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**Skills Policies for Economic  
Diversification in the Former Yugoslav  
Republic of Macedonia- Enhancing local  
skills policies for the food and tourism  
sectors**

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# SKILLS POLICIES FOR ECONOMIC DIVERSIFICATION IN THE FORMER YUGOSLAV REPUBLIC OF MACEDONIA

## Enhancing local skills policies for the food and tourism sectors

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With contributions from Con Gregg and Erik von Uexkull



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## Abbreviations

ECTM -	Economic Chamber for Tourism of Macedonia
ETF -	European Training Foundation
EU -	European Union
FDI -	Foreign Direct Investments
FTA -	Free Trade Agreement
GCI -	Global Competitiveness Index
HoReCa -	Hotels, restaurants and catering services
HOTAM -	Hotel Association of Macedonia
IHRA -	International Hotel and Restaurant Association
SAA -	Stabilisation and Association Agreement
SEE -	South-Eastern Europe
SITC -	System of International Trade Classification
VET -	Vocational Education and Training

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## FOREWORD

This report presents an application of the ILO's Skills for Trade and Economic Diversification (STED) methodology to two sectors – tourism and food industries – of the economy of the former Yugoslav Republic of Macedonia. The STED methodology provides strategic guidance for the integration of skills development in sectoral policies. It is designed to support growth and decent employment creation in sectors that have the potential to increase exports and to contribute to economic diversification. It has been developed in recognition of the fact that having the right skills among workers is crucial for firms or industries to succeed in trade, and because understanding trade is important to providing workers with the right skills. Availability of skilled workers contributes to higher and more diversified exports, more FDI, higher absorption of technology, and more sustainable growth and productive employment creation. At the same time, skills are the key determinant for a worker's success in finding a good job and making a living.

Employment promotion and defining the priority sectors for future economic development in terms of skills is still a challenging task for many of the institutions and stakeholders in the former Yugoslav Republic of Macedonia. In this context, investment in human resources is central and formulating up-to-date policy advice on how to increase economic diversification through strengthening the business enabling environment with a focus on skill endowments and export orientation is key to fostering employment generation. While analysis at the national level can give useful directions for sustainable growth and employment creation, an in-depth analysis of individual sectors is useful – and indeed necessary – in order to design concrete policy proposals. It is for these reasons that two sectors - Tourism and Food Industries - were analysed in some detail. The analysis describes the obstacles to enhanced economic diversification and sustainable growth in terms of the business environment, the availability of skills, and the situation of global markets for Macedonian exports. A particular emphasis was put on identification of skill needs at regional and local level through the creation of two working groups representing trend-setting companies from each selected sector, employers' organizations, workers' organizations, practitioners and teachers. The results of the analysis have been incorporated in local action plans for employment, using the LED approach, for the regions of Krushevo, Prilep and Resen.

A workshop with representatives from national and local government and relevant educational institutions as well as employers' and workers' representatives from the respective sectors was organized in Skopje in September 2011 to discuss and validate initial findings of the draft research paper and promote skills dialogue among stakeholders. Members of the working groups attended a training on Local Initiatives for Economic Development at the ILO International Training Centre in Turin (19-23 September 2011) to discuss how the findings of the report could be translated into concrete policy outcomes and recommendations for employment promotion and local economic development. Conclusions of these events have been incorporated into the final version of the paper that was presented and discussed at a National Seminar on "Local action plans for economic development in the sectors of tourism and food processing" which was held in Bitola, 6-7 December 2011.

This report was prepared by Prof. Nikica Mojsoska Blazevski, Dean of the School of Business Economics and Management, University American College, Skopje with substantial contributions from Erik von Uexkuell (ILO Trade and Employment Programme) and Con Gregg (ILO Skills and Employability Department). Aleksandar Kostadinov, labour market expert, provided data analysis for this report. Comments on the earlier draft were provided by Natalia Popova (Senior Employment Specialist, ILO DWT/CO-Budapest) and Marion Jansen (Coordinator of the Trade and Employment Programme, ILO Geneva).

We would like to express our appreciation to all those who have made a valuable contribution to this report: Yordanka Tzvetkova and Martin Gasser of the ILO International Training Center in Turin; and members of the working groups from Krushevo, Prilep and Resen.

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Mark Levin  
Director  
ILO Decent Work Technical Support Team and  
Country Office for Central and Eastern Europe  
Budapest

## 1. Introduction

The former Yugoslav Republic of Macedonia is a country with a small and open economy. Its trade represents about 90 per cent of the country's GDP. Thus, exports play an important role in the country's economic development, and the development of a successful export sector which can compete in foreign markets is critical given the small size of the domestic market (Kathuria, 2008). Consequently, the focus of government economic policies in recent years has been on improving the business environment, attracting Foreign Direct Investment (FDI), and promoting exports. Trade 'openness' has been extended over the last decade through the reduction of Most Favoured Nation (MFN) tariffs and preferential liberalization of trade with regional trading partners and the EU.

A liberal trade environment creates both opportunities and challenges. Openness to trade and FDI alone are unlikely to create a thriving export sector if they are not accompanied by advancements in several key areas, including infrastructure, national legislation, institutional structure and capacity, and the availability of appropriately skilled workers. The latter is of utmost importance along all levels of the value chain, from small scale producers to factory workers, service providers, machine operators and so on all the way up to senior management levels of exporting firms. The degree to which the educational and training system is capable of providing the skills required at all levels of the economy is a key determinant of competitiveness in today's knowledge-based global economy, and at the same time, a crucial precondition for the creation of decent and productive employment.

Achieving success as an export-based economy is a highly dynamic process, which involves regular adjustment to the realities of the global market and in particular the discovery and development of new export opportunities. This process of industrial upgrading can mean significant external impacts upon companies. This often requires a pro-active role for the government to encourage and support the development of new industries (Lin 2011).

Skills development is among the most important areas where the public and private sectors have to work together to identify current and future needs of emerging industries and ensure that these will be met as those industries develop. This idea is the rationale for the ILO's Skill for Trade and Economic Diversification (STED) approach, which is applied in this report to two sectors, food production and tourism.

The function of determining just exactly which sectors should assume priority for future economic development, and analyzing their skills requirements remains a highly challenging task for the relevant institutions and stakeholders in the former Yugoslav Republic of Macedonia.

The first aim of this study is to support this process by an in-depth analysis of two important sectors of the economy, and to propose concrete policies for both skills development and other key elements of the business environment to unlock their potential. The second aim is to demonstrate the relevance of this type of research in order to encourage stakeholders in these and other sectors to engage more actively in the preparation of strategic targets for their industries, and how skills development can be incorporated in an overall strategy to achieve them.

The structure of this report is as follows. In section 2, we outline the main macroeconomic developments as well as the business climate in the former Yugoslav Republic of Macedonia which set the background for the development of any export industry. In section 3, we provide an overall sketch of human capital in the country and explain the institutional setup of the education and skills forecasting systems. Section 4 applies the STED methodology to the food and beverages sector by analyzing the industry's current domestic and global market position, analyzing the availability of appropriately skilled labour and sector specific educational institutions, and highlighting its likely development and key challenges for the future. Section 5 applies the same methodology to the tourism sector. We offer our conclusions in section 6.

## 2. Macro and Business Environment

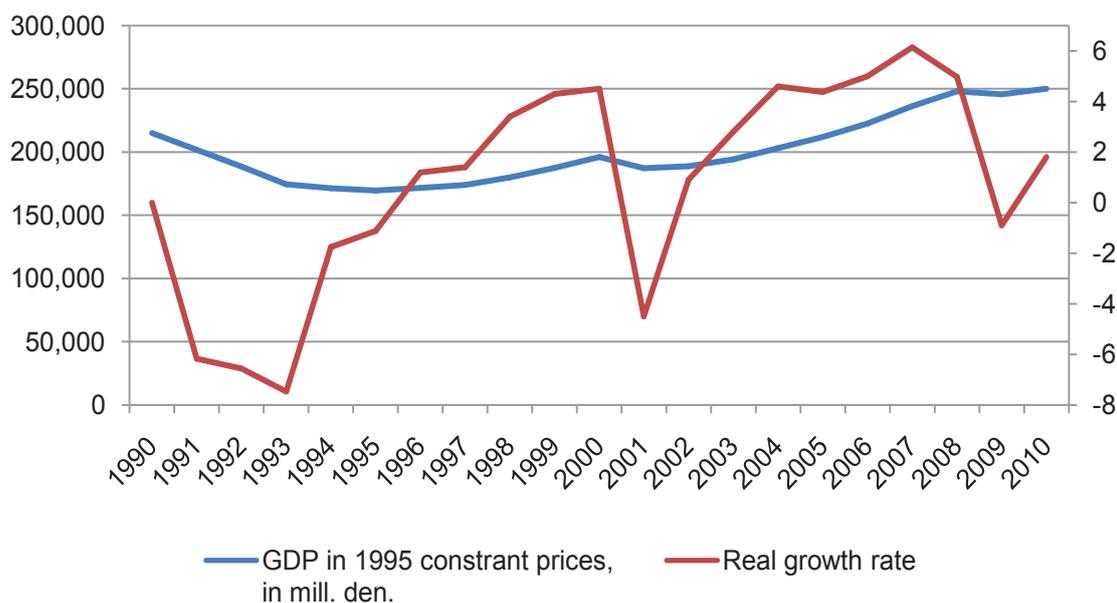
### 2.1. Economic development

After the collapse of Yugoslavia, the transition of the former Yugoslav Republic of Macedonia was followed by geopolitical external events that shaped the process of economic transition to a market economy, and the political transition to pluralism.

Those events were: i) the UN embargo imposed on the Republic of Yugoslavia and the consequent interruption of trade and business relations; ii) trade sanctions imposed by neighboring Greece due to the dispute over the country's name; and iii) the NATO bombing of Serbia and Montenegro in 1999 and the consequent Kosovo<sup>1</sup> refugee crisis in the former Yugoslav Republic of Macedonia. Such geopolitical instability in the region affected the country's economic performance on a great scale and deterred foreign direct investment (FDI) from the region. Further, in 2001, economic development and political stability were impeded by internal ethnic conflict.

At the onset of transition, the former Yugoslav Republic of Macedonia was the least developed country within ex-Yugoslavia and, at about 20%, had the largest unemployment rate amongst all socialist countries. The initial years of transition were characterised by a decline in both GDP (see Figure 1) and employment. Initially, the reduction in GDP was mainly driven by a substantial decline in industrial production, which recovered again later. Agricultural gross output fluctuated in this period (Mojsoska-Blazevski, 2011). The economy settled on a positive growth path from 1996 onwards but this was interrupted in 2001, the year of internal civil conflict. With such GDP developments, the country reached the pre-transition level of real GDP only in 2006.

Figure 1 Real GDP 1990-2010



Source: State Statistical Office, National Accounts, various years.

Table 1 represents quarterly real GDP growth rates for 2006-2010<sup>2</sup>. The economy grew quite steadily in 2007 and 2008, when high annual growth rates peaked at end-2007 and beginning of 2008. This period was interrupted by the global economic crisis that impacted on the economy from 2008Q4 when growth slowed down, and then went into negative rates for three consecutive quarters.

<sup>1</sup> As defined by UN Security Council Resolution 1244, hereafter Kosovo.

<sup>2</sup> We cannot present quarterly data and growth rates for 2004 and before because of recent revision of GDP data by the State Statistical Office, when quarterly data were revised only from 2005 onwards.

However, the negative effect was more moderate than those experienced by most countries of Central and South Eastern Europe. In 2009, real GDP declined by a relatively modest 0.9%. The decline in domestic production did not have a strong effect on the labour market, notwithstanding its typical poor performance. This relatively good performance of the economy can be attributed to several factors. Significantly, the intensive structural reforms implemented in the pre-crisis period as well as tax reforms and prudent fiscal policy with low pre-crisis deficits and debt, prevented the global downturn from turning into a domestic financial crisis in the country.

Table 1: Quarterly GDP Growth by Production Sectors

	<b>GDP</b>	Agriculture and Fishery (A+B)	Mining, Manufacturing and Electricity	Construction	Services
2006-Q1	<b>6,1</b>	2,3	-5,9	30,2	10,6
Q2	<b>3,6</b>	8,5	-3,2	21,9	3,6
Q3	<b>6,7</b>	6,7	7,9	1,1	4,8
Q4	<b>4,0</b>	2,4	10,7	-15,8	3,5
2007-Q1	<b>6,6</b>	7,2	21,3	-6,2	1,1
Q2	<b>5,1</b>	1,1	10,7	-1,2	6,8
Q3	<b>5,5</b>	-5,1	10,3	6,0	7,4
Q4	<b>7,4</b>	-8,8	10,1	11,8	9,7
2008-Q1	<b>6,2</b>	1,4	8,0	-6,3	10,2
Q2	<b>6,6</b>	7,0	5,8	-5,3	8,8
Q3	<b>5,8</b>	13,0	4,8	-11,2	6,5
Q4	<b>1,7</b>	1,9	-7,5	0,6	3,9
2009-Q1	<b>-1,4</b>	2,7	-13,5	4,4	1,8
Q2	<b>-2,4</b>	-2,3	-12,2	8,6	-0,1
Q3	<b>-2,1</b>	3,6	-14,8	2,0	1,4
Q4	<b>2,0</b>	5,6	-2,2	2,7	-0,2
2010-Q1	<b>-0,5</b>	4,5	-5,8	4,7	-0,9
Q2	<b>1,5</b>	4,4	-1,4	-9,0	1,4
Q3	<b>2,1</b>	4,2	-0,1	21,6	0,2
Q4	<b>3,8</b>	4,6	-1,9	38,2	3,4
Average growth	<b>3,4</b>	3,2	1,1	4,9	4,2

Source: State Statistical Office, National Accounts, various years.

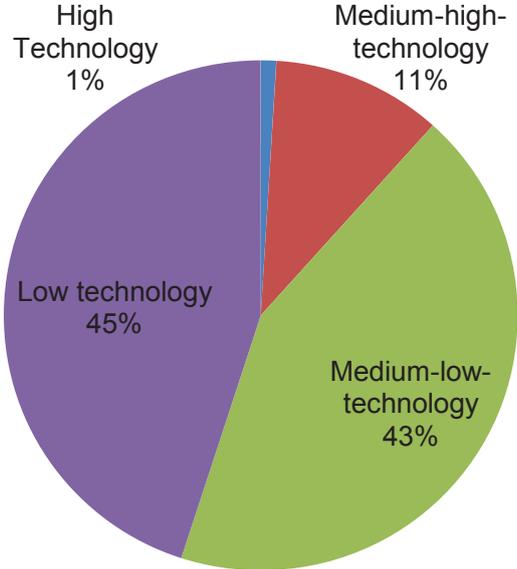
Manufacturing was hardest hit by the global crises through reduced external demand for the country's products. For instance, in 2009 industrial production declined by about 11% year-on-year. Growth weakened in services, whereas construction and agriculture production was preserved by government-financed large infrastructure projects, and by increasing subsidies to agriculture.

As a positive development in terms of the long-term growth of the country, the share of gross investments in GDP increased from 20.3 per cent in 2005 to 26.8 per cent in 2008, though declined slightly to 24.8 per cent in 2010. This improvement is a result of changes in the profit tax system introduced in 2009<sup>3</sup>, increased inflows of FDI, and more intense credit activity.

<sup>3</sup> From 2009, profit tax is paid only on distributed profits.

Most of the national production (measured as gross output at basic prices) is based on a low technology content (45 per cent); 43 per cent is medium-low technology production and only 1 per cent is high technology production. This structure of domestic production is reflected in the country exports, which are dominated by low-value added products (see section 2.2).

Figure 2: Technological Level of Domestic Production, NACE rev1



Source: Author’s calculation, SSO, based on NACE rev 1.

As in most South Eastern European countries (SEE)<sup>4</sup>, in the last couple of years before the crisis, domestic growth in the former Yugoslav Republic of Macedonia was driven by increased exports (mainly due to favourable terms of trade) and improved domestic demand fuelled by foreign direct investment (FDI) inflows, remittances, and credit expansion (Bartlett and Monastiriotis, 2010). However, this growth pattern put considerable pressure on the current account deficit (see Figure 3).

The deteriorating global financial and economic environment in 2008/9 dampened national exports and inflows of FDI. In 2008 and 2009, exports declined by 22.5% cumulatively, while imports declined by 14.2% (see section 2.3). Hence, net exports had a negative contribution to the GDP growth. In 2007 and 2008, FDI inflows to the former Yugoslav Republic of Macedonia picked up, reaching 699 million US\$ and 587 million US\$, respectively. The global economic crisis prompted tighter international capital markets and this affected the FDI flows into the country. In 2009, FDI declined to 197 million US\$, although in 2010 they increased slightly to 296 million US\$. Table 2 shows that the former Yugoslav Republic of Macedonia has been a poor performer in the region in attracting FDI, both measured as percentage of GDP and per capita. Moreover, some of the countries in the region, Albania and Montenegro, managed to increase the inflow of FDI even during the global crisis.

<sup>4</sup> SEE countries include: Albania, Bulgaria, Bosnia, Croatia, the former Yugoslav Republic of Macedonia, Kosovo, Montenegro, Romania, Serbia and Turkey.

Table 2: FDI Inflows in the former Yugoslav Republic of Macedonia and Neighbouring Countries (in US\$, per cent of GDP)

	2007	2008	2009	2009 per capita in USD
Albania	6.1	7.5	8.1	209.1
Bosnia and Herzegovina	13.6	5.0	1.4	97.8
Croatia	8.4	8.7	4.7	481.1
Kosovo	..	9.0	7.5	157.8
The former Yugoslav Republic of Macedonia	8.8	6.2	2.7	70.7
Montenegro	25.3	19.9	32.0	1705.7
Serbia	8.8	6.1	4.5	187.8

Source World Bank, National Statistics offices and own calculation.

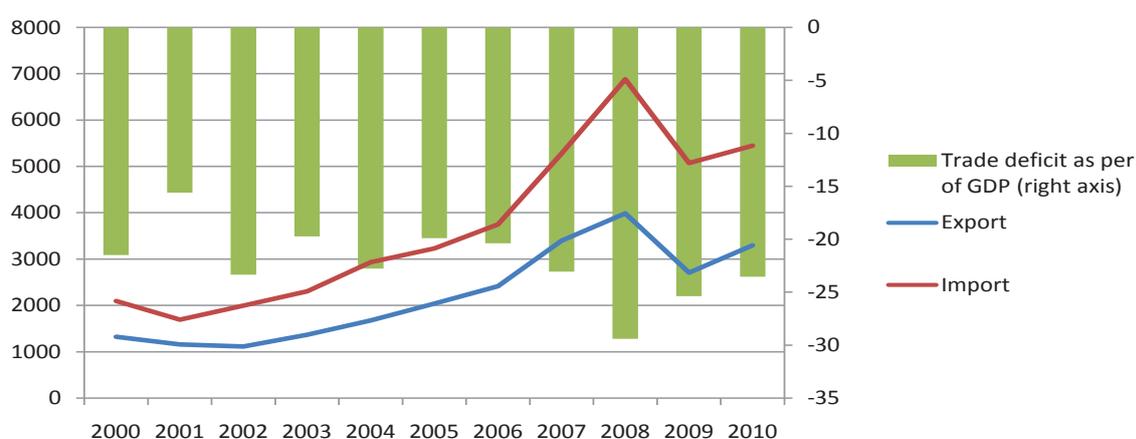
The largest stocks of FDI in the former Yugoslav Republic of Macedonia are held by investors from the Netherlands (17%), Greece (13%) and Slovenia (12%)<sup>5</sup>, with virtually all significant investors currently in the country coming from the EU or Balkan region. Between 2003 and 2008 (last year with data availability) most FDI inflows went into Electricity, Gas and Water (29%), Manufacturing (25%) and the Financial Sector (15%). Hotels and Restaurants only received 2% of total FDI inflows over this period.<sup>6</sup>

After a period of sluggish economic growth, GDP picked up in 2011-Q1, with an increase of 5.1 per cent quarter-on-quarter, mainly driven by high growth in construction (21.2 per cent) and industry (13.7 per cent). The main drivers of growth on the expenditure side were investment and exports which grew by 60 per cent and 35 per cent quarter-on-quarter, respectively.

## 2.2. Trade Developments

As a small economy, the former Yugoslav Republic of Macedonia is inevitably focussed on international trade. Trade openness (defined as (imports + exports)/GDP) increased over most of the decade and reached 110% in 2008, but contracted during the global economic crisis of 2008/9 and reached 96% in 2010.

Figure 3: Exports, Imports (mln. US\$) and Trade Balance (% GDP)



Source: National Bank of Republic of Macedonia, [www.nbrm.mk](http://www.nbrm.mk).

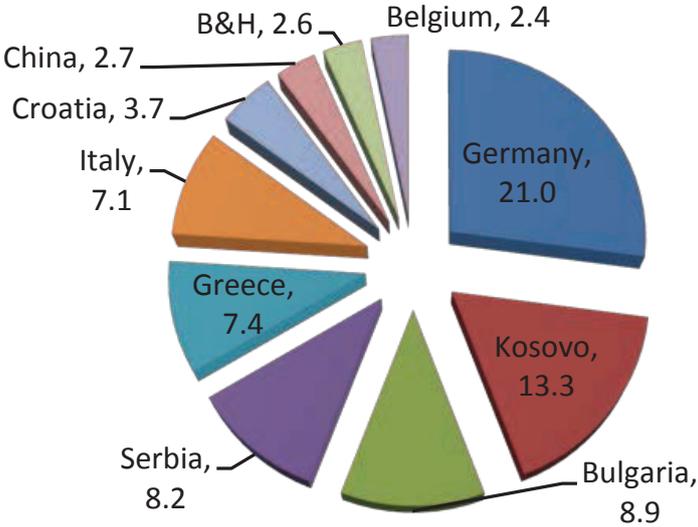
<sup>5</sup> Data source: National Bank of Republic of Macedonia.

<sup>6</sup> Data source National Bank of Republic of Macedonia.

Exports peaked in 2008, when they reached 4bil.US\$ (Figure 3). Increased exports reflected intensified domestic production in 2007 and 2008, improved terms of trade, and new exports under new FDI projects. At the same time however, imports increased even faster due mainly to the FDI-related importation of capital equipment, together with high consumer demand and confidence. Hence, the trade balance and current account deficit in 2008 widened to 29 per cent of GDP and 16.6 per cent of GDP respectively. As global demand recovered, exports rebounded with a 23.4% increase, while imports grew by 10.9%. This improved performance was mainly attributable to an unexpectedly sharp increase in world trade volume of 14.5% in 2010. As the crisis led to a steeper decline in imports than in exports, the trade balance and current account deficit in 2010 declined to 23.5 per cent and 2.9 per cent of GDP respectively.

Figure 4 shows the geographical distribution of exports in 2010. The largest share of products were exported to Germany (21 per cent), followed by Kosovo (13.3 per cent), Bulgaria (8.9 per cent) and Serbia (8.2 per cent). With the exception of China, all other top 10 trading partners are in the EU or Balkan region, illustrating the high share of regional concentration exports, with about 60 per cent of the exports of the former Yugoslav Republic of Macedonia directed towards the EU and 30 per cent towards Western Balkan countries.

Figure 4: Exports by Country, Share of Total Exports in 2010

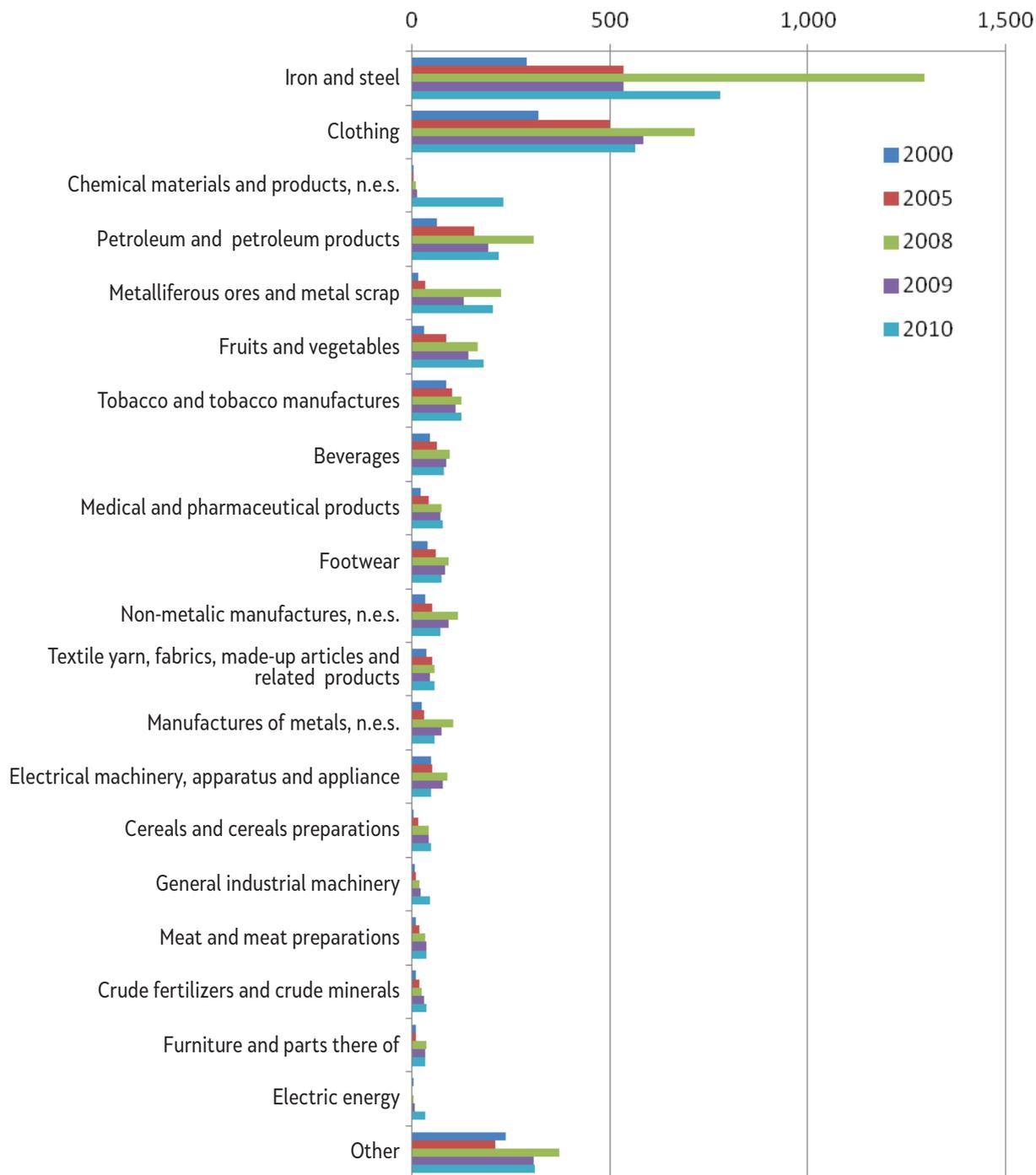


Source: National Bank of Republic of Macedonia, [www.nbrm.mk](http://www.nbrm.mk).

