is the largest commercial bank of Greece and leads the biggest financial services group of the country. It is listed on the New York Stock Exchange and on various European stock exchanges, notably the Athens Stock Exchange and the London Stock Exchange. As of 30 June 1999, the group had total assets of approximately \$ 42.5 billion and equity capital equal to \$ 2.3 billion. It maintains a presence in 16 different countries, including Romania, Bulgaria, and Albania.

Source: IFC Press Release, December 21, 1999

SME Development and Donor Support

141. Support for the development of Small and Medium Size Enterprises (SMEs) is a Government priority as a dynamic SME sector is needed to ensure economic recovery, and thereby enable economic development and improvement of living standards.¹¹⁵
142. According to the Ministry of Economy (which is responsible for SME development), from 1990 to 1996 there were over 90,000 new enterprises established in FYROM and of these, more than 86,000 were privately owned. Three years later, in 1999, there were 118,000 legal entities in operation, of which, 88.7 percent were private, 8.2 percent socially owned, 1.5 percent with co-operative ownership, 1.4 percent with mixed capital and 0.2 percent owned by the State.
143. However credit remains expensive at 8-15 percent interest (on average 10-11 percent) due to the high degree of risk resulting from the state of the economy. A number of initiatives have therefore been established by international financial institutions and donors to provide credit lines for SMEs. These include:
 - *EBRD SME credit line* channeled through five participating banks has supported 110 sub-projects so far, with an average sub-loan size of approximately \$ 130,000.
 - The *World Bank Private Sector Development Program* providing two credit lines: the first in 1996, worth over \$ 7.5 million (now fully disbursed), and the second in 1997 worth approximately \$ 20 million (almost fully disbursed).
 - The *PHARE Micro-Lending Program*. In spring 1998, PHARE initiated a micro-lending program with approximately \$ 3 million. The maximum loan for a sub-project is about \$ 18,000. The program is managed by the *National Enterprise Promotion Agency* and the

¹¹⁵ *Entrepreneurship and Enterprise Development in FYROM*. Country Assessment and Action Plan. Stability Pact – Southeast Europe Compact for Reform, Investment, Integrity and Growth. OECD, EBRD and Ministry of Economy. Skopje, July 2001

executing organizations are the European Savings Bank Group, Lloyds Bank and the German Savings Banks Foundation for International Co-operation. The micro-credit scheme is administered through a network of eligible local banks (*Komercijalna banka, Stopanska banka, Tutunska banka, Ohridska banka* and *Rodobanka*), which have been approved for handling credit lines. Targets are micro and small enterprises. In November 1999 a further \$ 3.5 million funding was approved to supplement the micro-credit scheme.

- *USAID* supports the non-government organization, *Možnosti* (a 100 percent grant-financed micro-credit institution for service, manufacturing and agriculture). It has also initiated a pilot program for group lending. The main sectors under this program are services, manufacturing and agriculture.
- The *UK Know How Fund* has set-up SME support Agencies in three regions with Dutch Government co-financing.
- *Germany's Development Agency* has introduced a start up assistance program worth over \$ 4.3 million for returning refugees and migrants. The maximum loan for a sub-project is approximately \$ 65,000 (exceptionally \$ 100,000 will be considered). The Agency has also contributed to the establishment in 1998 of the Macedonian Development Bank (MDB).
- The *Government of Taiwan* extended three credit lines in 1999 for companies in FYROM. The first credit line, totaling \$ 3.5 million, targets SMEs which need to borrow in order to purchase equipment and materials. The second line, worth \$ 12 million, targets housing construction and the third targets the construction of sports halls in schools. The agreement for the first loan of this line, worth \$ 20 million, was signed in the second half of 1999.
- *IFC Southeast Europe Enterprise Development* (see **Box 6** below). This is an IFC initiative designed to support the development of SMEs in Southeastern Europe. By December 2000 funding commitments totaled \$ 20 million, with a further \$ 13 million to be secured over the five-year life of the program. The IFC is providing funding and the management team to implement the Fund.

