



HOW TO MAKE THE ECONOMY OF GOSTIVAR A CHAMPION?

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Center for Research and Policy Making

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Introduction

There are many factors, policies and institutions that determine the sharply different growth experiences of various countries. Finland remains at the top of the competitiveness rating in the world as it has the strongest innovative business environment in the world. China and India are in the middle¹ but have strong growth potentials as they increased inflows of FDI to skill and technology-intensive sectors. One of the crucial factors for growth is the macroeconomic environment. Another one is the quality of education, the acquisition of relevant skills and the level of training of the labor force. The swift reduction in the costs of transport and communications allowed global corporations to shift production to places in the world which are capable of bringing together the right combination of skills and low labor costs with political and social stability. These countries are becoming increasingly competitive.

In this respect we ask the question: **what makes a country, a region, a town competitive?** Is Macedonia competitive; is it likely to increase its competitiveness in the future? How does the decentralization and Europeanization, as two parallel processes, affect the economic development of the country; can they create an environment that is politically and socially stable for spurring economic growth?

Macedonia currently ranks 85th out of 100 economies in the world, according to the latest World Development Report. Since December 17, 2005, it is a candidate country for EU membership. As of July 1, 2005, it is officially a decentralized country, where municipalities have authority, among other things, to create policies for local economic development.

¹ In the 2005 World Competitiveness report China ranks 49th and India 50th.

The development of the Macedonian economy can be defined as being **factor driven**². It has macroeconomic stability³, large unemployment⁴, and huge SME sector⁵. However, its labor force is predominantly uneducated⁶ and the level of FDI is lowest in the region⁷. The EU integration process has been the main driving force to achieve democratic consolidation, political and macroeconomic stability.⁸ Evidence from CEE countries which became EU members in 2004 shows that “they have fared better than the old Member States (EU15) with an economic growth on average of 3, 4 % a year between 1997 and 2005.”⁹ The impact of the Europeanization on the countries from South Eastern Europe, including Macedonia, is expected to be even more profound.

The decentralization process is crucial for better understanding the Macedonian economic development. Therefore the CRPM team decided to research on a micro level, as the local economic dynamics of a municipality is a good example of the economic realities in parts of the country. The municipality in question is **Gostivar**.

Our research was conducted in the period of April 2005 to June 2006 and encompassed detailed desktop research (review of studies, analysis, books, and analyses of statistical data) as well as qualitative interviews, using

² As defined in table 1

³ Characterized by stable currency, consistent maintenance of external and internal liquidity of the country and exceptionally low deficits of the Central Budget and inflation rate at 0.5% in 2005

⁴ 39.3% in 2004 (according to ILO definition)

⁵ In 2004, 98.7 percent of all the economically active firms had less than 250 employees, accounting for about 61 percent of the total employment in the country

⁶ In 2004, according to the labor force survey of the State Statistical Office, 52.4% of the unemployed had only completed primary education or lower

⁷ The per capita inflow in 2004 was 60, lower than Montenegro at 80 and Albania at 86 million euros

⁸ This is endorsed in the communication from the EC in support to Macedonian EU membership (COM (2005) 562.. “The Republic of Macedonia has stable democratic institutions which function properly, respecting the limits of their competences and co-operating with each other. The economy has achieved a high degree of macroeconomic stability, with low inflation, balanced public finances and low public indebtedness. Price and trade liberalization, as well as privatization, is largely completed. The financial sector appears to be stable. The labor force is equipped with sound basic education and the country's endowment of transport and telecommunication infrastructure is fairly good.”

⁹ EC Press release: “Enlargement, two years on: all win as new Member States get richer”, 03/05/2006

participatory research methods, with around 130 stakeholders - businessmen, representatives of the local administration, owners and employees in private enterprises, directors and civil servants, guest workers and ordinary citizens.

We embarked on this research assuming that Gostivar is at the first stage of development of the market economy. There is a lack of capital to invest and facilitate further growth. Gostivar has one of the lowest activity rates in Macedonia. This directly affects the low employment rate. Gostivar lacks qualified labor force that would make the economic activities in the municipality move to a higher value added production and services. The foreign investments are low preventing the town and its economy from access to new technology and the know-how.

In this study, we explore the possibilities of Gostivar's economy to become an investment driven¹⁰ type of economy. Are there potentials that can stimulate economic growth and if so, which are those potentials? We identify "champions" of the Gostivar economy. By profiling them we want to understand which are the necessary factors to create environment for the emulation of theirs success.

Another important aspect of our study is the public policy and how it facilitates economic development. The analysis of current state of affairs in the policy making on local level allows us to identify trends, successes as well as challenges for the increasing the role of the local self government as key policy actor in providing environment for local economic development. We also assess the roles of the citizens, the business community and the central government.

¹⁰ As defined in table 1

Table 1: Stages of economic development

Development Stage	Key Economic Challenges	Focus of Economic Production	Education Requirements for Labor Markets Associated with Different Development Stages
Factor-Driven Growth	Get factor markets working properly in order to mobilize land, labor, and capital	Natural resource extraction, assembly, labor-intensive manufacturing. Primary sector is dominant.	Employment concentrated in agriculture, extractive industries, and small enterprises. Education requirements: basic education, low-level skills, disciplined work habits.
Investment-Driven Growth	Attract foreign direct investment and imported technology to exploit land, labor, and capital and begin to link the national economy with the global economy	Manufacturing and outsourced service exports. Secondary sector is dominant.	Increasing share of employment in manufacturing, services, and medium size industries. Education requirements: an increasing share of new labor market entrants with upper secondary and tertiary education.
Innovation-Driven Growth	Generate high rate of innovation, and adaptation and commercialization of new technologies	Innovative products and services at the global technology frontier. Tertiary sector is dominant.	Employment increasingly concentrated in high value added goods and services and in firms with rapid technological change. Education and knowledge requirements: almost universal secondary education, modernized secondary vocational/technical education, continuous learning to retool and update skills, flexible labor markets (easy entry, easy exit), increasing enrollment rates in higher education, especially in science and engineering specializations, dynamic R&D sector linking higher education programs and innovating firms.

Adapted by CRPM from *The Global Competitiveness Report, 2001/2001*, Klaus Schwab, Michael Porter, and Jeffrey Sachs, editors. The World Economic Forum, Geneva, 2001.

1

Gostivar - developments in socialist times

Gostivar is located in the Polog valley, forty five minutes drive from Skopje. The land is fertile. The municipality is surrounded by high mountains, Shara, Bistra and Suva Gora. The biggest Macedonian river - Vardar has its springs here. Gostivar is situated on the route of the Corridor 8, projected to connect Varna to Skopje and Tirana.

Mentioned for the first time in the XIV century under the name "Selo Velika" Gostivar was an insignificant locality until it experienced a mass growth in the 19th century, becoming a significant regional center for trade and crafts.¹¹ Agriculture and cattle-breeding also contributed to the local economy. The number of inhabitants of the town grew constantly, from about 2.000 in 1874 to 7.832 in 1948.¹² Gostivar's ethnic make up was diverse, the Macedonians and the Turks being mostly concentrated in the town, whereas the majority of Albanians living in the surrounding mountainous villages.¹³ During the last years of the Ottoman Empire, the Turks have by far outnumbered other ethnic groups in the Gostivar region and in the town of Gostivar. This changed after the Balkan Wars, a period that saw a mass departure of the Turks to Istanbul and Anatolia.¹⁴ Macedonians and Albanians moved in the towns. Such migrations continued in the interwar period. Many Albanians gave up cattle breeding as a way of living. They emigrated from villages situated in the high mountains, partly

¹¹ Monographic study on Gostivar- National University Library, Skopje 1983, pp. 71-83

¹² Ibid.

¹³ Janko Bilbiloski - "Gostivar i Gostivarsko"

¹⁴ See: http://www.ozturkler.com/data_english/0008/0008_16_08_2.htm

descending to the Polog valley to make use of the fertile land and partly moving to the town of Gostivar.¹⁵

Today the Municipality of Gostivar has 35 inhabited settlements with a total population of 81.035 out of whom 35.847 live in the town of Gostivar.¹⁶ The Municipality is among the biggest in Macedonia. The vast majority of Macedonians and Roms as well as a big part of Turks live in the town, while the Albanians are most populous in the surrounding villages and in the town.

Table 2: Total population and the ethnic composition of the Municipality of Gostivar after the World War Two.

Year of censuses	Ethnic affiliation				
	Total	Macedonians	Albanians	Turks	Roma
1953	14928	4134	8213	1932	353
1961	18870	6641	7282	4473	...
1971	27214	9262	12539	4504	219
1981	39306	11429	20773	4426	1384
1991	20608	13594	... ¹⁷	4038	1977
1994	45740	13514	25186	4477	1884
2002	49545	13149	29236	4564	1904
2005 ¹⁸	81035	15870	54038	7991	2237

Alike many other towns of socialist Macedonia Gostivar too experienced an intensive period of industrial growth and urbanization after 1945. The industrial production in Gostivar was mainly conceptualized on the utilization of the natural resources of which the area is rich such as agriculture, mining, water power, and basic textile production using the cotton and wool produced in the area.

¹⁵ Boge Dimitrievski ed, "Taka se zboruva vo Gostivar", Skopje, 2000

¹⁶ Source: Census 2002 data

¹⁷ The Albanian population boycotted the 1991 census.

¹⁸ The total population of the Municipality of Gostivar has only nominally increased as result of the new Law on Territorial Organization, which adopted in 2004. The smaller municipalities of Vrutok, Dolna Banica, Cegrane and Srbinovo were incorporated into the Municipality of Gostivar.

Since there was virtually no industrial tradition in Gostivar before 1945 all the necessary facilities were erected from scratch.¹⁹ As it was the case with many other Macedonian towns (such as Shtip, Bitola, Tetovo, Kumanovo), Gostivar too became center for textile production in the 50's.