Figure 5 shows the top 20 export categories and their development since 2000. The major export from the former Yugoslav Republic of Macedonia in 2010 was iron and steel which, together with the related category Metalliferous Ores and Metal Scrap, accounted for 30% of total exports. The data clearly shows the very strong growth prior to the global economic crisis of 2008/9, which to a large extent was driven by soaring world market prices. It also shows the subsequent decline in 2009. 2010 only saw a partial recovery, and the current export value remains significantly below its 2008 peak. The Clothing industry, accounting for 17% of total exports, was also affected by the global economic crisis. The decline in 2009, while less dramatic than for Iron and Steel, seems to have persisted in 2010. Exports in the Chemical Materials and Products sector went from almost zero to 230 million US\$ in 2010. Unfortunately, official trade statistics do not provide detailed information for certain export products considered *confidential*, and it is not possible to evaluate more closely what is behind this surge.

Apart from these large export sectors, substantial contributions to overall export growth since 2000 came from a number of smaller sectors, including Fruits and Vegetables, Medical and Pharmaceutical Products, Cereals and Cereal Preparations, General Industrial Machinery, and Furniture. Figure 5 also shows that while most export sectors suffered a decline in 2009, some were much quicker to recover than others in 2010.

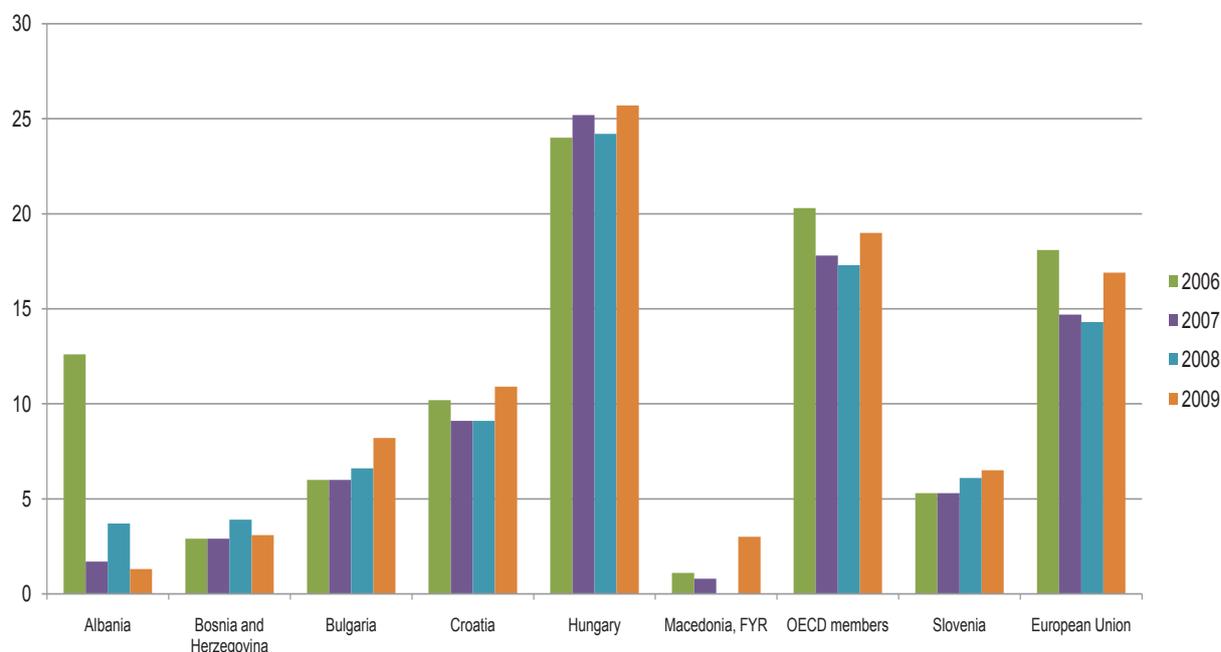
Figure 5: Structure and Development of Exports (mln. US\$), 2000-2010



Source: National Bank of Republic of Macedonia

Low-value added, unskilled labour and natural resource-intensive goods dominate exports (Ministry of Economy, 2010). 45 per cent of exports in 2010, classified by economic use, were in the category of raw materials. In addition, Figure 6 shows that the former Yugoslav Republic of Macedonia has a very small share of high-technology exports compared to its regional peer countries.

Figure 6: High-Technology Exports (% of manufactured exports), 2006-2009



Source: World Bank

An overreliance on both world market prices for metals and on price competitiveness makes the country's exports vulnerable to competition. Hence, enhancing value added of exports and accelerating the diversification of the export structure are among the desired goals of the recently prepared Export Promotion Strategy, which currently awaits government approval. *Inter alia*, the Strategy recommends diversification of exports by increasing foreign returns from the tourism sector.<sup>7</sup>

The predominance of low-value added products in total exports reflects very low domestic spending on R&D, at 0.22 per cent of GDP in 2008, compared to the EU average of 1.92 and the 3 per cent target of Europe 2020. Of the total expenditures on R&D, just over 20 per cent represents business-financed R&D. In 2011, the government prepared the first draft Strategy for Scientific-Research and Development Activity 2011-2020, which is currently undergoing a consultation process.

A significant body of research and literature indicates higher income vulnerability to external shocks in the case where there is higher commodity and/or geographical concentration of exports (Malik and Temple, 2006; Haddad et al., 2009; Hamid, 2010; ILO, 2010). Moreover, Malik and Temple (2006) argue that landlocked countries like the former Yugoslav Republic of Macedonia are more likely to experience concentrated exports, which makes them vulnerable to external economic shocks. The former Yugoslav Republic of Macedonia had a Herfindahl index of export product concentration above 0.22 in the whole period from 1998 to 2008, which put in in the upper segment of the category "moderate export concentration"<sup>8</sup>. The Herfindahl index

<sup>7</sup> A draft version of the Strategy can be found on <http://www.economy.gov.mk/Uploads/files/%D1%81%D1%82%D1%80%D0%B0%D1%82%D0%B5%D0%B3%D0%B8%D0%B8/Export%20Strategy.pdf>.

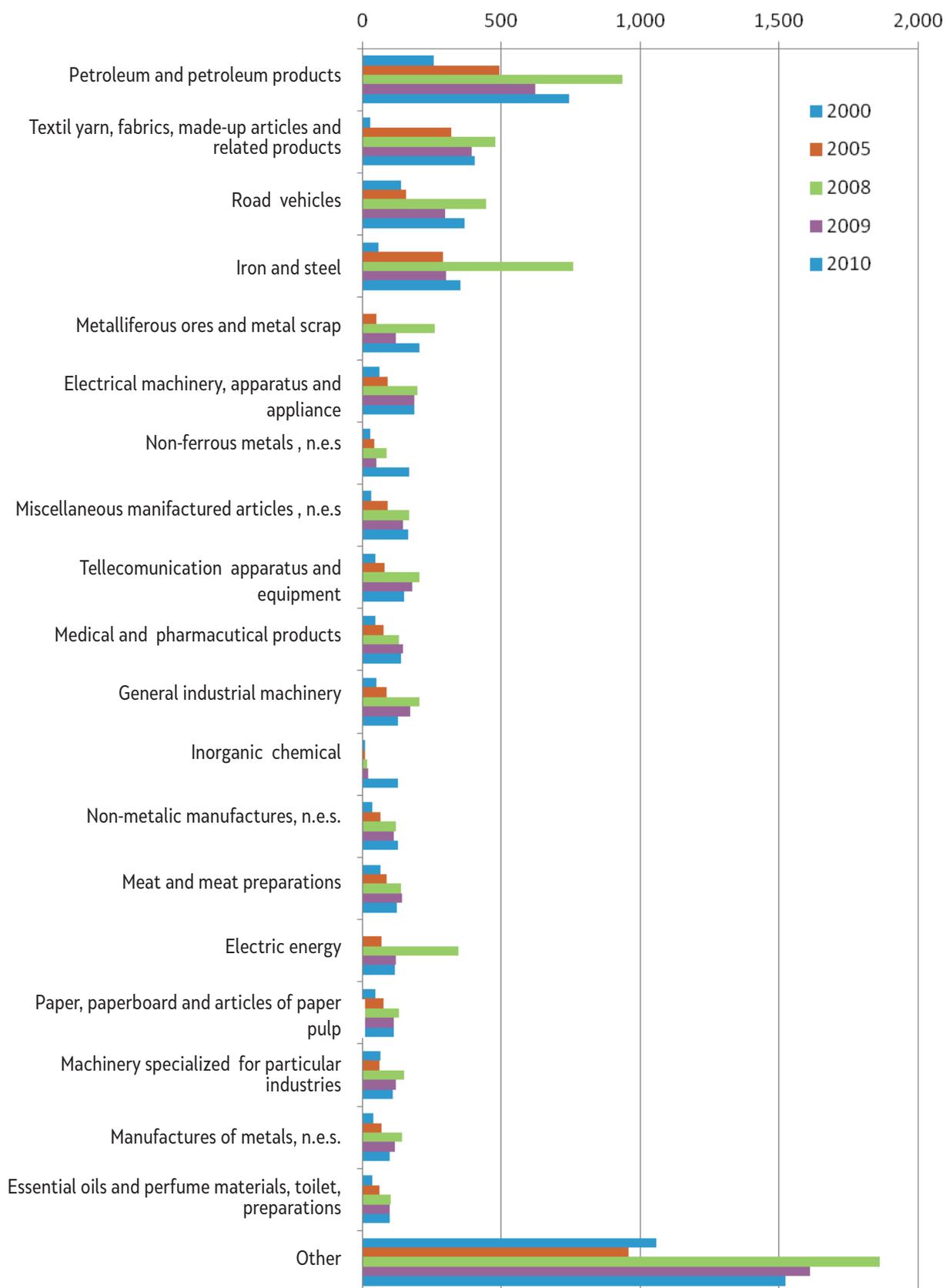
<sup>8</sup> A Herfindahl index between 0.15 to 0.25 (or 1,500 to 2,500) indicates moderate concentration, below 0.15-non-concentrated export, and above 0.25-concentrated export.

declined to 0.18 in 2009 and 2010, driven partly by the decline in traditional exports of *Iron and Steel*. On the other hand, the Herfindahl index of geographical concentration shows a rather high concentration of the country's exports. This can be expected given the high share of exports directed towards EU and Western Balkan countries. The concentration slightly decreased in 2009 and 2010, when the Herfindahl index equalled 0.47 in 2010 from 0.51 in 2007. Still, such a high geographical concentration makes national income from exports vulnerable to external shocks, especially to the EU demand.

While there is some room for greater diversification of exports by product, there is a greater need to expand exports to new countries or regions in order to ease income volatility. In addition, and significantly, the country's export achievements are dependent on the performance of foreign-owned companies which contribute about two-thirds of total exports (Ministry of Economy, 2010).

Figure 7 shows a breakdown of imports across the top 20 categories. Not unusually, imports are much more dispersed across sectors than exports, so a large share falls into categories other than the top 20. The main import categories are *Petroleum and Petroleum Products*, *Textiles*, *Road Vehicles*, and *Iron and Steel*. The declines in *Petroleum* and *Iron and Steel* imports in 2009 to a large extent reflect declines in world market prices during the crisis. It is interesting to note that the former Yugoslav Republic of Macedonia is engaged in rather substantial intra-industry trade for *Iron and Steel*, which ranks high as both an import and an export product. High imports of *Textiles* demonstrate the strong linkages between the import of intermediate goods and exporting in the clothing sector (which also suggests that domestic value addition per unit of output in this sector is relatively low as several inputs are being imported). With the exception of *Meat and Meat Preparations*, no food related sectors are among the top 20 importing categories. Trading partners on the import side are similar to destinations of exports, with the exception that Russia (10%) and Turkey (5%) rank among the top trading partners for imports, but only receive a very small share of the country's exports.

Figure 7: Structure and Development of Imports (mln. US\$), 2000-2010



Source: National Bank of Republic of Macedonia

## 2.3. Employment and Wages

The labour market is characterised by high and persistent unemployment. It reached 32.0 per cent in 2010, while employment rates remained low at 38.7 per cent, and participation rates at 56.9 per cent. Labour Force Survey (LFS) data show that in 2010-Q4 there were about 660,000 employees in the former Yugoslav Republic of Macedonia. This figure is 50 per cent higher than employment data from the annual State Statistical Office report on employees and net wages (hereafter called, administrative source<sup>9</sup>). Table 3 shows employment by sectors by these two sources, though the methodology behind them is different and hence the data are not fully comparable. The striking difference in employment can be seen in agriculture which is probably due to high levels of informal employment and seasonal work, as well as unpaid work. Given that LFS data by employment sector are published on a more aggregated level, we have to rely on administrative data to assess employment in the two sectors of our interest, Manufacturing of Food and Beverages and Hotels and Restaurants. However, we would like to point out that in the sector Hotels and Restaurants, LFS employment is 61.3 per cent higher than administrative employment, which can at least be partly explained by informal jobs. We expand this discussion in section 5.2. We cannot assess the extent of informal employment in Manufacturing of Food and Beverages since there are no data for this sub-sector in LFS, but we can use as a proxy the difference of 25.6 per cent for the whole manufacturing sector.

Table 3: Employment by Sectors, LFS and Administrative Source, 2010

	2000 (admin.)	2010 (admin.)	2010-Q4 (LFS)	Change 2010/2000	Difference LFS and admin. (in per cent)	Structure 2010 (in %)
Agriculture, hunting and forestry	15.579	12.989	126.928	-16,6	877,2	3,0
Fishing	389	110	67	-71,7	-39,1	0,0
Minerals and stone mining	6.595	3.702	4.389	-43,9	18,6	0,9
Manufacturing	107.936	102.474	128.727	-5,1	25,6	23,5
<b>Of which: Manufacturing of food and beverages</b>	12.423	<b>13.369</b>	<b>n.a.</b>	7,6	<b>n.a.</b>	<b>3,1</b>
Electricity, gas and water supply	14.240	13.342	15.542	-6,3	16,5	3,1
Construction	27.658	22.850	40.366	-17,4	76,7	5,2
Wholesale and retail and for households	18.896	78.230	104.824	314,0	34,0	18,0
Hotels and restaurants	6.515	<b>13.371</b>	<b>21.573</b>	105,2	<b>61,3</b>	<b>3,1</b>
Transport, storage and communication	19.744	26.580	34.930	34,6	31,4	6,1
Financial intermediation	5.651	8.405	10.333	48,7	22,9	1,9
Real estate and renting	6.952	26.628	21.038	283,0	-21,0	6,1
Public administration and defense, compulsory social Security	14.333	42.478	45.915	196,4	8,1	9,8
Education	28.689	35.169	39.914	22,6	13,5	8,1
Health and social work	29.508	32.122	36.283	8,9	13,0	7,4
Other activities of communal, cultural, general and personal services	9.031	17.074	26.369	89,1	54,4	3,9
Private households	n.a.	n.a.	1.766	-	n.a.	n.a.
Exterritorial organisations and bodies	n.a.	n.a.	592	-	n.a.	n.a.
<b>Total</b>	<b>418.192</b>	<b>435.524</b>	<b>659.556</b>	<b>4,1</b>	<b>51,4</b>	<b>100,0</b>

Note: From 2004, the bi-annual publication of Employees and Net Wages became an annual publication. In addition, employees of the Ministry of Defence and Ministry of Internal Affairs were added. Hence, data between 2000 and 2010 are not fully comparable.

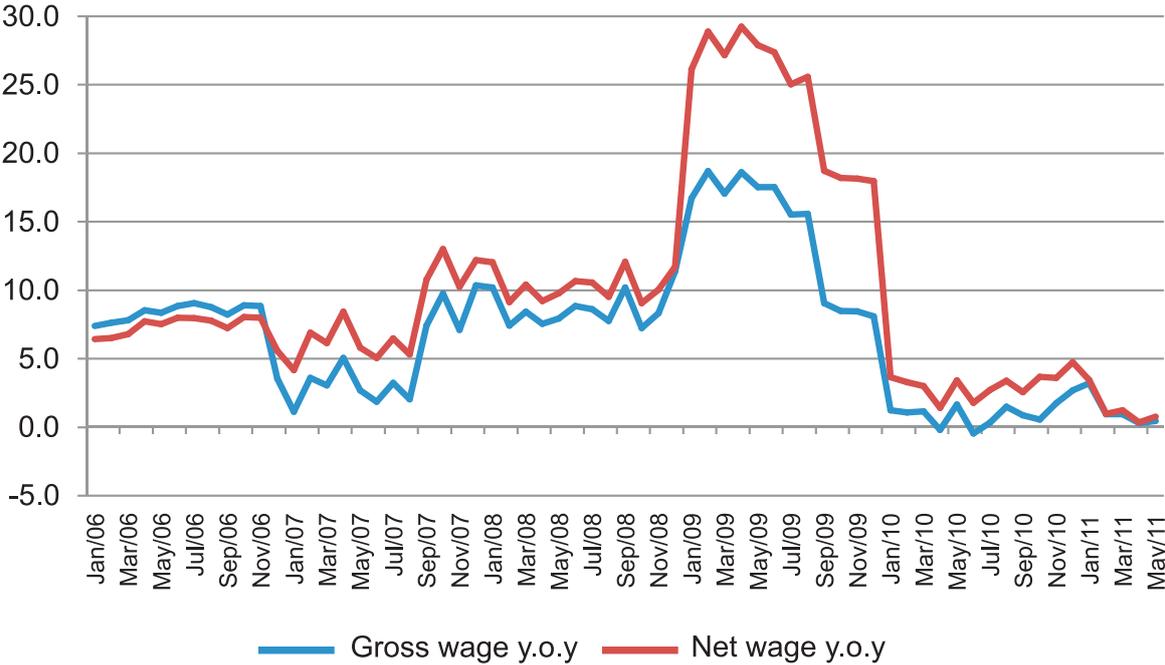
Source: State Statistical Office, "Employees and Net Wages 2010" and "Labour Force Survey, 2010-Q4".

<sup>9</sup> Data from administrative sources are from an annual enterprise survey called Employees and NetWages, and are stock data in October, each year. In 2010, for instance, the survey was conducted on 7,856 business units with a response rate of 75 per cent. Data are afterwards weighted.

The structure of employment in 2010 shows that employment in both Manufacturing of Food and Beverages and in Hotels and Restaurants each accounted for 3.1 per cent of total employment. Between 2000 and 2010, total employment increased by only 4.1 per cent, whereas employment in Manufacturing of Food and Beverages increased by 7.6 per cent, and that in Hotels and Restaurants more than doubled.

The average gross wage at the end of 2010 was 31.435 MKD (677 US\$), whereas the average net wage was 21.454 MKD (462 US\$). The spike in wage growth in January 2009 (see Figure 8) was due to the implementation of the so-called ‘gross wage reform’ that, inter alia, incorporated previously non-taxed travel and food allowances into the wage. Given that the reform reduced the tax wedge (through lower social contributions rates), part of the “saved” taxes were used to increase the net wage. Hence, the growth of the net wage outpaced the gross wage growth.

Figure 8: Gross and Net Wage Developments, January 2006-May 2011



Source: State Statistical Office, various years.

The effect of high unemployment on workers’ incentives to acquire or upgrade their skills is ambiguous. While greater competition between workers for scarce jobs may motivate workers to acquire greater (and better) skills, the overall dissatisfaction and discouragement from the low probability of finding a job might dampen the motivation for education. Still, some studies show that education pays off in the former Yugoslav Republic of Macedonia, that is to say workers with higher education are more likely to find a job and to receive a wage premium (Mojsoska-Blazevski, 2005).

In recent years, an increase in subsidies to attend public higher education institutions and a reduction in costs for studying has led to increasing enrolments and graduation from tertiary education (see section 3). In just 4 years, from 2005/06 to 2008/09, the number of students that graduated per year rose by 74 per cent. Moreover the number of students that achieved Masters’ degrees increased by 109 per cent, and PhD’s by 40 per cent. In the academic year 2009/10, there were slightly less than 60,000 tertiary students in all higher education institutions. This represents an increase of 22 per cent over numbers in 2005/06 (56 per cent compared to 2000/01). Despite this trend, the share of 30-34 years-olds with completed tertiary education is well below the EU-27 average (see section 3). In addition, the unemployment rate of tertiary educated workers increased between 2005 and 2010, from 20.4 per cent to 21.8 per cent, in lieu of declining overall unemployment, which indicates the economy’s inability to generate skilled jobs.

## 2.4. Trade Environment and Institutions

The former Yugoslav Republic of Macedonia has eased its import restrictions over the past decade. Between 2004 and 2010, the simple average MFN tariff declined from 9.2 to 6.7%. However, most trade takes place with preferential trading partners, which leads to a much lower average tariff rate of 3.6% once preferences are taken into account.<sup>10</sup> At the same time, the country's access to overseas markets improved with the trade weighted average tariff that exporters faced declining from 5.0% to 0.9% between the periods 2000/04 and 2009/10.<sup>11</sup>

The country has so far signed two preferential regional trade agreements: i) the Stabilisation and Association Agreement (SAA) with the EU in 2001 (entry into force in 2004), establishing political and economic conditionality for the development of bilateral relations with Western Balkan countries, and ii) the CEFTA-2006 agreement with the SEE countries.<sup>12</sup> The SAA improved the existing autonomous trade preferences for the Western Balkan countries, and provided autonomous trade liberalisation for 95% of all their exports to the EU. Hence the exports of the former Yugoslav Republic of Macedonia to the EU are without quantitative restrictions or measures having equivalent effect and are exempt from customs duties and charges having equivalent effect. The exemption from these general conditions applies to a limited number of products such as baby beef, wine and fishery products. On the other hand, the country accepted a complete abolition of quantitative restrictions and gradual reduction of its custom duties over a (maximum) period of 10 years, for industrial products, textile, steel, agriculture and processed agricultural products from the EU.

The CEFTA-2006 is a comprehensive free trade agreement (FTA) between SEE countries signed in 2001 and implemented in April 2004. It provides fully liberalised trade in manufactured goods and largely free trade in agricultural goods. The Agreement augmented some 32 earlier bilateral FTAs between SEE countries. The effect of the CEFTA in terms of exports of the former Yugoslav Republic of Macedonia to other CEFTA members is ambiguous. Though in the years after 2007, the country's exports to the other CEFTA-2006 countries increased more than overall trade, this might be an effect of the recession in the EU economies. Indeed, Mojsoska-Blazevski and Petreski (2011) concluded that CEFTA-2006 did not lead to significant gains in intra-regional trade which could be attributed to increased significance of non-tariff barriers. Similarly, Handziskiet al. (2010) argue that the use of technical, sanitary and phytosanitary measures for constraining trade increased in lieu of eliminated tariffs and quotas. While there are arguments for promoting regional trade, some authors (for example, Tantisantiwong, 2010) argue that intra-regional trade integration does not reduce export and income volatility. As a consequence, countries should consider targeting export diversification globally rather than greater regional integration, in order to ease external vulnerability. However, as we argued in section 2.2, exports suffer from a relatively high geographical concentration of exports.

The remaining tariff structure varies substantially across sectors. The highest levels of protection are found for *Footwear, Headgear*, and a number of similar articles (MFN<sup>13</sup> tariff 22.8%) as well as for *Prepared Food, Beverages, and Tobacco* (MFN tariff 21.3%). A number of other industries related to food are also highly protected, including *Vegetable Products* (16.0%) and *Live Animals and Animal Products* (11.7%). These food related industries are also the only parts of the economy that still enjoy substantial levels of protection against imports from the EU under the phased implementation of the SAA.

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<sup>10</sup> TRAINS database

<sup>11</sup> World Bank, Trade at a Glance for Macedonia

<sup>12</sup> Members of CEFTA-2006 are Albania, Kosovo, the former Yugoslav Republic of Macedonia, Montenegro, Moldova, Croatia, Serbia and Bosnia and Herzegovina. Bulgaria and Romania, that were signatory parties to the CEFTA agreement, left when they joined the EU in 2007, 1 January.

<sup>13</sup> The Most Favoured Nation (MFN) tariff is the tariff rate WTO members such as FYR Macedonia apply to imports from all WTO members except for those with which they have preferential trade agreements.

