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# LABOR TRANSITION IN THE COAL SECTOR

SOUTHEAST EUROPE

APPENDIX C: MACEDONIA

DRAFT

MARCH 2007

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This report in its entirety, including all appendices, will be available online through the USAID Development Experience Clearinghouse at <http://dec.usaid.gov> (PN-ADI-883).

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# ABBREVIATIONS

AD	Joint Stock Company
ALMP	Active Labor Market Program
APL	Adaptable Program Loan
EAR	European Agency for Reconstruction
EBRD	European Bank for Reconstruction and Development
ECSEE	Energy Community of Southeast Europe
EIB	European Investment Bank
ELEM	Macedonia Power Plants Company (Formerly ESM/EPCM)
EMS	Energy Management System
EPCM	Electric Power Company of Macedonia (Elektrostopanstvo na Makedonija – now ELEM)
EPL	Employment Protection Legislation
ERC	Energy Regulatory Commission
ESM	Electric Power Company of Macedonia (Elektrostopanstvo na Makedonija – formerly EPCM now ELEM)
ESM-EVN	Distribution Operator, Distribution System Operator
EU	European Union
FYR	Former Yugoslav Republic
GDP	Gross Domestic Product
GoM	Government of Macedonia
IBRD	International Bank for Reconstruction and Development
ILO	International Labor Organization
IPP	Independent Power Producer
JSC	Joint Stock Company
LED	Local Economic Development
MAEWS	Business Environment Monitoring, Analyses, and Early Warning System
MEPSO	(also AD MEPSO) Transmission Operator, System Operator, Market Operator
MSOE	Majority State Owned Enterprise
PA	Privatization Agency
PCU	Project Coordination Unit
POE	Publicly Owned Enterprises
PRiSMa	Partners for Economic Development in Macedonia
REK	Mining-Energy Facility
SECI	Southeast European Cooperative Initiative
SECO	State Secretariat for Economic Affairs
SME	Small and Medium-sized Enterprises
SOE	Socially Owned Enterprise
SSM	Confederation of Trade Unions
TEP	Thermo Electric Power
TPP	Thermal Power Plant
UN	United Nations
UCTE	Union for the Coordination of Transmission of Electricity
USAID	United States Agency for International Development
USDOL	United States Department of Labor
VET	Vocational Education and Training

Technical Terms:

GWh	Giga Watt Hour
J	Joules
kV	Kilovolts
MW	Mega Watts
Mt	Million tons

**CURRENT EQUIVALENTS**

(Exchange Rate Effective October 2006)

Current Unit = Euro

Euro €1.26 = USD \$1

USD\$ 1 = Euro €.793

Macedonia Denar (MKD)

USD \$1 = 50.799 MKD

1 MKD = USD \$.0197

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## Appendix C

# MACEDONIA

This report presents country-specific information on the coal sector labor in Macedonia. It is part of a regional assessment of the labor force associated with coal mines and coal-fired power plants in Southeast Europe.<sup>1</sup>

Labor Opportunities	Labor Challenges
<ul style="list-style-type: none"><li>• No workforce reductions in coal mining planned until 2025</li><li>• Expanding mine excavation</li><li>• Labor restructuring and redeployment program practice</li><li>• Progressive 2005 labor law</li><li>• National Action Plan for Employment includes capacity-building for local employment offices in active labor market programs</li><li>• Government committed to an anti-corruption strategy</li></ul>	<ul style="list-style-type: none"><li>• 36.7% national unemployment rate</li><li>• Undeveloped active labor market programs at municipal level</li><li>• Limited job creation from foreign or private investments</li><li>• Lack of adult training and retraining programs, especially at municipal level</li><li>• Aging workforce in both power plants and mining companies</li><li>• Education system at all levels needs improvement</li><li>• Latent business environment improvements</li></ul>

## I. OVERVIEW AND BACKGROUND

With a population of two million, Macedonia has come a long way in its transition from a centrally planned to a market economy. Unemployment and poverty are showing signs of declining. The economy has accelerated in the past two years with a 4% gross domestic product (GDP) growth in 2004 and 2005 and is expected to grow by another 4% in 2006 and 2007. Foreign trade accounts for over 90% of GDP. Inflation has remained modest and the exchange rate stable. Job creation has remained weak and the unemployment rate is the second-highest in the region, following Kosovo. One-fifth of the population lives in poverty.

Macedonia's overarching goal is to join the European Union (EU). It was the first country to sign the Stabilization and Association Agreement with the EU in April 2001 and the most recent country to receive EU-candidate country status in November 2005. As Macedonia moves toward EU negotiations on membership (expected to start in 2007), it is liberalizing labor laws and regulations that are a deterrent to private sector development and job creation.

According to a World Bank study<sup>2</sup> on the apparent failure of Macedonia's formal job market, a large share of working age population are inactive or occupied with occasional work. The informal sector is large, estimated at 40 to 45% of GDP and as high as 60% of formal employment.

<sup>1</sup> The *Labor Transition in the Coal Sector: Southeast Europe* report in its entirety, including all appendices, will be available online through the USAID Development Experience Clearinghouse at <http://dec.usaid.gov> (PN-ADI-883).

The World Bank's Country Assistance Strategy for 2004 – 2006 centered around three broad themes:

1. Managing public resources efficiently and tackling corruption
2. Creating jobs through sustainable private sector-driven growth and improving the judiciary
3. Promoting social cohesion, building human capital, and protecting the most vulnerable through high-quality education, especially at primary levels

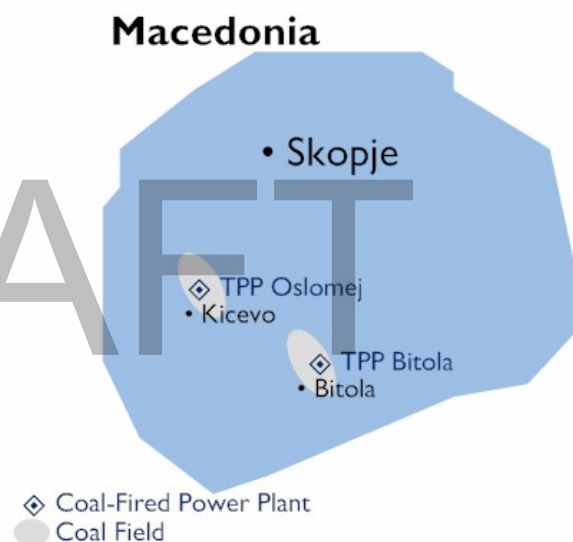
Labor restructuring has received less attention than sector restructuring, although some cross-cutting initiatives have begun. This report assesses the current labor trends in the sector, as well as the state of readiness of employment programs and assistance services to mitigate the impact on labor from restructuring.

## II. COAL MINING – BACKGROUND INFORMATION

There are no underground mines in Macedonia and only lignite coal is produced. The two largest surface mines are state-owned and integrated into the Bitola and Oslomej power plants. The two privately-owned mines – AD Brik-Berovo (RIK Berovo) and Drimkol-Lignite DOO Struga (Piskupstina) – supply industrial and household needs. Annual production is estimated at 100,000 tons a year. Private mines pay a concession fee for exploitation of 90,000 MKD/km<sup>2</sup> (\$1,772) per year and 3 MKD/(\$06) per ton.<sup>3</sup> Total coal reserves in Macedonia are estimated at 730 million tons, sufficient to meet fuel requirements for next 25 years.

### COAL MINES – SUMMARY AND TRENDS

Macedonia's coal industry has not received any direct or indirect subsidies since 1995.<sup>4</sup> Coal production since 1996 has averaged 7.5 million tons annually, ranging from 7.2 in 1996 to 8.1 million tons in 2001. In 2003, Macedonia imported 63,000 tons of coal, of which 2,100 were for the steel industry. After 2025, Macedonia expects to be entirely dependent on energy imports.<sup>5</sup>



<sup>2</sup> World Bank, *Former Yugoslav Republic (FYR) Macedonia, Country Economic Memorandum, Tackling Unemployment*, Economic Report, (Washington: World Bank, September 2003), <http://www.worldbank.org.mk>.