Box 6: South East Europe Enterprise Development

Southeast Europe Enterprise Development (SEED), is a newly established, multi-donor initiative, managed by the International Finance Corporation/World Bank Group and co-financed by: Austria, Canada, Greece, the IFC, the Netherlands, Norway, Slovenia, Sweden, Switzerland, and United Kingdom. It was launched in the summer of 2000 to supports the development of SMEs as well as individuals and institutions that serve the needs of SMEs in Bosnia and Herzegovina, Albania, FYR of Macedonia and specific projects in Kosovo. SEED has garnered about \$ 20 million in funding commitments to date, leaving about \$ 13 million of funding to be secured over the 5-year life of the initiative. Southeast Europe Enterprise Development (SEED), previously known as the "Balkan Enterprise Facility" will support the development of Small and Medium Enterprises (SMEs) as well as individuals and institutions that serve the needs of SMEs and will enhance the broader enabling environment in which all of these stakeholders operate.

SEED will implement its mandate through tailored, enterprise- and organization-specific technical assistance, capacity building programs, training courses and research / policy interventions. In order to implement its mandate fully, SEED proposes to embrace three strategic targets of assistance:

1. ***Enterprise-Level Investment Services:*** *The goal of SEED is to target companies for sustained, market-based competition. If an SME can define its business in these terms, then and only then is it ready for financing. SEED will attempt to identify clients that are near this goal. In such cases, SEED will actively try to match the company with appropriate investors and financiers immediately. For those SMEs that need to strengthen their performance, SEED will assist in that development prior to seeking financing. Once financing is obtained for an SME, SEED will also make available post-financing support in order to help the company leverage and manage its investment most advantageously.*

2. ***Capacity Building of Enterprises and Institutions serving SMEs' Needs:*** *In order to promote business advocacy or association for the sole purpose of supporting business interests, SEED will (a) promote partnering with local associations of business owners and building the capacity for these associations to expand and function more effectively and independent of donor support; (b) implement training and technical assistance programs to local business service firms which will help with the professional development of SMEs and contribute to the creation of a business consulting sector; (c) implement core training programs for client SMEs designed to enhance overall business competitiveness by facilitating improvements in key areas of the enterprise – financial management, marketing and distribution, streamlined and environmentally-friendly production, corporate governance, etc. (d) facilitate knowledge sharing among SMEs and SME service providers through in-person “business-roundtables” and internet-based exchanges; and (e) promote the development of women-owned/operated businesses through targeted support for women business association development.*

3. ***Improvement of the Business Enabling Environment:*** *In order to improve the business enabling environment, SEED will support legislative and tax reform benefiting SMEs, administrative and regulatory reform to help reduce heavy bureaucratic burden on SMEs, organize and disseminate relevant business information, promote regular dialogue between local business representatives and government, engage in special projects (e.g. trade fairs, development of a credit bureau, etc.)*

In FYROM the aim is to support the development of one-stop service capacity within a government agency or sustainable business center that would provide all relevant information to firms wishing to export. Interest has been taken locally to develop a central Macedonian Business Directory (hard-copy and Internet-based). SEED may support such an initiative in order to ensure full participation and representation of SMEs. Also identified as areas needing the support of SEED are modification of legislation and training for targeted groups involved with fast-track foreclosure on collateral of delinquent loans; reform of banking laws to enable adequately capitalized micro-banks to enter the market; and assistance to the Ministry of Economy in collecting macroeconomic information on SMEs.

Source: EBRD Investment Profile - 2001

Land Ownership

144. There are many unresolved property rights issues. Land regulation and the recording of rights are poor. According to the FIAS Report (1998),¹¹⁶

¹¹⁶ *Improving the Environment for Foreign Direct Investment*, FIAS, IFC-World Bank, August 1998.

guarantees and mortgages are in many cases worthless or at best risky because of poor regulation and recording and because of the inadequate protection of real estate rights. The current law on land use is based on the former Yugoslav system, whereby citizens gained ‘*eternal user rights*’ of real property. For urban land, this is not a right of ownership proper but rather the right of perpetual use. Urban land in FYROM is currently state-owned. Domestic and foreign enterprises can use the land for their business, but cannot automatically transfer the land with the sale of a business.¹¹⁷ Nor do and rights extend to a new business if the old business buildings are demolished. Securing urban land for business purposes is overly bureaucratic and difficult to obtain results efficiently. Most of the problems rest with the difficult land zoning procedures at the municipal level. Furthermore, determining the validity of titles to land is wrought with challenges. The process of obtaining construction approvals and permits also presents private investors with a major burden.