Table 4: Tariff structure (2011)

Product description	MFN	CEFTA	EU
Footwear, headgear, umbrellas, sun umbrellas, walking-sticks, seat-sticks, whips, riding-crops and parts thereof; prepared feathers and articles made therewith; artificial flowers; articles of human hair	22.81%	0.00%	0.00%
Prepared foodstuffs; beverages, spirits and vinegar; tobacco and manufactured tobacco substitutes	21.35%	2.70%	14.54%
Arms and ammunition; parts and accessories thereof	16.35%	0.00%	0.00%
Vegetable products	16.01%	2.09%	12.76%
Textiles and textile articles	13.59%	0.00%	0.00%
Raw hides and skins, leather, furskins and articles thereof; saddlery and harness; travel goods, handbags and similar containers; articles of animal gut (other than silkworm gut)	13.50%	0.00%	0.00%
Articles of stone, plaster, cement, asbestos, mica or similar materials; ceramic products; glass and glassware	11.89%	0.00%	0.00%
Live animals; animal products	11.72%	2.41%	6.57%
Natural or cultured pearls, precious or semi-precious stones, precious metals, metals clad with precious metal, and articles thereof; imitation jewellery; coin	11.43%	0.00%	0.00%
Miscellaneous manufactured articles	7.19%	0.00%	0.00%
Works of art, collectors' pieces and antiques	7.00%	0.00%	0.00%
Mineral products	6.33%	0.00%	0.00%
Vehicles, aircraft, vessels and associated transport equipment	5.78%	0.00%	0.00%
Animal or vegetable fats and oils and their cleavage products, prepared edible fats; animal or vegetable waxes	4.24%	0.69%	3.27%
Plastics and articles thereof; rubber and articles thereof	4.09%	0.00%	0.00%
Machinery and mechanical appliances; electrical equipment; parts thereof; sound recorders and reproducers, television image and sound recorders and reproducers, and parts and accessories of such articles	3.29%	0.00%	0.00%
Base metals and articles of base metal	3.21%	0.00%	0.00%
Products of the chemical or allied industries	2.55%	0.00%	0.00%
Wood and articles of wood; wood charcoal; cork and articles of cork; manufactures of straw, of esparto or of other plaiting materials; basketware and wickerwork	2.02%	0.00%	0.00%
Pulp of wood or of other fibrous cellulosic material; recovered (waste and scrap) paper or paperboard; paper and paperboard and articles thereof	1.92%	0.00%	0.00%
Optical, photographic, cinematographic, measuring, checking, precision, medical or surgical instruments and apparatus; clocks and watches; musical instruments; parts and accessories thereof	1.52%	0.00%	0.00%

Source: ITC Market Access Map.

The institution responsible for international trade, including exports, and for the design and implementation of policies for enhancing competitiveness is the Ministry of Economy, with some coordinating activities performed by the Deputy Prime-Minister for Economic Affairs. Recently, the Agency for Foreign Investments (known as Invest Macedonia) that was renamed to Agency for Foreign Investments and Export Promotion (Official Gazette No. 57/2010) began to develop its capacity as a focal point for export promotion, in addition to its role in attracting and assisting foreign investors.

The system of international trade in the country was improved in 2009 when a one-stop-shop system was launched for registering trade flows electronically. The system is designed to provide online licenses for exports, imports and goods transit upon requests from companies, thus simplifying procedures and costs. Since the launch of the system, 78.5% of all applications (56,781 out of 72,354) have been processed electronically ([www.exim.gov.mk](http://www.exim.gov.mk)). However, international comparisons presented in section 2.5 show that exporting and importing in the former Yugoslav Republic of Macedonia remains relatively expensive.

## 2.5. Enabling Legal and Regulatory Environment

The enabling legal and regulatory environment, security of property rights, competition and access to finance and political stability are very important factors for starting or expanding a business, including for increasing diversification of the production in an economy (Klapper et al., 2008; ILO, 2010).

The former Yugoslav Republic of Macedonia has improved its regulatory environment for businesses in recent times, as assessed by the World Bank's Doing Business Report. The reforms implemented in the country from 2006 onwards saw the country twice recognised among the top 10 business reformers; (ranked 4th place for 2006/07 reforms, and 3rd place in the ranking for the period 2008/09). During the period of the recession, the government proceeded with reforms but at a slower pace. This saw the country's ranking downgraded from 36th place (out of 183 economies) in 2009 to 38th place in 2010.

The country had a very good rating in 2010 in start-up of a business (being ranked 5th in the world), and in paying taxes. On the other hand, its ranking is poor for construction permit processing, being ranked at 136th place, because of the high cost of obtaining a construction permit. In terms of closing a business, the ranking is 116th place, for the low recovery rate and high cost. This poor performance in closing a business means that there are a large number of inactive enterprises in the country. The 5-year reform change score of Doing Business 2011 ranks the former Yugoslav Republic of Macedonia at 11th place.<sup>14</sup>

Positive initiatives which have meant a reduction in both the cost and time it takes to start a business, have led to an increase in the number of firms entering the market. The entry density increased from 5.66 in 2006 to 6.80 in 2008, though it drifted back to the 2006-level during the 2009-recession (<http://econ.worldbank.org/WBSITE>).<sup>15</sup> The country is the leader in the region in the business entry indicator.

In the specific indicator *Trading Across Borders* of the Doing Business Report, the former Yugoslav Republic of Macedonia was ranked at 66<sup>th</sup> position in 2010.

Table 5 shows comparative data between the former Yugoslav Republic of Macedonia and certain peer countries on the sub-indicators of trading. The former Yugoslav Republic of Macedonia is a relatively good performer, except for the cost to export and import, especially if the cost is adjusted to take account of living standards in the countries. The best performer among neighbouring countries and EU-12 is Montenegro, ranked at 34<sup>th</sup> place.

<sup>14</sup> The 5-year change score measures the level of change of the regulatory environment for local entrepreneurs for all Doing Business indicators for a five year period, between Doing Business 2006 and 2011. The change score ranged between -0.1 and 0.54, whereas Macedonia had a score of above 0.2. The best ranked are Georgia, Ruanda and Belarus.

<sup>15</sup> The number of newly registered limited liability companies per 1,000 working-age people (those ages 15-64).

Table 5 Trading Across Borders: the former Yugoslav Republic of Macedonia and some Peer Countries

	Documents to export (number)	Time to export (days)	Cost to export (US\$ per container)	Documents to import (number)	Time to import (days)	Cost to import (US\$ per container)
the former Yugoslav Republic of Macedonia	6	12	1376	6	11	1380
Bulgaria	5	23	1551	7	21	1666
Croatia	7	20	1281	8	16	1141
Czech Republic	4	17	1060	7	20	1165
Hungary	5	18	1225	7	17	1215
Montenegro	6	14	775	6	14	890
Slovak Republic	6	17	1530	8	19	1505

Source: World Bank (2011), Doing Business Report.

The EBRD-World Bank Business Environment and Enterprise Performance Survey (BEEPS) asks firms to identify major obstacles to doing business. Since the methodology changed between the 2005 and 2008 wave, cross-time comparisons must be treated with caution. As Table 6 shows, the top 5 obstacles to business in the former Yugoslav Republic of Macedonia have changed over time, but the major issues of courts, corruption, tax rates and access to financing persist. As the economy started to pick up in 2006 and 2007, access to finance became a serious issue for firms, along with the inefficiency of the courts. Since the government has further reduced the tax rates for profit tax and personal income tax in 2008 the importance of tax rates as a constraint to firms' growth can be expected to diminish in the following waves of BEEPS.<sup>16</sup> In addition, access to bank loans in the country has improved considerably given that the credit-to-GDP ratio rose from 18 per cent in 2003, to 35 per cent in 2007 and further to 45 per cent in 2010. However, during the recession, credit growth slowed down to 3.5 per cent and 7.1 per cent in 2009 and 2010, respectively.

Table 6 Top 5 Ranked Issues for Businesses

2002	2005	2008
Macroeconomic instability	Courts	Access to financing
Uncertainty of regulatory policies	Corruption	Courts
Judiciary	Tax rates	Tax rates
Corruption	Access to financing	Corruption
Tax rates	Tax administration	Tax administration

Source: The World Bank Group, BEEPS At-A-Glance, 2002 and 2008, the former Yugoslav Republic of Macedonia.

<sup>16</sup> In 2007, the government introduced a flat tax system from previous progressive taxation, and reduced the tax rates of personal income tax and profit tax to 12%. Rates were further reduced in 2008 to 10%. Moreover, in 2009 the government reduced the social contribution rates. However, data from 2008 BEEPS refer to 2007 and hence further decline of the importance of this obstacle can be expected in the next wave.

In the BEEPS survey, 40% of employers highlighted the unavailability of suitable skills and education as a major obstacle to their businesses in 2005, and the share increased to 47% in the 2008 survey. Employers in other parts of the SEE region, on average, are more likely to find skills and education of workers to be a major constraint to growth than those in the former Yugoslav Republic of Macedonia.

Like the BEEPS findings, the Global Competitiveness Index (GCI) of the World Economic Forum found that the biggest hindrances to doing business in 2009 were: inefficient government bureaucracy, access to finance, political instability, corruption, infrastructure and an inadequately educated workforce. The country has improved its ranking in the GCI which assesses the ability of economies to achieve sustained economic growth and long-term prosperity. The index is very comprehensive and captures the microeconomic and macroeconomic foundations of national competitiveness. In 2008/9, the former Yugoslav Republic of Macedonia was ranked 84<sup>th</sup> among 133 countries worldwide, while in 2009/10 its rank improved to 79<sup>th</sup> place among 139 countries.

On the sub-indices of GCI, the former Yugoslav Republic of Macedonia fares worse (compared to the countries in the region) in the following areas: infrastructure, health, primary education, domestic and foreign market size, business sophistication and innovation. On the other hand, the country scores relatively well in: macroeconomic environment, financial market development and goods market efficiency. Given the importance of infrastructure as a support or impediment to exports, a detailed analysis shows that the air and cargo transport system imposes constraints to firms' activities.

### 3. Human Capital

About 97.4 per cent of the adult population (15+) of the former Yugoslav Republic of Macedonia was literate in 2010 (UNDP, <http://hdr.undp.org>). Although it is increasing steadily the literacy rate in the country is lower than in most neighboring countries, mainly due to lower literacy among the elderly. Furthermore, its citizens have a relatively low expectation of years of education, 12.3 in 2010.

Data from the last census (2002) show that more than half of the population aged 15+ had completed only primary education. The educational structure of the population has probably improved in the past 10 years, given that: i) secondary education was made compulsory from 2008, ii) commuting costs to school, for secondary school students, are now fully covered by the state, iii) branches of state universities and faculties were opened across the country, which improved access to higher education (nationally-called dispersed studies), and iv) costs of studying at state universities were reduced. Such prioritization of education in the country has led to increased spending on education from about 3% of GDP to 4.6% in 2009. In 2010, this level was preserved.

Such government measures should increase the educational attainment of the population, but it does not mean that human capital will improve proportionally if the quality of education is low or declines. Indeed, international programs and measurements show that pupils in fact fare very poorly. For instance, in the Programme for International Student Assessment (PISA), only 0.1% of students from the former Yugoslav Republic of Macedonia reached (the highest) Level 5 in 2002, whereas more than half of the students (63%) did not even attain Level 2. In addition, the share of early school leavers (population aged 18-24 with completed primary education at most) was higher than the EU-27 average by 1.8 percentage points in 2009, overall, and 6 points for females (Mojsoska-Blazevski, 2011). The share of 30-34 years-olds with completed tertiary education (one of the Europe 2020 indicators, which targets a 40% share) is also much lower than in the EU-27 countries, 14.3 per cent in 2009 compared to 32.3 per cent, respectively.

The 4-year vocational secondary education was reformed in four phases over the period 1998-2006. The reforms addressed reduction of the number of profiles, modernisation of curriculums, purchase of equipment

for schools, and training of teachers. Unfortunately, the 3-year vocational education was not reformed and the curricula still dates from the period of ex-Yugoslavia (from 1989).

In 2010, the Centre for Vocational Education, and European Training Foundation (ETF) conducted a collaborative study to assess the effectiveness of the reformed vocational education. The study was mainly conducted through surveys and interviews with all relevant stakeholders: students, teachers, employers, graduated students now employed, those that did not find a job, state institutions, university professors, etc. The study showed that, in general, employers are not satisfied with the skills possessed by students graduating from secondary vocational education. In their opinion, students lack practical and soft skills (team work, leadership, self-initiative, creativity, communication skills). Hence, employers complain that they must themselves face high costs for the initial on-the-job training of workers.

However, the study showed that employers do not have an incentive to cooperate with the schools, though they say that they are willing to help schools develop better study plans, perhaps provide co-mentors for students, provide in-work training for teachers, etc. The lack of incentive for cooperation among employers might be due to a lack of knowledge about the institutional set-up regarding educational policy, and the general dissatisfaction with the vocational education and training system.

Recently, the Centre for Vocational Education has prepared a methodology for the preparation of occupational standards. The next step is the preparation of standards for each occupation that describes the work duties, skills, knowledge, competencies, etc. These standards of occupations would be used for developing curricula for the VET programs. However, the representative from the Centre acknowledged that the process is only advancing slowly, and that there is a lack of coordination among the involved parties (employers, workers' organisations, education institutions, The culture of training and lifelong learning in the country is quite weak. For instance, the share of the population aged 25-64 participating in education and training over the four weeks prior to the LFS is low by international standards, 3.3% in 2008 compared to slightly below 10% for the EU-27.

Unfortunately, the country has yet to put in place a system for skills forecasting, such as projections of occupations that will be in demand in the medium- to long-run, which can be effectively used for designing an appropriate education policy. In the short term, the Employment Service Agency has carried out an employers' survey called a Skill Needs Analysis since 2007. The Skill Needs Analysis has the primary goal of acquiring information from employers about short term recruitments over the past 6-12 months, needs for specific occupations, needs for skills, and occupation shortages. Data are collected through a questionnaire that is sent to a random selection of companies with more than 10 employees divided in eight groups in accordance with the National Classification of Activities. However, the findings (and the purpose) of this survey is not to plan future educational or vocational programs, but to detect short-term occupational shortages and train unemployed in those specific occupations.

In 2009, cooperation was established between the Employment Service Agency and the Vocational Education and Training (VET) Centre which allows for unemployed persons to be trained in the occupations with skill shortages through short courses organized by the secondary vocational schools.

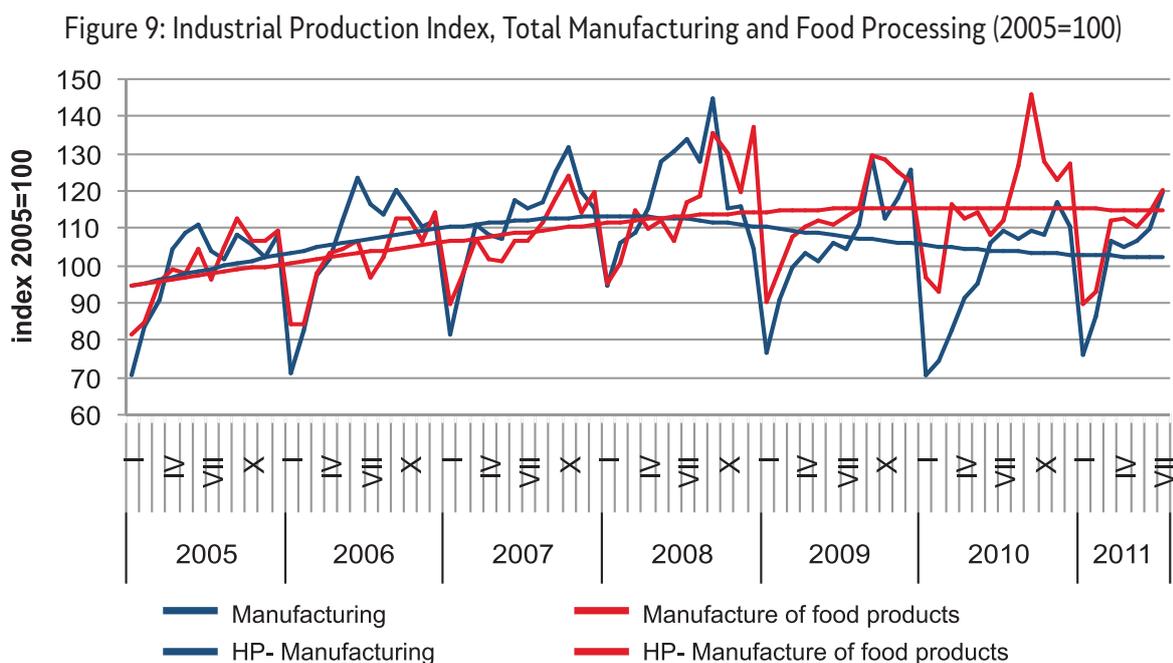
A system of career guidance in schools is also not yet well developed, and this 'service' is left to school psychologists or pedagogues. Career guidance is therefore mainly delivered to pupils and students by the Employment Service Agency and is tied to immediate decisions that must be made at school leaving age. Moreover, employers are not institutionally involved in the creation of education policies and the design of curricula. For instance, there are no representatives from employers' organizations in the Council of the VET Centre in the former Yugoslav Republic of Macedonia.

## 4. Food Industry

### 4.1. Production and Trade

Manufacturing of food and beverages contributed about 11.5 per cent of overall industrial production in 2010, as well as 3.1 per cent of total employment, and 10.3 per cent of the country's exports. The structure of the industry is very diverse, with many branches, and relatively low profitability (Ministry of Economy, 2010). Micro and small enterprises dominate, with only 12 large firms which in 2009 contributed about 42% of total production, 58% of total value added, and 33% of employment. For instance, there is no large company in the *Fruits and Vegetables* sector. In 2010, the Government enacted legislation obliging all food producers to implement the HACCP (Hazard Analysis and Critical Control Point) standard (Official Gazette, No. 145/2010) which, in addition to protecting domestic consumers, might be a factor contributing to increased food exports.

Figure 9 shows monthly data on the index of food production in the period January 2005 to July 2011.<sup>17</sup> Because of the large variability of monthly data, a Hodrick-Prescott filter is applied to present longer term trends in production. For comparison purposes, we also present the index for all manufacturing industries. Manufacturing of food products increased from 2005 to mid-2009, when growth levelled off, most likely affected by the global economic crisis which lowered world demand. Production decreased marginally in November 2010 and has remained at that level since. Manufacturing of food products performed better than overall industrial production.



Note: HP is Hodrick-Prescott filter

Source: State Statistical Office, Monthly Reports.

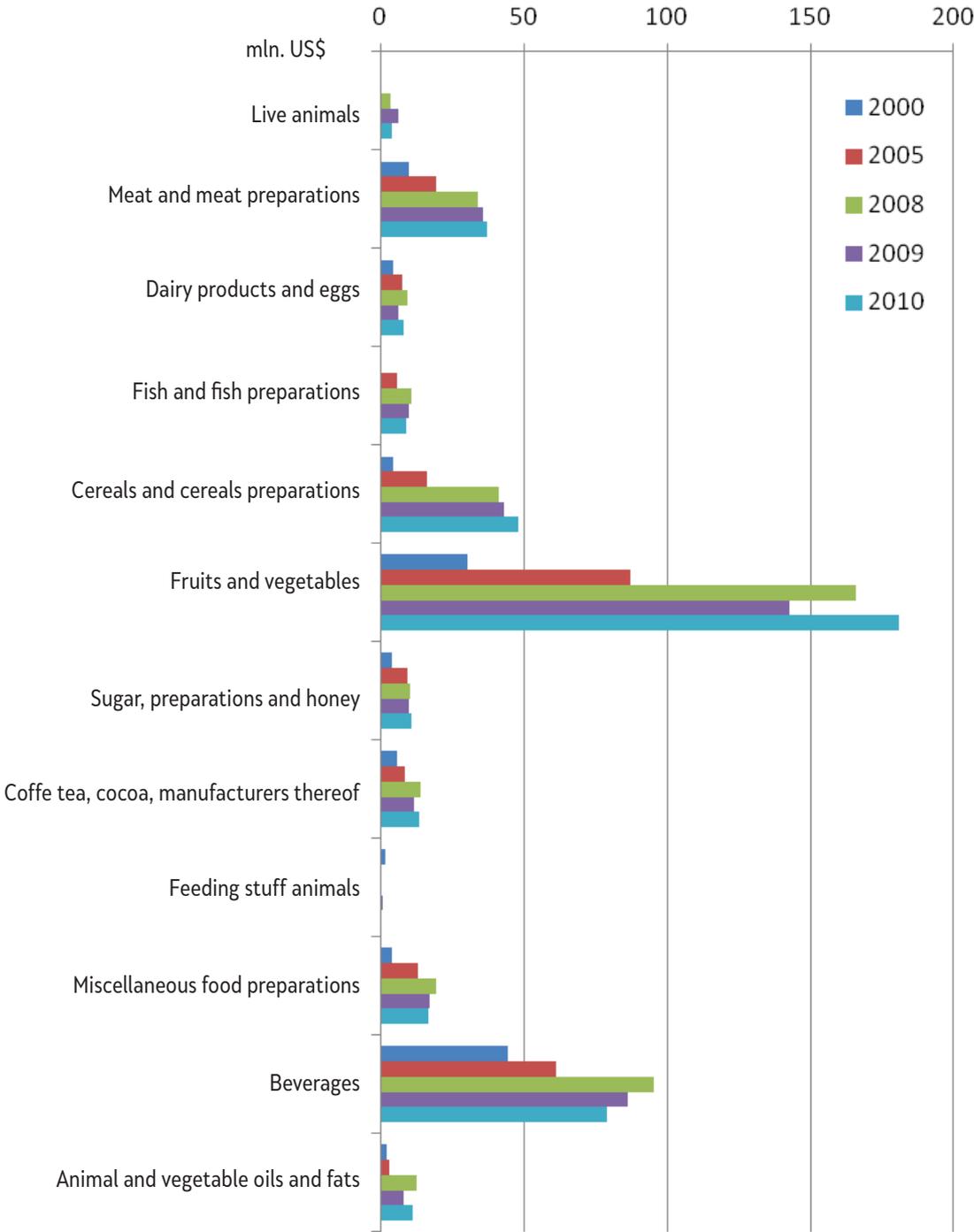
Figure 10 presents data on exports of different categories of food in the period 2000-2010. Total exports of food and beverages in 2010 amounted to 419 mil. US\$, which is a 173 per cent increase relative to 2000. Over the same time, the share of food and beverages in total exports doubled, from 13 per cent to 24 per cent. One reason for this is the fact that trade in food and beverages persisted relatively well through

<sup>17</sup> Starting from January 2011, new National Nomenclature of Industrial Products 2008 is used for data collection and processing, whereas for calculation of the industrial production volume, National Classification of Activities Rev2 is used. To ensure time series of comparable data, the monthly industrial production volume indices from 2005 to 2010 were recalculated according to the new NCA Rev.2.

the global trade shock in 2009 and was quicker to recover than the other major categories of goods. Still, the country remains a net importer of food and beverages: the negative trade balance in 2010 for these products was 224 mil. US\$, and the value of exports covered only 65 per cent of the value of imports.

The major categories of food exports in 2010 were *Fruits and Vegetables*, *Cereals and Cereal Preparations*, as well as *Meat and Meat Preparations*. All three categories have experienced very significant export growth since 2000. *Beverages*, mainly wine and mineral waters, also account for a significant share of total exports, but growth has been less dynamic over the last decade and remained in decline between 2008 and 2010.

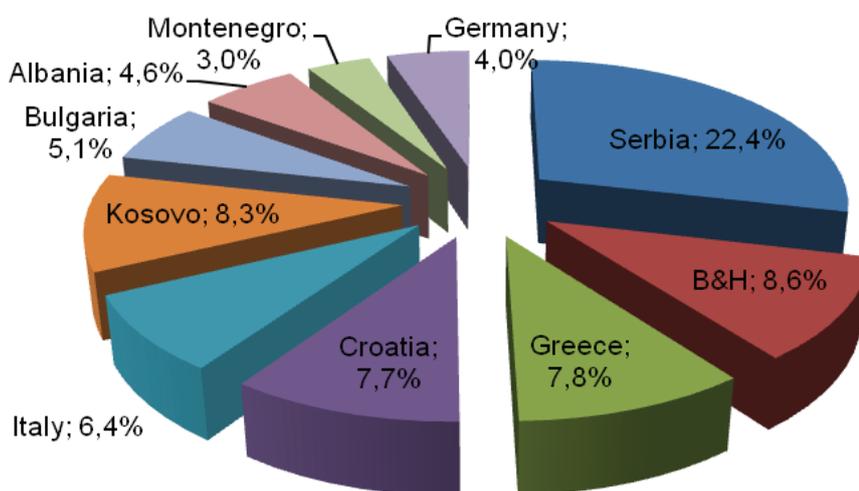
Figure 10: Main Exporting Food Products, 2000-2010



Source: National Bank of Republic of Macedonia.

The top 10 destinations for food exports of the former Yugoslav Republic of Macedonia are shown in Figure 11. The main export destination is Serbia, with a share of 22 per cent, followed by Bosnia and Herzegovina – 8.6 per cent and Kosovo – 8.3 per cent. This food export breakdown by destination is slightly different from the main destinations for our total exports, where the leading destinations are Germany and Kosovo (see Figure 4). The geographical concentration on countries in the Balkan region is even higher for these products than for the overall export portfolio.

Figure 11: Main Food Export Destinations, 2010



Source: State Statistical Office.