<sup>3</sup> Government of the Republic of Macedonia, *Macedonia's Response to the European Commission Questionnaire*, (Skopje: Secretariat for European Affairs, 14 February 2005), <http://www.sei.gov.mk/download/Questionnaire/3-14%20-%20Energy.pdf>.

<sup>4</sup> World Energy Council, *Restructuring the Coal Industries in Central and Eastern Europe and the CIS* (London: World Energy Council, 2000): 125.

<sup>5</sup> United Nations (UN) Economic and Social Council, Committee on Sustainable Energy, "Restructuring of the Coal Industry and Thermal Power Sector in South Eastern Europe," Energy/1998/16, (UN Economic Commission for Europe, 7 July 1998).

The following section summarizes data regarding the four mines that supply Macedonia's coal-fired power plants.

### Coal Mine and Labor Force Summary: Macedonia

	Production in 2005 (million tons) <sup>6</sup>	Type of Coal	Exploitable Coal Reserves (million tons) <sup>7</sup>	Number of Employees <sup>8</sup>	Estimated Workforce Change (since 1995)
TOTALS	6.939			1389	-444
REK Bitola Mines					
Sudovol Mine	6.144	Lignite	43	1037	-332
REK Oslomej Mines					
Oslomej-West Mine	.795	Lignite	10	352	-112

The mines that supply coal to the Bitola and Oslomej power plants are:

**1. Suvodol Mine** is 15 km east of Bitola, inside Mining – Energy Facility (REK) Bitola's perimeter. Exploitation began in 1977 with overburden removal; coal removal started in 1982. The Government plans to invest in mining equipment to expand production at an additional excavation location in the Sudovol region. The total cost is expected to reach \$100 million in the next five years. An agreement has been reached with Russia to settle a \$15 million debt through the provision of Russian mining equipment.

**2. Brod-Gneotino Mine** is 10km from Suvodol mine. During 2000-2001, geological testing identified 33 million tons of exploitable coal reserves, but of lower quality than Suvodol lignite. A new mine under construction is expected to produce two million tons of coal annually that will supply one unit of the Bitola power plant. Overburden removal began in August 2004 and is expected to take three years. The mine's lifespan is estimated at 17 years, with the potential for expansion to the north, which would add 3 – 4 years.<sup>9</sup>

Environmental ramifications could be significant in terms of disturbing the land, waste removal, and increased dust pollution. In addition, mining will require pumping water from the mine (which would be below the water table) into an adjacent river.<sup>10</sup>

**3. Suvodol Lower Seam's** geological testing began in 2004, when an estimated 50 million tons of exploitable coal reserves were identified. Environmental implications of mining would be very limited, given that the Suvodol mine is already in operation.

Expanding the Brod-Gneotino and Suvodol lower seam would postpone the need to import lignite beyond 2020.<sup>11</sup> Other deposits in the Suvodol region include Zivojna, Vitoliste, and Pelagonija. The Zivojno deposit is 20km from the power plant. Research in 1966 and again in 1983 verified reserves of 65 million tons. Serbia's REK Kolubara also studied this deposit. The distance from the power plant

<sup>6</sup> Joint Stock Company Macedonian Power Plants (AD ELEM), Written Response (September 2006).

<sup>7</sup> Ibid.

<sup>8</sup> Bitola and Kicevo Employment Agencies, Estimates, Interview, 2006.

<sup>9</sup> AD ELEM, Official Website, (Skopje: AD ELEM 2005), <http://www.elem.com.mk>.

<sup>10</sup> World Bank, *Former Yugoslav Republic (FYR) Macedonia Energy Policy Paper*, Report No. 29709-MK, (Washington: World Bank, 23 July 2004): 8.

<sup>11</sup> Ibid.: 7.

increases transportation costs, which makes this expansion a lower priority than Suvodol and Brod-Gneotino. Additional research will be conducted over the next 20 years, before Suvodol and Brod-Gneotino mines near closure, to verify the potential to produce 2.3 to 3 million tons of coal per year.

Total reserves in the Sudovol region are estimated at 161 million tons.<sup>12</sup>

**4. Oslomej's** exploitation started in 1980. At that time, the mine had an expected life of 22 years. The deposit is divided into mining districts Oslomej-East (exhausted) and Oslomej-West. Coal mining operations produce three million cubic meters of overburden to exploit over 600,000 tons of coal per year. Coal from the west mine is estimated to provide Thermal Power Plant (TPP) Negotino (an independent power producer) with coal for 14 – 15 years.

Additional exploitation is possible in the Popovjani and Stragomiste coal deposits. Popovjani is 3km north of REK Oslomej. Additional research is required to verify coal reserves and quality, but a 1968 study confirmed nearly 11.5 million tons of coal reserves, which could extend power plant operations 10 years.<sup>13</sup>

### MINING WORKFORCE TRENDS

According to 2000 data from the World Energy Council, the number of coal industry employees in Macedonia declined from 2,070 in 1990 to 1,800 in 1998 (a 13% reduction). Local employment agencies estimate the current coal mining workforce at 1,389. **No further workforce reductions are planned in the lignite coal labor force until 2025.**

The following chart shows an aging workforce in both mining companies. In both mines, 50% of the workforce is 46-55 years old and 95% are male. Females comprise 8% of Sudovol's mining workforce and 6.5% of Oslomej's.

**Mine Employees by Age and Gender<sup>14</sup>**

Age	Sudovol Mines			Oslomej Mines		
	Gender		Total	Gender		Total
	Male	Female		Male	Female	
≤ 25 years	7	-	7	2	-	2
26-35 years	76	12	88	30	-	30
36-45 years	298	36	334	101	11	112
46-55 years	489	24	513	167	8	175
56-63 years	80	9	89	27	4	31
64-65 years	6	-	6	2	-	2
Total:	956	81	1037	329	23	352

Based on these data and the limited availability of municipal-level active labor market programs, any future workforce reductions will add to the unemployment problem, particularly in local communities. Lessons learned from other countries indicate that older workers are more inclined to accept severance packages than to seek out retraining programs. Very few of those who accept severance packages will

<sup>12</sup> AD ELEM, Official Website, 2005.

<sup>13</sup> Ibid.

<sup>14</sup> AD ELEM, Written Response, 2006.

become entrepreneurs. Younger members of the workforce who may be interested in retraining or entrepreneurship will face a lack of information to help them select a market-driven skills training program or a viable business idea. Current training methodologies are not likely to result in marketable skills, and the lack of effective municipal-level business support programs increases the likelihood of business failure.

### III. COAL-FIRED POWER PLANTS

Two coal-fired power facilities provide 80% of the electricity generated in Macedonia. This section provides estimated labor data related to Macedonia's coal-fired power plants, based on information from a variety of sources.

#### Coal-Fired Power Plants: Macedonia<sup>15</sup>

	Production (GWh/year) 2005 <sup>16</sup>	Year Opened	Number of Units (Installed capacity)	Type of Coal Used	Number of Employees <sup>17</sup>
TOTAL	5411.5				1519
REK Bitola	5007.3	1982-1988	675 MW (3 units x 225 MW)	Lignite	1222 power generation (REK Bitola Total: 2,259)
REK Oslomej	404.2	1980	125 MW (1 unit)	Lignite	297 (REK Oslomej Total: 649)

The following chart shows an **aging workforce in both power plants**. In REK Bitola, 46% of the workforce is 46-55 years old and 89% are male. Females comprise 11% of the workforce. In REK Oslomej, 53% of the workforce is 46-55 years of age; 90% are male. Females comprise 10% of REK Oslomej's workforce.

#### Power Plant Employees by Age and Gender<sup>18</sup>

Age	REK Bitola			REK Oslomej		
	Gender			Gender		
	Male	Female	Total	Male	Female	Total
≤ 25 years	5	3	8	1	-	1
26-35 years	94	14	108	40	1	41
36-45 years	847	92	942	156	22	178
46-55 years	920	122	1037	306	35	341
56-63 years	141	21	164	80	6	86
64-65 years	-	-	-	2	-	2
Total:	2007	252	2259	585	64	649

<sup>15</sup> Elektrostopanstvo na Makedonije (ESM), Official Website, (n.d.). <http://www.esmak.com.mk> (accessed 20 February 2006).