POLICY RECOMMENDATIONS

145. As noted in the Government’s *Poverty Reduction Strategy* (2000), there is a strong correlation between the level of education and poverty in FYROM (see par. 16 above), especially in rural areas (see par. 11 above). The correlation between unemployment and poverty therefore (see par. 12 above), is not surprising since a modern economy requires a highly skilled labor force and those not highly skilled will reduce their chances of employment. The establishment of a modern education system therefore, that will not only serve the needs of FYROM, but will also be consistent with European (and international) standards, is vital. With an adult literacy rate at 94.6 percent (1998) and an education enrollment ratio of 69 percent (1998), FYROM compares poorly with other transition countries in the region,¹¹⁸ as well as with the OECD country mean.¹¹⁹ Consequently, greater priority needs to be given to the education sector in order to improve the quality and effectiveness of the country’s education services. Enrollment rates (i.e. the higher inclusion in the educational process of the members of risk groups, who without such help, are destined to remain poor and unemployed) and the average level of education completed, need to be raised so that the population is better able to face the country’s economic development challenges.
146. In order to do so however, efficiently and effectively - within the existing economic constraints the country currently faces – the Government will need to recognize that a strong private sector is necessary if it is to meet its educational and broader social and economic objectives. It will therefore need to adopt an *active* policy stance toward private sector involvement in

¹¹⁷ Foreign investors may acquire property rights over building and other rights over immovable assets for the purpose of their business activities. They may acquire residential property but not ownership rights over construction land.

¹¹⁸ Eastern European and the CIS show an adult literacy rate of 98.6 percent and education enrollment ratio of 76 percent (in 1998). (Human Development Report 2000. UNDP, New York, 2000.)

¹¹⁹ With an adult literacy rate of 97.4 percent and education enrollment ratio of 86 percent. (Human Development Report 2000. UNDP, New York, 2000.)

education – *at all levels and sectors* - that is designed to: (a) establish an enabling regulatory framework; (b) improve the targeting of Government spending; (c) create the conditions necessary for monitoring performance; (d) increase choice and above all, equal access to education for all. As suggested in the *World Development Report 1996* (The World Bank): *no education system can hope to foster choice, autonomy, and accountability – the necessary ingredients for a global market economy - without first acquiring these characteristics itself.*¹²⁰

147. The decentralization process for example, which is currently underway, can provide the conditions necessary for private sector involvement in education – especially at the local level - since greater ‘control’ of the education process can and will be afforded to municipalities under the new Law for Local Government to be passed by the end of 2003. The Government therefore, has an opportunity to show that it is positively inclined toward working *with* the private sector in solving at least some of the problems the education system currently faces (at local level), by introducing reforms to some of the key policy levers (such as financing, governance and decision-making) that can improve educational outcomes. Identifying external sources to help supplement capital renewal in education and supporting initiatives to increase private sector involvement in education moreover, can serve to alleviate some of the serious fiscal pressures on public financing of education that currently prohibit the adequate provision of education investments for high-quality education (especially in rural areas¹²¹). This will need to be seriously considered by the Government as it strives to achieve its medium-term goal to reduce poverty as noted above (see par. 10) by three percentage points - from the current 20 percent to 17 percent - through the acceleration of economic growth.
148. A paper entitled *The Third Wave of Privatization: Privatization of Social Sectors in Developing Countries* (1996) would serve as a useful guide to the Government, as it provides practical information for policy-makers and practitioners in their efforts to enhance private sector participation in the social sectors (e.g. education and health). As noted in this paper: “*It must be kept in mind that an enhanced role for the private sector does not necessarily imply a smaller role for the state.... Rather, the opposite is the case. The state must continue to play an important role. The key difference lies in the nature, rather than the degree, of the state’s intervention. Specifically, the Government’s role of being the principal financier and producer of education services needs to be changed.*”¹²²
149. Initiatives to increase private sector involvement in education can take the form of private financing, private management, private ownership, or a combination of the three. Accordingly, the degree of private sector

¹²⁰ From Plan to Market: World Development Report 1996. The World Bank, Washington, D.C., 1996

¹²¹ Where high levels of poverty and low-quality education often deter parents from sending their children to school.