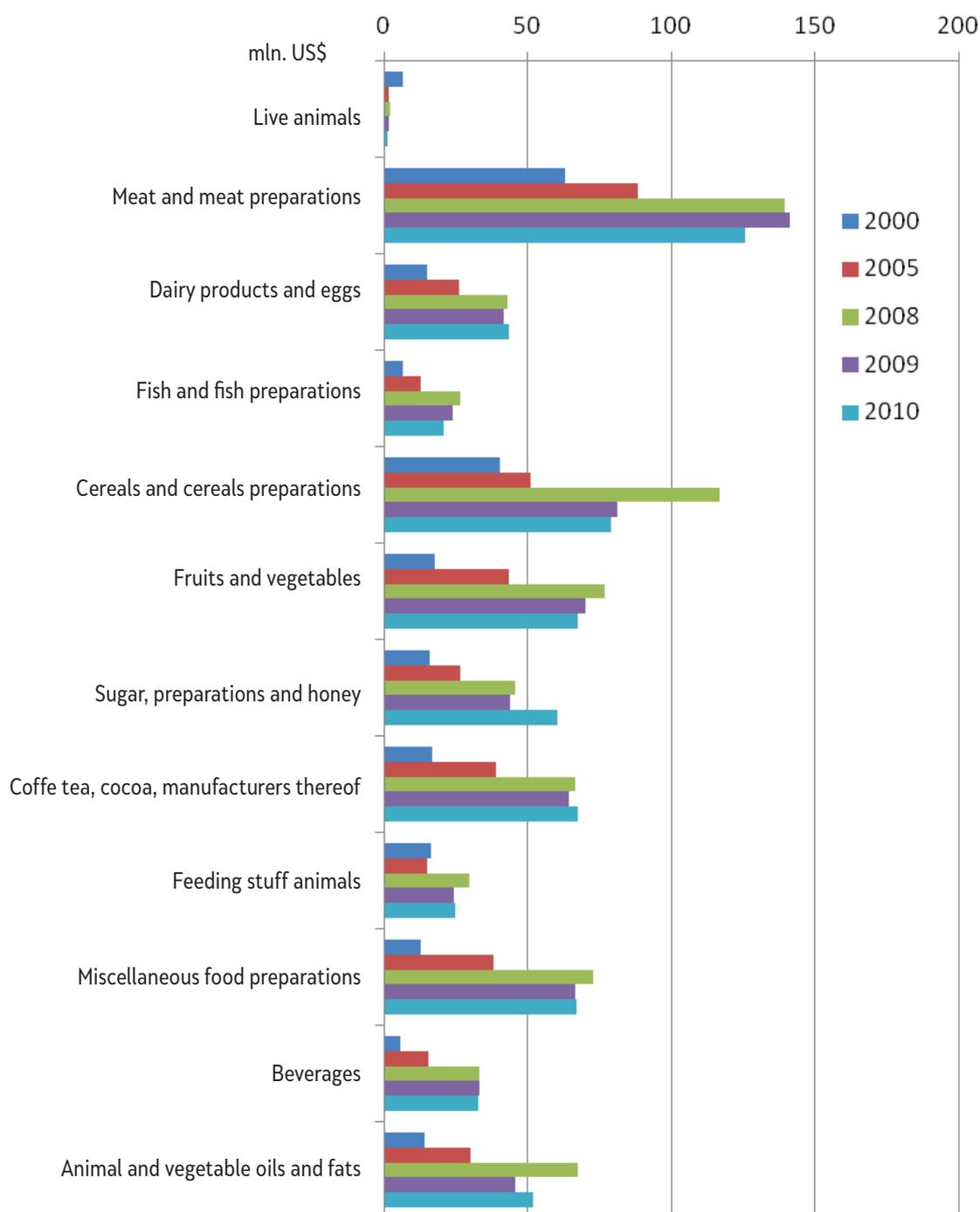
According to USAID (2008), about 90 per cent of food processing involves vegetables rather than fruits. Moreover, the vegetable-processing industry is mainly export-oriented with the main categories being industrial aivar<sup>18</sup> and frozen peppers. Among the main constraints reported by firms in this industry are insufficient domestic supply of raw materials and lack of adequate warehousing (USAID 2008).

Figure 12 shows that, despite high levels of protection (Table 4), imports have grown across all categories since 2000. However they declined in 2009 and have been slower to recover than exports. Main import categories are *Meat and Meat Preparations*, *Cereals and Cereal Preparations*, *Fruits and Vegetables* and *Miscellaneous Food Preparation*. It is interesting to note that three out of the four largest categories are identical between imports and exports. Furthermore, the top trading partners for imports and exports are also largely identical, with the exceptions of Brazil and Turkey, which account for 9 and 5 per cent respectively of the country's imports of food and beverages, but are not significant markets for the export of food products. This demonstrates the heterogeneity of the industry which lumps together a variety of different products.

A more detailed trade analysis at the product level, such as our case study of the sheep meat sector in section 4.2., is therefore desirable for key export products. It also demonstrates that there is substantial room for intra-industry trade within the food industry, which may partially reflect consumers' taste for variety in the food they consume. This also implies that while the former Yugoslav Republic of Macedonia does have a proven comparative advantage in food products, success in this industry is mainly determined at the enterprise level and depends on the ability of companies to produce and deliver high quality products at competitive prices. It also raises the question of whether there is room for companies to position themselves as niche producers, focussed on specific segments of consumers in terms of the type, quality, branding etc. of its products.

<sup>18</sup> National dish made from processed red peppers.

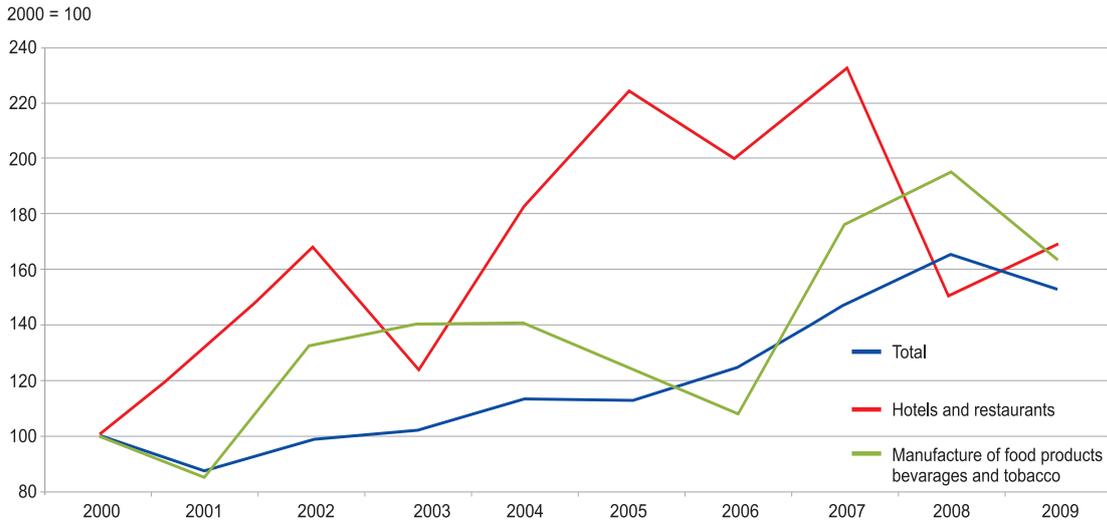
Figure 12: Main Import Food Products, 2000-2010



Source: National Bank of Republic of Macedonia.

Figure 13 shows that investments in *Manufacturing of Food, Beverages and Tobacco* increased considerably, by in fact about 130 per cent between 2000 and 2007, way above the national average. However it declined again in 2008 and 2009. The increase reflected the establishment of new food-processing firms which are mainly micro and small in size. However, focus group discussion showed that in this period (and during the whole transition) some of the large enterprises in this industry were closed or working far below their capacity. Unfortunately, data on capacity utilization in the food industry is not available. Data on investment (constant 2000 prices) show that the majority of investment in the food industry (75% in 2009) was in new machinery and equipment, and the remainder in buildings and structures.

Figure 13: Real Gross Investment, Total and by Sector, 2000-2009

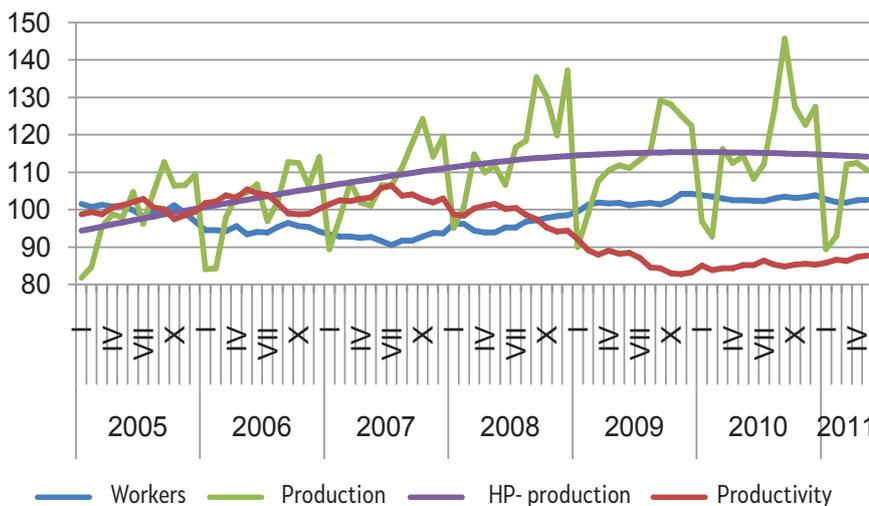


Source: Nominal investment by sector from State Statistical Office, deflated with GDP deflator from World Bank, World Development Indicators

#### 4.2 Employment and Skills

Figure 14 shows comparative developments between food production and its employment levels. Employment in the sector is much less volatile than production. Data highlight diverging trends between employment and production. Between 2005 and mid-2007, increases in production were accompanied by a decline in employment. Subsequently, employment growth was higher (and less volatile) than production. Consequently, while labour productivity in the food manufacturing sector increased between 2005 and mid-2007, it then decreased until the end of 2009. As employment in the sector grew over this period despite falling output, it seems likely that the dip in labour productivity is at least partly a consequence of a shift in the composition of the food processing sector.

Figure 14: Production, Employment and Productivity Index for Food Industry (2005=100)



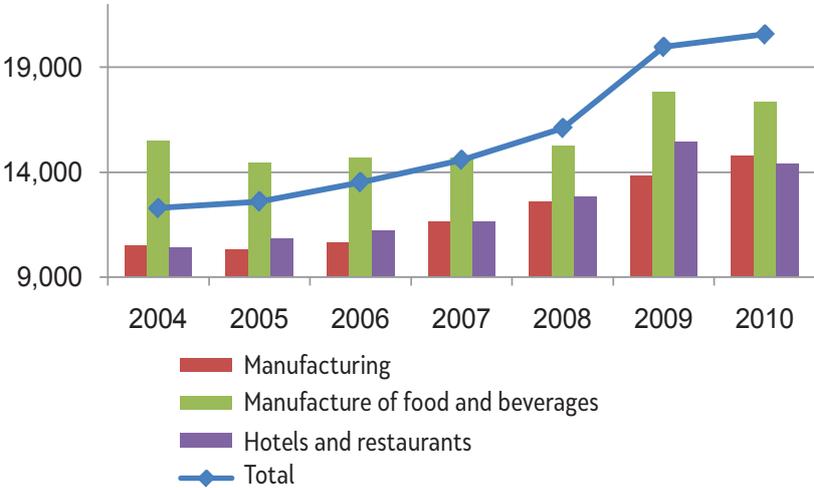
Source: State Statistical Office

When analysing employment trends in the food industry (also, tourism), one has to note the seasonality of production and consequently the issue of seasonal work. This industry uses a large seasonal workforce. However, as highlighted in the focus group discussions, national legislation relating to seasonal work is very rigid and underdeveloped. This creates problems not only for employers in hiring seasonal workers, but also for seasonal workers in terms of social protection. As a consequence, much of the seasonal work is informal employment. The social partners recommend that international practices in the regulation of “stable” seasonal work should be applied in.

While the average net wage in *Manufacturing of Food and Beverages* was above the national average in 2004, it was only 84.5 percent of the national average in 2010 (Figure 15). This relative decline is due to higher growth in the national average wage (by 67.2 percent between 2004 and 2010) than in wages for *Manufacturing of Food and Beverages*, which grew by only 11.8 per cent. At the same time, wages in the *Manufacturing* sector as a whole increased by 40.7 per cent.

Employers from the food-processing industry, in the focus group discussion, argued that the relative decline of wages in *Manufacturing of Food and Beverages* was in part due to a deterioration in the educational and skill structure of employment in this sector. The average wage in *Manufacturing of Food and Beverages* slightly decreased during the recession, contrary to the general wage increase across the economy as a whole that arose from the gross-wage reform (see section 2.3). Focus group discussions with industry stakeholders revealed that stable or declining wages in the food-processing industry in 2009 and 2010 reflected burden-sharing between employers and employees in the context of increasing costs of some raw materials on world and domestic markets (for instance, the price of vegetable fat, milk and milk powder, cocoa, sugar, flour and such.).

Figure 15: Net Wages 2004-2010, in MKD

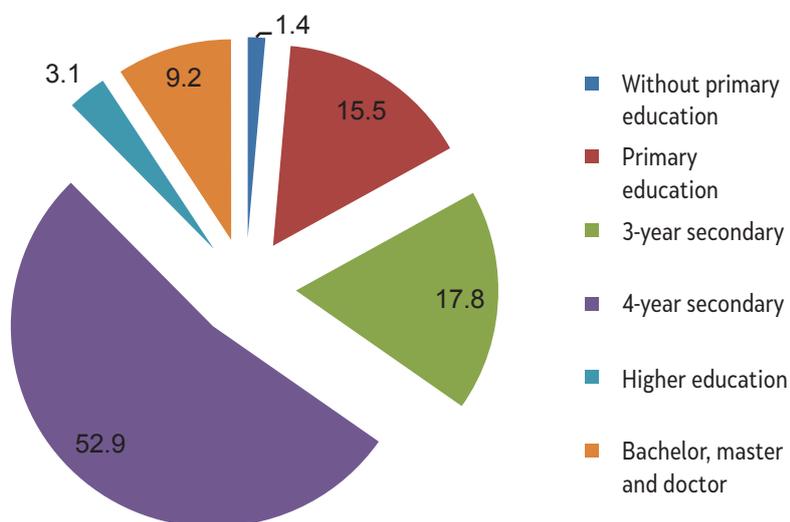


Source: State Statistical Office.

In July 2011, the representative trade union and employers’ organisation for the agriculture and food-processing industry signed an annex to the branch collective agreement which set the lowest wage in the food-processing industry at 8,600 MKD (about 50 per cent of the average wage in the sector in 2010). In addition, the annex increased the maximum complexity coefficient from 3 to 4 (wages are calculated as a multiple of the complexity coefficient for the specific job position and the lowest wage).

Unfortunately, there are no published data on the educational levels of workers in the food processing industry. We use the educational levels of employees in total manufacturing as a proxy and combine them with the findings from the focus group discussions. As Figure 16 shows, more than half of employees (52.9 per cent) in the manufacturing sector have completed 4-year secondary education, and 17.8 per cent have completed 3-year secondary school. Workers with bachelor or higher education account for about 9 per cent of overall employment in manufacturing.

Figure 16: Educational Structure of Employees in Manufacturing, 2010



Source: State Statistical Office, administrative data.

The focus group discussions revealed that there are significant differences in the educational levels or structures of the workforces of companies in the food-processing sector which makes it difficult to assess the “average” educational structure. They noted that larger companies tend to have more educated and qualified staff, whereas the majority of workers in micro and small, family-type businesses have primary or lower education. Larger, more profitable and export-oriented companies, on average, appear to employ more educated and qualified staff and are likely to pay higher wages.

In 2009/10, there were 171 graduates from secondary vocational school in food processing, which was equivalent to about 1.3 per cent of 2010 employment in the food sector. A majority of the graduate students were from the 3-year programs (80 per cent), and 90 per cent were full-time students. There were in total 503 students in food processing vocational schools that is 0.5 per cent of all vocational school students in the country.

The number of students graduating from food processing VET declined by 63 per cent between 1997/98 and 2009/10. Consequently, the share of food processing students among all secondary schools’ graduates decreased from 3.7 per cent to 0.7 per cent. While the number of schools offering food processing vocational education remained the same, at six, the number of classes fell from 41 to 23 between 2006/07 and 2009/10.

However, the focus group discussion revealed that this large decrease in the number of graduates is not seen as a problem by food-producers. Many jobs require only limited training in the specifics of the job, so businesses can easily employ workers from other educational backgrounds who meet the necessary generic skills requirements without a substantial investment in training. Generic skills requirements for operative level jobs in food processing vary, but generally require people who are reliable, capable of complying consistently with food handling and other requirements, and, to an extent that depends on the specific production process, able to communicate well and cooperate with others. Depending on the production

process, significant manual dexterity may be required, and the ability to undertake repetitive work to a consistently high standard is valued. For some of the more demanding operative roles, significant problem solving and technical skills are required.

On the supply side, it seems that low levels of pay are discouraging to students, and this may have led to less interest in vocational education in this sector.

Some universities offer studies related to the food-processing industry. The largest program is offered by the Faculty of Agricultural Sciences and Food, at the state university “St. Cyril and Methodius”-Skopje, where about 152 students graduated in 2010. The Technology-Metallurgy Faculty-Skopje (of the same university) offers two related programs, Alimentary Technology and Biotechnology, with about 40 students graduating per year. At the Faculty of Biotechnological Sciences-Bitola, University St. Kliment Ohridski-Bitola, 20 students graduated in 2010, in Processing of Animal Products and Management in Biotechnological Sciences. Additional programmes were established in recent years, where the first generation of students is about to graduate. In the focus group discussion, employers pointed to insufficient supply of tertiary educated workers from alimentary concentration at least in local labour markets, particularly in the municipality of Resen.

While it has not been feasible to model supply and demand for skills in the food processing industry of the former Yugoslav Republic of Macedonia, comparisons with other countries, such as Ireland, suggest that the flow of university graduates specialising in this industry is of about the right magnitude. Any food industry will recruit some of its graduate level workforce from more general disciplines, such as production engineering, business management or biochemistry, so it will not depend solely on specialist courses. This suggests that the problem in some local labour markets may be resolved by additional study programmes currently coming on-stream. If this fails to resolve the problem it may be more a local issue than a national issue capable of being resolved by simply producing more graduates.

There are no specific courses or non-formal education programs for workers in the food-processing industry, but most of the training takes place on-the-job.

Some employers interviewed in the focus group discussion conducted for this study reported an insufficient supply of workers with a chemistry-technology profile especially in the Eastern part of the country. They reported that they find themselves employing workers with an inappropriate education in other subjects. The findings from the study are being used by the Centre for Vocational Education to further adjust curriculums to the labour market needs. Special attention is being given to the practical part of the curricula, the share of which is planned to increase from a current 12-15 per cent to an average of 40 per cent of the overall program.

### **4.3. Case Study: Sheep Meat Industry**

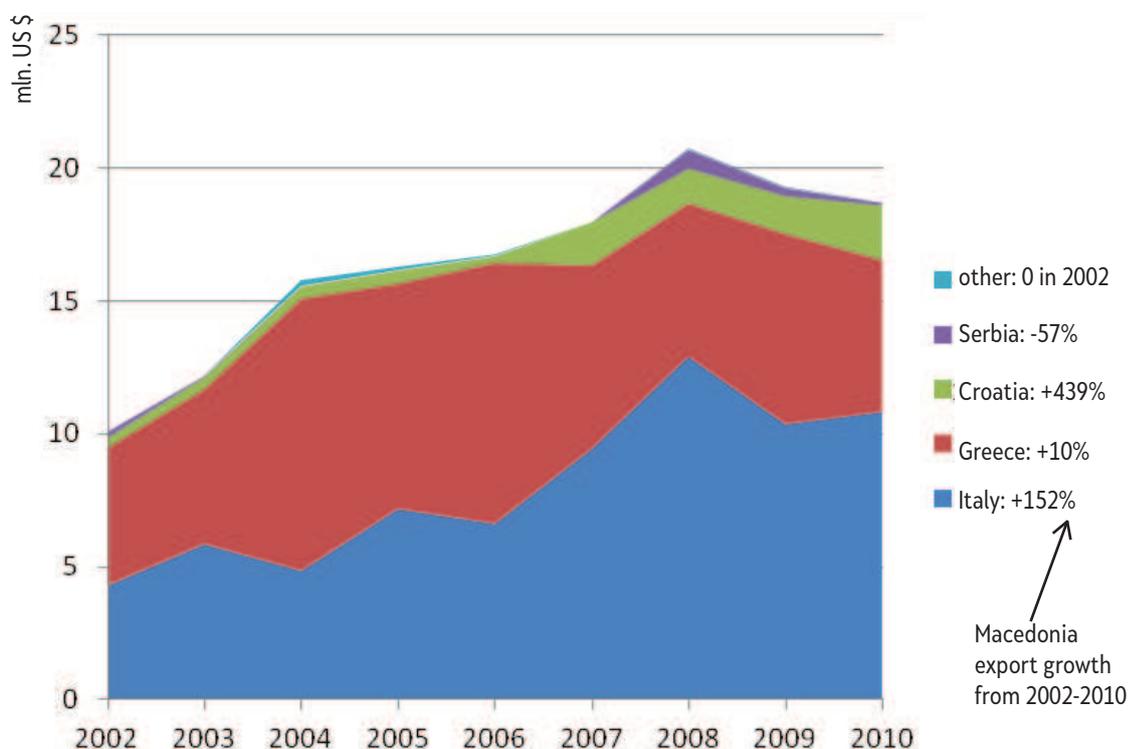
The case of the sheep meat industry is analysed in more detail in this section as an example for the challenges the country’s food exporting industries face in the global market, and how these are related to skills and other key elements of the enabling environment. Husbandry of sheep has a long tradition in the former Yugoslav Republic of Macedonia. It is a sector dominated by small family-owned businesses which deploy traditional and rather labour intensive production methods, including outside grazing and seasonal migration of the sheep (Milevska 2010, Dzabirski et al. 1998). Most sheep are slaughtered as lambs before they reach adulthood. Virtually all sheep meat is exported in the form of chilled whole or half carcasses<sup>19</sup>, in particular during the Easter and Christmas seasons. Figure 17 shows export destination statistics over recent years, with an increase from 10 to 21 million US\$ between 2002 and 2008, followed by a decline in 2009 and

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<sup>19</sup> Virtually all sheep meat that is traded internationally is either chilled or frozen. Chilled sheep meat is recorded in trade statistics as non-frozen.

2010. Exports are concentrated in two traditional markets, Italy and Greece, and while exports to Italy have grown substantially between 2002 and 2010, exports to Greece have almost stagnated. More recently, there has been significant export growth to Croatia

Figure 17: Exports of Sheep Meat by Destination

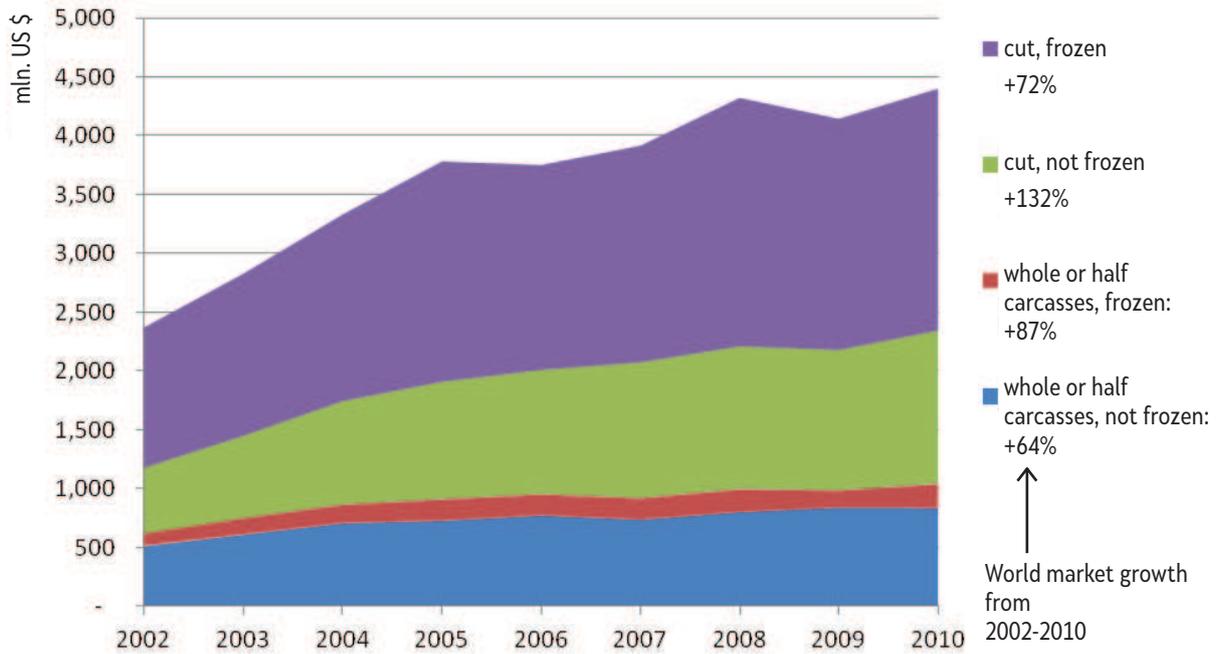


Source: COMTRADE and Macedonia State Statistical Office

Figure 18 gives an overview of the world market for imported sheep meat. It shows that trade in non-frozen carcasses, the country's only sheep meat export product, accounts for less than 20% of the value of global trade in sheep meat, and in addition has experienced the slowest world market growth of all categories between 2002 and 2010. Most trade instead takes place in cut meat, whether or not frozen, and growth in these products has been more dynamic than for whole or half carcasses. However, there is currently very little capacity for further processing of sheep meat in the former Yugoslav Republic of Macedonia, and even fewer processors that comply with EU standards (Palaševski et al. 2009).

Unfortunately, trade statistics on cut sheep meat do not distinguish between primal cuts, which are the result of cutting the carcass into its main parts, and retail cuts, which are the result of boning and cutting primal cuts into smaller pieces suitable for retail sale to consumers. Sometimes, retail cuts are further refined to produce consumer cuts, such as lamb chops. Traditionally most cut sheep meat traded internationally has been shipped in primal cuts or larger retail cuts, and converted to consumer cuts by a butcher in a retail store. However, it has become increasingly common for the final butchery work to be done off-site, with consumer cuts delivered to the retail store. This off-site work may be done in-country, or it may instead be done in the country of origin with the meat then being exported in consumer cut form. Just where the work is done is important from a skills and labour market perspective, as it is a labour intensive aspect of meat processing.