<sup>16</sup> AD ELEM, *Environmental Report 2004/2005*, (Skopje: AD ELEM 2006): 6.

<sup>17</sup> Based on calculations from AD ELEM and local labor office information, 2006.

<sup>18</sup> AD ELEM, Written Response, 2006.

Data provided by ELEM shows that the majority of workers are skilled or high school level:

Education/Skill Level	REK Bitola		REK Oslomej	
	Percent of Workforce	Number of Employees	Percent of Workforce	Number of Employees
Primary School	2.3%	53	1.7%	11
Semi-Skilled	12.9%	292	7.2%	47
Skilled	34.9%	788	43.0%	279
High School	36.3%	821	29.6%	192
Highly-Skilled	0.3%	7	3.7%	24
Academy	4.9%	110	6.8%	44
Bachelors	8.3%	188	7.6%	49
Masters	-	-	0.3%	2
Ph.D.	-	-	0.2%	1
<b>TOTALS</b>	<b>100.0%</b>	<b>2,259</b>	<b>100.0%</b>	<b>649</b>

**I. REK Bitola** – Located in Bitola, Macedonia’s largest power plant produces 70% of the country’s electricity. It operates an average of 7,600 hours annually, making it one of Europe’s 10 most-utilized power plants.<sup>19</sup> Although coal consumption has decreased because of system upgrades, it still consumes 7 million tons of lignite coal annually.<sup>20</sup>

Investment plans include installing a Bitola IV unit<sup>21</sup> by 2014 – dependent on locating other sources of lignite. Options include opening new mines near the plant or importing coal from Greece. Bitola IV would add 650 to 1300 GWh, with an installed capacity of 120 to 225 MW. The cost is estimated at \$80 to 150M, and construction is expected to take two years.<sup>22</sup> The three existing units were rebuilt in 1994. Rehabilitation is planned for Bitola 1 in 2014, Bitola 2 in 2018, and Bitola 3 in 2020.<sup>23</sup> Without these investments, REK Bitola’s planned retirement date is 2013, making Macedonia almost wholly dependent on imported power.<sup>24</sup>

The highest qualified members of REK Bitola’s workforce mainly hold jobs categorized as mechanical engineering, with 77% of those workers having completed high school.



REK Bitola

<sup>19</sup> ESM, Official Website.

<sup>20</sup> Government of the Republic of Macedonia 2005.

<sup>21</sup> ESM, Official Website.

<sup>22</sup> Ibid.

<sup>23</sup> Energy Regulatory Commission (ERC) of the Republic of Macedonia, *Energy Sector of the Republic of Macedonia*, Presentation the National Association of Regulator Utility Commissioners (NARUC) Regulatory Partnership Program (ERC, Macedonia – PSB, Vermont), Skopje: 20 – 26 March 2004, [http://www.narucpartnerships.org/Presentations/Macedonia/Mar03/industry\\_overview\\_eng.pdf](http://www.narucpartnerships.org/Presentations/Macedonia/Mar03/industry_overview_eng.pdf).

<sup>24</sup> World Bank 2004: 6.

<b>REK Bitola: Workforce Qualifications</b>				
	Academy	Bachelors	High School	Total
<b>Electrical Engineering Power</b>	46	32	217	<b>295</b>
<b>Electrical Engineering Electronics</b>	10	-	31	<b>41</b>
<b>Mechanical Engineering</b>	60	51	358	<b>469</b>
<b>Civil Engineering</b>	4	1	11	<b>16</b>
<b>Economics</b>	17	8	48	<b>73</b>
<b>Law</b>	15	-	-	<b>15</b>
<b>Mining-Geology</b>	15	1	63	<b>79</b>
<b>Other</b>	21	17	93	<b>131</b>
<b>Total</b>	<b>188</b>	<b>110</b>	<b>821</b>	<b>1119</b>

**2. REK Oslomej** – Located in Kicevo, this plant supplies 10% of Macedonia's total electricity. Its planned retirement date is 2013.

The highest qualified members of REK Oslomej's workforce mainly hold jobs categorized as mechanical engineering, with 74% of those workers having completed high school.

<b>REK Oslomej: Workforce Qualifications</b>				
	Academy	Bachelors	High School	Total
Electrical Engineering Power	14	15	37	<b>66</b>
Electrical Engineering Electronics	1	-	2	<b>3</b>
Mechanical Engineering	11	13	68	<b>92</b>
Civil Engineering	-	-	2	<b>2</b>
Economics	3	8	9	<b>20</b>
Law	2	1	-	<b>3</b>
Mining – Geology	12	4	17	<b>33</b>
Other	6	3	57	<b>66</b>
<b>Total</b>	<b>49</b>	<b>44</b>	<b>192</b>	<b>285</b>

These data indicate that while the power plant workforce faces the same community-level barriers as the coal mining workforce, the majority are highly skilled with more education and thus are more likely to choose retraining, relocation, or entrepreneurship assistance programs.

#### **IV. LABOR LAWS AND REGULATIONS**

##### **Employment Trends**

Macedonia's high unemployment rate, at 36.7% of the labor force, is one of the country's most pressing social problems. In July 2005, the Government enacted a new Labor Law<sup>25</sup> to address persistent and stagnant unemployment and the large informal sector. The new law:

- Promoted more diversified employment contracts, by limiting restrictions on the use of fixed-term, temporary and part-time employment
- Revised conditions for dismissal

<sup>25</sup> Nikola Popovski, *Letter from Nikola Popovski, Minister of Finance*, International Bank for Reconstruction and Development (IBRD) Program Document, September 20, 2005: 29.

- Limited severance pay to a maximum of six individual monthly salaries
- Increased the yearly limit on overtime
- Required that collective bargaining be done on a voluntary basis
- Authorized methods for labor dispute resolution as an alternative to strikes and litigation

These labor regulations are referred to as Employment Protection Legislation (EPL). Restrictive EPL limits an employer's freedom to hire and fire workers to meet fluctuating business demands, particularly through fixed-term contracts, which are an important source of flexibility. Restrictive EPL increases an employer's cost of employing workers, thereby impeding private investment and job creation. Macedonia's new labor law represents a significant liberalization of its EPL.

### Active Labor Market Programs (ALMP)

Macedonia has received donor assistance for a variety of restructuring, social protection, and labor legislation projects. Of these, the World Bank's 1999-2003 **Social Support Project**<sup>26</sup> loan (a follow-on project to the Social Reform Technical Assistance Project and support of the Financial and Enterprise Sector Adjustment Loan 2), helped the Government of Macedonia (GoM) establish labor restructuring and labor redeployment programs that provide relevant experience for coal sector restructuring.

The goal of the Social Support Project was to mitigate the effects of restructuring of majority state-owned enterprises (MSOEs), increase the capacity of the National Employment Bureau to provide labor redeployment assistance, and improve the efficiency of providing social benefits. The project financed two components:

1. **Labor Restructuring** – Funded severance payments to workers displaced by bankruptcy and labor restructuring of MSOEs, plus social monitoring to determine social impact on displaced workers. A baseline survey was conducted in three regions, including Bitola. This component was implemented by the Privatization Agency.
2. **Labor Redeployment** – Focused on the long-term unemployed and first-time jobs seekers. This component financed the development of an administrative framework to enable the Agency for Transformation of Enterprises with Social Capital (Agency for Privatization) to provide resources to MSOEs or selected local organizations to organize labor redeployment services by contracting with local service providers. This component was implemented by the National Employment Bureau.

The project carried out ALMP programs for about 35,000 unemployed workers in 43 communities. It resulted in 14,000 new jobs and improved the delivery of social benefits by strengthening the Ministry of

<sup>26</sup> World Bank, *Implementation Completion and Results (ICR) Report Macedonia Social Support Project*, Report No. 27574 (Washington: World Bank, 15 January 2003).

