

*The Center for Economic Analyses (CEA) is a think tank of economists who share a common vision for the Republic of Macedonia as an emerging new European economy integrated in the regional and worldwide market.*

*The Mission of CEA is to continuously research economic development and economic policy in the Republic of Macedonia and to offer recommendations, suggestions and measures where it is deemed appropriate.*

## PRESS RELEASE

### **CEA comments on the EBRD 2004 Strategy for the Republic of Macedonia**

The EBRD has started work on the revision of its strategy for the Republic of Macedonia. Comments are invited by EBRD to help them in revising the strategy. The current Strategy for Macedonia, which has been available on the EBRD Web site since August 2004, is a basis on which to comment.

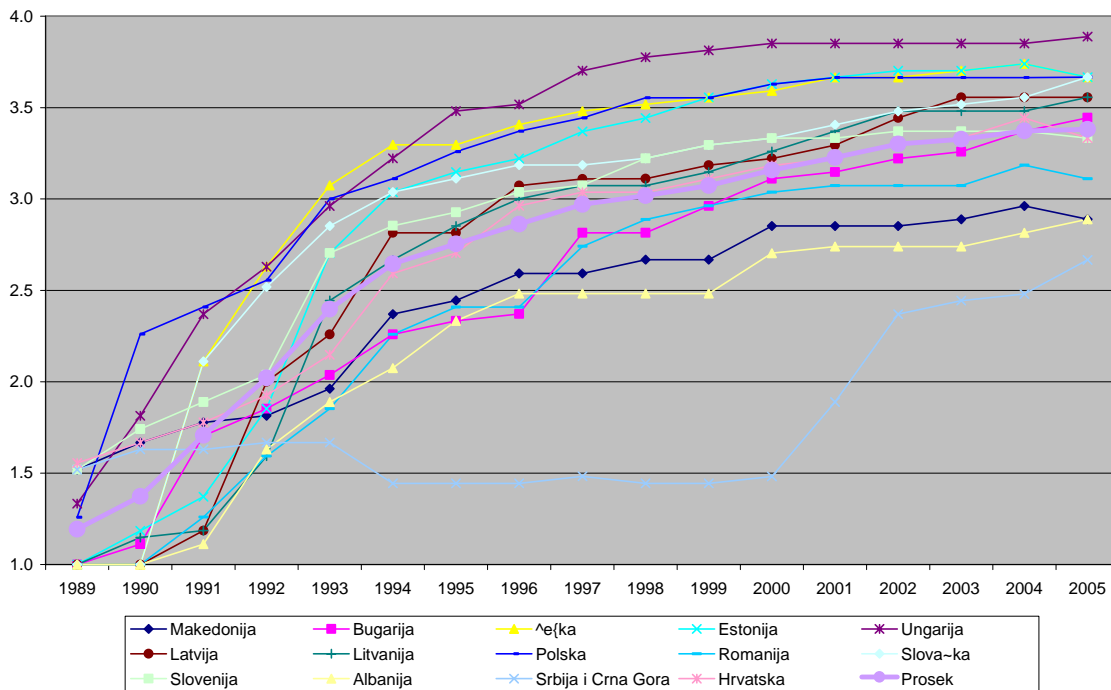
CEA comments are:

1. The constitutional name of the country is Republic of Macedonia
2. The cooperation with Macedonian NGO and independent research institutions with the donor community is on low level and we really appreciate this initiative to give comments and to help in development of the EBRD's strategy for Macedonia. For example there is a special NGO Newsletter within the Bank. Why there is no such an initiative in Macedonia?
3. The strategy misses observation on what were the risks for implementation, what was the relation with the NGO sector so far etc. Example: page 8 in the section enterprise sector. It says that the private sector have achieved in general good transitional results by enhancing competitiveness and export potential. It is too strong of a statement. If it is related only to the listed companies further, it should be said so. 5 companies do not make Macedonian private sector. Another example is the same page 10 at the end saying that the Bank's projects brought significant institutional reforms which is to confident statement.
4. Page 7 in the implementation of the past strategy. It says that overall the Bank achieved the goals. We are interested in what the Bank had not achieved and why, what were the main obstacles, lessons learned and recommendations. Also, second paragraph are only output indicators. We would like to see more outcome indicators.
5. Page 11 end of section on infrastructure. The Skopje road by pass and the dialog with NGO. We are not informed about this. More info is needed.
6. Section lessons learned on page 11. EBRD is initiating IAS. There are a lot of these ICI, chambers, national council etc. It is not efficient to establish a new organization but to support what exists. Each donor finds that should establish and support its own