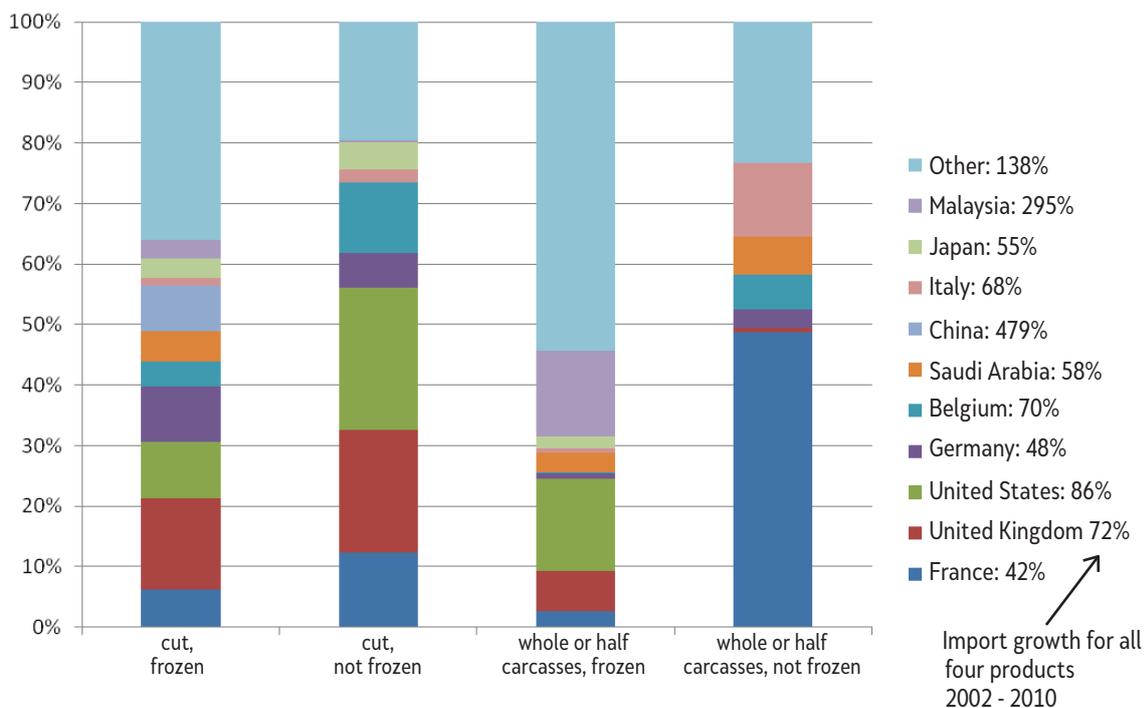
Figure 18: World Imports of Sheep Meat by Product



Source: COMTRADE.

Figure 19 shows a breakdown of the world market for four product categories of sheep meat and by importer. France is by far the largest importer for the type of meat exported by the former Yugoslav Republic of Macedonia (whole or half carcasses, not frozen), a vast market which the country has not tapped so far. The most dynamic new markets for sheep meat products are emerging economies like China and Malaysia. However, these countries mainly import cut sheep meat or – in the case of Malaysia – frozen carcasses, which the former Yugoslav Republic of Macedonia currently does not export.

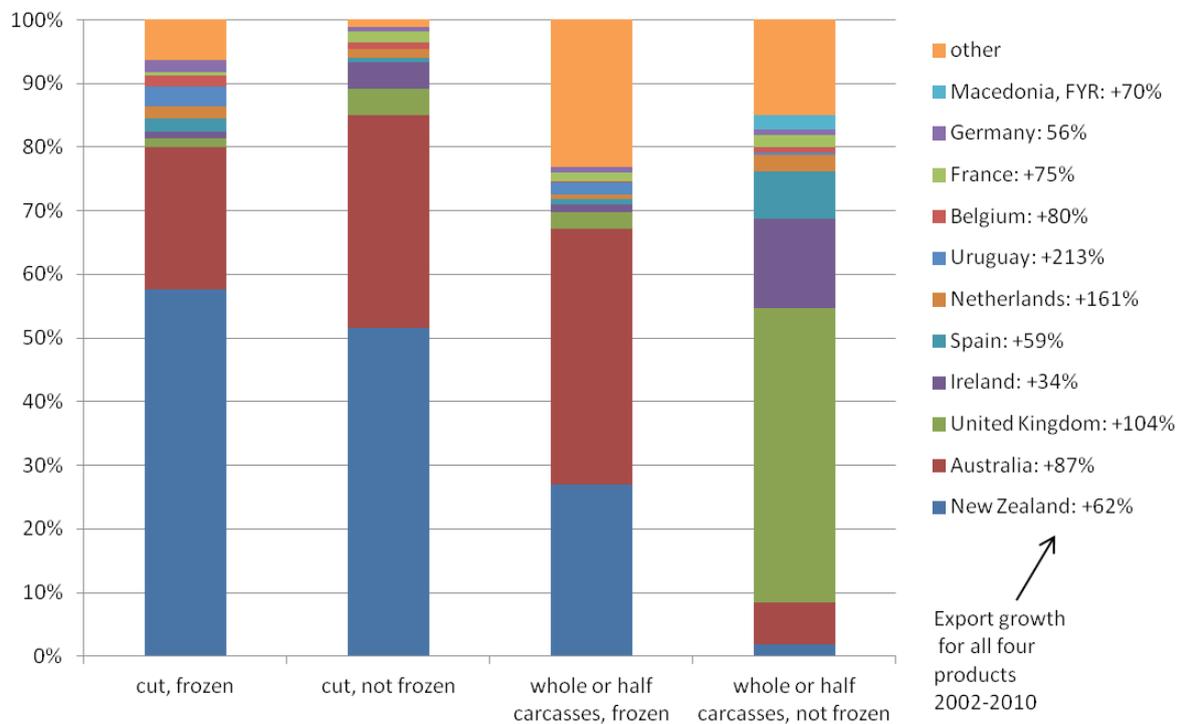
Figure 19: 2010 Imports of Sheep Meat by Product and Largest Importers



Source: COMTRADE.

Competition is strong in the global market for sheep meat, with a number of large industrialized countries accounting for most exports. The UK and Ireland are the main players for exports of non-frozen carcasses, but a number of other exporting countries also hold significant market shares. For all other sheep meat product, the world market is heavily dominated by New Zealand and Australia, both of which have very large and competitive integrated industries for raising, slaughtering and processing of sheep meat.

Figure 20: 2010 Exports of Sheep Meat by Product and Largest Exporters



Source: COMTRADE.

Chilled sheep meat typically attracts higher prices than frozen sheep meat.

- Consumer perceptions tend to place a higher value on chilled meat than on frozen.
- The cost of operating chilled logistics chains tends to be higher than for frozen.
- Competition in frozen product is particularly strong because distance to market and seasonal timing factors are much less significant than for chilled product, and the disadvantages due to location that very efficient producers in New Zealand and Australia face are therefore less for frozen than for chilled.

Currently, the former Yugoslav Republic of Macedonia is taking advantage of a significant preferential margin when exporting sheep meat to the EU market. Under the SAA, its exports of sheep meat reach the EU market free of tariff restrictions, while other exporters – including Australia and New Zealand – continue to face very significant tariff barriers. Most of these tariffs are calculated by weight rather than value, but their ad-valorem equivalents are often above 50 per cent (Table 7). However, these preferential margins do not shield the country's exporters in the EU market against competition from EU countries or other countries that maintain preferential trade arrangements with the EU. While this preferential margin currently provides a significant advantage to exporters of the former Yugoslav Republic of Macedonia, its sustainability is questionable in the context of future rounds of multi- and bilateral trade liberalization.

Table 7 also shows that market access for sheep meat has already been liberalized in a number of important markets such as the US, Japan, Saudi Arabia, and Malaysia, which presents opportunities for future export growth and regional diversification of exports. On the other hand, China, which is a large and fast growing market for sheep meat, still maintains significant levels of protection in this area.

Table 7: Tariff Barriers (ad valorem equivalents) on Imports of Sheep Meat in Major Markets

	carcasses or half-carcasses, frozen	carcasses or half-carcasses, not frozen	cut, frozen	cut, not frozen
EU - MFN	57.8%	57.9%	56.0%	42.8%
EU - pref. Macedonia	0.0%	0.0%	0.0%	0.0%
US - MFN	0.8%	0.4%	0.5%	0.2%
Japan - MFN	0.8%	0.0%	0.0%	0.0%
China - MFN	19.0%	15.0%	19.0%	13.5%
Saudi Arabia - MFN	0.0%	0.0%	5.0%	5.0%
Malaysia - MFN	0.0%	0.0%	0.0%	0.0%

Source: ITC, Market Access Map.

Currently, the sheep meat exporting industry serves limited traditional niche markets with a relatively low value added product. Growth prospects for its two main markets – Greece and Italy – are currently rather bleak, and over recent years, growth has been much more dynamic for emerging markets and for higher value added products within the industry. In addition, the country’s market position in the EU market may be under threat in the longer term from erosion of preferences that would lead to increased international competition.

Constraints may also exist on the supply side. Sheep production is seldom a very profitable form of agricultural enterprise when undertaken on a small to moderate scale. While it has clearly been sufficiently attractive to support rapid growth in exports in recent years at a time of rapid market growth, it would not necessarily be attractive enough to support a move into lower value markets. For example, it is possible that the former Yugoslav Republic of Macedonia might have difficulty in competing in markets for frozen sheep meat, particularly outside of the European markets where it benefits from a lack of tariff barriers.

A forward looking perspective for the industry would have to take these challenges into account to develop a strategic vision of the sector’s future. This could include some of the following elements:

- While the scope to grow sales volume in the traditional markets of Italy, Greece, Croatia and Serbia may be limited, it is worth exploring whether there is scope to add more value to products sold to those markets. The most obvious area to explore is whether there is scope to move a significant part of that volume from carcasses and half carcasses to primal cuts, larger retail cuts or even consumer cuts. Moving into retail and consumer cuts could have the greatest impact in terms of value added and employment, as producing these cuts is labour intensive. Issues of both capability and demand of course necessarily impact on whether this will be feasible.
  - On the demand side, customers will only generally transfer the work of producing primal and consumer cuts upstream to the country from which the product is exported if they see this as being advantageous to them in terms of taking costs out of the supply chain in a way that cuts their net costs, while obtaining high quality, standards-compliant products cut to suit their own local market. Examples of where this might be feasible include producing consumer cuts for a wholesaler or for a supermarket chain. Otherwise, the tendency will continue to be to cut close to the market.
  - On the capability side, a significant amount of specialist knowledge is required to establish an efficient operation producing sheep meat cuts that is capable of maintaining full compliance

with EU and national, quality assurance schemes and/or retailer-specific standards, and capable of consistently meeting market requirements. Part of this relates to training and motivating people who often have limited pre-existing skills to undertake a limited range of manual butchery tasks with precision and at a high work rate. The low labour costs could be the basis for a cost advantage that might allow efficient and compliant consumer cuts operations to succeed.

- Looking beyond the country's main existing markets for sheep meat, an obvious additional target within Europe is France, which is one of the world's main importers of sheep meat and in particular imports a lot of sheep meat in the form of non-frozen carcasses, which the former Yugoslav Republic of Macedonia already exports. Germany is also a significant importer of sheep meat. However, any strategy for France must take account of competition from the UK and Ireland, which are both major exporters of sheep meat, and have significant positions in the French and German markets.
- It is worth exploring just how competitive its sheep meat can be outside Europe, in markets where it does not benefit from tariff barriers. For example, demand from many countries with large Islamic populations is growing, and the former Yugoslav Republic of Macedonia is positioned moderately well geographically to serve markets in the Middle East (despite being land-locked). There are also significant and growing Islamic populations in many European countries. In the main, these consumers require meat that complies with halal<sup>20</sup> requirements. It is possible that the former Yugoslav Republic of Macedonia might be able to derive some benefit in these markets from its position as a country with a substantial Islamic population, although there are significant exporters of halal sheep meat based in all of the main sheep meat exporting countries. Establishing a sustained position in markets in the Middle East would require either significant effort in developing a logistics system to supply chilled products, or a less complex investment in freezing capacity.
- Branding of existing or new products as high quality / ecologically produced. Traditional farming techniques such as outside grassing of the sheep are to some extent already in line with the demands of health and environment conscious consumers (Milevska 2010). Certifying and branding its sheep meat products according to responsible consumer standards could increase revenue and turn a potential competitive disadvantage (small scale family based production with traditional techniques) into a strength. Initiatives such as these are already important to meat marketing in a number of European countries, where existing suppliers seek to communicate high standards, animal welfare and natural husbandry practices to consumers through farm assurance schemes, compliance with various other standards and various forms of national branding.

All elements listed here require the development of strategic capabilities at the company and industry level, which in turn has implications for skills demand at all stages in the value chain:

#### Sheep Producers

Developing a competitive sheep meat industry requires initiative at the farm level, in addition to processing. There can often be significant scope for farmers using traditional methods to improve their performance.

Among the areas where farmers can improve are:

- Improving the stock: This can be a matter of selective breeding to improve conformance with standards that meat processors would like to see, or can be a matter of choosing a different breed that shows better conformance, and is still suited to conditions on the farm. This ideally requires a combination of research within the country, advice to farmers from agricultural advisors or meat processing businesses and developing the skills and knowledge of sheep farmers.

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<sup>20</sup> Islamic law has requirements for the method of slaughter of animals for meat. Meat from animals slaughtered in compliance with these requirements is termed halal.

- Improving farm operations: In Ireland and the UK, it has become common for commercially minded young sheep and dairy farmers to travel to New Zealand to work on farms for a period, so as to learn farming practices that they can transfer back home.

### Abattoirs

The process of accepting animals for slaughter, holding them in pens, bringing them to slaughter, and undertaking subsequent operations in carcass preparation including stunning, exsanguination, evisceration and skinning has been brought to a high level of efficiency at leading meat processors in countries such as New Zealand, Australia and Great Britain. Very significant investment in buildings and equipment is required to support efficient processes that operate at a high rate of throughput, while complying with hygiene, removal of “specified risk material” and other health related standards, and minimising stress among animals. Significant automation and production line techniques are involved, although many of the key tasks are still performed by hand.

Processes in modern abattoirs are tightly defined. As a consequence, workers have narrowly defined roles, so they can be trained quickly even if they have limited existing skills.

Even so, not everyone is suited to the work. It is important that meat workers be conscientious about carrying out their precise role correctly every time, and about highlighting any problems with the operation of the process that they see. Some roles are demanding physically. Communication skills are important in varying degrees, depending on the role. Some find working conditions in an abattoir difficult.

There is a significant amount of record keeping, quality control and administration associated with the operation of abattoirs, and so management and administration skills are required. In many cases, there may be a formal inspection regime in place, requiring inspectors who in some cases have significant professional qualifications (such as a veterinarian).

### Meat processing

Processing of carcasses and half-carcasses into primal cuts involves undertaking a limited range of manual butchery tasks with precision and at a high work rate. Although there is handling equipment, the work can be demanding physically. Primal cut requirements can differ between markets.

Processing of primal cuts into retail and/or consumer cuts may be done on the same site as production of primal cuts, or may be done at a separate site. Again, the work involves a limited range of manual butchery tasks that have to be undertaken with precision and at a high work rate. Workers have to be sufficiently flexible and attentive to be able to work on different primal cuts, and to respond to differences in requirements that may be specified by different customers.

As with abattoirs, there is a significant amount of record keeping, quality control and administration in meat processing plants, so management and administration skills are required. Again, there is often a formal inspection regime in place.

Processes in meat processing plants are well-defined. As a consequence, as with abattoirs, workers have narrowly prescribed roles, so they can be trained quickly even if they have limited existing skills. It is, again, important that they be conscientious about carrying out their role exactly right every time.

### Marketing

Sales and marketing are crucially important to the sheep meat industry at a number of levels, including:

- Transactional deal making
- Relationship selling and business relationship management with businesses such as major grocery retailers that are long term customers

- Marketing to consumers and catering customers, often undertaken by, or with assistance from, a national meat marketing agency.

Strong skills in sales and/or marketing are required at each of these levels.

### **Strategy for Sheep Meat**

A successful strategy to develop the industry is likely to involve action in all of these areas:

- Research and advice to support farmers in improving their stock and operations;
- Action to improve farmer skills and knowledge
- Action to raise the performance of abattoirs and meat processing plants to reliably meet standards, and to achieve a high level of efficiency. This tends to involve heavy investment in a small number of operations, with competitors closing down because they cannot comply with current standards, or are not sufficiently efficient to compete with a modern operation;
- Investment in branding and complementary initiatives such as farm assurance schemes at the level of the industry.

## **4.4. Strategic Direction for the Food Sector**

This report has focused particularly on sheep meat. We also note the work of the USAID AgBiz programme, which helps local food producers and processors to start or expand environmentally sustainable production and sales of value-added agricultural products, and enabling them to compete regionally and globally. The programme supports five value chains: bottled wine, table grapes, wild harvested products, fresh vegetables and processed vegetables.

The AgBiz report (2008) examined potential benefits for the country's net exports in food arising from the free trade agreements, and concluded that the best opportunities for the country's food exporters lie in the FTA with Ukraine. The USAID analysis suggested that future accession in the EU is most likely to have a negative effective through increased competition in both export markets and in the domestic market. In the focus group discussion, domestic companies acknowledged two streams of future influences on the industry: i) becoming suppliers to international supermarket chains, where only a few domestic firms have so far achieved success, ii) increased competition from, and possible take-over by, foreign food producers once large supermarket chains enter the country.

Some food companies have succeeded in modernising. Vitaminka Prilep, established in 1956, is a good example of a long-established company that has adjusted to the new market environment, and is expanding, investing and modernising. Among younger food-processing companies, Vitalia (established in 1993) has developed its position in both the domestic and export markets, selling its own branded health food products, and producing private label products for Billa, an Austrian-headquartered retailer.

However, most other domestic companies have no clear business strategy, do not even operate web sites, and have difficulty in devising an appropriate export promotion strategy. The recently increased mandate of the Invest Macedonia (see section 2.4), in the area of export promotion may help food-processing companies to penetrate foreign markets. However, the potential increase in production and exports raises questions over the readiness of the industry in terms of production capacity, supply of raw materials, and the availability of suitable workers.

In recent years, the Government has significantly increased subsidies for agriculture, to a level which, according to the plan for 2011, would equal 115 million EUR. This is a 16-fold increase compared with 2003. The effect of the subsidies on total production and exports of subsidised sectors is ambiguous and subsidies

might lead to inefficiencies. However, these subsidies could resolve the problem of insufficient supply of raw materials, which was pointed out as a constraint to larger food production by the companies from this sector.

The agriculture and food-processing industries can benefit from pre-accession EU support to the former Yugoslav Republic of Macedonia. In particular, the Instrument for Pre-Accession Assistance of the European Union, Component V (IPARD Program 2007-2013), sets two priority axes in the country context, that are:

- Priority Axis 1: Improving market efficiency and implementation of EU standards, with two associate measures:
  - Measure 101: Investments in agricultural holdings to restructure and upgrade oEU standards;
  - Measure103: Investments in processing and marketing of agricultural and fishery product sto restructure and upgrade to the EU standards;
- Priority Axis 3: Development of rural economy, with a specific measure:
  - Measure 302: Diversification and development of rural economic activities.

The main beneficiaries of measures under the Programme are: agricultural holdings, agriculture cooperatives, food industry, rural economic operators, rural entrepreneurs, and the rural population as a whole. The IPARD Programme is implemented under the guidance of the Ministry of Agriculture, Forestry and Water Economy (Managing Authority) through its Department for Rural Development acting as Secretariat, in collaboration with the IPARD Sectoral Monitoring Committee and the Agency for financial support of Agriculture and Rural Development (IPARD Agency)<sup>21</sup>.

However, take-up of the available funds is low. For instance, out of the available 19 million EUR financial support for the period 2007-2009, agreements were signed for 6 million EUR, out of which 2 million EUR have been paid to date. The funds can be used up to the year 2012. Apart from some administrative requirements, companies (especially start-up businesses) face problems in accessing funds from commercial banks, which contributes to the low take-up of funds. Available funds for the period 2007-2013 are 60.7 million EUR, out of which 45.5 million EUR are EU funds, and the rest are national budget allocations.

### **Main Strategic Challenges for the Food Processing Sector**

The main strategic challenges that the food processing sector faces are to:

- Continue to modernise food processing, so as to be competitive with regard to efficiency, and to comply with standards required by international customers.
- Update its product offerings to be attractive to customers in the current international marketplace, whether in terms of competing effectively in niche markets or in terms of acceptance by international consumers, retailers and caterers, and also perceptions of value, for products that are more commodity in nature.
- Refocus on the markets where it is possible to be most competitive, engaging effectively with major retailers and other channels of distribution in those markets.
- Restructure and consolidate where necessary, accepting that it will not be possible to make an adequate business and policy case for investing sufficiently in all existing agro-food businesses to secure their future, particularly given that constraints on agricultural supplies and the economics of scale in higher volume areas of food processing may make it impossible for all existing businesses to succeed.

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<sup>21</sup> More details about the IPARD program can be found at <http://www.ipard.gov.mk/en>.

- Continue to modernise the agricultural sector, in step with food processing, so that they can complement each other in tackling the challenges above.

Measures, such as export promotion, well targeted agricultural funding and pre-accession support from the EU can contribute to addressing these challenges, but these factors alone do not form a complete strategy. One of the other areas that must be tackled is skills.

Priorities in the skills area include:

- Management development for businesses of all sizes, including support such as mentoring, business networks and assistance with developing business and exporting strategies, as well as more formal executive education and training opportunities.
- Change strategies targeted at production operations in food processing businesses, process improvement, investment in technology, work organization, change management and compliance with standards, along with the training initiatives required to support these.
  - Near-universal requirements will include certified training in food handling (including HACCP), and ensuring that workers have sufficiently good communication skills to be able to cooperate effectively, understand and implement procedures accurately, communicate production problems properly and contribute to ensuring compliance with standards.
  - In areas where workers move between roles, or where production runs are short, multi-skilling and team working skills will be important.
  - High quality technical skills will be important to getting the most out of production technology, particularly where automation systems need to be reconfigured frequently to accommodate short production runs.
  - Significant process analysis and design, technology and change management skills will be needed among production managers and professionals to drive improvement in production operations.
- Product development will be important, in terms of incremental changes to existing products and packaging, in terms of matching what is available from competitors, and in terms of more significant innovation. Skills in food science, food engineering and food business will be important to achieving this, requiring a combination of executive education for professionals and managers already working in the industry, and in terms of high quality degree level and graduate courses in these areas for people in initial education.
- Advisory and training services, supported by agricultural research, to provide the farmers with the information they need to boost output and profitability, while complying with appropriate standards.

## 5. Tourism

### 5.1. Tourism sector developments

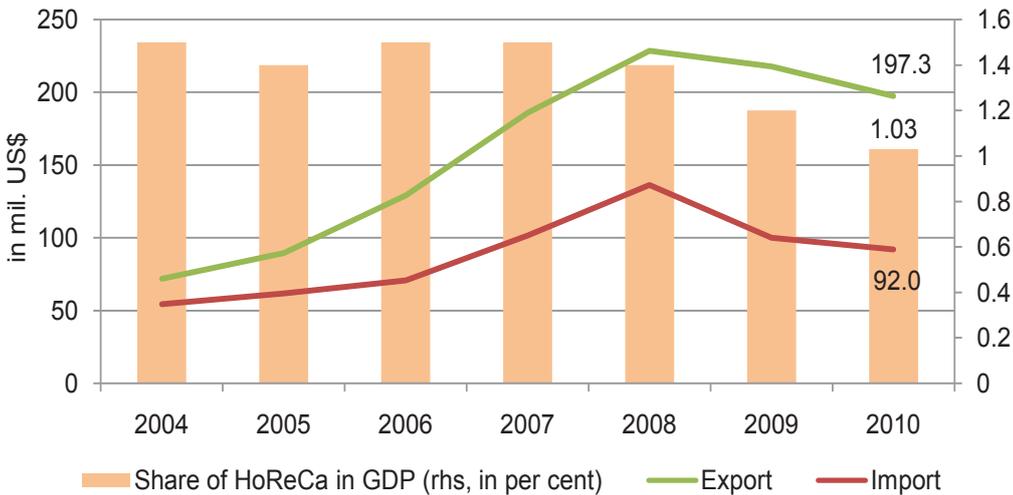
The travel and tourism industry has considerable economic significance worldwide as it contributes directly and indirectly to national income and employment creation. According to the forecasts of the World Travel and Tourism Council, world travel and tourism services in 2011 will directly contribute 2.8 per cent of the GDP, globally, while in some countries this proportion reaches nearly one third of GDP (at [www.wttc.org](http://www.wttc.org)).

The Hotels, Restaurants and Catering (HoReCa) sector makes a small contribution to the economy of the former Yugoslav Republic of Macedonia notwithstanding the considerable potential for future growth based on the country’s natural resources and rich history. The share of HoReCa in total GDP declined between 2004 and 2010, due to slower growth of HoReCa relative to total domestic production and due to the more severe decline of HoReCa compared to overall production in 2009 (see Figure 21). In 2010, the HoReCa sector contributed 1.03 per cent of the GDP.

The country recorded a positive net balance in travel services, on the balance of payments, from 2004 through 2010 (Figure 21). This positive balance was highest in 2009 and 2010 with values of 117.6 million US\$ and 105.3 million US\$, respectively. However, the largest export of travel services was recorded in 2008 of 228.5 million US\$. The export of travel services declined to 197.3 million US\$ in 2010, whereas the import declined to 92 million US\$.