### Key Provisions Labor Laws and Regulations Macedonia

Collective Agreements	●
Union Representation	●
Early Warning – Layoff	
Planning Committees (company)	
Community Planning	
Migration Program	●
Social Insurance	●
Pensions	●
Health Insurance	●
Severances	●
Wait Listing	
Early Retirement	●
Forced Retirement	
Voluntary Retirement	●
Hiring Freeze	
One-Time Financial Compensation	●
Retraining	●
Alternative Employment	
Vocational Training	●
Social Programs	●
Health and Safety	●
Medical Care	●
Inspections	
Safety Gear	
Hazardous Work Compensation	●
Meals	●
Environmental Protection	●

Labor and Social Policy with staff training, equipment, and the establishment of a policy evaluation unit. The range of ALMP services included employment counseling and relocation, retraining, public works, small business assistance, a small business incubator, and local economic development planning. The Labor Regulation Law was modified in February 2003 regarding severance payment and length of unemployment benefits; a Special Law for Incentives of Employment was adopted in March 2003.

A net impact evaluation confirmed similar results to World Bank funded labor redeployment programs in Russia and Romania:

- Severance as seed capital failed to result in an appreciable level of new businesses. A fund equivalent to \$4.73 million provided severance payments equal to \$1,054 to each of 4,483 redundant workers. Of these, 96% used the severance for debts and living expenses; less than 1% tried to start a business. This was due to the limited amount of severance received and to insufficient business assistance programs.
- Retraining programs were the most successful components of labor redeployment program. Two approaches were demonstrated: on-the-job training and institutional training provided through user fees. Although user fees excluded some people from participation, those who participated took more care in selecting the type of training and demonstrated increased commitment to learning.
- Public Works (temporary community employment programs) positively affected employment, but at a very high unit cost.
- Small Business Assistance programs have unfulfilled potential and require integration with other measures and programs to provide access to credit and other support services.
- Public Information campaigns contributed to program success.
- Project Implementation success or failure depends on the Project Coordination Unit's qualifications and motivation. In a politically volatile environment, when the leadership of key implementing agencies often changes, the continuity of PCU staff is vital for project success.

Active Labor Market Programs	
Job Creation Incentives	●
Subsidized Employment	●
Public Works	●
Self-Employment Support	●
Training – Retraining	●
Relocation Assistance	●
Passive Programs	
Early Retirement	●
Unemployment Benefits	●

According to the World Bank project completion report, the project confirmed that ***even in a situation of high unemployment, well-designed and targeted ALMPs can have a significant impact on job placements and labor incomes.***

Despite these results, local public employment agencies contacted during this research stated that ALMP programs are not available at the municipal level, indicating that the 2003 Social Support Program was not sustained beyond central government.

## Other Employment Program Projects

- European Agency for Reconstruction (EAR) funded the **Vocational Education Training Project** (€7.05/\$8.88 million, 2000 – 2005) to provide technical assistance for training and curriculum development, as well as equipment to the Ministry of Labor and Social Policy, vocational schools, and training facilities.<sup>27</sup> EAR progress reports indicate that 56 dedicated vocational and education training (VET) schools have benefited from the program.<sup>28</sup>

A World Bank study found that Macedonia's quality of primary education is generally poor and secondary education focuses on occupation-based vocational training. Post-secondary and tertiary education is not diverse in terms of length of studies, programs, or providers.<sup>30</sup>

“Little progress has been made, however, on the reform of the education system which has suffered from a lack of continuity with the various plans made by successive Governments. A challenge is the lack of embeddedness of Vocational and Education Training reform elements in existing national structures and practices.”<sup>29</sup>

In addition, local employment agencies in Bitola and Kicevo report that regional and municipal programs do not offer additional training to miners. Internal training is conducted by the mining complexes. Management training is carried out by the Faculty of Mining in Stip, Belgrade, and Tuzla, Bosnia and Herzegovina. Additional education is offered at the Electro-Technical Faculty and the Mechanical Engineering Faculty in Skopje.

- The second phase of the **Employment Policy Reform Project**, which began in September 2005 (€2.55 million/\$3.21 million), will review progress toward implementing the first National Action Plan for Employment. It will also provide training and capacity-building activities to help local employment offices deliver ALMPs.<sup>31</sup>

## Small and Medium-Sized Enterprise (SME) Development

Donors have funded a variety of projects to improve the business environment, promote private sector growth, and facilitate the banking sector, but these programs have not yet fulfilled their potential.

Because participants in the private sector often lack entrepreneurial skills, they struggle to compete with imports and to penetrate export markets. A “one-stop” registration system was designed to reduce barriers for entrepreneurs. The Agency for Promotion of Entrepreneurship was established. In April 2003, Branko's Law was adopted to encourage new hiring by subsidizing payroll contributions.<sup>32</sup> There remains limited access to credit, confusing business regulations that impose high costs on formal businesses, and a tax system that focuses government attention on businesses that report a profit.<sup>33</sup>

<sup>27</sup> European Agency for Reconstruction (EAR), *Annual Report to the European Parliament and the Council: January to December 2005*, (Thessaloniki: EAR, 12 June 2006):128, <http://www.ear.europa.eu/publications/main/documents/AnnualReportJan-Dec2005.pdf>.

<sup>28</sup> Ibid.

<sup>29</sup> Commission of the European Communities, “Commission Staff Working Paper Former Republic of Macedonia, Stabilisation and Association Report 2004” (Brussels: Commission of the European Communities, 2004):12.

<sup>30</sup> World Bank, *FYR Macedonia, Country Economic Memorandum, Tackling Unemployment*, 2003: 5, 9.

<sup>31</sup> EAR 2006: 129.

<sup>32</sup> Commission of the European Communities 2004:16.

<sup>33</sup> World Bank, MAEWS (Business Environment Monitoring, Analyses, and Early Warning System) focus group study, quoted in World Bank, *FYR Macedonia, Country Economic Memorandum, Tackling Unemployment*, 2003.

Businesses have avoided the courts and are reluctant to enter into contracts. Many dealings largely rely on trust and the perception of mutual self-interest. This environment has made entry by newcomers difficult and has led to degradation of the investment climate.<sup>34</sup> In 2003, the Government committed to an anti-corruption strategy, passed anti-corruption legislation, and reformed the Customs Administration.

As a contributor to business competitiveness, the infrastructure (electricity, mail, water, and telephone) was viewed as “good,” relative to the other factors impeding business, by 50% of respondents to a 1999 Business Environment and Enterprise Performance Survey.

### Trade Unions

Trade Unions work in the mining sector and represent all miners. The Confederation of Trade Unions (SSM) encompasses 17 separate unions, including the Independent Union of Workers in the ELEM, which represents workers in energy and mining. The SSM serves as the main negotiating partner with Government of Macedonia, representing more than 50% of the legal workforce through voluntary membership.<sup>35</sup> All miners are members of the Independent Union of Workers of the ELEM. The union regularly participates in the bargaining agreement process and restructuring discussions.

### Collective Agreements

Mining work is regulated by the Collective Agreement for Workers in the Energy Sector (Official Gazette 5/96). AD ELEM employees work under a collective bargaining agreement of their industry branch.<sup>36</sup> The union is consulted when changes in mines occur, particularly worker benefits, training or retraining. Labor and ELEM management relationships are viewed as cooperative.

A number of enhanced benefits are provided to miners. These include:

- **Retirement:** Miners earn 1.5 years credit for each year worked, shortening the time required to work before retirement (Pension Law, article 125, official gazette 35/96; Decision of Pension Fund for Miners, Official Gazette 72/96).<sup>37</sup>
- **“Heavy Work”:** The collective bargaining agreement guarantees one day annual leave for shift-work, plus another day for “heavy work” jobs<sup>38</sup>. Workers performing heavy work receive an additional 10 days of annual leave described as “preventive health holiday leave,”<sup>39</sup> and a 30% increase in base salary. Salaries for “difficult” and “more difficult” jobs are set by the ELEM managing board.<sup>40</sup>
- **Health:** Miners receive regular, free medical examinations<sup>41</sup> and meals provided as Nutritional Benefits.<sup>42</sup> Worker safety is administered by each employer’s internal policies.

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<sup>34</sup> World Bank, *FYR Macedonia, Country Economic Memorandum, Tackling Unemployment*, 2003: 53.

<sup>35</sup> European Bank for Reconstruction and Development (EBRD), *Strategy for the Former Yugoslav Republic of Macedonia*, (Approved 20 July 2004), <http://www.ebrd.com/about/strategy/country/mace/strategy.pdf>, (accessed 27 February 2006).