- organization just for the sake to establishing it. Sustainability is not provided, one shot funding is not enough to support future cash flow problems of those organizations.
7. The next two paragraphs of the same section are very important and we would like to see what the Bank will do about it. How the Bank will address these problems by investing in projects that will deal with the post privatization issues and the problem of collateral lending approach of the banks.
  8. Integrity issues on page 14 are still actual and the Bank should stress that in its next strategy.
  9. Page 16 beginning of the page. If the Bank has developed its own research about the flexibility of the labor market we would like to see it so that the Bank can support its statement about the market being not flexible in Macedonia. The high unemployment rate itself cannot be indicator for inflexible labor market. CEA have done research on the topic and find that other reasons are determinants of the high unemployment rate in Macedonia ([http://www.cea.org.mk/Documents/First\\_USAID\\_report\\_labor\\_final\\_4.pdf](http://www.cea.org.mk/Documents/First_USAID_report_labor_final_4.pdf)).
  10. Page 17 on environmental issues. This will be more and more an issue in Macedonia. Examples: Consider that the NEAP 2 has been prepared. IPPC units should be established within the MOEPP and LGU level.
  11. Page 18. Another example that the Bank's efforts in the Macedonian banking sector maybe is not so successful. Beside the legal requirements for the banks to have risk management departments I am reluctant to state that they have good risk management departments, they still use the collateral based approach, the new banking Law has not been passed. Also, page 19 in the beginning.
  12. Last paragraph same page 18 it is stated that there is still large trade deficit which is in contradiction with previous statements (see comment 2 of this document).
  13. The statement in the same paragraph same page about the performance of the steel and textile sector should be elaborated more and it is interesting how these sectors's development can be addressed with the Bank's goals. The Macedonian export sector is highly concentrated one. Steel sector was benefiting the fluctuations of the world market prices. How the China WTO relationship will affect the textile industry in MK? How the Bank will respond to this environment within its operations?
  14. Page 19 transitional progress and challenges. We would like to see how the Bank have assessed that the privatization process in Macedonian will be successfully finished more because it is in contradiction with the statements in paragraph 2 from page 12. We use opportunity here to show that the speed toward functional capitalist society in Macedonia was and still is very slow, given the initial endowment (see the figure at the end of this document) and compared to other countries.
  15. Page 21 in the beginning. The Bank should pay attention that establishing organization and passing laws in a country is necessary but not sufficient condition for a functional market economy. The case of the Anticorruption commission having no instruments to finish cases and given no political will in the country is a dead end in fighting corruption, providing business climate, boosting private sector investment and economic growth.
  16. Page 22 first paragraph. We would like to know what type of fiscal reform it is required to attract investment flows. It is proved that tax incentives are not so important in attracting FDI. It is the macro stability and institutional credibility that counts. Maybe the Bank should sponsor a research (CEA is available) on introducing flat tax regime in Macedonia.
  17. Page 25 Power and energy sector. End of first paragraph. Expanded energy affordability study! We would like to see the one.
  18. Page 24 bullet 2. How the Bank exactly will increase competition in our banking sector?

19. Page 25 bullet 2. Did any Government in the region asked the Bank to do least cost investment analyses in generation of electricity and if yes which one(s)?
20. Page 27 on donor coordination. Any success so far? Achievements? Joint cooperation?
21. Page 29 first paragraph. It is not true that in Macedonia there are 70 LGUs.
22. The Bank should stress more the monopoly and the captured regulators problem in Macedonia related to the telecommunications and in future possible the energy sector.

EBRD tranzicioni indikatori za izbrani zemji



**EBRD transitional scores measuring speed toward functional market economy  
Macedonia is losing speed given the initial endowment**