According to State Statistical Office data (annual publication on GDP), small enterprises dominate in the structure of companies in Hotels and Restaurants by size. Out of 3,779 companies in this sector in 2009 (latest data), 3,766 or 99.7 per cent were small. There were 12 medium-sized companies and only 1 large company.

Figure 21: Export and Import of Travel Services and Contribution of HoReCa in GDP



Source: BoP for export and import, National Bank of Republic of Macedonia; GDP by production approach for HoReCa, State Statistical Office.

A comparison of data on the travel and tourism sector in the former Yugoslav Republic of Macedonia and countries in the region reveals its relatively low importance, but also shows the high potential for growth of tourism (Table 8). The share of travel and tourism activities in total GDP is as high as 11 per cent in Croatia, 7.4 per cent in Albania and 7.1 per cent in Montenegro (although these countries have access to sea, and much of their tourism business is coastal). However, even in Bosnia and Herzegovina and Serbia the share is over 2 per cent. Some of these countries, Serbia and Albania, even managed to maintain growth in travel and tourism services during the global recession. One could argue that increasing the contribution of tourism to the share of GDP seen in Bosnia and Herzegovina and Serbia as a reasonably feasible medium-term goal for the former Yugoslav Republic of Macedonia.

Table 8: Economic Data on Tourism,  
the former Yugoslav Republic of Macedonia and the Region

Travel & Tourism Direct Contribution to GDP	2005	2006	2007	2008	2009	2010
<b>the former Yugoslav Republic of Macedonia</b>						
bil. US\$	0,08	0,09	0,117	0,141	0,131	0,128
Real growth (%)	8,6	12,6	6,3	5,4	-3,5	0,4
% share	1,3	1,4	1,4	1,4	1,3	1,3
<b>Croatia</b>						
bil. US\$	4,26	4,696	5,514	6,858	5,48	5,7
Real growth (%)	7,2	4,6	3,7	7,4	-17,2	7
% share	11,2	11,2	11	11,6	10,1	11
<b>Albania</b>						
bil. US\$	0,404	0,488	0,657	0,785	0,854	0,889
Real growth (%)	20,7	14,4	19,3	7	19,4	9,7
% share	4,9	5,3	6	6	7	7,4
<b>Montenegro</b>						
bil. US\$	0,151	0,236	0,416	0,514	0,33	0,347
Real growth (%)	22,9	42,5	36,7	4,2	-34,5	-1,2
% share	6,6	8,7	10,8	10,6	7,2	7,1
<b>Bosnia and Herzegovina</b>						
bil. US\$	0,296	0,347	0,429	0,477	0,407	0,374
Real growth (%)	7,5	9,9	5,9	-3,4	-10,1	-5,2
% share	2,7	2,8	2,8	2,5	2,4	2,2
<b>Serbia</b>						
bil. US\$	0,317	0,374	0,705	0,832	0,961	0,937
Real growth (%)	20,9	6,2	47,2	0,4	30	6
% share	1,2	1,2	1,7	1,6	2,1	2,2

Note: Data for the former Yugoslav Republic of Macedonia are slightly different than those from national statistical system. However, these data are comparable across the countries and hence should be mainly used for comparative purposes.

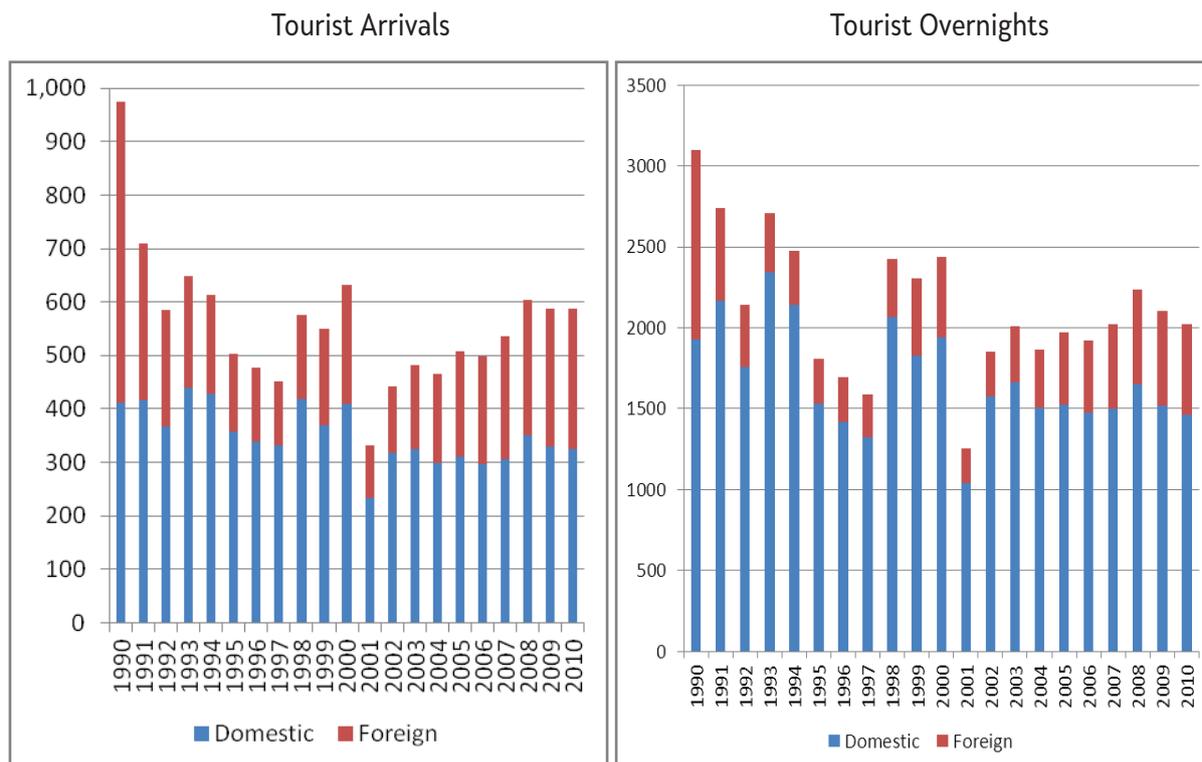
Source: World Travel and Tourism Council

A comparative analysis conducted in the National Strategy for Tourism Development<sup>22</sup> between the former Yugoslav Republic of Macedonia and the countries in the region shows that the former Yugoslav Republic of Macedonia has a rather narrow focus in offering the tourism product to only beach/lake, culture/heritage and mountains/rural tourism, with a limited presence in city breaks, conferences, spas and skiing/sports.

Tourist arrivals and overnights in the country fluctuated after the country gained independence in 1991, and reached their highest level in 2000. However, the 2001 civil conflict led to a reduction in both arrivals and overnights by 47 per cent and 48 per cent, respectively. The decline was higher for foreign visitors, at rates of about 55 per cent. In 2010, there were 586,241 tourist arrivals (domestic and foreign), and 2,020,217 overnights, which implies an average of 3.44 overnights per visitor. Both tourist numbers and overnights in 2010 were still below 2000 levels, despite the recent upward trend.

<sup>22</sup> The Strategy can be downloaded from <http://www.economy.gov.mk/Uploads/files/sektorskiDok/turizam/NTDS%202009-04-23.pdf>. Though the Strategy is in fact implemented it is not yet enacted by the Government.

Figure 22: Number of Domestic and Foreign Tourist Arrivals and Overnights (000s), 1990-2010



Source: SSO, Tourism in the Republic of Macedonia, 2006-2010.

Interim data for 2011 show a strong increase in tourism activity for the first seven months of the year, with overall arrivals up by 9.1%.

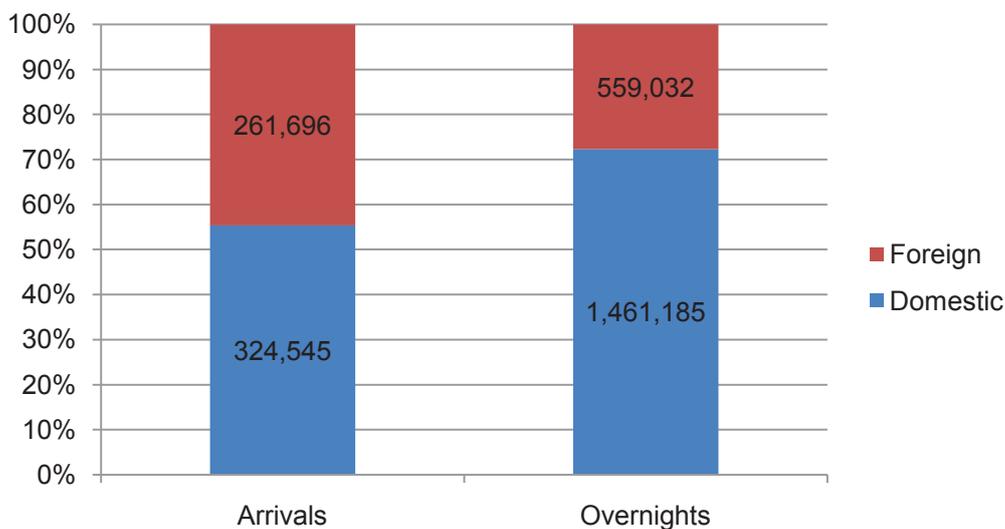
Although domestic tourists dominate in arrivals and overnights, the share of foreign tourists is increasing. In 2010, foreign tourists represented 44.6 per cent of total arrivals, up from 27.2 per cent in 1998 (Figure 23). Similarly, the share of foreign tourists in overnights increased from 14.8 per cent in 1998 to 27.7 per cent in 2010. Foreign tourists spent fewer nights in the country on average, 2.1 compared to 4.5 nights per domestic tourist. However, an alternative survey on foreign tourists conducted by the State Statistical Office in 2009<sup>23</sup>, which targets only tourists in registered accommodation, shows that they stayed on average 4.76 days in the country, with this average being higher in the high-season period, June to September at 4.87. Tourists from US, Netherlands and Great Britain tend to spend more than the average number of days in the country.

Interim data for 2011 show foreign tourist numbers continuing to grow strongly, with a rise of 24.5% in foreign tourist arrivals in the first seven months of 2011 relative to the same period in 2010, but with domestic tourist arrivals falling by 3.1%

<sup>23</sup> Survey on Foreign Tourists in 2009. Can be downloaded from <http://www.stat.gov.mk/PrikaziPoslednaPublikacija.aspx?id=17>, bi-lingual.

Interim data for 2011 show foreign tourist numbers continuing to grow strongly, with a rise of 24.5% in foreign tourist arrivals in the first seven months of 2011 relative to the same period in 2010, but with domestic tourist arrivals falling by 3.1%.

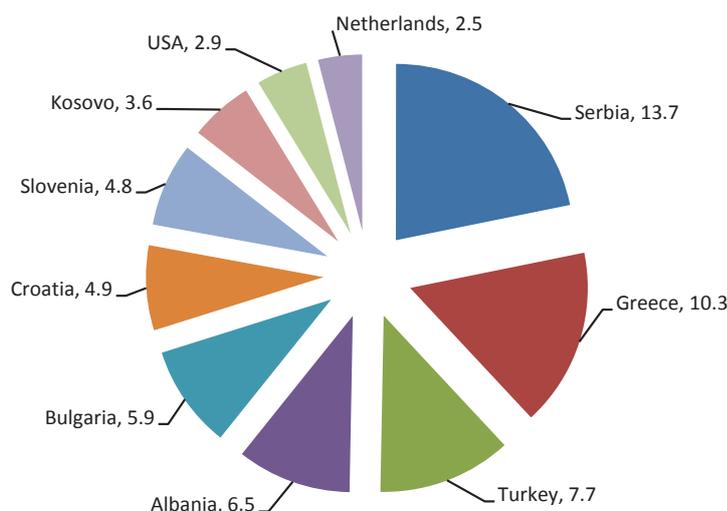
Figure 23: Structure and Number of Domestic and Foreign Tourist Arrivals and Overnights, 2010



Source: SSO, Statistical Yearbook of the RM.

Serbia (13.7%), Greece (10.3%), Turkey (7.7%) and Albania (6.5%) are the leading foreign markets for tourism in the former Yugoslav Republic of Macedonia, accounting for 38.1% of arrivals by foreign tourists in 2010. Other nearby “home countries” (other former Yugoslav states plus Bulgaria and Romania) accounted for another 24.3% of foreign tourist arrivals, and the remainder of Europe accounted for 28.7%. Just 8.9% came from outside Europe.

Figure 24: Structure of Foreign Tourists by Country of Origin, 2010



Source: SSO, Statistical Yearbook of the RM.

The number of foreign tourist arrivals has risen markedly in recent years, with very strong growth in some non-traditional markets (Table 9). There has been exceptionally vibrant growth in arrivals of tourists from Turkey, from 7,804 in 2006 to 20,047 in 2010.

- There has been strong growth in arrivals of tourists from parts of Europe outside the former Yugoslav Republic of Macedonia's core "home country" markets. "Rest of Europe" arrivals increased by about half between 2006 and 2009, from 50,946 to 76,397, although the growth was interrupted in 2010.
- While there was a substantial increase in arrivals from "home countries" between 2006 and 2008, numbers have since levelled off to about 100,000.
- Arrivals from countries outside Europe also increased between 2006 and 2008, and also levelled off subsequently.
- Arrivals from Greece have fluctuated, falling steeply in 2008 but recovering significantly since then.

Domestic arrivals also increased between 2006 and 2008, but shed some of those gains in 2009 and 2010.

Table 9: Trends in Tourist Arrivals by Origin

Origin	2006	2007	2008	2009	2010	% Growth 2006-10
"Home countries" *	79.576	95.958	101.961	98.854	99.380	24,9%
Turkey	7.804	8.907	15.561	16.962	20.047	156,9%
Greece	30.835	28.618	21.060	22.253	26.843	-12,9%
Albania	16.188	17.573	19.314	19.757	17.110	5,7%
Rest of Europe	50.946	59.500	71.694	76.397	75.148	47,5%
Non-European Countries	17.008	19.524	25.367	24.981	23.168	36,2%
Total Foreign	202.357	230.080	254.957	259.204	261.696	29,3%
Domestic	297.116	306.132	350.363	328.566	324.545	9,2%
Overall Total	499.473	536.212	605.320	587.770	586.241	17,4%

\* Former Yugoslav states including Serbia, plus Bulgaria and Romania

Data source: State Statistical Office

Slower growth in arrival numbers seen in 2009 and 2010 appears to be associated with a more general levelling off of tourism activity in Europe, most likely triggered by the economic crisis. Following an increase of 25% in tourism arrivals from within Europe between 2000 and 2008, arrivals decreased by 4.9% in 2009 and increased by 3.3% in 2010 (UNWTO). This suggests that the interruption in the upward trend in arrivals in the former Yugoslav Republic of Macedonia seen in 2009 is temporary. The strong growth in arrivals seen in the first seven months of 2011 reinforces this view.

In 2008, the Government introduced a subsidy to domestic tourist agencies for bringing foreign tourists, if they stay more than 3 nights in the country. This is regulated in the Program for Tourist Promotion and Informational Activity, and the subsidy depends on the country of origin of the tourists (Official Gazette, No. 89/2008).

About 58 per cent of all tourists stay in hotels (see Table 10). The second most important type of accommodation, with 19 per cent, is houses and vacation apartments, followed by non-categorised accommodation establishments (6 per cent) and spas (5 per cent). However, there is a difference in the types of accommodation used between domestic and foreign tourists. Foreign tourists are more likely to stay in hotels (86 per cent of all foreign tourists), and especially in higher quality hotels (4- and 5-star), but are much less likely than domestic tourists to stay in houses and vacation apartments, non-categorised accommodation establishments and spas. This might point to potential for future development of spas and spa tourism in the country which would be in line with the positive experience of other countries in the region (Bulgaria, Serbia, Slovenia) with spa tourism.

Changes in the classification of board and lodging establishments mean that data from 1998 are not directly comparable to recent years. Even so, most of the categories are similar, so some trends can be identified in the data. Between 1998 and 2010, there is no considerable change in the type of accommodation used by tourists. For domestic tourists, back in 1998 one of the most frequently used types of accommodation was enterprise vacation facilities, with a share of 11 per cent in total tourist visits. On the other hand, foreign tourists in 1998 were much more likely to stay in high quality hotels (then called, A and B class), used by 73 per cent of all foreign tourists compared with 46 per cent of foreign tourists in 2010 (4- and 5-star hotels).

Table 10: Number of Tourists by Type of Board and Lodging Establishments in 2010\*

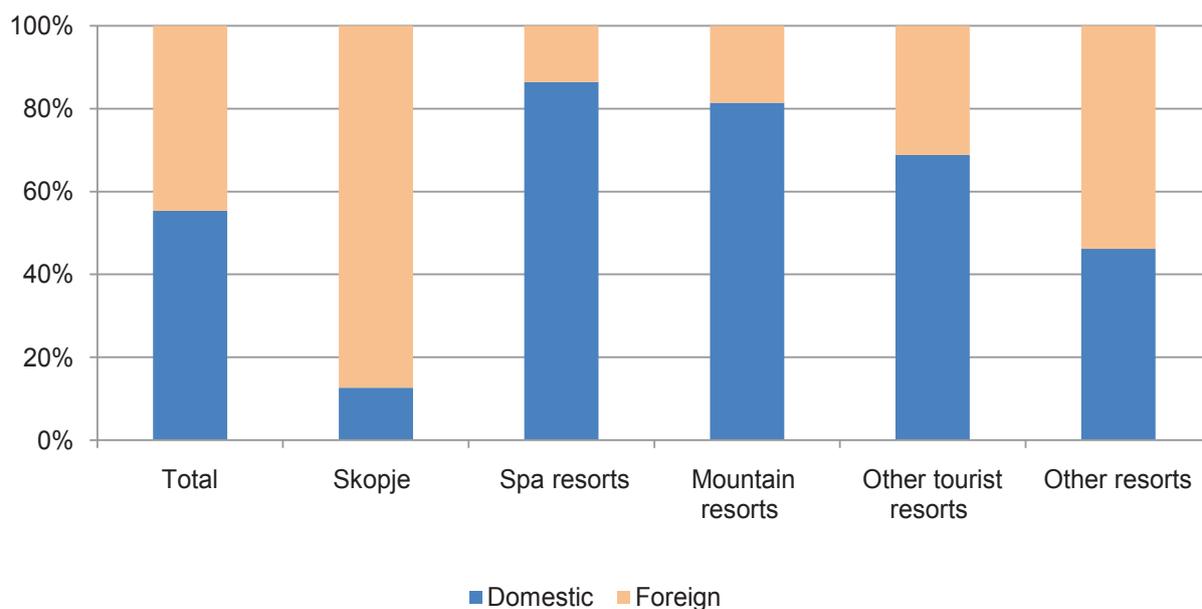
	Number			Share (per cent of total)		
	total	foreign	domestic	total	foreign	domestic
All	586241	261696	324545	-	-	-
Hotels – total, of which	339292	225306	113986	58	86	35
hotels (4- and 5-star)	159797	121597	38200	47	54	34
hotels (3-star)	56859	39291	17568	17	17	15
hotels (1- and 2-star)	122636	64418	58218	36	29	51
Houses, vacation apartments and rooms for rent - total	113468	2754	110714	19	1	34
Non-categorized accommodation establishments	36258	13461	22797	6	5	7
Spas	28163	3723	24440	5	1	8
Children and youth vacation facilities	18127	2054	16073	3	1	5
Camps, non-categorized	16857	1959	14898	3	1	5

\* Board and lodgings with a share smaller than 1 per cent of total tourists are excluded from the table. Hence, the sum is not equal to 100.

Source: State Statistical Office, Statistical Yearbook of the RM.

As Figure 25 shows, domestic tourists dominate in the visits to spa resorts, mountain and “other tourist resorts” (mainly lake areas), whereas foreign tourists dominate in the visits to the capital city-Skopje and “other resorts” (non-touristic areas). In the last couple of years, between 2008 and 2010, there was a large increase in the number of tourists visiting mountain resorts, about 63 per cent and 77 per cent, for domestic and foreign tourists, respectively. The number of visits to other resorts also increased during this time.

Figure 25: Visits by Domestic and Foreign Tourists, by Type of Resorts, 2010



Source: State Statistical Office, Statistical Yearbook of the RM.

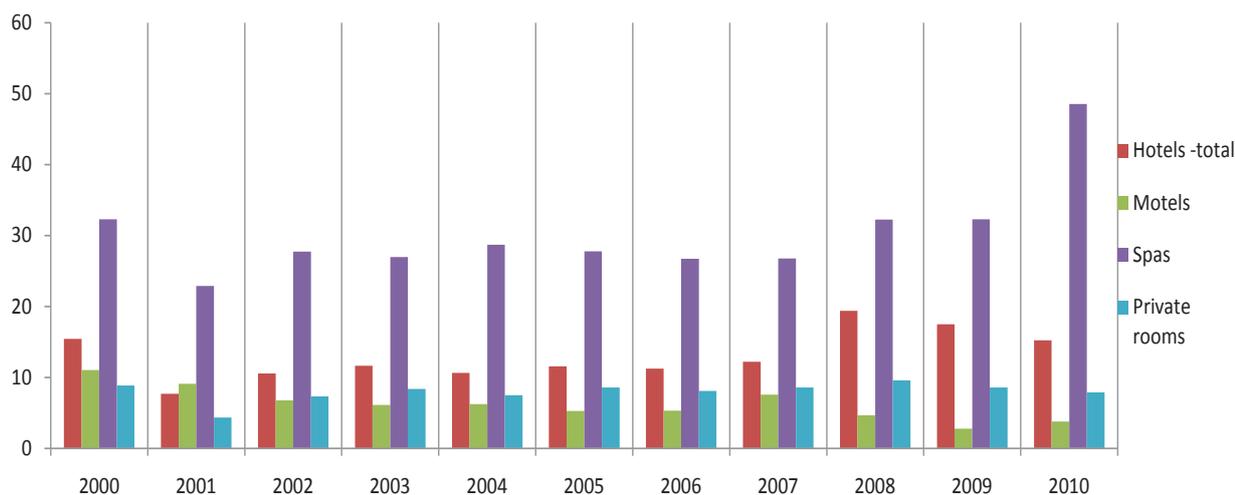
The turnover of catering trade and services in 2009<sup>24</sup> was 7.636 million MKD, up 66 per cent from 1998. The major component in total turnover was Food (44 per cent), followed by Lodgings (20.3 per cent), Beverages (5.9 per cent), Beer (5.8 per cent) and Soft Drinks (5.6 per cent). Wine, which has growing importance in domestic production, accounts for only 3.2 per cent of total turnover in the HoReCa sector. Between 1998 and 2009, the slowest growth in turnover (only 22 per cent) was registered for Food, while there were larger increases in all kinds of beverages, from soda and mineral water, to wine, beer and spirits. Turnover of hotels in 2010 was 2,709 million MKD, an increase of 56 per cent from 2002. Gross investment in the HoReCa sector increased considerably between 2000 and 2007. In 2007 the level of investment was slightly less than 200 per cent higher than in 2000 (see Figure 13). Investment then declined during the recession, but increased again slightly in 2009.

Gross capacity utilization<sup>25</sup> of the available beds in the the former Yugoslav Republic of Macedonia is very low compared to other countries with a long tradition in tourism. In Italy, for example, the Hotel sector had average gross capacity utilization of 30.4 per cent in 2009, while in the former Yugoslav Republic of Macedonia it was 17.5 per cent in 2009 and 15.2 per cent in 2010. As Figure 26 shows, Spas have the highest capacity utilization. This is related to the small capacity available (only 1,217 beds in 2010), and to a 2009 government measure for free spa treatment for pensioners. The number of domestic tourists visiting spas almost doubled in 2010 compared to 2009.

<sup>24</sup> Data for 2010 do not include private catering establishments and hence are not fully comparable.

<sup>25</sup> Gross capacity utilization is measured as a percentage of total overnights by tourists in the Hotels divided by availability of beds in days during the year (beds\*365).

Figure 26: Gross Capacity Utilization of Capacities by Resorts



Source: Author's calculation, SSO.

High gross capacity utilization is achieved in only two months each year, July and August, while the lowest utilization is seen in March and November (only 1.5 per cent). Some 47 per cent of all nights spent in a given year in the country are in the period June-September. This again reflects the high seasonality of the sector.

The Hotel Association of Macedonia (HOTAM) reports that while in the peak season there is insufficient capacity in 4- and 5-star hotels in Skopje and Ohrid, overall capacity use of hotels sits around just 45 – 48 per cent. Capacity utilization is highest in Skopje at 70 per cent, whereas in Ohrid it is below the national average.

A 2009 State Statistical Office survey on foreign tourists in the former Yugoslav Republic of Macedonia shows that most foreign tourists were motivated to visit through their previous stay, about 23 per cent from radio and/or TV ads and 19 per cent were recommended to visit the country by relatives and friends. Only 14 per cent received information about the country from tourist bureaus which might suggest a need for more aggressive campaigns by tourist offices for attracting foreign tourists. About 65 per cent of them expressed willingness to revisit the same place in the country, and only a negligible share (0.84) would never again visit the country.