¹²² Torres, G. and S. Mathur. *The Third Wave of Privatization. Privatization of Social Sectors in Developing Countries.* The World Bank, Washington, D.C., 1996.

involvement can vary from complete ownership, financing, and management to a more limited private sector role such as cost recovery via user charges. Between these two extremes lies a range of possibilities that depend on varying degrees of private sector participation. Above all however, initiatives to increase private sector involvement in education should be with the goal to improve efficiency and equity.

150. The private sector can therefore serve as an important ally to the MES in achieving its policy objectives for education reform¹²³ as stated in both the *Draft Strategy for Development of Education* (2000) and the *Education Development Strategy 2001-2010*, as well as to the Government (generally) in achieving its overall country objectives for comprehensive economic development as stated in the *Poverty Reduction Strategy* (see par. 25 above). It is moreover, difficult to see how the MES intends to carry out the measures stated in the *Education Development Strategy 2001-2010* (see **Appendix 1**-The Matrix of Priorities for the Period 2001-2010) to improve the quality and effectiveness of education services and establish a modern education system, *without* the input of the private sector to offset some of the costs since it is clear that the Government has neither the financial means nor the capacity to do so. In addition, donor funds (on which the Government is depending to cover part of the costs) are not guaranteed.¹²⁴ The Government's severely constrained public finances cannot simultaneously operate the education system and address all the urgent and widespread rehabilitation needs of the country.
151. The Government has much to gain therefore, by exploring new ways of channeling available funds (e.g. through the use of *demand-side financing* mechanisms¹²⁵) and mobilizing private sector collaboration since *[t]he private sector can inform, challenge and potentially re-engineer the public sector*.¹²⁶ As noted in the very useful resource for policymakers, *Contracting for Public Services: Output-based Aid and its Applications*, what the Government will therefore need to consider is: "*how to deliver and target public services in ways that promote efficiency and innovation, increase accountability for performance and – in a world of limited budgets – leverage public resources with private financing*"¹²⁷ Out of the 25 priority

¹²³ By mobilizing additional resources both for recurrent expenditure and for capital investment in education and therefore enable the Government to channel of a greater proportion of national income into the education system as a whole.

¹²⁴ The Education Development Strategy 2001-2010 for example states that: *[t]he amounts [stated in the Matrix of Priorities for the Period 2001-2010 – see Appendix 1] do not represent a responsibility to the Government and donors; it is rather estimates on relevant possibilities and interests. The MES will apply to obtain resources from all sources according to standardised conditions and terms valid for all other sectors as well.*

¹²⁵ Such as vouchers, stipends, and capitation grants. (For further discussion see "Decentralization of Education: Demand-Side Financing" by H. A. Patrinos and D. L. Ariasingam, The World Bank, Washington, D.C. 1997)

¹²⁶ Tooley, J. *The Global Education Industry: Lessons from Private Education in Developing Countries*. IEA and IFC, London, 1999.

¹²⁷ *Contracting for Public Services: Output-based Aid and Its Applications*. P. J. Brook and S. M. Smith, Eds. The World Bank, Washington, D.C., September 2001.

areas listed in *The Matrix of Priorities for the Period 2001-2010* (see **Appendix 1**) for example, almost half concern infrastructure (either renovation or construction) and equipment (purchasing, renovating and network-linking) with a total cost estimate of 135.5 million Euro (approximately \$ 115 million), of which 39.5 million Euro (approximately \$33 million) is being sought from donors. However, part (or all) of this amount could be leveraged under *public-private contracts* using an *output-based approach*.¹²⁸