Socially-owned textile and clothing manufacturer "Dekon" was the first big enterprise opened in post-war Gostivar. It was founded in 1948, under the name "Kilimara". At the beginning, it existed as a carpet factory, using the locally produced wool and being famous thanks to its hand making of Persian-like carpets. The company was transformed to a clothing producer and renamed to "Proleter" in 1973, while since 1982 it has been operating as "Dekon".²⁰ The second investment in the Gostivar's textile industry was the opening of the company for production of basic textile fabrics, "Goteks" in 1958. Established as "Platnara", the enterprise initially processed cotton yarn only. The factory grew quickly adding units for the production of polyester fibers at the end of 70's, weaving in 1982, enrichment of fabrics in 1983 and bed linen production in 1985.²¹

Much of the post-war industrial development was also based on the utilization of natural resources located near the town- water springs, and various minerals, such as ore dolomite, calcium carbonate, chalkstone, marble, clay, sand. As the Vardar springs in Vrutok and the region around Gostivar is abundant with water, investing in hydro-power facilities seemed logical. The construction of a regional hydroelectric power system, which began in 1947, was the first serious industrial endeavor in the municipality. The Hydroelectric Power System "Mavrovo" (HPS Mavrovo) became operational in 1957 the hydro power plant being opened by President Tito himself.²² HPS "Mavrovo" became one of the most significant power

¹⁹ The only serious industrial capacity which existed in pre-war Gostivar was the brick-manufacturing factory "Ciglana" founded in 1936. See: Stopanski vesnik, September 23, 1971, p.29

²⁰ CRPM interview with "Dekon's" Office Manager, Evica Miloshevska, April 15, 2005

²¹ See: Stopanski vesnik, March 26, 1986

²² See: "Revitalizirani gostivarskite hidrocentrali", Dnevnik, January 13, 2005

producers in Macedonia, triggering employment of many citizens from Gostivar.

The biggest and most significant industrial capacity in socialist Gostivar - the factory for refractory materials "Silika" was built to make use of these resources. It was established in 1958 by a decision of the Government of Socialist Macedonia. At first, the company consisted only of "Alumo-Silikatna", a factory for production of silica fireproof materials, used for production of glazier stoves and coke batteries. Soon thereafter, the discovery of huge quantities of dolomite ore in a nearby village prompted the establishment of the dolomite processing plant "Dolomitna," incorporated in "Silika" in 1968.²³ One third of "Silika's" production was sold on the Yugoslav market, the rest exported to the former socialist block of countries such as Romania, and Czechoslovakia.²⁴ In 1956 a factory for production of decorative stones and marble processing "Mermeri" was established.

After the Second World War, the agriculture sector was also modernized. In 1961, three big stoves were installed in "Zhito Shar", a wheat-processor and flour and bread supplier. Mass-scale production of bread in Gostivar began. The company expanded again in 1976 by opening an automatic bakery as well as a new mill.²⁵ Streamlining the cattle-breeding in the Gostivar region was the main rationale behind founding an industrial slaughterhouse, the "Gorni Polog" in 1960. Initially it dealt with processing of sheep and lamb meat mostly. In the 1970's, it began exporting to foreign markets. In the 1980's, besides its primary occupation - slaughtering of cattle, the factory also started with the production of sausages, meat tins and farina.²⁶

²³ Dolomite is a mineral used among others for production of refractory bricks or as catalyst in steel industry.

²⁴ CRPM interview with Jovance Nikolovski, former General Director of "Silika", August 10, 2005

²⁵ CRPM interview with Borce Jovanovski, former Director of "Zhito Shar", April 24, 2005

²⁶ CRPM interview with Ruse Stefanovski the owner, and Zlatko Jakimovski head of the accounting department in "Gorni Polog", 28.04.2005

Modernization and the rapid growth of the socialist industry resulted in migration of the Macedonians to the city, largely depopulating a number of villages. Just in eight years, from 1953 to 1961 the number of Macedonians in the town doubled, tripling in 1971.²⁷ About 36% of the Macedonians lived in villages around Gostivar in 1953. By 1971 only 12% of the Macedonians inhabited the country side. While Macedonians took jobs in the expanding socially owned enterprises many Albanians emigrated abroad especially since countries from Western Europe such as Germany opened their doors to the “guest-workers” from Tito’s Yugoslavia.

Table 3: Total population with the ethnic composition of the town of Gostivar after the World War Two.

Year of censuses	Ethnic affiliation				
	Total	Macedonians	Albanians	Turks	Roma
1953	9509	2637	4313	1924	353
1961	12787	5092	2904 ²⁸	4349	...
1971	19467	8109	6044	4449	219
1981	27726	10127	10791	4378	1254
1991	18734	11946	...	4023	1842
1994	32926	12084	14128	4475	1609
2002	35847	11855	16890	4559	1899

The socialist era was a period of expansion and relative prosperity of the Gostivar municipality. Before the collapse of Yugoslavia, employees in Gostivar's economy enjoyed a decent life and solid working conditions. For instance, “Goteks” ran its own ambulance, restaurant and a daily-care center for children with parents employed in the company, as well as summer camps at the Ohrid Lake and in Dubrovnik. The company also bought around 100 apartments for its workers.²⁹ “Silika” sent its workers to

²⁷ From 2637 Macedonians in Gostivar town in 1953 to 5092 in 1961, and 8109 in 1971

²⁸ The decrease in numbers of Albanians in 1961 is due to the fact that many Albanians and other Muslim minorities declared themselves as “Turks” in order to benefit from the 1950 emigration agreement between Turkey and Yugoslavia, to be eligible to move to Turkey. See Hugh Poulton, “The Balkans. States and Minorities in Conflict”, London, 1993, p. 92

²⁹ Ibid.

a health spa, making an ambulance, a dentist and a restaurant, also available to them.³⁰ The factory had own vacation premises in Tivat (Montenegro) and Ohrid providing flats for its workers as well.³¹ While the employees of "Silika" and workers of other SOE's had respectable salaries too, cheap and attractive loans were available as well.³² About 300 families from Gostivar were able to buy a weekend house at the Mavrovo Lake.³³

All the important parts of Gostivar's socialist industry were labor-intensive, hiring new workers almost to end of 80's, when the employment rate in SOE was highest. In this period, the top seven SOE in Gostivar employed about 5350 workers. On the other hand, in most cases the type of the performed work was such that the employees rarely needed specific and sophisticated skills. Few had any incentive for an educational upgrading.

Table 4: Number of employees in biggest SOE in Gostivar

Company	End of 80's
"SILIKA"	1900
"Goteks"	1300
"Mermeri"	700
Vidoe Smilenski Bato-factory for fiber glass	500
"Dekon"	450
"Gorni Polog"	300
"Zhito Shar"	200

Albeit the employment in the socially owned sector in Gostivar was increasing permanently, the vast majority of the staff remained under-skilled or under-educated.³⁴ The overall educational level of the inhabitants of Gostivar during socialism was poor, the starting level being extremely

³⁰ See: Stopanski vesnik, December 1, 1986, p. 28

³¹ CRPM interview with Jovance Nikolovski, former General Director of "SILIKA", August 10, 2005

³² CRPM interview with Lazar Lazarevski, former worker of "Silika", currently Coordinator of the Gostivar branch of Association of Laid-Off Workers from the Liquidated Companies in Macedonia, March 10, 2006

³³ CRPM interview with Kiro Kiproovski, journalist in Radio Gostivar, March 3, 2006

³⁴ Out of 1900 "Silika's" workers only 189 were university degree holders.

low. In 1951, the vast majority of the inhabitants were illiterate. While the education attainment levels grew year by year still, in 1981, there were almost 13,000 persons without formal education, and 21,500 with completed primary education only. Only 606 had a university degree.³⁵

Although the socially owned sector seemed thriving in the 1970's and 1980's the Municipality of Gostivar was among the 14 "underdeveloped regions" within the Socialist Republic of Macedonia. In fact, the growth of the Gostivar SOE's was not based on sound economic logic. For example, since its establishment, "Goteks" never made profits. On the contrary it was only piling up financial losses year by year. The factory used an outdated technology and lacked needed mechanization.³⁶ The story of "Dekon" was similar.³⁷

Despite the economic inadequacies, both enterprises were encouraged by the authorities to widen the scope of activities and launch new production lines. They were to "absorb" the unemployed youngsters from Gostivar. Politicians influenced the economy to such an extent that in 1986, the management of "Goteks", already suffering problems of its own, was 'advised' to take over the loss-making textile factory "Skudrinje".³⁸ It was the practice imposed also on other companies at that time, as for instance "Silika" took over the loss-making company "IGM Vardar" from Gostivar.³⁹

The debt-burdened enterprises, with a surplus of unskilled workers, using outdated equipment, could not last for too long.⁴⁰ Many could not even pay suppliers of the necessary raw materials. The bloody dissolution of Yugoslavia and the collapse of common domestic market further complicated the functioning of the companies from the Gostivar. The

³⁵ See: 1981 Census, State Statistical Office

³⁶ CRPM interview with Dragica Nikolovska, former Deputy General Director of "Goteks", June 10, 2005

³⁷ See: Stopanski vesnik, June 4, 1980

³⁸ CRPM interview with Dragica Nikolovska, former Deputy General Director of "Goteks", June 10, 2005

³⁹ "IGM Vardar" was successor of pre-war brick plant "Ciglana" who currently operates under the name "Tulana".

⁴⁰ Out of 1900 "Silika's" workers only 189 were university degree holders.

transport costs increased and the well-established transport routes to Europe were difficult to cross. Doing business with Western buyers was tricky and many business opportunities were lost.⁴¹ Moreover, as the former communist economies opened up in the early 1990's competition export to Eastern Europe became difficult as Western companies began conquering these markets.

⁴¹ At the beginning of 90's, in order to keep the customers, "Silika" started to bear most of the transport, thus cumulating debts and diminishing profits.

2

The Transition and the Current State of Affairs - the rise of the micro sector

In the early 1990's Macedonia went through political and economic turmoil changing the socialist system with a capitalist democracy. As the former industrial leaders of the town, continued making losses in the 1990's workers had to be laid-off. Strikes were frequent. All of the Gostivar companies except HPS "Mavrovo," which was considered a "strategic public asset," were transformed into joint stockholding companies (*'Akcionersko Drushtvo'*). Hastily introduced changes of managerial boards, different partisan interests and political pressure followed. The privatization process however, did not bring new capital and modern managerial skills. As a result, the newly privatized companies failed to make profits. Almost all of them went bankrupt and were liquidated.