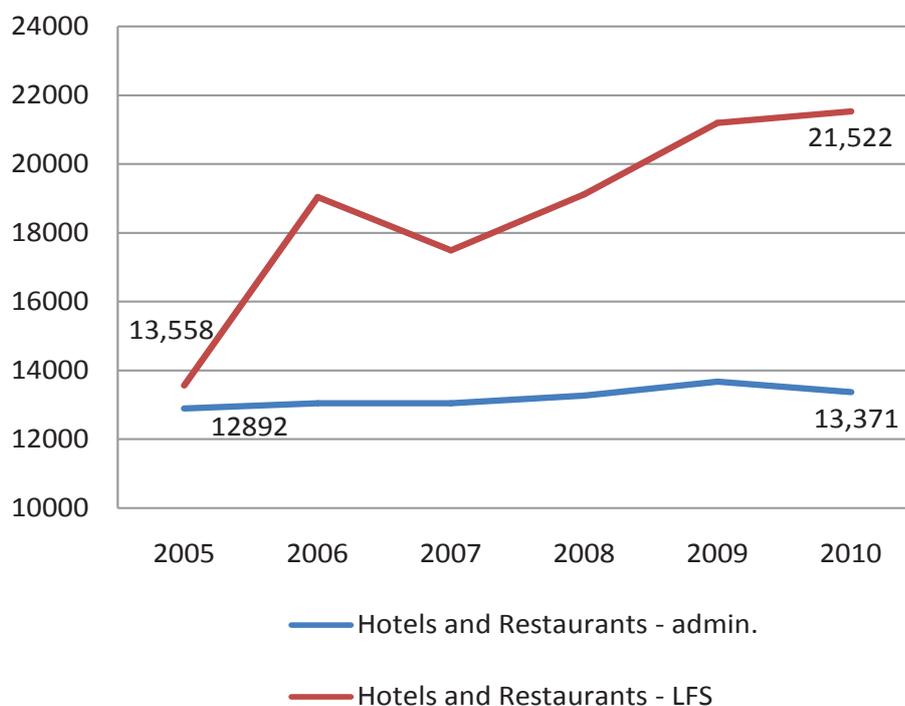
This is a very low level of dissatisfaction or negative experience for the country's tourist places which is very good in terms of potential for the "word of mouth" recommendations for visits to the country. Of the surveyed foreign tourists, 82 per cent found prices as expected, 8.6 per cent found higher than expected prices for accommodation, 6.3 per cent for food, and 3 per cent for gas (petrol). They evaluated nature and surroundings, quality of services from personnel, and personal security as the best services on offer to foreign tourists. On the other hand, the worst services were the roads, sports and cultural events, and ecological value. Such findings might offer assistance for policymakers and other stakeholders in the tourism sector concerning areas for immediate improvement if the tourism industry is to increase its economic value to the country.

## 5.2. Employment and Skills

As explained in section 2.2, the data on employment in HoReCa from administrative sources and labour force surveys are different, but do show different trends (see Figure 27). In particular, in 2010 there were 21,522 employees in this sector, according to the labour force survey, whereas there were only 13,371 according to administrative data. Moreover, the number of employees was increasing sharply according to the LFS, with an interruption to this trend in 2007. The trend line from the administrative sources data on employment is almost flat. In addition, diverging trends occur in 2010. LFS data from the 2011-Q1 show further increases in the number of employees in this sector, to 24,972.<sup>26</sup> Within the focus group, employers noted that the relatively large increase in employment between 2000 and 2010 (shown in the LFS data), came after a period of declining employment in the 1990s.

The HOTAM has reported about 50,000 employees in the *Hotels and Restaurants* sector. Besides some 20,000 formal employees, they claim that there are an additional 15,000 non-registered workers (most of them working full-time) and about 15,000 temporary workers (disposable on-call).<sup>27</sup> As with the food-processing sector, there is large seasonal employment in the HoReCa sector, in line with the marked seasonality of the tourist season.

Figure 27: Employees in Hotels and Restaurants, Administrative and LFS data



Source: State Statistical Office: Employees and Net Wages and LFS.

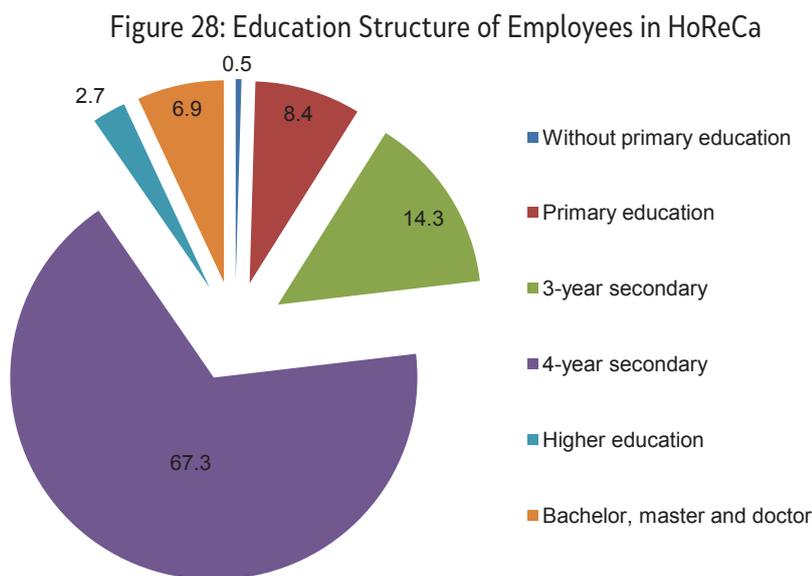
More than 80 per cent of employees in the *Hotels and Restaurants* sector have secondary education, of whom 67.3 per cent have 4-year secondary education and 14.3 per cent with 3-year education (see Figure 28)<sup>28</sup>. A very small share, 0.5 per cent have less than primary education. About 7 per cent of workers have completed a bachelor degree, masters or PhD, which is a very low share compared, for instance, with the

<sup>26</sup> In the LFS press release for Q1-2011, the category Hotels and Restaurants has been changed to Accommodation and Food and Service Activities.

<sup>27</sup> National Strategy for Tourism Development 2009-2013, p. 123, at <http://www.economy.gov.mk/Uploads/files/sektorskiDok/turizam/NTDS%202009-04-23.pdf>.

<sup>28</sup> The elementary/primary education system in Macedonia educates students up to the age of 15. Three year and four year secondary courses bring them to the age of 18 or 19.

HoReCa sector in Ukraine where 47 per cent of employees hold a university degree (ILO, 2011). The focus group discussion revealed that small restaurants, bars and cafés employ less educated workers who usually do not have vocational education in catering or related areas.

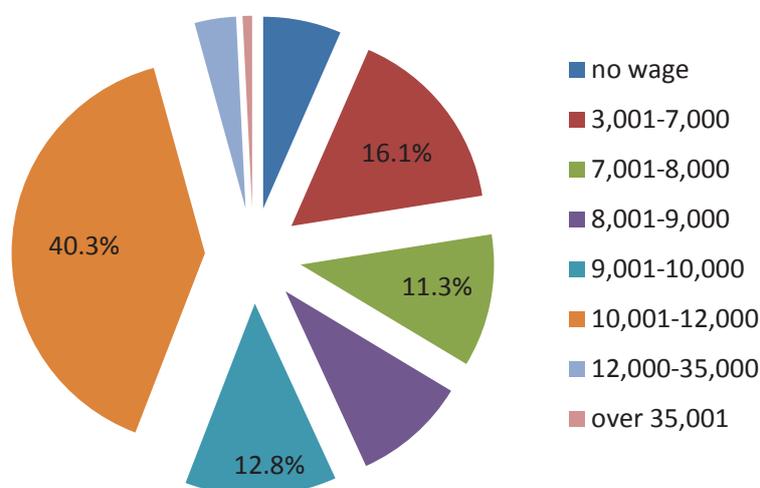


Source: State Statistical Office

The average net wage in the Hotels and restaurants sector was about 70 per cent of the national average wage in 2010 (see Figure 8 above), down from 84.8% in 2004, even though the absolute level of pay increased significantly. However, as representatives from HOTAM note, some of the wages paid to workers in this sector are informal, in-hand payments, especially for seasonal and informally engaged workers.

The largest share of employees in the Hotels and restaurants sector – 40.3 per cent – received a net wage of about 50 per cent of the national average wage in 2010 (Figure 29). According to the State Statistical Office data, 6.6 per cent of workers in this sector receive no wage (wage arrears). In addition, 16.1 per cent of the employees receive a very low wage of 3,001-7,001. However the focus group discussion revealed that wage data for hotels and restaurants should be treated with caution, as usually workers are contracted for a low wage, but receive additional envelope wages.

Figure 29: Wages in Hotels and Restaurants by Wage Range, 2010



Source: State Statistical Office: Employees and Net Wages.

In the school-year 2009/2010, 925 students completed secondary vocational education in the area of *Travel, tourism, hotel and catering services*, that is about 6.9 per cent of the 2010 employment in this industry. It seems unlikely that the sector can regularly create enough permanent new jobs each year to employ all of them in permanent jobs.

The split between graduates from 3-year and 4-year programs was equal. About 67 per cent of graduated students were full-time, and the remaining 33 per cent, part-time students. There are four areas of specialization (concentration) offered by secondary schools that are targeted towards this sector: Hotel and catering technicians (4-year program), Waiters (3-year program), Chef (3-year program) and Confectioner/ Pastry Cook (3-year program).

Students graduating from the 4-year programs are usually employed as receptionists, while those with 3-year education are employed as waiters. However, hotels and catering premises also employ workers with completed vocational profiles other than tourism/catering. The focus group discussion revealed that the practice of recruiting people with other types of qualification is related to employers' perception of low graduate quality from tourism and catering secondary vocational education, as well as the low cost of initial on-the-job training.

There were 8 schools and 92 classes (some are mixed) in *Travel, tourism, hotel and catering* in 2009/10 and 2408 students across all years of study. This was 2.6 per cent of the total number of secondary school students in the former Yugoslav Republic of Macedonia. Females represented 32 per cent. Compared to the school year 1997/1998, there was a slight increase in the number of students and graduates of 3.7 per cent. The number of classes also increased.

Tourism-related programs in secondary vocational schools comprise of:

- 44 per cent general topics;
- 36 per cent tourism related topics (Tourism, Tourism geography, Travel agency and hotels activity, tourism economics, etc);
- 12 per cent practical training, in school's premises or as part of an internship;
- per cent of elective topics.

The sector's business community in general expresses dissatisfaction with the quality of the graduates from tourism and catering-related secondary schools (National Strategy for Tourism Development 2009-2013). It is claimed that current study programs do not instill the right skills for future tourism industry employees. The prevailing view is that they are weak in practical skills because the teaching and learning is overly focused on theory and training facilities and conditions are poor. Hence it is said that graduates are not well prepared for the world of work. In addition, it is claimed that students are poorly motivated because work in this sector is not highly valued by society.

In a study by the Centre for Vocational Education and ETF (see section 4.2), employers pointed out that students from tourism and catering-related vocational schools should learn more soft skills, such as self-motivation and critical thinking skills. Focus group discussions undertaken for this study suggested that it is usually lower achievers who choose tourism and catering-related vocational schools. In addition, employers report a low level of knowledge of foreign language(s) among these students. They would at most know just one foreign language, which is a constraint to offering superior services to foreign tourists, especially given the recent trend (and future plans) of attracting tourists from other than the traditional home-countries (see section 4.1).

In 2009/2010, 160 students graduated from tourism-related studies. In 1997/1998 there was only one state university offering studies in tourism and catering - the Faculty for Tourism and Catering in Ohrid. In 2009/2010 there were 4 universities, two private and two public, offering tourism-related studies, and the

supply of tourism and catering-related programs increases each year. However, while the number of students in this field of study increased by 44 per cent, the share in total students declined from 4.7 per cent to 4.2 per cent, because the total number of students in the country increased relatively more.

Besides the more traditional concentrations (Tourism or Hotels and restaurants), recently opened private and state universities offer mixed programs (similar to a double major programs) such as Tourism and business logistics or Business logistics, gastronomy and diet, at the State University GoceDelcev in Stip (opened in 2008/2009). There is also an apparent mixing of tourism and catering with gastronomy. All study programs are designed in line with Bologna Declaration requirements, and studies are organised as 3 years undergraduate plus 2 years graduate (Master) studies. Some also offer a specialist degree. The leading faculty is still the Faculty for Tourism and Catering – Ohrid, where 69 per cent of all students in this field of study are enrolled. There is now a subsidiary of this Faculty in another city, Veles. However, despite its modernisation, the National Strategy for Tourism Development 2009-2013 argues that the quality of studies and especially the learning of practical skills (for example, in catering) is low. It suggests that the Faculty also has insufficient resources in terms of space, laboratories and cabinets for practical learning.

The growing supply of and enrolment in tourism and catering higher education may be partly a consequence of growth in higher education generally, but may also be related to an increased demand for such profile of workers, as practices in the sector converge on those in other countries. As noted earlier, a much lower share of HoReCa employees in the former Yugoslav Republic of Macedonia are qualified to degree level or above than in comparable neighbouring countries. In the national legislation (the Law on Catering Activity), there is a requirement that only the manager of hotels with 4 or more stars and of catering premise categorized with 4-stars or more must hold at least a bachelor degree. However businesses may value higher levels of qualification for business rather than legal reasons.

Life-long learning in Tourism and HoReCa sectors might consist of: specific courses, programs for language and computer skills and more general, soft skills programs. There is only one tourism-related continuing education course in the country, offered by the Faculty of Tourism-Skopje - an IATA certified training course.

There are no continuing training programmes/courses specific to the HoReCa sector in the country. This might be overcome by engagement with internationally recognized partners, such as the International Hotel and Restaurant Association (IHRA) or the European Mediterranean Restaurants Association (EMRA). These organizations might organize short, certified courses for hotel and restaurant employees.

Notwithstanding that tourism requires specific knowledge and skills, it also has some general and basic skill needs, such as the knowledge of foreign languages and entrepreneurial skills (Cedefop, 2005). There are many providers of language skills (more than 200 schools for foreign languages nationally). However, if language skills were more extensively taught in elementary and secondary schools, there would not be such a need for students to undertake these additional courses. In light of the growth potential of the tourism sector, it might also be beneficial to develop management and entrepreneurial skills in the sector.

### **5.3. Government Policy and Institutional Set-up**

In 2009 the Ministry of Economy prepared a National Strategy for Tourism Development 2009-2013. The Strategy has not yet been formally adopted by the Government, although it is in fact being implemented in practice. The vision of the Strategy is that the former Yugoslav Republic of Macedonia will establish an image as a well-known European tourist destination, based on its cultural and natural heritage, recognisable by its ecology, and featuring sustainable products and services of high quality. The national tourism product is defined as a rich combination of cultural and natural heritage, with picturesque lakes and magnificent mountains, with different cultures and a rich history. The Strategy aims to increase the share of tourism in

GDP from 3.1 per cent in 2008 to 3.4 per cent in 2013. It also targets increased duration of stay (overnights) of foreign tourists (though acknowledging that increased number of business trips would reduce the average duration), and a 3 per cent annual increase in nights stayed by domestic tourists. The SWOT analysis carried out in the Strategy identifies the following areas in need of improvement in the tourism sector: product development, infrastructure, human resources, marketing, investments and organisational issues.

The responsible institution at government level for tourism is the Ministry of Economy, in particular the Tourism Department within the Ministry. This department is responsible for general tourism policy, licensing and categorisation of hotels, enforcement of legislation, publication of promotional materials, and general promotion of the country as a tourist destination in international markets. The Ministry also organises visits of foreign tour operators, presentations of the country's tourism potential at international fairs, etc.

However, the department lacks both human and financial resources for effective implementation of its obligations (Ministry of Economy, 2010). The activities of the Department (and the Ministry) are planned annually, in a Program for Tourist Propaganda and Informative Activity. Besides the increasing scope of the activities from year to year, the budget allocated for those activities increases as well. For instance, between 2010 and 2011, the allocated budget increased from 33.3 million MKD (541,000 EUR) to 56.7 million MKD (923,000 EUR). The increased budget suggests a greater priority is being given to tourism development by the Government.

In 2008, the Government established the Agency for Promotion and Support of Tourism which was at the time claimed to be an "important step forward to the strengthening and further institutionalization of the Government's obligations for tourism promotion" (Ministry of Economy, 2010, p.147). The main responsibilities of the Agency are the following: professional presentation of all segments and regions which tourism offers; preparation and implementation of Strategies for promotion and development of tourism; preparation of programs for development of tourism in the country; provision of promotional material; developing a unique tourism information system, etc. However, the Agency has a relatively small budget compared to the similar agencies in the region.

In August 2011, the Government established a Committee for Tourism aimed at promoting and developing the tourism sector.

The Committee members are: the Minister of Economy, Minister of Transport and Communications, Minister of Culture, Deputy-Minister of Economy, State Secretary of Economy, Head of the Tourism Department, Director of the Agency for Promotion and Support for Tourism, and representatives from the Ministry of Internal Affairs, and the responsible person for economy and tourism from the Ministry of External Affairs. Occasionally, the Committee might invite to its sessions Economic and Tourism Chambers of Commerce, tourism workers, professors and other experts from tourism who can give their suggestions and initiatives. The Committee is chaired by the Prime Minister and is to meet once per month.

With the decentralisation process in the country, the responsibility for tourism planning and development has been transferred to municipalities. However, the majority of municipalities have not developed tourism plans or strategies. Most of the municipalities are not fulfilling their obligations for inspecting accommodation, or collecting either data or tourism-related taxes. There are, however, good examples of municipalities with programs for tourism development and promotion (the municipality of Ohrid, Gevgelija, for example). The Government focus on the development of the tourism sector was also mirrored in one of the first measures implemented by the newly (re)elected Government in July 2011 - the reduction of the Value Added Tax for hotel services from the general level of 18 per cent to a preferential rate of 5 per cent.

The representative employers' organisation in the area of hotels and tourism is the Hotel Association of Macedonia a member of the Organisation of Employers of Macedonia. The Hotel Association of Macedonia is a member of the International Hotel and Restaurant Association (IHRA), European Mediterranean Restaurants

Association (EMRA), Euro Mediterranean Academy of Tourism, Balkan Alliance of Hotel Associations (BAHA), etc. It is active in international promotion of the country in some international markets, without support from the Ministry.

There is also an Economic Chamber for Tourism of Macedonia (ECTM), with the aim of promoting tourism and improving the business environment for tourism, proposing and enforcing legal regulations for improving tourism in the country, increasing the human potential and promoting Public Private Partnerships. Its members are micro, small and medium-sized enterprises, from tourist agencies, hoteliers and catering providers, transporters and scientific institutions.

#### **5.4. Strategic Direction for the Tourism Sector**

As noted earlier, the Ministry of Economy prepared a National Strategy for Tourism Development in 2009. The strategy aims to grow tourism, and to reduce tourism seasonality. It emphasises attracting more tourists from outside the country, particularly from the nearby countries that are the traditional source of most foreign visitors.

Key features of the plan include:

- Iconic products – Lake Ohrid, archaeological sites at Prilep, Cocev Kamen and possibly Kokino, the birthplace of Mother Theresa and butterflies at Lake Prespa/Galicica Natural Park are proposed for development as tourist attractions. It is also proposed that organic food production be developed, and that this be used to develop the former Yugoslav Republic of Macedonia as a destination offering high quality locally grown organic foods, particularly in rural tourism.
- Resort development – Tourism resorts depend on offering a strong core reason to visit and plenty of additional tourism offerings. The plan emphasises the need to develop the following for each resort: good access; accommodation and catering appropriate to visitor needs; attractions; excursions; activities; entertainment; marketing.
- Tourist itineraries – The plan highlights the fact that tourists can often miss attractions through lack of information, and that themed itineraries can support independent travellers in overcoming this barrier. Possible examples mentioned include: cultural and religious heritage; attractions; and activities. An existing wine themed route is mentioned.
- Tourism activities – The plan highlights special interest activities. While winter sports take place in traditional resorts, other activities serving niche markets tend to spread tourism around, and to reduce seasonality. Examples mentioned are hiking, bird watching, extreme sports, hunting, and more commercial specialist sports such as gliding, including pilot training.

Specific recommendations for tourism product development include:

- Raising the standard of the accommodation stock, by:
  - Closing or upgrading some one and two star accommodation establishments, or by converting them to other uses such as hostel accommodation; and
  - Construction of new properties better aligned to market needs.
- Developing small, family style, pension-type hotels in smaller and developing tourist locations, featuring the traditional culture, folklore and gastronomy of the country.
- Attracting some high quality international hotel brands.
- Attracting international budget hotel brands to establish premises on corridor routes.
- Further developing monastery accommodation as a special attraction.

- Tackling seasonality at Lake Ohrid by attracting more regional and small-scale conference business, and by developing cultural and other events to stretch the season and attract business during off-season periods.
- Strengthening accommodation categorisation and regularising grey market accommodation to ensure proper standards.
- Developing the tourist potential of national parks, following the example of Pellister National Park.
- Developing wine tourism, supporting and following the example of the Tikveš Wine Route Foundation.
- Developing rural and hiking tourism.
- Developing hunting, starting by protecting and increasing game stocks.
- Developing cultural tourism with a focus on cultural events, activities and artefacts.
- Developing traditional crafts to supply souvenirs, with craft centres where craftspeople can be seen at work, complemented by festivals and use of crafts for branding purposes.
- Developing spa tourism for regional markets and examining the potential for medical tourism.
- Total refurbishment of camping and caravan sites, targeted to domestic and regional markets.
- Developing improved destination management companies to partner with foreign travel operators.

The plan targets growth in foreign visitor arrivals of 5% per annum in 2009 and 2010, ramping up to 8% per annum from 2011, and growth of 5% per annum in domestic arrivals, falling to 3% per annum from 2011. The actual outcome for 2009 and 2010 has been significantly weaker than targeted, but this may be more a reflection of difficult economic conditions in Europe than any flaw in the plan's rationale.

The plan proffers various proposals on access and infrastructure, the environment, marketing, investment strategy, human resources development and tourism organization and management designed to support this strategy. The proposals on human resources are directly relevant to this report.

The main priorities on human resources identified are:

- Carrying out a survey in the industry to provide a more reliable and detailed profile of employment, skills and training requirements.
- Improving the quality of initial tourism education by taking measures including: increasing the equipment budget; increasing practical training hours; establishing a group involving schools, faculty (higher education), employers and the Ministry of Education to enable training courses to better meet industry needs; setting out quality standards; strengthening international links in education; establishing career centres to strengthen links with industry; and introduce scholarship programmes for the best students.
- Modernising professional training by: establishing close links between employers and training providers; and establishing a government body to establish standards for training providers and provide certification and licensing.
- Measures to develop a high performing workforce, including: an annual training programme for employees; implementation of an annual training budget in tourism industry stakeholder businesses; subsidies from the government to cover at least half the cost of company training (including study visits abroad, international training, international staff placements and domestic training for all employees); implementation of HR management systems in the industry, with an emphasis on training and development of employees; and implementation of performance appraisal systems

The strategy recommends a number of specific types of training programme, as follows:

- Training in work readiness (skills needed for any occupation, such as basic literacy, computer skills, communication skills, work ethic).
- Training in entry level management skills, such as basic financial skills, leadership and marketing.
- Professional development training for employees to expand their skills and progress.
- Training in the country's cultural awareness to prepare tourism industry employees to support cultural tourism.
- Training in computer literacy and knowledge of new technologies, particularly for maintenance and for use of front desk hotel management applications.
- Training in tourism industry awareness, understanding the business, culture and mission of tourism.
- Second language training for global clientele, including English and Greek among others.
- Training for industry managers in national economics to better understand issues affecting employees that may affect workplace performance.
- Train the trainer programmes.

## 5.5. Case Study – Ireland

The development of the Irish tourism industry provides a case study that is relevant to the former Yugoslav Republic of Macedonia, as there are strong parallels between the development challenges that the Irish industry has faced (and to a significant extent continues to face) and those faced by the industry of the former Yugoslav Republic of Macedonia.

Like the former Yugoslav Republic of Macedonia, Ireland is a small country with issues of peripherality, without potential for mass beach tourism, and with a need to develop niche tourism products and services to realise its potential.

In the past, as with the former Yugoslav Republic of Macedonia, Ireland had an acknowledged need to upgrade the standard of its hospitality services to meet the expectations of visitors from elsewhere in Europe (and, for Ireland, also, the US). While much of the focus was on improving the physical standard of accommodation, there was also a strong focus on improving skills.

Some of the main measures taken to improve skills were:

- Strengthening craft level hospitality training, with a particular emphasis on improving the standard of food service. As a result of improved chef training, Irish restaurants and hotel catering went from being generally poor to mediocre by international standards, to offering a standard of food and service meeting or exceeding the expectations of most international visitors. Building on this, it is now possible for chefs in Ireland to continue their studies beyond craft level to attain a bachelor degree in culinary arts.
- Strengthening hotel management, partly through stronger initial education and partly through continuing education and training initiatives.
  - At a time when higher education in Ireland was expanding rapidly overall, part of the expansion came in hotel management courses. The expansion was in two directions – both greater numbers and educating students to a higher level – and took place both in institutions already

specialising in hospitality management, such as Shannon College of Hotel Management, and in Institutes of Technology<sup>29</sup> that already provided higher education courses in business and craft level hospitality training. While students could leave earlier with a certificate or diploma, they could now continue to obtain a four year degree.

- The national tourism training agency, CERT, which has since merged with the main tourism promotion agency to form Failte Ireland<sup>30</sup>, played a very active role in developing hotel managers, by providing training courses, by assisting many of them in gaining experience overseas, by mentoring and by working with them on their human resource strategies. Failte Ireland now offers professional development programmes in six areas: Executive Management Development (some designed in collaboration with Cornell University, known internationally for its hospitality programmes); Management and Supervisory; Departmental/Line Management; Marketing & Sales; Finance & Cost and Human Resources.
- There has been a strong emphasis on developing the capabilities of managers of small hospitality and tourism businesses. Failte Ireland provides a range of services that include practical support such as with web marketing and trade fairs, but also integrates such assistance with learning oriented support including mentoring, networking events, provision of advice, marketing guides and assistance with employment law compliance.
- There has been a significant emphasis on developing niche tourism activities, including angling (sport fishing), golf, equestrian activities, spa services (pampering in style, and often located within hotels) and hiking. . A diverse patchwork of local, county level and national tourism and enterprise development agencies has provided support for these, which has included learning-oriented interventions including mentoring, support for developing business plans and business networks and partnerships. Failte Ireland has contributed to this with market research, practical assistance with marketing and (for some types of niche service) by establishing quality standard certifications, and helping businesses to raise the quality of their service – and their business management capability – so as to comply with them.