152. This will however, require that the Government shift the balance of the tools used in achieving its policy objectives from complete *ownership* of education products and services (e.g. owning the school), to *purchasing* such products and services (e.g. providing vouchers), while at the same time concentrating on regulating the market (e.g. ensuring quality, safety, etc).¹²⁹ The focus therefore, is on what is required rather than how it is to be delivered. Under this approach, the contract goes beyond just the provision of the asset (e.g. the school or the equipment) and *the responsibility and risk for the ongoing management, maintenance, and operation of the asset is transferred to the contractor, thus giving the contractor the incentive to develop design solutions that take into account the costs of managing the asset over its entire life. This ensures that the contractor does not design an asset that is cheap to build but unaffordably expensive to manage and maintain over the rest of its life (as the public sector often has in the past). This approach offers important advantages to the Government, not only more efficient risk allocation and access to private sector expertise but also the delivery of new assets without pressure on Government resources.*¹³⁰
153. The funding system moreover, will need to be reviewed in order to improve the delivery mechanism and targeting criteria (especially within the framework of the decentralization process) of education resources. The characteristics of students (e.g. socio-economic status) and the region (as a proxy for socio-economic status) will therefore need to be considered in order to better address equity issues (especially with regard to rural poor students). In achieving an improved funding system, the Government's capacity to manage resources will also need to be improved. The *Draft Strategy for Development of Education in the Republic of Macedonia (2000)* has already noted this. It states for example that: *[t]he problem of economic viability of the education system is linked to the issues related to the financial resources that are invested in education, the manner of utilization of those resources as well as the economic return of the system.* It stresses moreover,

¹²⁸ Such public-private contracts using an output-based approach have evolved from building new schools, to providing maintenance and rehabilitation across many schools, to setting up and supporting information technology systems while incorporating learning targets for students. (*Contracting for Public Services: Output-based Aid and its Applications*. The World Bank, 2001)

¹²⁹ However, moving to a system focused less on ownership will need to be carefully and strategically planned, since use of other policy instruments requires that there be an infrastructure (e.g. for targeted expenditure, funding mechanisms, quality control, etc.) in place and this is not the case in FYROM at present.

¹³⁰ *Contracting for Public Services: Output-based Aid and its Applications*. The World Bank, 2001.

the need to not only treat education as a *consumption area*, but also as a *production and service area* – that is, as an investment in the future citizen.

154. However, the indicators currently used to measure economic feasibility are more likely to lead to the reduction of resources allocated from the State budget to education. For example, according to the Draft Strategy for Development of Education (2000): *[t]he economic feasibility of the system, especially the feasibility of the changes that are introduced, are assessed on several indicators: achievement of the students, possibility for placing the students on the labor market and the effects that are achieved in other segments of the society (decrease of the social inequality, improvement of the general health condition, decrease of the criminal rate, etc.) These changes are justified if there is greater (or proved) probability that they would result in positive effects at least in several of the stated indicators.* The need for changes in the manner of distribution of the available resources therefore, along with the need to explore alternative sources of financing, is urgently needed.
155. A move to a demand-side financing system (i.e. use of vouchers, stipends, and capitation grants) targeted on the basis of characteristics other than who owns the provider, is important not only to the long-term sustainability and growth of the private education sector, but more importantly, as a tool for the Government in the long-term sustainability of the reform process. Demand-side financing is a pragmatic choice for the Government for introducing needed reforms according to local needs and available resources. It is moreover, the key to building effective partnerships between the private sector and the State and to opening up access to private schools to those with fewer financial resources, while at the same time recognizing the financial constraints that the Government is facing. A useful resource on demand-side financing is *Decentralization of Education: Demand Side Financing* (1997), which is designed to assist policy-makers and practitioners in developing countries interested in exploring alternative financing mechanisms.¹³¹

EDUCATION INVESTMENT OPPORTUNITIES

156. Although the market potential for private sector development in education is limited, there are specific areas worth considering. These include:
- **Provision of pre-school education.** As low pre-school participation has brought about significant differences in learning achievement among students in the first primary grades (with only 18-19 percent of the 3-5 year-old age cohort is being catered for by the State and only 79 percent of 6-year olds attending ‘*Zabaviste*’ classes¹³² (as noted

¹³¹ Patrinos, H. and D. Lakshmanan Ariasingam. *Decentralization of Education: Demand-Side Financing*. The World Bank, 1997.