The fall of "Silika" is indicative for our story. Evaluated as being worth 30 million Deutschmarks (15 million Euros) in 1995 "Silika" was broken into three separate business units: "AD Alumosilikati" (estimated at 4 million Euros, employing 500 employees), "AD Dolomit" (8 million Euros and 130 employees) and "AD Remont" (250 thousands Euros and 70 employees). "AD Alumosilikati" continued generating losses and declared bankruptcy in February 2002.⁴² After two domestic tenders failed, it was sold at an international tender to the company "Gemiks" from Skopje for 210,000 Euros in 2003. The company has not restarted production, the owner apparently seeking foreign partners interested in capital investment.

⁴² See: " "Alumosilikati" vo stecaj", Utrinski vesnik, February 22, 2002

Table 5: Number of employees in biggest enterprises in socialist time and today⁴³

Company	End of 80's	End of 2005
"SILIKA"	1900	ca.140 ⁴⁴
"Goteks"	1300	ca. 40
"Mermeri"	700	liquidated
"Ohim-Ges" (former Vidoe Smilenski Bato-factory for fiber glass)	500	liquidated
"Dekon"	450	350
"Gorni Polog"	300	ca. 50
"Zhito Shar" (flour processing and bread processing company)	200	130
"Getro" (retail and wholesale stores chain, successor of former "Gostivarska trgovija")	450	ca.200

The most profitable unit of former "SILIKA", "AD Dolomit" fared better. In 2003 it was sold for 750 thousands Euros to a Turkish company "Haznedar", one of the biggest refractory material producers in Europe. In the negotiation process, the government obliged the future investor to employ 83 people, to invest 4 million euros in the forthcoming five years and to accomplish annual capacity of 45.000 tones of fireproof materials.⁴⁵ The company has been renamed "AD Vardar Dolomite" and has 72 employees. So far, the new owner invested more than 5 million Euros.

Once a part "Silika" the mines in Chajle were given for concessionary use in 2001, to a private businessperson, Ekri Elmazi, for 1,500,000 Deutschmarks (750,000 Euros).⁴⁶ Yet there is little work done in the mine nowadays, the number of workers fallen from 75 at the end of 90's to about 30 nowadays; the owner seems to care more for the other two companies in his possession

⁴³ The numbers presented in the table is combination of data obtained from the Central Registry and CRPM's estimations based on field interviews and observing the situation on the ground

⁴⁴ The total number of workers in the companies created as a result of transformation of former "SILIKA"

⁴⁵ CRPM interview with Dragan Filipovski, former trustee of "AD Alumosilikat", "AD Dolomit", "AD Remont" and "AD Mermeri", April 8, 2005

⁴⁶ CRPM interview with Dragan Filipovski, former trustee of "AD Alumosilikat", "AD Dolomit", "AD Remont" and "AD Mermeri", April 8, 2005. CRPM interview with Ekri Elmazi, the concessionaire of mine in Chajle, June 13, 2005

than for the mine.⁴⁷ The brick plant “Tulana” was also successor privatized in 2001. A look at the remaining parts of “the Silika” compound tells a sad story. One can observe an “apocalyptic landscape”, with most of the buildings objects falling apart, windows and doors broken/stolen, emptiness, abandonment and no people at sight except the guards at the entrance.

The second biggest industrial enterprise of Gostivar, “Goteks” has also followed a thorny path of transition. The 1990’s was a period of decline. In 2001, “Goteks” stopped production and was declared a loss-making company, going bankrupt the next year. At the beginning of 2004 “Eksima Komerc” from Skopje bought the company for 62.000 euros.⁴⁸ The new owner restarted production at the end of June 2004.⁴⁹ The factory for the production of decorative stones and marble processing “Mermeri” did not fare much better. Sold for 305.000 euros at a domestic tender, it has been resold twice since production did not restart.⁵⁰

The clothing manufacturer “Dekon” is the only former SOE that survived the transition period. It currently employs about 350 workers, making it the biggest private employer in the municipality of Gostivar⁵¹ However, “Dekon” does low value added contract manufacturing and does not have a bright future ahead. The employees are semi-skilled women doing simple “sewing and stitching” and their salaries are low. Its current business achievements are based mainly on their low labor costs and the proximity to the end markets, which does not guarantee long lasting stability in the rapidly changing environment of the global clothing industry and the increased

⁴⁷ CRPM interview with Zdravko Trpeski, former director of mine Chajle and former member of management of “Alumosilikatna”, March 23, 2006. CRPM interview with Ekri Elmazi, the concessionaire of mine in Chajle, June 13, 2005

⁴⁸ According to Dragica Nikolovska, former Deputy General Director of “Goteks”, the company was valued at 15 million DM at the beginning of 90’s.

⁴⁹ See: “Tkajacnicita na “Goteks” vo pogon”, Dnevnik, August 3, 2004

⁵⁰ CRPM interview with Ivan Markovski, former employee in “Mermeri”, currently a manager of marble processing company “Heming Inzineriing” renting part of “Mermeri’s” premises, June 8, 2005

⁵¹ Data from the Central Registry of the Republic of Macedonia

competition from China and other countries from South-East Europe. Similar is the situation in other manufacturing firms in Gostivar.

Box 1: Indicators of the state of affairs in the municipality of Gostivar

Low value-added activity

- a) The prevailing economic sectors in Gostivar feature low value-added activity as one of their intrinsic traits.
 - i) Textile firms “sew and stitch”; under the contract manufacturing scheme. (*Dekon*)
 - ii) Timber-processing firms merely assemble door, frames, windows and blinds from imported and finalized materials. (*Alfa Less*)
 - iii) Companies close down their production plants, restructure and concentrate only on trading with the very same wares they once used to produce. (*Friigo Vaar*)

Box 2: Indicators of the state of affairs in the municipality of Gostivar

Low level of foreign direct investments (FDI)

- b) In the period between 1991 and 2004, the new municipality of Gostivar succeeded to attract no more than 6 million Euro of FDI. This amounts to insignificant 0,5% of the total FDI in Macedonia, which are, by the way, also miniscule, estimated at about 1,3 billion Euro for the abovementioned period. (*National Bank of Macedonia*)
- c) The low level of FDI in the municipality is, among other things, due to the ingrained perception that the Polog region, including Gostivar, is still an area with high political and security risks.
 - i) The majority of international organizations and agencies keeps on applying for security clearance before their personnel visits the Tetovo-Gostivar region. (*UNDP, World Bank, IMF*)
 - ii) The banks refuse to support local firms’ investment projects due to high risks. (*Sezlinger*)

During the transformation the total number of workers in the 8 enterprises, former pillars of the Gostivar's industry, has decreased from about 5800 at the end of 1980's to about 910 in the first half of 2006. Only two foreign direct investments were made in the former SOEs worth 6 million Euros, less than 1% of the overall investments in Macedonia.⁵²

The gradual rise in unemployment was the most eminent result of the transformation of the economy of Gostivar. The collapse of the "Gostivar's" former socialist enterprises resulted in a loss of over 4.900 jobs. Although the big industry in Gostivar did not cease to exist overnight, its downfall was one of the most dramatic features of the transition.

Table 6: Rise of the official unemployment in the Municipality of Gostivar after beginning the period of transition⁵³

Year	Number of registered unemployed persons in Gostivar
1992	6975
1993	7273
1994	8212
1995	9375
1996	10552
1997	9707
1998	10671
1999	11832
2000	12321
2001	13417
2002	15397
2003	16373
2004	16764
2005	16773
2006 ⁵⁴	16083

⁵² See for example, European Bank for Reconstruction and Development, Transition Report Update, May 2006, p.45.

⁵³ Date obtained from Novak Ristovski, Researcher on the labor market within the Agency for Employment in Gostivar

⁵⁴ The number of unemployed in the Municipality of Gostivar, as of January 31, 2005

At the beginning of January 2006, 16.083 persons were registered as unemployed in the Gostivar's Agency for Employment. In addition, there were slightly more than 7.000 users of various forms of pensions (old age, disability, family pensions). Of the officially registered unemployed 5.541 were people (about 400 with university degrees) younger than 30 seeking their first job for more than 5 years for.⁵⁵ The Agency presumes that about 7.000 persons registered as unemployed do not actually look for a new job but use their workless status to obtain health insurance.⁵⁶

Box 3: Indicators of the state of affairs in the municipality of Gostivar

High unemployment rate

- d) There are 16083 unemployed persons in the municipality of Gostivar (*Regional Unit of the Agency for Employment, January 2006*)
- e) The economic activity/employment rate in Gostivar is 21,3%, which is one of the lowest at national level. (*National Office for Statistics*)
- f) New posts are being opened, but at a very low pace of no more than 100 a month. Most of them are seasonal. (*Regional Unit of the Agency for Employment*)

Indeed, few persons work in Gostivar today. The number of officially registered jobs in Gostivar has almost halved since the beginning of 90's. Official employment in Gostivar is remarkably low, just 10.087 persons.⁵⁷ Bearing in mind that there are 51063 persons aged 15 to 64, then we have a strikingly low activity rate of approximately 21,3%, among the lowest in the country. Yet, one must not forget the grey economy, which provides for significant number of jobs in Gostivar.

⁵⁵ Ibid.

⁵⁶ See: "Vo Gostivar okolu 7.000 lica fiktivno baraat rabota", Utrinski vesnik, December 26, 2005

⁵⁷ Source: State Statistical Office, Census 2002, Book VI- "The population in the country according to the activity", Skopje April 2004, pp. 30,31,33,55,59

Table 7: Total number of registered unemployed in urban and rural areas and according to the gender

Total number of unemployed (January 2006) ⁵⁸	Town of Gostivar	Rural areas	Men	Women
16083	8649	7434	11046	5037
Macedonians	Albanians	Turks	Roma	Others
3681	9274	1340	663	1100

Many of those who are employed hold jobs in the public sector, either within the municipal administration, or in the local health, social, cultural, educational and judiciary institutions. In fact, the single biggest employer in the Municipality of Gostivar is the local hospital with about 650 employees, followed by HPS “Mavrovo” with 360.⁵⁹ The various bodies of the municipal administration employ around 100 persons, whereas the municipal enterprise for Water Supply “Komunalec” employs another 200 people.⁶⁰

Table 8: Biggest employers in the Municipality of Gostivar (beginning of 2006)

Employers	Number of employees	Type of company
Medical center	650	Public
HPS “Mavrovo”	360	Public
“Dekon”	350	Private
“Getro” ⁶¹	ca.200	Private
“Komunalec”	200	Public
“Elektrodistribucija” ⁶²	136	Public
“Zhito Shar”	130	Private

⁵⁸ Date obtained from Novak Ristovski, Researcher on the labor market within the Agency for Employment in Gostivar

⁵⁹ See: CRPM interview with Zhare Trpeski, director of HPS “Mavrovo”, March 31, 2006

⁶⁰ See: CRPM interview with Hasip Jusufi, director of “Komunalec”, February 17, 2006

⁶¹ According to data from Central Registry “Getro” has 110 employees whereas at the official website of the company (www.getro.com.mk) we can find number of over 300 workers. We assume that number 200 is closest to the real situation on the ground.