<sup>36</sup> Representative of Regional Union of Bitola, Interview, 2006.

<sup>37</sup> Bitola and Kicevo Employment Agencies, 2005 data, Interview, 2006.

<sup>38</sup> Ibid.

<sup>39</sup> Ibid.

<sup>40</sup> Ibid.

<sup>41</sup> Ibid.

<sup>42</sup> Ibid.

## V. COMMUNITY PROFILE – BITOLA

This section summarizes the Bitola municipality's current economic and social conditions. Experience has shown that consulting with local communities and adapting planning to local conditions strongly influences the impact of restructuring.

# COMMUNITY PROFILE

## Bitola

### COMMUNITY CHARACTERISTICS

Bitola is the second largest city in Macedonia, located in the southwest, 13km from the Greek border. It is an important junction, connecting the south of the Adriatic Sea with the Aegean Sea and Central Europe. Bitola city's population is 78,929; Bitola municipality's population is 95,354, including 65 villages. The ethnic composition is 88.7% Macedonian and 4.4% Albanian, with the remainder Roma, Turks, Bosniaks, Serbs, Vlachs, and other. Bitola's cost of living is significantly lower than the capital, Skopje, but higher than the national average, particularly in terms of health expenses. However, educational expenses are lower than the country average.

The municipality is mixed urban and rural. The country's largest power complex, REK Bitola, is 8km from the city. All workers from the power plant reside in Bitola, while the miners reside in the rural villages. Bitola's Pelagonia Valley is the largest agricultural area in Macedonia. Corn and wheat crops supply almost half of the country's demand. Bitola is also an important educational center.

There is potential for tourism expansion, but hotels and tourist services are not up to European standards. The national park Pelister is the largest in Macedonia and the site of winter skiing and summer mountain climbing. Bitola also has several indoor and outdoor sport facilities, which host domestic sports teams. Bitola is famous for its historical and cultural heritage; relics from the Roman period include baths, basilicas and an amphitheater.

### BUSINESS ENVIRONMENT

Bitola ranks second to Skopje in registered SMEs. The proximity to Greece has attracted significant private investment in the past few years, mainly in wholesale and retail outlets, small textile facilities, and metal and furniture industries. Most of the Greek textile companies produce (with cheap Macedonian labor and materials) clothing that is sold in Greece and the European Union. An estimated 30 to 40 Greek businesses operate in Bitola. The Government recently expanded the Medzitlija-Niki border crossing and its regional Customs office.

Local banks provide business loans, typically ranging from one to ten years with a six- to twenty four-month grace period, at interest rates of 8.5 to 15%. The majority of businesses that fail lack a market orientation, business plan, business management structure and skills, a skilled workforce, and/or capital. The types of failed business include agricultural, metal industry, and retail. The major causes that impede business and contribute to unfair competition are cited as heavy expenses and a high level of fraud and corruption. There is also a lack of cooperation among businesses and local and central government authorities.

## COMMUNITY PROFILE: Bitola, continued

The municipality established an office of local economic development (LED) to improve the business climate and attract investors. The office is completing a municipal profile for its LED strategy to catalogue resources, business requirements, potential locations for expanding businesses, and a directory of all enterprises. An LED strategy developed in 2000 (with assistance from a private consulting company in Skopje) currently guides Bitola's development activity, but has made little progress. The 2000 strategy noted a "polarization of social and political attitudes."

Community assets for employers include proximity to the Greek border (with a contemporary border crossing), cheap and plentiful labor, developed agricultural and irrigation systems, available land, raw goods and markets for food processing, established business regulations, a university center, and a well-developed and maintained infrastructure. The modern Strezevo water system is the largest in Macedonia.



### Bitola's Largest Employers

Power Company	2259
Mining	1037
Sugar Factory	350
Bread and Pastry Company	300
Printing Company	190
Brewery	140
Yeast Factory	140
Milk Factory	70

Bitola is the main economic and industrial center in southwest Macedonia. Many of Macedonia's largest companies are based there, including large state-owned, profitable production facilities. The largest employer is the state-owned power and mining complex; the municipality has no input or influence into its restructuring or expansion plans. At this stage of coal sector restructuring, there have been no noticeable changes at the community level. The Government announced that in 2007 it will develop, using World Bank loan funds, a new excavation site.

### EMPLOYMENT DATA

The unemployment rate in the fourth quarter of 2006 was 37.2%, compared to a national rate of 36.2%. Females make up 49.3% of the 16,120 unemployed. Most of the younger population works in private (joint ventures or Greek-owned) production facilities.

As a university center, Bitola hosts St. Clement of Ohrid University, which was founded in 1979 as Macedonia's second university. It offers degrees in mechanical and electrical engineering, information technology, education, public administration, transportation, and graphic design. There are also three vocational education and training (VET) schools. Adult education is not available in Macedonia. In 2006, courses were offered in several new vocational areas (aviation, medical lab technician, and optician) but still use obsolete training methodology and require

## COMMUNITY PROFILE: Bitola, continued.

three to four years for completion. As a result, VET graduates lack sufficient knowledge and skills to be employable. Although a job-specific curricula development program was demonstrated at the three VET schools through a 1999-2003 USAID – U.S. Department of Labor project, this approach to adult worker retraining was not sustained because of management turnover in the vocational schools and employment agency.

Engineers, graphic designers, and computer programmers are the hardest jobs to fill. In particular, PLC programmers (to control machinery in milk, brewery, and yeast factories) are not available. No unemployed have these qualifications and no courses exist in the education system. There is no organized system for workforce planning, and local companies lack human resource development plans that would provide occupational needs and forecasts. Generally, foreign investors bring highly skilled workers with them and hire the local workforce for lower-level jobs. Competition is intense among the unemployed for unskilled and high school-level jobs at SMEs involved in textiles, food processing, metal production, trade and retail.

### UNEMPLOYMENT SUPPORT SERVICES

Job clubs to assist the unemployed are offered through the local employment service bureau. For hard-to-fill jobs, the employment service selects workers from its unemployed data base and either pays for training or subsidizes internal training costs for specific employers with the stipulation that the workers be employed in a position that requires the new skills. Although labor-management workforce adjustment committees were implemented in Bitola through a 2003 USAID – U.S. Department of Labor project, this approach to mitigate the effects of lay-offs was not sustained because of management turnover in the employment agency.

<b>Unemployment by Age</b>	
Youth ≤ 29	34.7%
Age 30-49	41.4%
≥50	27.1%

<b>Unemployment by Education</b>	
Below Secondary School	39.4%
Secondary/Skilled	46.4%
University	14.2%

## COMMUNITY PROFILE: Bitola, continued.

### SME DEVELOPMENT

Small businesses lack start-up support. The Government intends to stimulate SME development by supporting the Bank for Support of SMEs to provide financing through more accessible loans and simplified procedures. The government also introduced a “one-stop-shop” for business registration. A new Law on Decentralization enables businesses to apply in municipalities for licenses and permits as well as land concessions, electricity and water service. The municipality’s new LED plan includes strategies to attract and retain SMEs, (particularly foreign-owned). Although donors have sponsored SME development programs, none have been sustained as a part of regular service delivery. Market research (particularly export-oriented data) for business planning is unavailable.

### INFRASTRUCTURE

- Bitola has a railway station and is connected by rail to Skopje and Greece. The number of large factories influenced early expansion of the industrial infrastructure, which is reported to be sufficient for small business expansion.
- Electricity, water and sewage systems have sufficient capacity to accommodate expanded production facilities.
- Bitola’s distance from the national airport in Skopje and the international highway to Greece could represent an obstacle to some foreign investors.
- Communications systems are not well-developed.