¹³² That is, preparation classes for 6-year olds the year before they enter primary school.

above – see par. 39), private financing and initiatives will therefore need to be mobilized for pre-school education in order to meet the needs of this non-compulsory but important sector of education. Such provision could be facilitated through public-private partnerships for example, whereby pre-school programs are realized in state schools and/or local government facilities (e.g. town hall).

- **Provision of extra-curricula activities for children and community programs for adults.** Significant potential also exists for public-private partnerships in developing programs for the community (e.g. programs for adults and extra-curricula activities for children). State school premises (as well as other public facilities, such as local town hall) could be used for this purpose.
- **Primary and Secondary Sector.** Limited potential exists for specialized schools such as schools for the gifted and the arts, as well as foreign schools offering bilingual or multilingual programs.¹³³
- **Post-Secondary and Tertiary Sector provision.** The greatest potential at present exists for investment in post-secondary and tertiary level education and training provision (e.g. short courses, seminars, workshops, consultancy training, degree, diploma and certificate programs) in all areas of general business studies (e.g. marketing, advertising, management, banking and finance, etc.), interactive and communication technologies, the arts, life sciences, foreign languages and computing. Such investments can offer sizeable short- and medium- term returns if established with local partners (such as the SEE University, the Workers University and other private training providers primarily, but also, public sector institutions) initially. In the long-term, establishing ‘branches’ of foreign institutions (either as joint-ventures with local partners or independently) through franchising or licensing arrangements would prove worthwhile ventures.
- **Rehabilitation/construction, maintenance and management of schools.** As already mentioned above (see par. 151), out of the 25 priority areas listed in *The Matrix of Priorities for the Period 2001-2010* (see **Appendix 1**), almost half concern infrastructure (either renovation or construction) and equipment (purchasing, renovating and network-linking) with a total cost estimate of 135.5 million Euro (approximately \$ 115 million), of which 39.5 million Euro (approximately \$33 million) is being sought from donors. However, part (or all) of this amount could be leveraged under *public-private contracts* using an *output-based approach*.

157. An extra column entitled ‘*Potential for Private Participation*’ has been added (by the author) to ‘*The Matrix of Priorities for the Period 2001-2010*’ (see

¹³³ The Nova School has been permitted to operate – on a pilot basis – a bilingual primary school.

Appendix 1), indicating possibilities for private involvement within the framework of reform priorities set by the MES.

CONCLUSIONS

158. Due to limited resources, the Government will need to focus more on facilitating and regulating economic activity rather than being the direct producer and provider of education/training goods and services. Old stereotypes of purely public agencies on the one hand, and purely private for-profit companies on the other, will need to give way to public-private partnerships. Such partnerships will be crucial for the provision of quality education and training services in FYROM. Investors moreover, will need to be flexible and ready to adapt to the changing education and training needs of the country as it progresses along the road to a global economy and EU accession.

APPENDIX 1

The Matrix of Priorities for the Period 2001-2010

Nr.	Issue	Current Status	Goal	Dead-Line	Total Value (MEuro)	Budget Funds (MEuro)	Funds from Special Programs (MEuro)	Donor funds (MEuro)	Budget Commitment Increase (as from)	Potential for Private Participation*
1	Renovating rural area schools not meeting safety, technical and hygiene requirements	400 schools in bad condition	20 schools for current maintenance (annually)	2005	60	15	20	25	-	<i>Maintenance & Management</i>
2	Increasing building of high schools for which students have classes in separate shifts in other schools	3 high schools lacking buildings	Building 4 high schools	2002	8	-	4	4	1 (2002)	<i>Construction, Maintenance and Management</i>
4	Introducing a final examination to secondary education in order to eliminate the enrollment exams at faculties	Not unified marking in high schools	Standard national final examination	2006	1	0,2	-	0,8	0,4 (2006)	<i>Consultants, Experts</i>
5	Equipping high schools with a sufficient number of computers	Some 1200 computers in good condition	Purchasing 3000 new computers	2001	3	0,2	1,5	1	1 (2002)	<i>Sale, Maintenance and Management</i>
6	Equipping primary schools with a sufficient number of computers	Some 2500 computers in good condition	Purchasing 10000 new computers	2001	10	-	10	-	3,3 (2002)	<i>Sale, Maintenance and Management</i>
7	Developing a new building for the premises of the Ministry of Education and Science	On 6 locations	A single structure	2002	4	-	4	-	-	<i>Construction & Maintenance</i>