⁶² Enterprise dealing with distribution of electric power

Considering the low level of education in Gostivar it is not surprising that few people are employed. Among those who are registered as unemployed, only a fraction has degrees from universities (2%).⁶³ About 21% of the job seekers have secondary education degree, the other 77% holding a diploma from primary school if that.

Box 4: Indicators of the state of affairs in the municipality of Gostivar

Low education rate

- g) 80.6 % of the working population in the municipality of Gostivar has primary education at most. (*National Office for Statistics*)
- h) 75.69 % of the unemployed persons in the municipality of Gostivar has primary education at most. (*Regional Unit of the Agency for Employment*)
- i) There is no record of employees according to their level of education.
- j) There is demand for educated personnel.
 - i) A shortage of journalists and editors has been discerned. Some media surpass this deficiency by “importing” the necessary human resources from the other townships in Macedonia, largely - from Tetovo. (*Monitor*)
 - ii) There is also a need for skilled workers in the area of marble processing. Firms are compelled to recruit personnel elsewhere, i.e. from Kriva Palanka (*Heming*)

The private sector is dominant in Gostivar. There are a huge number of enterprises in the private sector. A total of 6.131 different business subjects were registered in the Municipality of Gostivar at the end of November 2005.⁶⁴ Yet, Dragan Zafirovski, Head Officer of the Health Insurance Fund in Gostivar maintains that 2.200 business subjects were active, i.e. paying

⁶³ Ibid.

⁶⁴ See: State Statistical Office, *Kratkorocno soopstenie “Delovni subjekti vo Republika Makedonija - sostojba 30 noemvri 2005 godina”*, December 8, 2005, Skopje

taxes as well as social contributions for their workers.⁶⁵ On the other hand, the Central Registry of Business Subjects in Macedonia estimates that the number of active companies in the Municipality of Gostivar is 1.300. The small and medium enterprises (SME's) make more than 99% of all business subjects in Gostivar. There are just seven companies employing more than 100 workers. The number of companies employing more than 10 workers is also extremely low, not bigger than 40-50.⁶⁶ What prevail are sole proprietors or companies engaged in petty trade and services employing 2-4 persons, including the owner and manager.

Box 5: Indicators of the state of affairs in the municipality of Gostivar

Large SME Sector

- k) The largest number of registered trade companies in Gostivar are either small or medium enterprises, privately owned and comprising incredible 99% of the business subjects in Gostivar.
- l) There are only seven companies in Gostivar with more than 100 employees. The number of companies employing over 10 workers is not big as well; it barely reaches 50.
- m) In terms of field of activity, the SMEs are distributed as follows:
 - i) Wholesale and retail trade - 51,6%
 - ii) Manufacturing - 12%
 - iii) Transport and warehousing - 9%
 - iv) Various services - 7,1%
 - v) Hotel and Catering Industry - 4,7%
 - vi) Real Estate - 4,5%
 - vii) Construction - 4,4%
 - viii) Agriculture, Hunting and Forestry - 2,8%

⁶⁵ CRPM interview with Dragan Zafirovski, head officer of the Health Insurance Fund in Gostivar, April 8, 2005

⁶⁶ Combination of data obtained from the Central Registry and CRPM's estimations based on field interviews and observing the situation on the ground

The construction sector and related activities such as manufacturing and trade of furniture, windows, doors, floors bathroom's equipment as well as processing of different construction materials (marble, cement, and granite) is the most vibrant part of the economy. The major reason for that is the huge demand on behalf of the Gostivar's emigrants. Popularly referred to as *guest-workers* these people invest part of their savings earned abroad building houses or buying apartments in their native Gostivar. According to official statistics, 295 private dwellings with an average surface of 69 square meters and the average cost of 31.000 euros were completed in the Municipality of Gostivar in 2004.⁶⁷ Only Skopje and Tetovo saw more dwellings constructed that year. The construction and construction-related sectors are the driving forces for the Gostivar's economy in recent years.

The strongest players in the construction business such as "Leart Proekt" or "Teraplan" construct 30-40 objects yearly. Typically, they make houses without the interior design which is left for the customers to make. An average house costs about 30-40 000 EU.⁶⁸ Although the trend seems to reversing in the recent years, most emigrants build family houses than apartments.⁶⁹ If somebody wants to buy a piece of land intended for constructing a house or an apartment building in the center of Gostivar she needs to pay between 1000 and 1.500 euros per square meter. The old houses in the center are sold for 300 thousands euros upwards.⁷⁰ In fact, the emigrants and their desire for "safe" investment in real-estates are to blame for the extraordinary high prices of construction land in Gostivar.

Companies like "Leart Proekt" and "Teraplan" employ about 30 workers, part of them seasonally. The average salary amounts to 200-250 EUR. The companies' premises consist of an office in the town as well as storehouse at the outskirts of Gostivar. According to Lirim Tarvari, director of "Leart

⁶⁷ State Statistical Office, Report on "Completed construction works and completed dwelling built by private owners in 2004", June 7, 2005

⁶⁸ CRPM interviews with Lirim Taravari, June 8, 2005 and February 24, 2006

⁶⁹ CRPM interview with Rafet Jakupi, director of public municipal enterprise "Gostivar", February 24, 2006

⁷⁰ See: "Stari kukji se prodavaat za million evra", Utrinski vesnik, August 13, 2005

Proekt” there are about 15 companies operating legally in the business of constructing and finishing of various objects.⁷¹ In addition to those companies, there are also a significant number of companies that construct without necessary permits and documentation and without paying the taxes. Besides the unfair competition, companies like “Teraplan” face problems with enforcing payments and outstanding debts for the performed work.⁷²

Box 6: Indicators of the state of affairs in the municipality of Gostivar

Low level of debt collection

- n) The majority of business entities in Gostivar has difficulties to execute money claims from the private partners as well as state. (*Terra Plan, Euro Granit, Sahem, Uniterm, Jefuta*)
- o) This compels the firms to:
 - i) Insist on charging for their services in cash and advance (*Leart*)
 - ii) Work through compensations (*Sahem*)
 - iii) Redirect their assets from investment projects to loss coverage (*Euro Granit*)
- p) In any event, debt collection problems and the current ways of solving them impair the municipality’s economic growth.

One can find a full package of services in the construction sector in Gostivar. In order to start with the construction of a house or a flat a person needs basic raw materials such as cement, concrete, granite, marble etc. In Gostivar, they are provided by companies like: the brick factory “Tulana”, marble processors “Heming Inzineri” and “Korab Mermer” or granite processor “Euro-Granit”. “Tulana” is the only company using domestic raw

⁷¹ CRPM interviews with Lirim Taravari, June 8, 2005 and February 24, 2006

⁷² CRPM interview with Gazmend, chief economist in “Terraplan”, August 17, 2005

materials; the competitors that import bemoan about corrupt custom officials as well as about unreasonably high custom fees.⁷³

Box 7: Indicators of the state of affairs in the municipality of Gostivar

Low penetration in foreign markets

- q) Only a handful of companies actually exports a substantial portion of their products.
 - i) Vardar Dolomit (*fire-proof materials*) - 99,5%
 - ii) Gorni Polog (*lamb*) - 80%
 - iii) Sahem (*dyes and varnishes*) - 50%
 - iv) Gudalat (*fruit juices*) - 50%
 - v) Fatina (*furniture*) - 50%
 - vi) Special (*cooling and heating devices*) - 40%
- r) Most of the firms do not export at all or exports only a little.
 - i) Sezlinger (*furniture*) - 0
 - ii) Euro-Granit (*processed granite*) - 0
 - iii) Kamin (*fireplaces*) - 0
 - iv) Kome Kompani (*PVC doors and windows*) - 10%
- s) There are firms eager to export, but unable to meet the exporting requirements or in progress of obtaining the necessary permits.
 - i) Fejzi (*cheese*) is an example for the latter.
- t) There is no statistical breakdown on export by firms in municipalities.
- u) Export is concentrated mainly on the neighboring countries.
- v) Possible cause for such a low penetration in foreign markets may be inability to come up with competitive products, lack of knowledge on how foreign markets operate, trade barriers, or hidden protectionism.

Once the house is constructed the basic equipment such as parquet, floor, doors and windows is obtained in firms such as "Kverkus", "Kome company", "Euro-bodeni", "Zuli Mebel or "Sezlinger". Many of these companies also

⁷³ CRPM interviews with Ivan Markovski, owner of "Heming Inzinerig and with Natasa Gegovska, account officer in "Korab Mermer", June 8, 2005

operate small production lines for manufacturing and assembling. Thus, besides the office and the depot they have small factories. Employment in those companies is relatively low and seasonal as well, as the average number of employees does not exceed 20. The companies sell huge portion of their production locally, the exports are either very tiny and limited to neighboring countries, or non-existent.

After the fixing of the new floor, doors and windows, buying furniture is the next step. Here the main player is "Fatina", the first private manufacturer of furniture in Macedonia, established in 1990.⁷⁴ Started with six workers and modest variety of products, today it employs about 60 people (being the biggest employer in construction and construction-related sectors in Gostivar) and offers a variety of sofas and other furniture. "Fatina" exports significant amounts of its products to countries such as Albania, Kosovo, Greece, Slovenia, Croatia, Bosnia and Herzegovina, Serbia, Ukraine, and Moldavia, and depends less on the emigrant's willingness to spend the money in Gostivar. "Fatina" is one the rare "success stories" within the Gostivar's economy and its performances are recognized also outside the Municipality. In 2004 the company received a special award from the Macedonian Chamber of Commerce for four continuous years of successful working.⁷⁵ Similarly to "Leart proekt" and "Teraplan", the manager of "Fatina", Qenan Zhupani considers unfair competition to be the most serious obstacle for running a successful business in the Municipality of Gostivar.