Opportunities	Challenges
<ul style="list-style-type: none"><li>• Diverse economic base and well-developed infrastructure (electricity, sewer, and particularly water system)</li><li>• Macedonia’s largest agricultural center with developed infrastructure</li><li>• Important educational center; subsidized retraining programs available</li><li>• The largest power complex in Macedonia and many large state-owned enterprises</li><li>• New mine expansion</li><li>• Proximity to Greece; junction connecting the south of the Adriatic Sea with the Aegean Sea and Central Europe</li><li>• Second-highest number of registered SMEs in Macedonia; significant Greek investment</li><li>• Plentiful, low- cost labor supply</li><li>• Potential for tourism expansion</li></ul>	<ul style="list-style-type: none"><li>• High unemployment rate; obsolete training methodologies produce unemployable graduates</li><li>• Lack of organized system for workforce planning and development</li><li>• Cost of living higher than national average, particularly health care expenses</li><li>• Businesses impeded by unfair competition, fraud, corruption</li><li>• Lack of cooperation between business and local and central government authorities</li><li>• Lack of SME start-up support; business failures in agriculture, metal industry, and retail</li><li>• Donor programs for worker retraining, lay-off mitigation, local government reform, and SME development not sustained due to leadership turnover</li><li>• Distance from Skopje national airport and international highway to Greece</li><li>• Communication systems require enhancement</li><li>• Lack of trade exhibition facilities</li></ul>

## VI. POWER SECTOR REFORM

### Power Utility – Background Information

The energy infrastructure of Macedonia is comprised of electric power, coal mines, a gas pipeline system, an oil refinery, oil pipeline (oil imported from Greece), and thermal and geothermal systems. Of the 1,485 MW of installed electricity capacity, 800 MW are coal-fired, 480 MW are hydro, and the remaining capacity is provided by oil and natural gas. Energy generation includes 60% domestic production and 40% imported. Almost 60% of total energy consumption is for electricity for over 570,000 consumers.

Total Consumption In tetra joule (TJ)	120,000 TJ
Crude Oil	30%
Natural Gas	3%
Hydro, Wood, Geothermal	15.4%
<b>Coal</b>	<b>51.6%</b>

Five district heating systems powered by oil, gas, and lignite provide heat to 50,000 homes. Production, distribution and supply are mainly from Skopje and to some extent Bitola, through privately owned companies. The distribution networks are owned by the Privatization Agency.

The former **Electric Power Company of Macedonia** (Elektrostopanstvo na Makedonija – EPCM) began generating diesel-powered electricity in 1909. It was a vertically integrated monopoly controlling electricity generation, transmission and distribution, excluding an insignificant number of independent producers attached to industrial facilities.

The Ministry of Economy based EPCM's restructuring plan on several assumptions:<sup>44</sup>

- The generation base (1,440 MW) is one of the smallest in the region.
- Hydro power plants are a valuable asset and critical for balancing power.
- Domestic energy demand would be met by EPCM and imports. If feasible, independent power producers would be established.
- Investments are needed to maintain and revitalize electricity production.

EPCM's restructuring process commenced in 2000 with these actions:

- In December 2000, EPCM converted to a Joint Stock Company (JSC) under state ownership to begin the process of restructuring and privatization.
- In 2001, a Government Advisory Committee and a Steering Committee were established to guide restructuring.
- In 2003, the Government adopted a restructuring model and implementation plan. It also separated accounting systems for production, distribution, and supply, and adopted International Accounting Standards in January 2005.
- In March 2004, a law on transformation of EPCM was adopted to authorize restructuring.
- In September 2004, the first steps in restructuring EPCM began with a Government decision to establish two independent legal entities effective December 31, 2004:

### AD ELEM LABOR DATA

**2005 Workforce: 3,792**

2,259	Bitola Mining-Energy Facility
649	Oslomej Mining-Energy Facility
884	Other

<sup>43</sup> Government of the Republic of Macedonia 2005.

<sup>44</sup> Ministry of Economy, Government of Macedonia, "Information: Meint Bank Consortium: Elektrostopanstvo na Makedonija – Restructuring Plan." *Bulletin of the Ministry of Economy*. No. 2, ( Skopje: Republic of Macedonia, Ministry of the Economy, December 2003): 43, <http://www/economy.gov.mk>.

AD MEPSO – The Transmission System Operator responsible for transmission and operation; maintenance and expansion of the power system; and organization and management of the electricity market and ancillary services. (A Market Operator that organizes the electricity market was to be a separate organizational unit that could be unbundled from MEPSO if required by development of the electricity market.

- AD ESM – A new company for generation, distribution and supply of electricity; formed to later enter into privatization.
- In January 2005, the process of privatization was initiated by a Government decision to sell up to 51% of the stock to a strategic investor through a tender procedure.

Effective June 2005<sup>45</sup>, the utility was again restructured into three independent entities. Generation was unbundled from distribution and supply.

1. **AD ELEM** – (Formerly AD ESM) A joint stock company that owns and operates all electricity generation assets, including 37 subsidiaries located in almost all cities. Retained state ownership of the Bitola and Oslomej mining-energy facilities.
2. **AD ESM-EVN** – (Formerly AD ESM) The Distribution Operator, Distribution System Operator, and retail supplier for tariff customers. Controls 43 high-voltage substations and the medium and low-voltage grid transmission lines.<sup>46</sup> In March 2006, the Austrian company EVN won the international tender to purchase 90% of AD ESM's shares. The price offered for the company was € 225 million (\$283.5 million), with an additional €96 million (\$121 million) in investments for the next three years.
3. **AD MEPSO** – The Transmission Operator, System Operator, Market Operator, and wholesale supplier for tariff customers.
4. **Independent Power Producer (IPP) - AD TEC Negotino** – A primarily oil-powered power generation plant that receives some coal from Oslomej mines.<sup>47</sup>
5. **Non-Core Enterprises** – The Restructuring Plan called for the auction or liquidation of non-core assets by the end of 2003. Seven vacation facilities are located throughout Macedonia. The Government announced an international tender for three hotels and for tool factories at Oslomej and Bitola,<sup>48</sup> with a closing date of April 14, 2006.

#### Vacation Facilities Held by AD ELEM

1. Hotel Molika – Bitola
2. Hotel Krushino – Kicevo
3. Hotel Popova Shapka – Tetovo
4. Hotel Svetlina – Kumanovo
5. Hotel Separacija – Oslomej
6. Hotel Fort – Oslomej
7. Hotel FOD – Bitola

AD ELEM's labor productivity, while comparable with that of other power utilities in SEE, is low compared to Western Europe. Experience in developed countries and in emerging markets is that introducing the private sector to the power industry results in efficiency gains.<sup>49</sup>

### Restructuring Roles and Process

The Ministry of the Economy has been charged with ensuring that Publicly Owned Enterprises (POE) under restructuring are privatized in a transparent manner.

<sup>45</sup> AD ELEM, Official Website, 2005.

<sup>46</sup> Ministry of Economy 2003: 43.

<sup>47</sup> AD ELEM, Official Website, 2005.

<sup>48</sup> ESM, Official Website.

<sup>49</sup> World Bank 2004: 23-24.

The 1993 Law on Transformation of Enterprises with Social Capital charged the Privatization Agency with responsibility for administering ownership transfers, while overall responsibility for privatization rests with the Government Privatization Commission.

Privatization methods include:

- Employee or leveraged management buy-outs with a minimum 51% stake
- Sales through public calls, after which an auction may be organized
- Debt-equity swaps
- Issuing shares
- Leasing

There is no voucher privatization program, but employees are entitled to discounts on share prices, limited to 30% of the company stock.

Entities within ELEM with negative equity are to be disposed of through auction or simple liquidation. Portfolio participation in companies and banks are to be sold or written off, as are loans and companies via Balkanska and Stopanska Banks. Green field power generation assets will be tendered by the Government with oversight from the ERC.<sup>50</sup>

<b>Status of Coal and Energy Restructuring Process in Macedonia</b>		
	CM	CPP
Unbundling	◐	●
Producer Subsidization	○	○
<b>Corporatization</b>		
Separation of Transmission Network	-	●
Separation of Distribution Network (ISO)	-	●
Independent Regulator	-	●
Liquidation of Non-Viable Entities	○	○
Refurbishment	◐	◐
<b>Commercialization</b>		
Liberalization/Deregulation	○	◐
Price Stabilization	○	◐
Consumer Subsidies	○	◐
<b>Privatization</b>		
Private Investment	◐	◐
CM – Coal Mines ; CPP – Coal-Fired Power Plants		
Completion Status:		
● Full ◐ Partial ○ None – Not applicable		

The Agency for Entrepreneurship Promotion and other regional institutions are to assist in analyzing the need and opportunities for cooperation with small businesses. The legal basis for foreign investment is the Company Law passed in 1996, which placed foreign investors on equal footing with domestic investors. The 1993 Law on Concessions and the Law on Foreign Trade are the other relevant legislation for investors.