8	Institutional strengthening of the MES (a statistics and analysis unit, establishing precise procedures) and training the management staff of the MES and of schools	Insufficient analytical capacity of MES and delays in certain procedures	Quick response of MES and analytical material preparation	2001	0,2	0,2	-	0,2	12 (2010)	<i>Consultants, Experts</i>
9	Building a high school located in a settlement having high concentration of Roma population	Low secondary education coverage (20 %)	Coverage increase to 50%	2004	2,5	-		2,5	0,2 (2004)	<i>Construction, Maintenance and Management</i>
10	Establishing an adult education system	Education mainly at the 'workers' university'	Involvement of several institutions	2003	0,5	-	-	0,5	-	<i>Links with Foreign Institutions</i>
11	Establishing the Institute for New Teaching Methods	No expert institutions exist	Capacity for development of teaching techniques	2002	1,5	0,5	1	-	0,2 (2002)	<i>Links with Foreign Institutions</i>
12	High school linkage to a computer network	Only a small number linked to the network	Linkage through separate telephone lines	2001	2	-	2	-	0,4* (2002)	<i>Involve local multi-media company</i>
13	Linking large high schools to a computer network	Only a small number linked to the network	Linkage through separate telephone lines	2001	6	-	6	-	1* (2002)	<i>Involve local multi-media company</i>

14	Renovating the teaching equipment in primary and secondary/ high schools	Excessively used and obsolete	New equipment (EU and USA)	2002	20	-	15	5	0,2 (2002)	<i>Sale & Maintenance</i>
15	Renovating the teaching equipment at science and technical faculties	Excessively used and obsolete	New equipment	2002	10	-	8	2	0,5 (2008)	<i>Sale & Maintenance</i>
16	Developing joint history textbooks with the Republic of Albania and the Republic of Bulgaria	Current ones based on conflicts	Increasing the awareness of co-operation	2007	2	0,2	-	1,8	-	<i>Publishing houses – support the development and publication</i>
17	Reforms to the secondary vocational education in 20 new vocations	Insufficient practical knowledge	More practical knowledge	2005	8,4	0,4	-	8	-	<i>Local businesses for practical experience</i>
18	Reform to the gymnasium education by introducing optional and special subjects	Fixed programs	Individualized teaching	2001	1	0,1	-	0,9	-	<i>Publishing houses – development of support materials</i>
19	Developing 4 new faculty buildings	Insufficient capacity	Capacity for greater coverage	2002	10	-	10	-	2,2 (2002)	<i>Construction, Maintenance and Management</i>
20	Establishing publishing competition	Competition has started	Free competition	2002	0,5	-	0,5	-	-	<i>Publishing houses</i>

21	Civil education promotion by creating new schoolbook generations	Ideological elements lingering	Clear civil education	2004	0,7	-	-	0,7	-	<i>Publishing houses</i>
22	Developing multilingualism	Knowledge of one European language (most often English)	One more European language to be obligatory	2003	0,4	-	-	0,4	-	<i>Links with EU language centers</i>
23	Developing the professional orientation service at the Pedagogical Bureau	An unclear picture of the education aims	Guidance in the selection of occupations	2003	0,4	-	-	0,4	-	<i>Career Counselling</i>
24	Developing centres for continuing training/education of teaching staff	Lack of expert institutions	2 centres for continuing training and education of teaching staff	2001	0,4	0,1	-	0,3	-	<i>Links with local and EU centers</i>
25	Include one year's pre-school education to primary education	Pre-school education not covering all pupils	Introducing compulsory 9-year education	2005	1,4	0,4	1,0	10,0	-	<i>Establishment of private pre-schools</i>
	Total				153,9	17,3	83,0	63,5	-	

Source: Education Development Strategy 2001-2010. Ministry of Education and Science, Republic of Macedonia, 2001

** Author's addition*

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