To finish the furnishing of the house or the apartment one needs to visit the Gostivar's "construction and furniture paradise", the Belichica street. This is a street close to the center of Gostivar where one can find an outstanding number of 56 stores (out of total of 65 stores located on that street) trading with goods such as: furniture, blinds, doors, windows, facades, ceramic tiles, sanitary, domestic appliances etc. Most of those stores and companies are involved in petty trade of imported goods and have no more than 3-4

⁷⁴ CRPM interview with CRPM interview with Qenan Zhupani, founder and general manager of "Fatina", April 15, 2005

⁷⁵See: "Dodeleni godisnite nagradi na Stopanskata komora", Utrinski vesnik, February 19, 2004

employees. Nonetheless, such huge concentration of shops selling construction and furniture goods is unique in Macedonia.

Box 8: Indicators of the state of affairs in the municipality of Gostivar

Unfair Competition

- w) A general stance of local companies is that the unfair competition in Gostivar is omnipresent. According to the locals, the most affected sectors are construction, transport, services and farming.
 - i) There are about 15 legal firms in the Gostivar's construction sector. The others operate without having the necessary permits and paying the taxes. Such illegal firms carry out works at very low rates, which drives the prices down to an economically unrealistic level. (*Leart, Terra Plan, Ciklama, Florida Sali*)
 - ii) Unfair competition is also strongly present in transport. There are many unregistered carriers in Gostivar. They engage in tax evasion, which reduces their costs. Having low costs, the unregistered carriers are in position to offer unrealistically low prices, which, in turn, gives them an unfair market advantage. (*Habib Turs*)
 - iii) Unfair competition is one of the burning issues in the hotel and catering industry as well, because many firms in this field function out of the tax system. (*Kalesh Angja*)
 - iv) Unfair competition flaunts in the farming sector, for want of a diligent veterinary inspection and control. (*Gorni Polog*)
 - v) There is unfair competition in the sector wholesale and retail trade as well. (*Gimi Kompani*)

The sector is mostly driven by demand from the Gostivar emigrants and does not guarantee stable employment mostly offering seasonal jobs. The seasonal nature of most of the jobs offered on the Gostivar's labor market could only encourage further emigration in the case of diminishing demand for constructing new houses and apartments.

Box 9: Indicators of the state of affairs in the municipality of Gostivar

Barriers to access neighboring municipal markets

- x) Some local companies complain that their counterparts from elsewhere (especially from Tetovo) win tenders in Gostivar, whereas firms from Gostivar never or seldom win tenders elsewhere (especially in Tetovo.) (*Jefuta, Chede Siljanovski - Ministry of Transport and Communications*)
- y) Several companies have made attempts to penetrate Tetovo market, but without any success whatsoever. (*Euro-Granit*)
- z) The general stance among the local businessmen is that their companies have difficulties accessing the Tetovo Market, simply because they come from Gostivar. They suspect that Tetovo business protect their own market by illegitimate means. (*Terra Plan, Vitamin Aga, Albesa*)

Box 10: Indicators of the state of affairs in the municipality of Gostivar

Low investment capacity of the local business entities

- aa) Companies plan to buy new equipment, but lack adequate financial means, finding the bank loans unattractive, mostly due to the high interest rates. (*Gogo Gradba*)
- bb) This stands for an obstacle to procuring new technologies, which is a precondition for growth of the very companies and the economy in general.

The vast majority of CRPM interlocutors from the construction sector admit that this business is not booming anymore as it did until few years ago. Stojmir Damjanovski, manager of "Ciklama", one of the rare stakeholders in the Gostivar's construction sector ran by Macedonians says for instance that

fewer new buildings are erected and that “the guest workers do not build as much as before.”⁷⁶ More than 90% representatives of construction business interviewed by CRPM share Stojmir’s view.

Yet few of the managers in this sector have a plan B. Sami Muxhait, founder and manager of “Sahem Hromos”, and one of the leading companies in the construction-related sector, seems to understand the danger of emigrants-dependence.⁷⁷ Although “Sahem Hromos” is very successful in the business of production and trade of different sorts of dye and varnishes, cooperating with 160 retail shops all over Macedonia and exporting 50% of its products, Sami recognizes that one needs to always move forward in order to succeed. Recently he launched a new production line. Moreover, he decided to enter a new line of business producing dried fruits and vegetables, while also preparing to make ketchup and vitamin C. Unfortunately, entrepreneurs like Sami are more an exception than the rule in today’s Gostivar.

Box 11: Indicators of the state of affairs in the municipality of Gostivar

Low business know-how and marketing skills

- cc) There is a number of companies that would like to expand on their business activities, but lack the necessary know-how to do so. (*Gorni Polog*)
- dd) Some companies invest in land developing, without having a clear idea what to do with it. (*Jefuta*)
- ee) Banks decline to support firms’ projects, among other things, due to their poor elaboration. (*Sezlinger*)
- ff) Factories are compelled to lay-off workers and shrink production, precisely because their inability to reach out to a sufficient number of customers. (*Korab Mermeri*)
- gg) Only a handful of companies has a marketing strategy and invests substantially in promotion of their goods. (*Gudalat*)

⁷⁶ CRPM interview with Stojmir Damjanovski, manager of “Ciklama”, March 17, 2006

⁷⁷ CRPM interviews with Sami Muxhait, August 12, 2005 and March 17, 2006

3

The Key Role of the Emigrants

Known in Macedonia as a “pechalba,” economic emigration has been a long tradition of the country and this town. The migration wave that began in the 1960’s lasts until today. It affects mostly the Albanian population of Gostivar. In socialist times Albanians were largely not part of the industrialization. High birth rates and no jobs safe from those in the agriculture combined with interest for importing cheap labor in the West induced the emigration of many Albanians from Gostivar. The interest still remains. However, nowadays it is difficult to cross borders holding a Macedonian passport. Yet dreaming a better future many young citizens of Gostivar try legal and illegal ways how to reach Western Europe and find jobs there.

How many emigrants originate from Gostivar? It is difficult to find verifiable data. For example, while the Macedonian Agency for Emigration estimates that there about 350.000 Macedonian citizens living abroad, according to the Ministry of Foreign Affairs this number amounts to 800.000.⁷⁸ Even if both numbers seem overstated and unreliable, neither the Agency, nor the Ministry offers any precise data of emigrants originating from Gostivar. Data from the Ministry of Interior does not help either. Although every Macedonian citizen who intends to stay abroad for the period longer than 3 months is legally obliged to report this stay with the Ministry of Interior,

⁷⁸ Information obtained from Seadin Xhaferi, deputy-director of the Agency for Emigration, and from Sashko Todorovski, head of the department for emigration within the Ministry of Foreign Affairs

very insignificant number of citizens does so. For instance for the 2004 there was not a single person from Gostivar reported in the Ministry as having emigrated.

Available data on emigrants from the Municipality of Gostivar indicate the mass scale of this phenomenon. During the National Census of population held in 2002 there were 22,995 reported persons staying abroad for the period of up to one year (working abroad or staying there for other reasons) plus members of their families staying with them abroad. According to the collected data, the inhabitants of the Municipality of Gostivar making slightly more than 4% of total population of Macedonia, provide for 3,145 or about 15% of all reported Macedonian emigrants.⁷⁹ The Albanians make the vast majority of persons staying abroad, both in terms of the Municipality of Gostivar, as well as the whole country.⁸⁰

Table 10: Number of emigrants from Macedonia and Gostivar⁸¹

Number of emigrated persons from Gostivar	Country emigrated to	Gostivar emigrants as a share of the total number of Macedonian emigrants in a given country
1105	Italy	19%
902	Switzerland	15%
688	Germany	15%
288	Austria	22%
38	USA	4.6%
124	Other countries	2.7%
3145	All countries	14% (total of 22995 emigrants)

The number of emigrants from the Municipality of Gostivar has risen further since the 2002 Census. According to the Ministry for Justice's updated Voter's Registry there are 59.650 voters staying abroad to the period of up to one year, among the total of 1.742.316 registered voters in the Republic

⁷⁹ Data from the 2002 Census. For the purpose of this research we have combined data for the old Municipality of Gostivar as well as the municipalities of Vrutok, SrbinoVo, Chegrane and Dolna Banjica who were incorporated into the Municipality of Gostivar as result of Law on Territorial Organization adopted in 2004. Source: State Statistical Office, Census 2002, Book IV- "The citizens of the Republic of Macedonia absent abroad", Skopje, April 2004, pp. 18, 48, 50, 58, 124, 136

⁸⁰ About 62% of the total number of persons from the whole country reported as living abroad, are of Albanian origin.

⁸¹ See the source of data from footnote 79.

of Macedonia.⁸² The inhabitants of Gostivar make slightly less than 10% of registered voters staying abroad.

Table 11: Total number of registered voters and voters staying abroad, the Municipality of Gostivar and the country as a whole.⁸³

Number of registered voters in Macedonia	Number of voters staying abroad	Number of voters in Gostivar Municipality	Number of voters from Gostivar Municipality staying abroad
1 742316	59 650	69 004	5890

The data show that the number of officially registered emigrants from Gostivar increased from 3145 (including children and youngsters below 18) in 2002, to 5890 (excluding persons below 18) nowadays. However, the data does not allow precise assessment of the scale of emigration from the Municipality of Gostivar, since it reports only the persons who stay abroad no more than one year. They also do not refer to persons who emigrated illegally.⁸⁴ That is why it is not possible to bring the accurate number of guest workers from Gostivar. According to CRPM's rough estimates, this number is about 15.000 to 20.000.