In broad terms, the plans for human resource development set out under National Strategy for Tourism Development of the former Yugoslav Republic of Macedonia are similar to what has been implemented for the tourism industry in Ireland. However, at a detailed level the Irish case differs in its strong emphasis on developing management and business skills in small tourism and hospitality businesses, and in the significant human resource development content of interventions undertaken to assist the development of niche tourism businesses.

The Irish case also points towards the importance of local initiatives, with local tourism networks and partnerships, local and county level development agencies, and local government all making important contributions to developing niche tourism activities.

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<sup>29</sup> Non-university higher education colleges offering education from two year higher certificate level to (more recently) PhD level. Many of them also provide craft level training in the hospitality crafts and in construction and other technical crafts.

<sup>30</sup> The Failte Ireland web site (<http://www.failteireland.ie/>) is a useful source of information

## 6. Conclusions

### Increasing Importance of Skills

The aim of this report is to assess the constraints which limit greater economic diversification, exports, and employment generation in two sectors of the former Yugoslav Republic of Macedonia: Food and Tourism. The focus of the analysis is on constraints prevalent in the business environment and in particular the availability of suitably skilled workers.

The analysis provided in section 2 showed that the economy has experienced substantial growth in recent years, starting in 2006, after a long transitional period of modest growth and minimal employment creation. The global economic crisis of 2009/10 caused a substantial setback, mainly through declines in exports, FDI and remittances, but the consequences on the labour market were less dramatic than in other countries in the region, and growth rebounded in 2010.

The growth model and policy priorities from 2006 onwards have been focused on improving the business environment, attracting FDI and the promotion of exports. International comparisons and ratings show that the business environment in the country has improved considerably, especially in the area of market entry, tax system, etc. On the other hand, access to financing, infrastructure, and the general level of business sophistication and innovation remain obstacles to the operation and expansion of commercial enterprises.

Skills and education are currently not among the top obstacles perceived by employers: about half of employers in the former Yugoslav Republic of Macedonia view education and skills as an issue, although they often complain about the inadequacy of skills of graduates from public education institutions. However, as the country continues to further integrate itself into the global economy and strive to develop new competitive export industries, the demand for skills is bound to increase. This does not just apply to new export industries, but also to traditional sectors. As they adjust to higher competition and standards in the global market, production and employment are likely to shift towards fewer, but larger and more productive enterprises.

Focus group discussions have shown that such firms have rather different employment profiles from smaller firms and tend to employ more skilled workers as well as occupational profiles that are often not found in smaller firms.

### Policy Recommendations at the Macro Level

Public expenditure on education has increased in recent years, and currently stands at about 4.5 per cent of GDP. However the educational policies seem to be biased towards achieving quantity, in terms of increases of the educational attainment of the population, rather than towards greater quality, in terms of better and more appropriate knowledge and skills.

The report identified several pertinent issues. First, there is no skills forecasting system in the country and data are not available for assessing the existent skill gaps. This could be overcome by conducting focus group discussions or surveys with the trend-setting employers in different sectors of the economy. The focus groups/surveys might be organized by the Vocational Education Centre, or by the Ministry of Economy, and/or “sector skills committees” might be established. Findings might then be discussed within the group/committees, and strategies and action plans prepared for the training needs of each industry and for the future reforms of the (vocational) education curricula and standards. It is important that all relevant parties are involved in this exercise, such as the Ministry of Education and Science, Ministry of Economy, representatives from employers’ and workers’ organizations, educational practitioners etc. The recently established Committee for Tourism might be the proper body for discussion and adoption of a training plan for the Tourism and HoReCa sector.

The secondary vocational education system has been partly reformed (only the 4-year programs), and

the reforms were not designed with an active involvement of employers or the local community. Indeed, the survey conducted after the reforms showed that employers are still not satisfied with the skills and knowledge of the graduates. Most dissatisfaction arises in regards to the practical skills of graduates, soft skills, etc. Though it is difficult to find the appropriate balance between specific vocational skills to be taught and the more general skills, the changing environment and the need for employees to adapt to it prompts a need for a greater involvement of general skills or key competencies in the curricula. This includes language skills, especially in the tourism sector, information and communication technology skills, work ethic, communication skills, customer orientation, team work, etc.

In the current global environment, promotion of entrepreneurial skills might be an appropriate strategy for accelerating economic development and employment generation. However, here we do not refer only to specific entrepreneurship courses or programs, but to entrepreneurship as a key competence incorporated across the courses and modules. The lead in promoting entrepreneurship should be taken by the Ministry of Education and Science which might prepare a national plan for entrepreneurship education. The education should start from primary schools, with an emphasis on attitudes, skills, creativity and innovation (ILO, 2011). It should then proceed with a focus on applied knowledge in youth via “real” or “virtual” companies, at the level of secondary education, and towards specific entrepreneurship programs, or combined programs at the level of tertiary education.

#### Policy Recommendations at the Industry Level – Food and Tourism

The analysis undertaken for this report shows that companies in both the food and tourism sectors usually do not have very well developed business strategies and tend to make decisions on an ad-hoc basis. There is a tendency to rely on price competitiveness and they face difficulties in accessing foreign markets through lack of strategic investment in upgrading, marketing, etc. As a result, most companies in both the food and tourism sectors are not well integrated into the regional, EU or even less so, global market. Only very few food-processing firms currently sell to large international supermarket chains, and there are only a modest number of hotels and restaurants that are part of an international chain or franchise.

The report therefore argues that the future growth of both the food and the tourism industries depend critically on the development or strengthening of capabilities in areas such as brand development, international marketing and entry into international supply chains, as well as compliance with international standards. Such capabilities at the company and industry levels can only be developed through a collaborative effort of both the public and the private sectors guided by a joint strategic vision covering all elements of the business environment including skills development with a forward looking perspective. For the tourism sector, such a document is already available with the “National Strategy for Tourism Development”.

The chapters on each sector provide a number of specific recommendations for skills development that could be implemented as part of an industry strategy. For the food industry, these include the following initiatives:

- Management and entrepreneurship training for food processing businesses of all sizes;
- Training for production workers to respond to needs for skills in areas that include food handling and communications;
- Training for technicians to get the most out of production technology;
- Education in areas including process analysis and design, food processing technology, information technology and change management for production managers and food industry professionals to raise productivity
- Development of skills in food science, food engineering and food business to support product development; and
- Advisory services to farmers.

Furthermore, the case study on the sheep meat industry has highlighted the linkages between the industry's export performance and key targets for skill development in all parts of the value chain (sheep producer, abattoirs, meat processing, marketing).

Implementing the human resource proposals of the National Strategy for Tourism Development, particularly those relating to improving tourism education and training at both secondary schools and universities, will make a major contribution to achieving its goals. This report's section on tourism also highlights some key lessons from the implementation of a similar strategy in Ireland, including the importance of initiatives to improve the management skills of those already working in the industry in businesses of all sizes, as well as initiatives at the local level.

Finally, a shared characteristic of both sectors is the high seasonality of business, which leads to a relatively high share of seasonal employment. This can have negative implications on both the quality of employment and the incentives for workers and employers to invest in upgrading of skills. Both employers and workers argue that seasonal work is not well regulated in the country. Hence, the Ministry of Labour and Social Policy might consider reviewing best practice experiences with the regulation of seasonal work and seasonal workers from other countries and, in consultation with the social partners, adapt it to the national context.

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## Annex 1 Focus groups

The two focus group discussions within the project “Policies for Economic Diversification in the former Yugoslav Republic of Macedonia: Enhancing local skills policies for the tourism and agro processing sectors” were conducted on 25 August, 2011 in the premises of the Organisation of Employers of Macedonia. Each focus group discussion concentrated on one of the sectors of analysis, the Food-processing and Tourism sector. The purpose of the focus groups was to gain additional knowledge and insights about the developments in the two sectors of interest, especially in areas where lack of statistical data would harm detailed analysis.

The time slot for each the focus group was 1 hour. Participants were selected and invited by the ILO National Coordinator, and the consultants. The consultants developed a discussion guide/questions that were distributed to the focus group participants prior to the event in order to facilitate the discussion. The questionnaire was developed based on the initial findings from the study and was aimed to clarify and expose some of the findings or areas where there is a lack of data and/or information. The senior consultant, Dr. Nikica Mojsoska-Blazevski was moderator of the discussion and was assisted by Aleksandar Kostadinov, M.A.

The focus group participants for the discussion on the Tourism sector were:

- Mr. Nikola Kjosovski - Director of the service sector at Tehnometal Vardar, a representative of the employers' organisation in Tourism;
- Ms. Gordana Tasevska - Administrative Assistant at Tehnometal Vardar, a representative of the trade union in Tourism;
- Mr. Zoran Georgievski, President of the trade union for catering, tourism, craft, public utilities;
- Ms. Aneta Smit Guleva, a representative of the Organisation of Employers of Macedonia.

The focus group participants for the discussion on the Food-processing industry were:

- Mr. Zhivko Danevski - President of AgroTrade Union
- Mr. Zhivko Naumovski - SwisslionAgroplodResen, a representative of the trade union in Food-processing sector;
- Mr. Sane Naumovski – Director of Prespaturist,, a representative of employers' organisation.
- Ms. Aneta Smit Guleva, a representative of the Organisation of Employers of Macedonia.

The choice over the participants in the focus group discussion was also made in order to at least partly reflect the local dimension of the project and to include employers' representatives from the municipalities involved in the project (Krusevo, Prilep and Resen).

Since some of the institutions of interest for the study were unable to join the focus group discussion, the consultants additionally organised an interview with a representative from the Ministry of Economy, Department for Tourism, Mr. Zoran Nikolovski (the head) and a telephone interview with representative from the Centre for Vocational Education, Mr. Cedimir Dimovski.

The questions/topics that were discussed within the Tourism sector were the following:

1. What is the employment rate in the tourism sector? In particular, data from the Labour Force Survey (LFS) show 61% higher employment rate than the administrative data; LFS data reports about 21,500 employees in 2010, while administrative data show only 13,500 employees.
2. Might the difference be a result of high informal employment, seasonal workers etc?
3. What are the employment dynamics in this sector? According to the LFS data, employment in this sector has doubled for the period 2000-2010, while overall employment in the country registered 4.1% growth. Do you consider realistic these data on employment growth?

4. Is it difficult to find appropriate personal for this industry? And, are there enough job placements for the new graduated high school students (circa 900 students per year)?
5. Is the initial on-the-job training costly?
6. Are employers satisfied with the quality of VET system, particularly of the tourism education? What skills/competences/knowledge is missing into the high school graduates?
7. Have you ever participated in a project for reforming the VET system?
8. Which approach you think would be good for reforming the VET system?
9. Do you think that high quality skills in the area of tourism can be achieved through short-term (non-formal) training courses?
10. Are there lifelong learning programs in the country in the area of tourism? What about short-term certified courses?
11. Why relative salary in the tourism sector is decreasing in the past 5 years? In 2005, average salary in the tourism sector was 85% of the average salary in the country, while it was only 70% in 2010.
12. Are there any efforts in order to increase the touristic offer in the country? Spa tourism, for example? Are there any activities towards decreasing seasonality in tourism?
13. How do you estimate the National Strategy for Tourism Development? Is the implementation of the Strategy appropriate?
14. Tourism sector (and overall export of services) has been analyzed as great potential for export growth in the Strategy for Export Promotion. Have you participated in the preparation of the Strategy and do you have any assessment/opinion about it?
15. How much time is needed to obtain authorization and other administrative documents for start-up of tourist capacity?
16. What is the status of touristic infrastructure, challenges, strengths and weaknesses?
17. Are there any regional touristic offers or initiatives for organizing European events?

Following questions and topics were discussed with the representatives from the Food-processing sector:

1. There is no official data on the educational structure of the employees in this sector. Could you provide an approximate data about the level of education (elementary school, high school, 3 years and 4 years school, university), as well as the occupational profile of workers?
2. How fast is this sector growing? Is it dominated by domestic or foreign owned capital?
3. What is the capacity utilization?
4. What are the export possibilities? Which are the most common export destinations?
5. What are the employment dynamics in the sector? According to LFS, the employment grew by 7.6% between 2000 and 2010, while administrative data show only 4.1% increase. Do you consider this statistical data relevant?
6. Is it difficult to find appropriate workers/skillsfor this industry?
7. Can you explain the decrease of the high school student graduatesfrom food-processing profile? During the period of 1997/1998 – 2009/2010 the number of graduated high school students decreased by 63%.
8. Is the initial on-the-job training costly?

9. Are employers satisfied with the quality of VET system, particularly of the food processing educational profile? Which skills/competences/knowledge are high school graduates missing?
10. Have you ever participated in a project for reforming the VET system?
11. Which approach you think would be good for reforming the VET system?
12. Do you think that high quality skills in the area of food processing can be achieved through short-term training courses?
13. Are there lifelong learning programs developed in the area of food-processing sector? What about short-term certified courses?
14. In 2004, average salary in the food processing industry was higher than average country's salary, while in 2010 it was only 85% of the average salary. Do you have any explanation for this trend? Decreased productivity?
15. Food processing sector has been analyzed in the Strategy for Export Promotion. Have you participated in the preparation of the Strategy and do you have any opinion about it?

Findings from the focus groups discussion and the interviews were thereafter used for better explanation of statistical data and information in the report.

## ANEX II DRAFT LOCAL ACTION PLANS

### MUNICIPALITY OF PRILEP

Foreword notes:

- Dialogue and cooperation among local authorities and local stakeholders (business community, NGO sector, regional office of chamber of commerce, Employment Service Agency (ESA) etc.) is good, informal and ad hoc. Establishing a formal committee and a tripartite socio-economic council on a local level is the task to accomplish.

- Promote cooperation among the local authorities and local ESA office in regard to ALMP targeting, improve ability for hiring suitable candidates, encourage internal mobility scheme (through national ALMP scheme) and counseling sessions with the unemployed.

- Encourage the business community to co-finance and invest in training and skills development of the employees.

- Raise the issue of seasonal workers (mostly in the vegetables processing and tobacco industries) focusing on social benefits and contributions and promote cost sharing (e. g. pension and health insurance contributions would be shared among the Pension Fund, the Health Insurance Fund, the ESA and involved companies). This should be proposed on the national level.

- Business Plan methods and assessment, ( local ESA-LED department in the municipality )

- Support local business associations (e. g. honey producers and farmers) based on a single installment payment, no permanent subsidies.

- Improve coordination with the institutional actors who create programs for the local VET schools (founding local council for analyzing, monitoring and proposing VET programs as prescribed in the Law on VET schools, article 10).

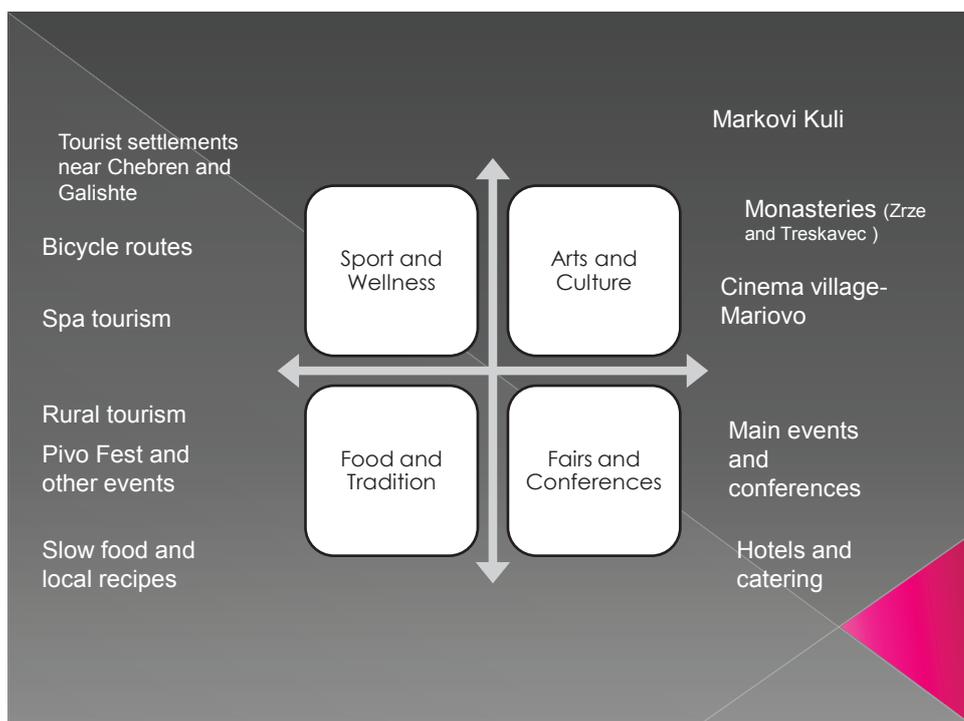
## Food-processing

Goal: Further development of food processing industry				
	Objectives	Indicators		Risks
Objective	Develop processing of vegetables		Declining trend - Requires high working capital	
Objective	Promotion of farmers' organizations - cooperatives		Single rate installment is available to NGO sector	
Objective	Address the problem of Skills mismatch - ESA local office cannot provide quality applicants (either inadequate education or long-term unemployed who lost skills and knowledge)		Improve targeting, develop local training courses tailored to local labour market needs	
Objective	Improve cooperation between employers and educational institutions		Local employers, Centre for adult education, Municipality leading the process	
Objective	Promotion of honey production, slow food in general and foster the organization of honey producers		Promotional activities on ethno bazaars and international markets abroad , Ministry of Economy, Municipality	
Objective	Information on accessing financing from national and EU funds spread	TV spots, PR campaigns, improve web portals	Municipality already started such activities	

## Tourism

Goal: Further development of tourism				
	Objectives	Indicators		Risks
Objective	Improve road signs		Municipality, LED division, started project planning, the intention is to find foreign funds	
Objective	Possibility for citizens to report open manholes, potholes and problems with the street lights	1-2 workdays to resolve the issue	Already started project	
Objective	Promote energy efficiency, use solar energy – priority are schools		The LED department with assistance of the USAID has implemented energy efficiency projects in all schools	
Objective	Further improve public energy consumption	Energy saving lights installed in 80% of public areas across the town, increase percentage and spread initiative to other localities	Local authorities, Ministry of Economy and Ministry of Environment and Physical Planning	
Objective	Info centre for tourists – established	souvenirs, printed maps, tours	<a href="http://www.prilepinfo.mk">www.prilepinfo.mk</a> Further development- ( English language proofing of the web portal, improve content of the portal) possible merger with Krusevo touristic offer and develop regional touristic promotion	

Objective	Improve infrastructure around the Markovi Kuli (candidate for UNESCO Natural Heritage) and monasteries – already some improvement noted but further investment needed in infrastructure		Local and central government	
Objective	Build tourist facilities around artificial water-accumulations of Cebren and Galiste	The project is in its initial phase	Central government	
Objective	Foster religious tourism (Zrze, Treskavec, monasteries)	77 churches in Varosh nearby, icon gallery	Local and central government	
Objective	Construct cinema village in Mariovo – road infrastructure		Local and central government	
Objective	Establish botanical gardens and foster the development of tourism	Botanic garden project is in an advanced stage and is expected to open by next spring	Local and central government	
Objective	Hunting and fishing parks (possibilities for tourism)	Single payment assistance	Local government	
Objective	Rural and spa tourism (work in progress) twin cities with Greece, develop a strategy for refurbishment of old houses in the Mariovo region	Strategy for eco tourism and rural tourism - develop ethno village, reconstruct abandoned villages in Mariovo for touristic purposes	Local government, national and EU funding possibilities	
Objective	Development of high quality accommodation (5 star hotels) – initial phase of the project	The municipality developed an Urban General Plan	Local government of Prilep and Bitola, private initiative	
Objective	Arrange private accommodation during most visited events (Pivofest, Vojdan Chernodrinsky, Pece Atanasovski, Procka, St. Nikola)	Efficient distribution of arriving guests in neighboring towns	Local governments of Prilep, Krusevo and Bitola, private initiative	
Objective	Initiate PPP for investment in glass pyramid, cinema		Local government of Prilep, private initiative	
Objective	Initiate construction of “Fair Building” within Pelagonija region	Promote conference tourism, trade fairs, various events and international fairs (with Greece and Albania for example)	Local government of Prilep, Krusevo and Bitola, private initiative	



## MUNICIPALITY OF RESEN

Goal: Further development of the food processing industry, including apple growing and exports				
	Objectives	Current problem/Measures	Responsibility	Risks
Objective 1	Road infrastructure – some improvement was achieved in the previous years, but further development is needed	Road Carina-Galicica-Ohrid (P-504)-currently closed during wintertime	Central government - not planned	
		Village Dolna Bela Crkva - already in Selo Stenje (regional road from WB)		
		Road around region Makazi where a distributive agriculture center is planned	Central and local government	
		4 km road infrastructure: priority to be established by the Council of the Municipality	EBRD finance	
		Reconstruction of the Road Makazi-Resen (entry road)	Central government	
Objective 2	Improve fruit storage facilities (already part of the urban plan) – priority of the municipality	Industrial zone Makazi	Private incentive or central government, or Private-Public Partnership (PPP) (Agrocor) – planned to start in 2012 (not just storage, but also production of soft drinks, etc). Planned in the government program.	No private incentive
Objective 3	Promote production of apple juice concentrate – there is an increasing demand in world markets	Currently a small quantity is being produced (Vitares, CD Fruit) but the quality is low; the food-processing industry imports apple juice concentrate on its own		

	Promote endemic apple sorts like Idared which does not have to be stored		Municipality and farmers' organizations - financing from the Ministry of Economy (coordination needed)	
	Promote the introduction of new sorts of apples	<p>Advises for the farmers and provides planting material for specific apple sorts</p> <ul style="list-style-type: none"> <li>- Further provision of subsidies;</li> <li>- Establishment of an Institute for Apple Growing;</li> <li>- Market analysis done and possibilities for export examined</li> </ul>	- Ministry of agriculture, forestry and water-supply	
	Promote the export of apples	Related to storage and promotion of endemic apple sorts		Small producers
	Standardize quality in apple growing	- Subsidies for producers who meet criteria for organic production	Ministry of agriculture, forestry and water-supply	
	Establish and/or reconstruct irrigation systems	<p>Now left to individual farmers to provide irrigation</p> <p>The starting point is doing a study on the possibility of constructing irrigation dams</p>	- Municipality	
	Diversify production to reduce vulnerability (apples, apple juice concentrate, dried apples, baby food, soft drinks)	Prepare a study that would examine diversification possibilities in apple growing	Municipality	
	Re-examine opportunities in higher education	Provision of Dispersed Studies for Orchard and for Food-Processing; establish incentives for youth to stay in the Municipality	Scholarships paid by the business sector	
	Improve access to farms/ agriculture land	Build up to 1 km road to farms from main roads	Fund for rural development (individuals, farmers' organizations, Municipality)	

Goal: Development of alternative tourism				
	Objectives	Indicators	Responsibility	Risks
Objective 1	Increase the number of hotels and other types of accommodation	Urbanization of land and possible establishment of tourist zones (a project by the Ministry of Economy) Local municipality would give concessions; - Revitalization of current accommodations - categorization of accommodation	-Ministry of economy  Local municipality	
		Further implementation of activities for cleaning the lakeshore		
		Development of tourism in the vicinity of lakes (regular transport routes) and opening of ports		
		Use of certain accommodation capacities that are owned by public institutions and are not currently utilized	Ministry of Economy in coordination with the Municipality	
		Tracing recreational lanes around the lakes and in the mountains	Ministry of Economy in coordination with the Municipality	
		Opening information centers , improving the connection with and the organization of small providers of accommodation		
Objective 2	Promote tourism in the region	- Opening information centers - Setting up a municipality website with information on tourism - Electronic tourist map of Prespa - Printing promotional leaflets and brochures for the municipality; - Mapping monasteries in the region	Municipality	
	Promote tourism related to the local fauna ( reserach toursim)	- Building platforms for bird watching - Open exhibits showing birds and other fauna	The responsibility for running the national park would be transferred to the Municiplaity from the Ministry of Economy	
	Promote religious tourism within the Prespa region (mountain Baba)	Two projects are currently ongoing	Ministry of Economy	
	Advertise archeological sites	There are 130 archeological sites in the municipality but they are not explored	Ministry of Culture and Municipality	
	Put together a special tourist offer for Turkey	Inter-municipal tourist program involving several historical sights	Ministry of Economy and municipalities	
	Project Prespa Park (the former Yugoslav Republic of Macedonia, Albania and Greece) with integrated management by the three municipalities	Development of transportation routes on the lake	UNDP and municipalities in each country	

## MUNICIPALITY OF KRUSHEVO

### Krusevo - Tourism

Goal: Further development of tourism				
	Objectives	Indicators		Risks
Objective	Improve access to information on the availability of private accommodation – currently only on the municipality's website		Municipality and individual providers	Municipality has insufficient funds
Objective	Tourist bureau established			
Objective	Expand possibilities in tourism, promote both in domestic and international markets, such as the new project "Krusevo-ethno city"		Municipality (although initial financing from the state)	
Objective	Improve the variety of food			
Objective	Diversify the tourist offer and broaden it to cover the whole year			
Objective	Establish local ski center		In private ownership, but there might be some municipal support	
Objective	Promote sports tourism (sport centers, tennis courts, indoor swimming pools); promote training possibilities among professional athletes			
	Improve link between sport centers, hotels and providers of private accommodation			
	Construct new ski slope – investment of hotel Montana			
	Promote Krusevo as a tourist destination		Municipality, Ministry of Economy	
	Organize a culinary fair, workshop		Municipality	