### Regulatory Reforms

- The National Action Plan on establishing an electricity market (prepared by the Ministry of Economy) was adopted by the Committee on Restructuring and Privatization of EPCM in October 2003.
- An Energy Regulatory Commission (ERC) was nominated in July 2003, and the *Model for the Electricity Market* was adopted in September 2003.<sup>51</sup>
- In 2004, the World Bank prepared an Energy Policy Paper, which forecast electricity needs through 2009 and included options for investment.
- The Law on Market of Electricity was adopted in 2005, defining Eligible Customers (non-households) based on minimal yearly consumption. The ERC grants Eligible Customer status

<sup>50</sup> Ministry of Economy 2003: 43-57.

<sup>51</sup> Ibid.

- pursuant to the electricity market law. The two deadlines for opening the electricity market are January 1, 2009 for non-household consumers and January 1, 2015 for household consumers.<sup>52</sup>
- The 2006 Energy Law (adopted in May 2006) established energy policy objectives, an Energy Strategy, and an Energy Program.
  - In October 2006, ERC reported that it was preparing a tariff system for the electricity sector and conditions for electricity supply. USAID also financed the training of ERC employees in calculating electricity tariffs in October – November 2004.
  - Two studies to eliminate cross-subsidies were prepared, one financed by USAID and the other by the EU through a CARDS project.
  - Grid Codes proposed by MEPSO as the Transmission System Operator were adopted by the ERC in August 2006.
  - Macedonia reconnected to the first synchronous zone of UCTE in October 2004. The country is currently interconnected with Serbia and Greece at a voltage level of 400kV and with Kosovo at 220kV. Future interconnections include Florina, Greece (upgrading a 150kV to 400, dependent upon obtaining \$9.5 million funding) and Chervena Mogila, Bulgaria (400kV), which is in the implementation phase. Other potential connections include a 220kV line to Albania (as part of the Southeast European Cooperative Initiative (SECI) Regional Transmission System Planning project) and to Italy by undersea cable (as part of the East-West Corridor feasibility study).

## INVESTMENT PLANS

The Energy Law authorized preparation of a Strategy on Longer Term Development of the Energy Sector, which is the responsibility of the Ministry of Economy. In 1999, the Energy Law established a program on energy efficiency that was adopted in October 2004 for the period through 2020. In 2001, EPCM prepared a development plan on building, rehabilitating, and modernizing production, transmission, and distribution facilities through 2015, which included new mining facilities. In 2002, USAID supported development of a Strategy on Development of the Energy Sector, which was accepted as a potential plan. For the electrical power system, a Study on Least-Cost Development until 2020 was prepared. It predicts the growth of electricity consumption, existing production facilities, and potential facilities.

Investments through 2007<sup>53</sup> are anticipated to include €444million (\$559 million) for production, €109 million (\$137 million) for transmission, and €34 million (\$43 million) for distribution. Key projects include the transmission network, construction of a new facility for electricity production, and revitalizing one unit of TPP Bitola. Loans have been provided by the European Bank for Reconstruction and Development (EBRD) for a 400kV transmission line between Stip and Chervena, Bulgaria; from European Investment Bank (EIB) for a 100kV line from Tetovo to Gostivar and a 100kV transformer station in Skopje; and by commercial loans for rehabilitation of the Suvodol lignite mine.

Investment forecasts through 2030 for thermal power total €61/\$76.9 million. These include €11 million (\$13.9 million) in 2010, €13 million (\$16.4 million) in 2015, €15 million (\$18.9 million) in 2020, and €22 million (\$27.7 million) in 2030 to fund projects to upgrade the network, construct interconnections with neighboring countries, rehabilitate thermal power plants, and open new coal mines.

A July 2004 Energy Policy Paper provides an overview of the investment and policy choices in the Macedonian power sector, identifying gaps where further work was required for the development of an investment program. It also highlighted criteria under which potential investments in a new Combined

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<sup>52</sup> In Macedonia, households and businesses pay more than large industry for power. World Bank 2004: 19.

<sup>53</sup> Government of the Republic of Macedonia 2005.

Heat and Power plant and a new coal mine should proceed. The report emphasized Macedonia’s energy sector challenges, which include maintaining energy balance and meeting the challenges of reform.

Sector Opportunities	Sector Challenges
<ul style="list-style-type: none"> <li>• Good progress in developing a energy regulatory framework</li> <li>• Investment forecasts through 2030 for thermal power total €61 million (\$76.9 million)</li> </ul>	<ul style="list-style-type: none"> <li>• Dependent on energy imports after 2025</li> </ul>

## VII. KEY STAKEHOLDERS IN POWER SECTOR RESTRUCTURING

### Relevant Energy Authorities:

The Ministry of Economy oversees energy policy (serves as National Energy Authority)  
 Ministry of Environment and Physical Planning  
 Ministry of Finance – Commodity Reserves Bureau  
 Ministry of Agriculture, Forestry and Water Economy  
 Ministry of Transport and Communications  
 Legislation Secretariat

### Independent Institutions:

Standardization Institute  
 Accreditation Institute  
 Macedonian Academy of Sciences and Arts  
 Macedonia Consumer Association  
 Economic Chamber of Macedonia’s Energy Board (which organizes public debates on legal and development documents related to companies’ interests)

### Other Consumer Protection Bodies:

Consumer Protection Council (government consultative body)  
 Consumer Protection Organization (non-governmental organization)

### Independent Regulatory Authority:

Energy Regulatory Commission (ERC) ensures safe and secure power supply

AD ELEM owns and operates all electricity generation assets, including 37 subsidiaries in almost all cities, and the Bitola and Oslomej mining-energy facilities.

AD ESM-EVN is the Distribution Operator, Distribution System Operator, and retail supplier for tariff customers. It controls 43 high-voltage substations and the medium- and low-voltage grid transmission lines.

AD MEPSO is the Transmission Operator, System Operator, Market Operator, and wholesale supplier for tariff customers.

Privatization Agency (formerly Agency for Transformation of Enterprises with Social Capital) is responsible for administering ownership transfers. Overall responsibility for privatization rests with the Privatization Commission.

The Agency for Entrepreneurship Promotion assists in analyzing the need and opportunities for cooperation with small businesses during restructuring.

The Ministry of Labor and Social Policy and the National Employment Bureau carry out active and passive labor measures throughout Macedonia. It participated in a World Bank project to demonstrate labor redeployment programs to workers made redundant by enterprise restructuring.

The Confederation of Trade Unions (SSM) encompasses 17 separate unions, including the Independent Union of Workers in ELEM, which represents workers in energy and mining. The SSM is the main negotiating partner with the Government of Macedonia.