Going abroad illegally is a last resort for many. There are few possibilities how to emigrate circumventing the system. Ahmed Fetahi, for example, offers intermediary services for persons applying for various Schengen visas.⁸⁵ He processes about 120 visas yearly (35 for persons from Gostivar) charging 600 - 1000 Euros for persons from Skopje and 1500-2000 Euros for persons from Gostivar. "The people from Gostivar are willing to pay more since many interested in applying for visa have some relatives in the West. EU is a promise land for people from Gostivar," says Ahmed. This is not so

⁸² See: "Preku telefon i Internet do informacija za pravoto na glas", Vreme, May 5, 2006

⁸³ For the Municipality of Gostivar data obtained from Adem Osmani from the Gostivar;s branch of the Ministry for Justice

⁸⁴ According to Seadin Xhaferi, deputy-director of the Agency for Emigration the trend of illegal emigration from the Municipality of Gostivar is increasing in recent years mostly as a result of complicated procedures for obtaining the visas.

⁸⁵ CRPM interview with Ahmed Fetahi, April 3, 2006. The name of the person changed on the request of the interlocutor.

much a case with applicants from other towns. Ahmed confirms that nowadays most persons from Gostivar interested in obtaining a Schengen visa are youngsters as well as women with small children who are trying to join their husbands already residing in the EU. Arranging fictional marriages in order to obtain documents allowing legal stay or working permission abroad is also on the increase.⁸⁶

Box 12: Indicators of the state of affairs in the municipality of Gostivar

Migrations

- hh) There are numerous migration processes in the municipality (villages to the town, from Gostivar to Skopje). (*Nenad Mickovski*)
- ii) However, the consensus is that the most dominant migration process in Gostivar is economic emigration to Western Europe and that it affects Albanian community the most.
- jj) Neither the Agency for Emigration nor the Ministry of Foreign Affairs offers precise data on the number of emigrants from Macedonia, and accordingly - from Gostivar. The same applies to the Ministry of Internal Affairs.
- kk) Under the new territorial division of the country in 2004, the citizens of the new municipality of Gostivar comprise a little bit over 4% of the total population of the Republic of Macedonia, while their share in the total sum of registered emigrants from Macedonia comes to 15%. (*State Statistical Office, Census 2002*)
- ll) According to the latest voter directory, updated and published in May 2006, there are 5890 registered emigrants from Gostivar (excluding the persons that have no - or have not yet acquired - voting rights.) (*Ministry of Justice*)
- mm) According to CRPM's own estimates, the number of emigrants from Gostivar ranges between 15000 and 20000.
- nn) A trend of family reunion can be discerned, in sense of having wives and infants emigrating in countries where their husbands, that is, fathers, have already emigrated.
- oo) The process of economic emigration is still underway and rising, due to the economic hardships and bad social conditions.

⁸⁶ See: "Alternative Brengosese e te Rinjve te Gostivarit", Fakti, December 22, 2005

Gostivar relies on its own people that have emigrated abroad. Besides the construction sector, explained above, the importance of the emigrants for Gostivar is high for other economic activities as well. They came in specific periods. The town becomes vivid and dynamic in summer and during the New Year's celebrations when the migrants visit their relatives and friends. At that times the town's streets are flooded by hundreds of Opels, Volkswagens, Audis, BMVs, Fords, Chryslers, and Alfa Romeos with German, Swiss, Austrian or Italian license plates and the traffic jams are equal only to those in Skopje during rush-hours. In other periods of the year Gostivar resembles a "ghost town".⁸⁷ During the "guest-workers' peak", most deals are done, most products are sold, most houses and apartments are constructed and procured, café bars and restaurants score best profits margins, medical centers or private dentists admit most patients, gas stations sell biggest amounts of gasoline and finally most weddings are organized.

Box 13: Indicators of the state of affairs in the municipality of Gostivar

Remittances and the key role of the emigrants

- pp) The general inference is that Gostivar survives thanks to remittances and money spent by emigrants during their visits.
- qq) Most of the visits are carried out during the summer time, a period that, among other things, sees enormous expenditures on weddings.
- rr) The official data on remittances at both national and municipal level is scarce and in the sphere of speculations.
- ss) According to CRPM's own estimates, the remittances in Gostivar vary between 25 and 33 million Euro at annual level.
- tt) There is no national or municipal strategy for attracting and rational deployment of remittances.

⁸⁷ CRPM research team has visited Gostivar on numerous occasions in 2005 and in the first 3 months of 2006, both in summer and in other periods of the year. Without knowing that it is the same town, one could have easily mistaken it for some other place.

Many emigrants marry during their short stay in Gostivar. It is estimated that in the summer of 2005, around 1.000 weddings were held in three neighboring municipalities, Gostivar, Vrapchishte and Mavrovo-Rostushe. Since the costs of a wedding can be as high as 20.000 euros, up to 20 million euros were spent that year in Gostivar and the neighboring municipalities on weddings only. Because of the lack of space in restaurants, many wedding ceremonies had to be postponed for the 2006.⁸⁸ The average number of guests was about 500 and many restaurants organized more than one wedding per day. Jewelers, music bands and shops selling wedding dresses made good business in the summer of 2005.⁸⁹

The money transferred by migrants to their native town or villages or spent and invested there during their short visits are of utmost importance for post-transition economies such as Macedonia. Remittances have grown in value all over the world in the past several years. In several emigration countries, remittances in 2004, estimated by the IMF at 26 billion dollars worldwide, largely exceeded the volume of official development aid (ODA), and in certain cases even of foreign direct investments (FDI) or income gained from the export of goods and services.⁹⁰ Macedonia belongs to this group of countries. The German Ministry of Foreign Affairs estimates that 70.000 Macedonian immigrants in Germany remit about 50 million dollars to Macedonia yearly.⁹¹ The State Statistical Office of Switzerland provides similar data. Data from IMF show that remittances in 2002 made 15.2% of the Macedonian GDP amounting to 278 dollars per capita.⁹²

⁸⁸ See: "Letoto vo zapadniot del na Makedonija minuva vo znakot na domasnite proslavi", Utrinski vesnik, August 10, 2005

⁸⁹ See: "Po trigodisna "svadbena apstinencija" Gostivar dva meseca eci od 600 svadbi", Dnevnik, August 13, 2005.

⁹⁰ See: See: *Migration, Remittances and Development*, ISBN-92-64-013881 published by OECD 2005, p.9

⁹¹ See German Ministry of Foreign Affairs at: http://www.auswaertiges-amt.de/www/en/laenderinfos/laender/laender_ausgabe_html?type_id=14&land_id=110

⁹² See: IMF, *Balance of Payments Statistics Yearbook*, 2003; World Bank, *World Development Indicators*, 2003.

Table 12: Remittances versus FDI in Macedonian (in million USD)⁹³

Year	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Remittances	13	34	42.5	64.2	66.2	47.4	69.8	130.2	146.3	155.3
FDI	11.2	30	127.7	32.4	175.1	440.6	77.7	94.2	155.8	97

One of the problems with the study of remittances is the difficulty of investigating their exact amount, especially since a large portion is sent through informal channels, not reported to the central bank or the respective ministry.⁹⁴ A significant part of the money remitted circulates either through the emigrants traveling to their home countries or through “couriers” such as relatives, friends as well as private tour operators or bus carriers. This applies to Macedonia too, where the remittances sent via informal channels undoubtedly dwarf the official transfers. For instance, According to some findings, only 15% of the money transfers by Macedonian migrants were made through banks, the rest being made through relatives or friends.⁹⁵

That is why we are not able to provide any precise numbers regarding real amounts of money remitted to the Municipality of Gostivar. If we assume a realistic number of 5.000 Euros sent by an emigrant to a family in Gostivar on yearly basis it would mean that 15.000-20.000 of Gostivar’s guest workers are able to remit 75-100 million EUR. However, we have to note that the total number of emigrants includes children, youngsters or housewives. Since they do not work and earn money, the number needs to be divided at least by 3. Even in this case, we become significant sum of 25-33 million euros remitted yearly to the Municipality of Gostivar.

⁹³ Source: National Bank of Macedonia see at:
<http://www.nbrm.gov.mk/WBStorage/Files/bilten%204%202005%20devizno.PDF> and
http://www.nbrm.gov.mk/WBStorage/Files/Tabela_1.pdf

⁹⁴ See: *International Remittances and Development: Existing Evidence, Policies and Recommendations*, by Inter-American Development Bank and Universite de Cergy-Pontoise, January 2006

⁹⁵ “Financial potential of migrants and its inclusion in the economy of the Republic of Macedonia”, Seadin Xhaferi, Skopje 2004

Yet the trends could be reversing. The demand in the constructing sector diminishes in recent years. A problem is that new houses stay largely empty and uninhabited in course of the year and are easily plundered and robbed. About 1000 houses are left unattended in town of Gostivar only, the director of Gostivar's branch of the national Power Distributing Company "Elektrodistribucija" complaining that the enterprise has problems monitoring the households' spent electricity.⁹⁶

Moreover, while in the past, the single young males aged 18 to 35 made the vast majority of Gostivar's guest workers, in the recent years the situation is changing. One can observe an accelerated trend of "family-reunion" and consequently of relocating the female-spouses and children abroad. Literature says that remittances diminish as the number of female emigrants increase. The amount of money sent home is also in decrease because of dying of the elders, for example, when the parents die, the son working abroad sends much smaller amounts of money to his brother.⁹⁷

Table 13: Total number of students in primary schools in the Municipality of Gostivar in the recent years⁹⁸

School year	Number of students
1999-2000	12719
2000-2001	12870
2001-2002	12350
2002-2003	11937
2003-2004	11533
2004-2005	11137
2005-2006	11154

There are less children being born and less potential migrants too. Qeramidin Selimi, principal in the primary school "Mosha Pijade" in Gostivar

⁹⁶ CRPM interview with Brane Arsovski, director of Gostivar branch of "Elektrodistribucija", March 10, 2006

⁹⁷ CRPM interview with Seadin Xhaferi, deputy director of Agency for Emigration, February 15, 2006

⁹⁸ Data obtained from Goce Trajchevski, inspector in the Gostivar's branch of State Inspectorate for Education

says that in the last few years the number of pupils in his schools has decreased by at least 100.⁹⁹ According to Emini Gulceid, the principle in the primary school “Petre Jovanovski”, the number of students in his school decreases by almost 100 every year.¹⁰⁰ Due to the lack of pupils the primary school “Zlate Damjanovski” in the village of Vrutok has to organize joint classes of different age groups.¹⁰¹