DRAFT

## ANNEX A DONOR FUNDED ACTIVITIES

EBRD is the largest investor in Macedonia, having provided more than €370/\$466 million in 24 projects. Working with partners including the private sector, EBRD has mobilized more than €440/\$554 million for projects across the country. ***In the energy sector alone, EBRD has committed about €123/\$155 million.***

### Donor Funded Activities

ACTIVITY	STATUS	DONOR	YEAR	AMOUNT
<u>ECSEE APL3</u> – Support integration of Macedonia into the regional power market. Finance investments in power transmission, interconnection to Greece, rehab high-voltage lines, rehab and upgrade substations, upgrade EMS. Support TSO (MEPSO) by improving accounting practices and introducing a financial management information system.	Active	World Bank	2006-2011	\$25 m
<u>Pre-privatization Share Purchase Project</u> – Support ESM restructuring; ensure open, competitive, and transparent privatization process. Financing disbursed in seven installments based on Government of Macedonia (GoM) meeting key conditions.	Closing	EBRD	2004 - 2006	€45 m (\$56.7 m)
<u>Technical Support for Energy Regulatory Commission</u> – Developed blueprint for ERC operations; developed legislative framework to promote market-based energy system.	Closed	EAR	2002-2004	€1.3 m (\$1.6 m)
<u>Energy Technical Assistance</u> – Technical assistance to Energy Sector Law and planning of regulatory agency, tariff methodology and calculation, Regulatory Partnership Program, regulatory issues for unbundling ESM; market design.	Active	USAID	2000-2011	\$300,000
<u>Elektropanstvo na Makedonija</u> – Privatization and restructuring of power utility.	Closed	EBRD	1993	€17.3 m (\$21.8 m)
<u>Environmental Management Systems (EMS)</u> – Improve environmental management with Ad MEPSO, AD ESM, AD ELEM, TEC Nogitino.	Active	EBRD	2005-2008	€200,000 (\$252,000)
<u>Electric Power Development Project</u> – Improve electric and thermal energy production, assist in faster energy sector restructuring, conduct feasibility study and prepare for tender of the combined gas-coal power plant TE-TO Skopje, prepare a study and evaluation of optimal alternatives for fuel supply for the Bitola thermal plant.	Closing	Japan/ IBOR	2003-2006	\$535,000
<u>Job Creation Program</u> – Targeted active labor measures for long-term registered unemployed through public works and employment subsidies.	Closing	UNDP	2005-2006	\$1 m
<u>Employment Policy 2</u> – Improve national capacity within MOLSP, National Employment Bureau and relevant partners, to deliver services to the unemployed. Develop “model” methodologies.	Active	EU/ EAR/ CARDS	2005-2007	€1 m (\$1.26 m)
<u>Employment Policy Reform 1</u> – Assist Ministry of Labor and Social Policy with development and implementation of the National Action Plan for Employment 2004-2005. Supported restructuring of the national network of employment offices.	Closed	EU/EAR/ CARDS	2002-2005	€2.5 m (\$3.15m)
<u>Partnership for Employment Generation</u> –	Closed	Norway	2005-2006	€431, 529

## Donor Funded Activities

ACTIVITY	STATUS	DONOR	YEAR	AMOUNT
Implemented targeted active labor measures for unemployed, especially from vulnerable groups, including vocational training, entrepreneur development, and improvement of the business environment.				(\$543,727)
<u>Vocational Education and Training (VET) –</u> Restructure VET centers, train VET schools and teachers, and upgrade technology equipment.	Active	EU/EAR	2000-2006	€4.55m (\$5.73 m)
<u>Partners for Economic Development in Macedonia (PRiSMA) –</u> Improve labor market flexibility by engaging relevant stakeholders to adapt policies and practices to implement active labor measures and generate employment.	Closed	USAID/ USDOL	1999-2003	\$6 m
<u>Social Support Project –</u> Built capacity of labor services and social benefits providers to mitigate effects of labor restructuring of SOEs; facilitate labor redeployment; and improve social management.	Closed	World Bank	1999-2003	\$10 m

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## ANNEX B LEGISLATIVE BACKGROUND

### ENERGY LAWS

- **2006 Energy Law** (adopted in May) complies with EU directives regarding energy policy and planning, long-term development strategy, energy market conditions, market rules, energy transit systems, conditions for energy functions, conditions for increased investments of foreign capital, quality and supply of energy through energy balancing, rule for increased use of renewable resources, increasing energy efficiency, and reduction of environmental impact.
- **The Law on Energy (Official Gazette of RM No 47/97, 40/99, 98/00, 94/02 and 38/03)** defined requirements for electricity production, transmission, distribution; coal production and processing; production, transport, and distribution of thermal energy; energy transit and sources; and energy trade and sources.
  - In June 2003, established the independent **Energy Regulatory Commission** to ensure reliable and continuous energy supply, promote competition, prescribe pricing methods and tariff systems, control licenses, prescribe rules for network connections, initiate adoption of laws, participate in dispute resolution, and identify noncompliance with Energy Law. Members were appointed in July, and the ERC commenced operations on January 1, 2004.
- **The Law on State Administrative Bodies Organization and Performance (Official Gazette of RM No. 58/00 and 44/02)** designated the **Ministry of Economy** to manage energy-related issues. The MOE established:
  - the **Sector for Energy and Mineral Raw Materials**, which prepares enforcement laws and regulations and conducts activities related to strategic development, investment, transforming the public sector, international projects, energy balances, supply, bilateral and multilateral agreements, and cooperation with other state bodies
  - Units for **Electricity Power System and Investments** and **Fossil Fuels and Energy Efficiency**
  - other bodies, including the **Bureau for Metrology, State Inspectorate for Technical Inspection**, and **State Market Inspectorate**; plus two independent institutes: the **Standardization Institute and the Accreditation Institute**.
- **Methodology on Pricing of Individual Types of Energy (No. 43/98 and 08/01)** establishes and controls pricing. **Rulebook on Regulating Electricity Prices (No. 95/04)** was adopted December 31, 2004 to provide incentive-based regulation to increase efficiency and investments and to decrease losses.
- **Law on Electricity Market (2005)** provides for liberalization and competition, investment criteria in the electricity sector, and principles of sustainable development.
- **Law on Establishing an Energy Agency (pending)** will prepare mid-term and long-term strategies and development plans for consideration by the Ministry of Economy, including the coordination of energy reforms, investment programs, and regional projects.
- **Law on Local Self-Government** (Official Gazette No. 05/02) transfers authority to municipalities for the supply of thermal energy and environmental protection.
- **Law on Transformation of the Joint Stock Company Electric Power Company of Macedonia for the Production, Transmission, and Distribution of Electricity in State Ownership (Official Gazette No. 19/04)** authorized transformation and privatization of the EPCM (Article 2), dividing it into two legal entities (Article 4).

- **Law on Industrial Property** (enacted in June 2002 to address ownership issues) was postponed from 1 July 2003 to 1 January 2004; deadline for preparation of secondary legislation was postponed until 31 December 2003.<sup>54</sup>

## LABOR/EMPLOYMENT

- **Constitution** allows for free formation of labor unions.
- **Collective Agreement for Workers in the Energy Sector** (Official Gazette 5/96) stipulated that mining work is regulated by the Collective Agreement for Workers in the Energy Sector.
- **Agreement for Social Partnership**
  - Signed December 2002 by GoM (Prime Minister and Minister for Labor and Social Policy) and the Confederation of Trade Unions
  - Working to establish Tripartite Economic Social Council to validate **ILO 144 Convention** on labor standards (Member of ILO since 1993)
- **Law on Working Relations** promotes flexible employment.
- **February 2003 Labor Regulation Law** modified severance payment and length of unemployment benefits.
- **Employment Promotion Act** (112/2001)
- **March 2003 Special Law for Incentives of Employment**
- **April 2003 “Branko’s Law”** encourages new hiring by subsidizing payroll contributions
- **Pension Law:** Article 125, Official Gazette 35/96; Decision on Pension Fund for Miners, Official Gazette 72/96
- **July 2005 Labor Law** enacted less restrictive employment contracts, conditions for dismissal, overtime limits, voluntary collective bargaining, and alternative labor dispute resolution mechanisms.
- **Labor Code (26/1986;110/1999)**
- **Law on Vocational Education and Training** (68/1999; 1/2000)
- **Law on Protection against Unemployment and Promotion of Employment** (120/1997; 110/1999); **Rule on Application of the Law on Protection against Unemployment and Promotion of Employment** (81/1998)
- **Law on Small and Medium Sized Enterprises** (84/1999; 92/2000)

## FOREIGN INVESTMENT

- **1996 Company Law** provides the legal basis for foreign investment, placing foreign investors on equal footing with domestic investors.
- **1993 Law on Concessions** and the **Law on Foreign Trade** are other relevant legislation for investors.

## EQUAL RIGHTS

- **National Action Plan for Gender Equality**
- **Declaration on Protection and Promotion of the Rights of Persons with Special Needs**
- **Framework Convention for Protection of National Minorities** is working toward implementation of this framework from the Council of Europe.
- **2003 Law on Civil Servants** maintained commitment to equitable representation of ethnic minorities in the administration.

<sup>54</sup> Commission of the European Communities 2004: 26.