Box 14: Indicators of the state of affairs in the municipality of Gostivar

Declining birth rate

- uu) The population growth in Gostivar for 1995 was 1934. In 2000, it dropped down to 948, whereas in 2004, it plunged to the incredible 289. (*State Statistical Office*)
- vv) The number of pupils in primary schools (ps) is in constant decline. (*PS Mosha Pijade, PS Petre Jovanovski, PS Bratstvo Edinstvo, PS Zlate Damjanovski*)
 - i) The number of schoolchildren declined from 12719 in the academic year of 1999/2000 to 11154 in the academic year of 2005/06. (*Regional Unit of the State Inspectorate for Education*)
- ww) According to the locals, the main reasons for such a trend are the restructurings within the Albanian family and above all - the mechanical outflow of population.
- xx) There are many persons registered as born abroad, but of Gostivar’s origin.
 - i) The number of such persons is in a 2:1 ratio with the number of newborns in Gostivar. (*State Statistical Office*)

In fact, the birth rate in the Municipality of Gostivar is in constant decline. In 2004 only a third of the number of babies born in 1994 came to life. Having better living conditions it is not surprising that the guest-workers have more children than the friends and relatives left in Gostivar. For every baby born in Gostivar there are two children being born abroad having at least one parent originate from this town.¹⁰²

⁹⁹ CRPM interview with Qeramidin Selimi, March 23, 2006

¹⁰⁰ CRPM interview with Emini Gulceid, March 23, 2006

¹⁰¹ See: “Uslovite zadovoluvaaat, brojot na ucenici opagja”, Monitor, March 23, 2006

¹⁰² State Statistical Office of the Republic of Macedonia introduced in 2004 new category in its data - “coming from respective municipality in Macedonia but born abroad”

Table 14: Birth rate / Mortality data for the Municipality of Gostivar in the last decade¹⁰³

Year	Live births	Deaths	Natural increase
1995	2516	727	1934
1996	2543	692	1851
1997	1526	498	1028
1998	1557	498	1034
1999	1333	537	796
2000	1464	516	948
2001	1376	556	820
2002	1423	611	812
2003	1390	552	838
2004	823	534	289

There is the risk that if Gostivar’s guest workers are not stimulated to invest in more sustainable economic activities rather than in housing or consumption, the current bleak socio-economic picture of the Municipality of Gostivar could become even more desolate. Some worrisome signals can already be observed. Gazmend, chief economist in the construction company “Terraplan” says that the guest workers are becoming thriftier, and that instead of building houses they buy flats.¹⁰⁴ Marijan Gjurkovic who runs a store selling computers in the center of Gostivar complains that migrants who visit Gostivar in summer spend less money than before because they started to buy goods also in Western countries.¹⁰⁵ Ramadan Koci, teacher of music in the primary school “Goce Delchev” in Gostivar thinks that guest workers visit the Municipality Gostivar in smaller numbers than in the previous years.¹⁰⁶ Rafet Jakupi director of a municipal enterprise notices a

¹⁰³ Source: State Statistical Office, Statistical Yearbook 1996, , pp. 42, and 50, Source, Statistical Yearbook 1997, pp. 42, and 50, Statistical Yearbook 1998, pp. 42,43 and 68,70,72, Statistical Yearbook 1999, pp. 44,45,46,68,70,72, Statistical Yearbook 2000, pp. 44,45,46,68,70,72, Statistical Yearbook 2001, pp. 44,45,46,68,70,72, Statistical Yearbook 2002, pp. 44,45,46,68,70,72, Statistical Yearbook 2003, pp. 44,45,46,68,70,72, Statistical Yearbook 2004, pp. 44,,46,68,70,72, Statistical Yearbook 2005, Skopje January 2006, pp. 78 and 80

¹⁰⁴ CRPM interview with Gazmend, chief economist in “Terraplan”, August 17, 2005

¹⁰⁵ CRPM interview with Marijan Gjurkovic, owner of the computer’s store and internet café, June 27 2005

¹⁰⁶ CRPM interview with Ramadan Koci, teacher in the primary school “Goce Delchev”, August 12, 2005

recent trend of relocating entire families to the host countries.¹⁰⁷ Florim Sali, a manager of a construction company, states that nowadays migrants more frequently take their entire families with them abroad without an intention of ever coming back to Gostivar.¹⁰⁸

Florim's opinion is confirmed by Ilijaz Ameti owner of a company dealing with trade and production of sanitation tubes.¹⁰⁹ According to Ilijaz in the past it was considered a shame to leave to work abroad bringing the wife and children together. Adis Bajratari manager of the granite processing company "Euro-Bodeni" thinks that due to an economic stagnation in countries such as Germany or Italy the purchasing power and willingness of the guest workers to spend their money in Gostivar is in constant decline.¹¹⁰ Similar stories were repeated by 90% of the persons the CRPM has interviewed during the field research in the Municipality of Gostivar.

¹⁰⁷ CRPM interview with, Rafet Jakupi, director of "Gostivar", February 24, 2006

¹⁰⁸ CRPM interview with Florim Sali, manager of "Florida Sali", April 1, 2005

¹⁰⁹ CRPM interview with Ilijaz Ameti, owner of "Korab Komerc", October 27, 2005

¹¹⁰ CRPM interview with Adis Bajratari, manager of "Euro-Bodeni", August 3, 2005

4

How to revive the economy of Gostivar - promoting champions and turning disadvantages into an advantage

In order to shift from factor-driven to investment-driven economy the Macedonian state needs to undertake a number of reforms. For example, Macedonia has to simplify administrative procedures, such as licensing, as they “are perceived as cumbersome, unpredictable and slow. The costs of hiring and firing employees are relatively high. The functioning of the judiciary is another weakness in this context. Moreover, small-scale corruption appears to be a serious problem, especially at the lower levels of administration. The process of obtaining licenses appears to be easier for those with “good contacts”. The weakness of the land registration system is another major impediment for investment.”¹¹¹ It needs to further develop financial markets, attract foreign investments; import global technology and know-how, integrating into the global economy.

What can Gostivar do to increase the FDI’s, penetration of new technology and know-how in local companies and upgrade the skills of the labor force to produce more value added products? What is the greatest asset of Gostivar that can make this happen as it offers capital; new technology, know-how and linkages with foreign markets?

¹¹¹ 2005, Analytical report for the opinion of the European Commission on the application of Macedonia for EU membership, page 49

The guest-workers (gastarbeiters)!

Studies show that remittances can affect local economic development, poverty reduction, improvement of education level, generate growth, investments in new value added.¹¹² Governments hope that remittances will facilitate creating of a long-lasting link between emigrants and their home country, which will be accompanied by transfer of the skills and knowledge gained in a more developed market environment.¹¹³ For that reason, the national policy-makers use various options for attracting and proper utilization of remittances. Most of the Gostivar guest workers, or “*gastarbeiter*” in German, are Albanian.¹¹⁴ The remittances they send back are vital to the survival of their families. However, their impact on Gostivar’s economy can go further from sending remittances throughout the year and spending money in the local economy during the holiday’s season.

While remittances contribute to the increase of domestic consumption and poverty reduction in the home countries, they can also pose valuable sources for economic development and investment too. At the moment, the significant amount of transfers remitted to Gostivar does not contribute to the more sustainable socio-economic development of the Municipality of Gostivar. Largely spent on houses and flats this money rarely seems to create any value added for the local economy. A small number of private manufacturing ventures in the Gostivar area have been established by returning emigrants, taking advantage of the technological knowledge and capital they have acquired in Western Europe. They have recruited skilled workforces and utilized commercial contacts built previously, so that to link their businesses with foreign markets and establish themselves as leading producers in Macedonia. The juice producer “Gudalat”, the dairy products maker “Caseificio Cesarina - Fejzi”, the fireplaces producer “Kamin”, the doors and windows manufacturer “Dino Profiles”, the parquet producer

¹¹² See: *Migration, Remittances and Development*, ISBN-92-64-013881 published by OECD 2005, pp.286-298

¹¹³ Ibid.

¹¹⁴ According to the State Statistical office 2970 of the total number of emigrants from Gostivar are Albanian and only 89 are Macedonian by ethnic background.

“Muzo Company” and the wooden floors manufacturer “Euro-Bodeni” are all emigrants returning home and investing in the local economy. Their examples show that the emigrants could contribute in the creation of a sustainable SME’s sector in the Municipality of Gostivar.

As it is shown with the above examples it is principally the role of the private sector to drive the process of economic development. But it is equally important that the Government provides the framework that enables companies to successfully compete in the international marketplace. Through variations in policy settings, countries compete on offering the most productive business environment. The various stages of economic development require different policy settings and levels of Government involvement. At each stage of development, it is the Government’s role to provide the background for the private sector to excel.

5

Decentralization and the Role of the local Government - Recommendations

How can the local institutions help the revitalization of the economy? Generally, trust in Government and its institutions is very low in Macedonia, where almost 52% of citizens have no confidence at all in Government.¹¹⁵ The decentralization process presents a concept where through services the municipal administration creates a public value for citizens. This should make a shift from how the administration has been so far perceived by the public, a shift from seeing corruption as being normal¹¹⁶. The decentralization in Macedonia leads to the increased empowerment of community groups; creates opportunities for citizens to express their needs; actively incorporates the input of citizens into public decision making; delivers services that promote the social inclusion of vulnerable populations, for instance based on gender, cultural diversity, age or disabilities; and finally results in a more client-centered service delivery.

These developments could be easily observed through our case study - the municipality of Gostivar. After experiencing long years of bad governance, by being neglected from the national policy-makers and mismanaged by municipal authorities the Gostivar municipality entered a cycle of decline. The local government was hugely indebted¹¹⁷, the hygiene was poor, the

¹¹⁵ UNDP, Early warning report, March 2006

¹¹⁶ UNDP, Early warning report, March 2006 - 90% of citizens believe that there is a corruption, abuse of state/public funds in Macedonia

¹¹⁷ The bank account was blocked and the accumulated debts were estimated at ca. 3 million EUR, from which 700 thousands EUR were claimed by one of the biggest construction companies in Macedonia, "Granit"

traffic was chaotic, the roads devastated and the town full of illegally built objects.

In the spring of 2005 local elections were held in Macedonia. The new mayor of Gostivar, Nevzat Bejta from the Democratic Union for Integration was elected. The mayor was faced with the left-over's from his predecessors and the challenges of the decentralization process to be launched in July the same year. In the last year or so, he managed to deal with the debt and reopen the municipal account, invest 2 million euros in communal projects, improving the roads, traffic, hygiene and the urban planning of the town by removing 856 objects, 735 of them built illegally, and the rest constructed with "temporary permits."¹¹⁸ The new mayor also improved the transparency in the work of the municipal authorities by launching a web site where all documents, announcements and news are posted. This orientation to bring the municipality and its services closer to the citizens is reflected in the introduction of the "one-stop shop" for registering new businesses, i.e. the system where the citizens can obtain all the necessary permissions, formularies, deeds of ownership, land certificates etc. as well as to pay required municipal fees.¹¹⁹

However, all the current interventions of the mayor and his team are aimed at restoring order and improving the infrastructure in the municipality. Few of them are directly targeting improvement of the environment for economic development. To do that the municipality should, first of all, have a Local Economic Development Strategy, based on comprehensive analysis of its economic potentials and real needs of citizens. As the analytical and planning capacity of the municipal staff is very limited, there is no long term planning to foster development and priorities are not defined. The policy making process at the municipal level is rather closed as citizens are

¹¹⁸ See: Predizborna 4-godishna programa e realizirana povekje od 100% vo tekot na 1 godina", April 10, 2006 at:

<http://www.gostivari.gov.mk/mac/index.asp?Url=News/news&Id=76>

¹¹⁹ See: "Opstina so edniot salter vo Evropa", Vreme, November 20, 2005

not invited on consultative sessions when the policy tools, such as the budget, is discussed.

Box 15: The Champions of Gostivar's economy

"Gudalat" is one of the rare examples of Gostivar's guest workers who decided to start a serious business endeavor in the home town. The factory is owned and ran by the Fetai family, the father Miradi and the son Fetai. In the 80's they co-owned and co-managed a juice factory in Switzerland, under the name *"Gudalat"*. In 1998, the Gostivar branch of *"Gudalat"* has been established and the production was officially launched in 1999 in a new, technologically superior, plant at the outskirts of Gostivar was constructed.¹ *"Gudalat"* has 55 workers and is of the biggest private employers in Gostivar. *"Gudalat"* is the only fruit processing company in the Balkans that has both BRS and HACCP standards of quality. The company is investing heavily (5%-10% of its turnover) in promotion campaigns and advertisements of its products.¹ From 2004, *"Gudalat"* has started to employ the best students from the South-Eastern European University in Tetovo.¹

Similar is the story of the dairy *"Caseificio Cesarina"*, producing different sorts of yellow and white cheese and other dairy products. Nagip Fejzi from Gostivar moved to Italy and found a job as an ordinary worker in milk dairy *"Caseificio Cesarina"* near Rome.¹ He advanced quickly from the worker to supervisor position. In the meantime, the dairy started to face financial problems, and Nagip took the risk and invested his money in the factory buying off the management package. Now the factory in Italy has 9 employees, 3 of them from Gostivar.¹ In 2001, Nagip has decided to invest in opening a milk dairy in his native village Belovishte in the Municipality of Gostivar. Although the company is registered as *"Caseificio Cesarina"* it is more familiar by its brand name "Fejzi" in Macedonia. Besides the dairy in Belovishte, the company operates also a store in the center of Gostivar and one in the center of Skopje. The factory in Italy produces for the Italian market only and the factory in Belovishte only for the Macedonian market as well. However, the plans to penetrate on foreign markets are developed as the owner awaits for the approval from the Macedonian Ministry of Health to exports the dairy products produced in Macedonia. The company intends to start soon with construction of the bigger and more sophisticated plant in Gostivar, which should improve the production capacity as well as enhance the employment.¹

The poor developmental planning of the municipality could be also observed through the analysis of the Gostivar's budget. This is a line - item type of budget. It is widely accepted that program budgeting supports better development oriented local governments as it bases expenditures solely on

programs of work regardless of objects or organizational units. Program budgeting explicitly projects long-term costs of programs and the evaluation of different program alternatives that may be used to attain long-term goals and objectives. The current Gostivar budget incorporates only capital investments in municipal infrastructure (all 19 projects of the municipality are planned to improve the water supply and sewage systems, as well as waste disposal capacities). This confirms the statement from above that the municipality sets priorities only in infrastructure rather than economic development.

Box 16: Indicators of the state of affairs in the municipality of Gostivar

Insufficient utilization of the possibilities that arise out of the decentralization process

- yy) Before 2005, the municipality was in deep debts, the hygiene was at an unsatisfactory low level, there was a huge traffic jam, the roads were devastated, and the illicit construction was in a full blossom.
- zz) After 2005, the new city mayor succeeded to unblock the municipality's bank account and to invest over 2 million Euro in communal projects, improving thereby the roads condition as well as the state of traffic, hygiene and urban planning.
- aaa) He has also made the work of municipal authorities more transparent and created a web-page, where various documents, statements and news can be found.
- bbb) However, all to-date efforts aim more at reestablishing the public order in Gostivar and improving its infrastructure, and less at generating sustainable development.
 - i) There is no long-term planning in the direction of growth enhancing.
 - ii) The development priorities have not been defined yet.
 - iii) The municipal budget has an outdated structure, its developmental component having a form of capital investment items, and not of long-term economic programs.
- ccc) The decision-making process on a municipal level is without a wider and direct involvement on the part of the citizens.
- ddd) Granted, Gostivar is recipient of foreign donations, effectuated mainly through projects. However, the municipality is involved in those projects primarily as a subsidiary of the central government, less often as a project partner, and almost never as a project initiator.

The lack of capacity to determine by themselves the municipal priorities in economic development and take initiatives in this area is seconded by the fact that the municipality is a beneficiary of donor funded projects in cooperation with the central government (such as the UNDP project on “Employment mediation of highly educated young unemployed”), but never an implementing partner, or what is more, a leader or initiator of those that can improve the economic situation in the municipality.

For Gostivar municipality, it is indeed important to provide for an environment that will spur economic development in the area. To do that the local authorities need to decide on the municipality’s strategic priorities, develop plans for economic upgrade and adopt programs and measures to achieve the municipal economic objectives. The municipality should also not limit its efforts to attract foreign direct investments by external businesses as this is believed to create jobs and reduce unemployment. Gostivar should maximize the utilization of the potential of its emigrants to bring home skills and new technology, capital and know-how and turn Gostivar’s economy from a factor- driven to an investment-driven one. To do so, the Center for Research and Policy Making recommends a variety of initiatives such as:

To enhance the attractiveness of Gostivar area to new eligible firms and existing enterprises

- The municipality should use *fiscal initiatives*, principally through the use of *discretionary local taxes*, especially property taxes and introduce favorable communal taxes for new economic activities that will produce *high value added* products
- Undertake land developments such as land banking (acquisition and improving contiguous parcels of land) lot consolidation and infrastructure development to create large sites suitable for investment

- Organize the orderly sale or lease of the best sites through marketing to potential investors.
- If large companies are to be attracted, they need adequate sites with good communication links. Local and regional infrastructure becomes a priority than.

Increase the human capacity/education level of the municipality and the local government

- Introduce policy analysis and evaluation unit within the local government
- Increase the capacities of municipality officials through specific trainings such as training in local economic development. Training programs should be considered a part of work rather than an opportunity to avoid working.
- Develop own system of assessing employees' quality, referring to skills rather than diplomas, certificates and experience.
- Support initiatives intended to improve the qualifications of the local labor force, for example, identify areas where vocational training is needed to satisfy the demands of the labor market and promote educational activities through public- private partnerships.
- Similarly, invest in the marketing skills of the local businessmen
- Support Gostivar's citizens to acquire higher education diplomas through scholarship schemes funded by the municipalities and individual, innovative companies (the "*Renova*" example from Tetovo); transportation service to Tetovo/Skopje universities; employment for the best students in the Gostivar economy and public sector (the "*Gudalat*" example)

Increase the general economic development

- Design a local economic development strategy followed by a realistic action plan
- Start with program budgeting
- Build coalition with Tetovo municipality to promote the region and create better investment climate
- Campaign against the informal economy
- Play a catalytic role in an economic development partnership, bringing all stakeholders together, mobilizing local resources to support economic development. Local economic development strategies cannot be implemented without close collaboration with other actors. Multi-sectoral collaboration implies participation from the governmental, private, and non-profit sectors.
- Promote *partnership and cooperation* among SMEs in individual sectors, as well as between sectors. Introduce clustering on regional level.

Promotion or 'Place Marketing'

- Promote local Champions as best practice and influence further investment by emigrants (Use "*Gudalat*" and "*Fejzi*" as success stories for investment when promoting Gostivar as investment destination for returning emigrants)
- Aggressive promotional (marketing and advertising) campaign of Gostivar to promote local businesses and attract foreign investors. Use printed materials (books, brochures, guidebooks, leaflets) in addition to the use of electronic promotion (web pages and compact discs).
- Participate at specialized real estate fairs, development conferences or investment forums with information packages prepared with basic data on the local economic environment, inventory of available land

and buildings for investors, location characteristics (transport connections, infrastructure) and planning regulation information.

- Create entrepreneurial and information shops to support companies in obtaining business information and the required licenses and documents.

The local authorities should also analyze the circumstances when they could:

- Provide municipality property as *collateral for loans* on behalf of local enterprises or start-up enterprises by Gostivar gasarbeiters, and
- Offer themselves as *guarantors for loans* in instances where legal guarantees are required.
- Set up *municipal guarantee funds* for SMEs and use resources in these funds to cover a portion of the credit risk from bank loans. Cash proceeds from the privatization of municipal property could be a source of resources for these guarantee funds.
- Develop *business parks*, or *managed workspace* (business incubators) to offer a range of services helping small enterprises to develop and expand. Business incubators provide shared resources and management facilities which it would be very difficult for individual new enterprises to afford. Such premises are often built on municipal-owned land or created through the refurbishment of redundant buildings.

Recommendations to the central government

- Introduce a national framework for life long learning
- Reform the Vocational Education Training system to match skills with labor market demands
- Change the label of Macedonia as risky country to invest in; and promote it as a successful investment destination
- Promote a policy for attracting and utilizing remittances
- Ease up the procedures for local government acquisition and sale to investors of state owned land in the municipality