

The development trap at the heart of the Balkans

A socio-economic portrait of Gjilan, Kumanovo and Presevo

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I. INTRODUCTION

The area at the intersection of Macedonia, Serbia and Kosovo lies at the very heart of the Western Balkans, both geographically and politically. Like much of the region, it is a predominantly rural area, spanning the Skopska Crna Gora (or Karadag) mountain range. Around half of its 278,000 inhabitants live in villages, and the other half in three towns: Presevo in Serbia, Gjilan in Kosovo and Kumanovo in Macedonia.

Over the past two decades, the economic history of this area has been one of relentless decline. The manufacturing base built up during the socialist period has all but disappeared, leaving behind the rusted remains of socially owned companies which nobody wants to buy. A significant proportion of the region's inhabitants have been forced back into subsistence agriculture, working small plots of land in conditions that have hardly changed in two generations. For the young people now pushing onto the labour market, the prospects of finding work are extremely slim.

It is therefore not surprising to find that the region has also been a source of political instability. Presevo is a majority Albanian municipality at the southernmost point of Serbia, which flared briefly into conflict in 2001. The Kumanovo area is ethnically mixed, and its predominantly Albanian Lipkovo municipality witnessed some of the most intense fighting during Macedonia's 2001 conflict. By Kosovo's standards, Gjilan has relatively good ethnic relations, with a patchwork of Serbian and Albanian villages in close proximity. Nonetheless, there was violence against Serbs during the riots of March 2004. All three areas have been the subject of international mediation efforts and reconstruction programmes.

Ethnic relations appear calm for the moment, and there is no reason to believe that conflict is inevitable. Yet it is also hard to imagine the area remaining stable without improvements on the economic front. Young people without hope of a better future are easy prey to extremists on all sides. In this part of the Balkans, inter-ethnic tensions and poverty go hand in hand.

ESI has spent the past year studying economic trends in the region and looking for development potential. Most of the news is bad. Only a handful of the old socially owned enterprises have made a successful transition to private ownership. The new private sector is small in scale, dominated by shops, cafés and basic services, and can absorb only a fraction of the labour shed by industry. Commercial agriculture is on the decline, and family farms do not produce the revenues for reinvesting in machinery. We estimate that no more than 33 percent of the working-age population are employed, compared to the EU average of 63 percent.

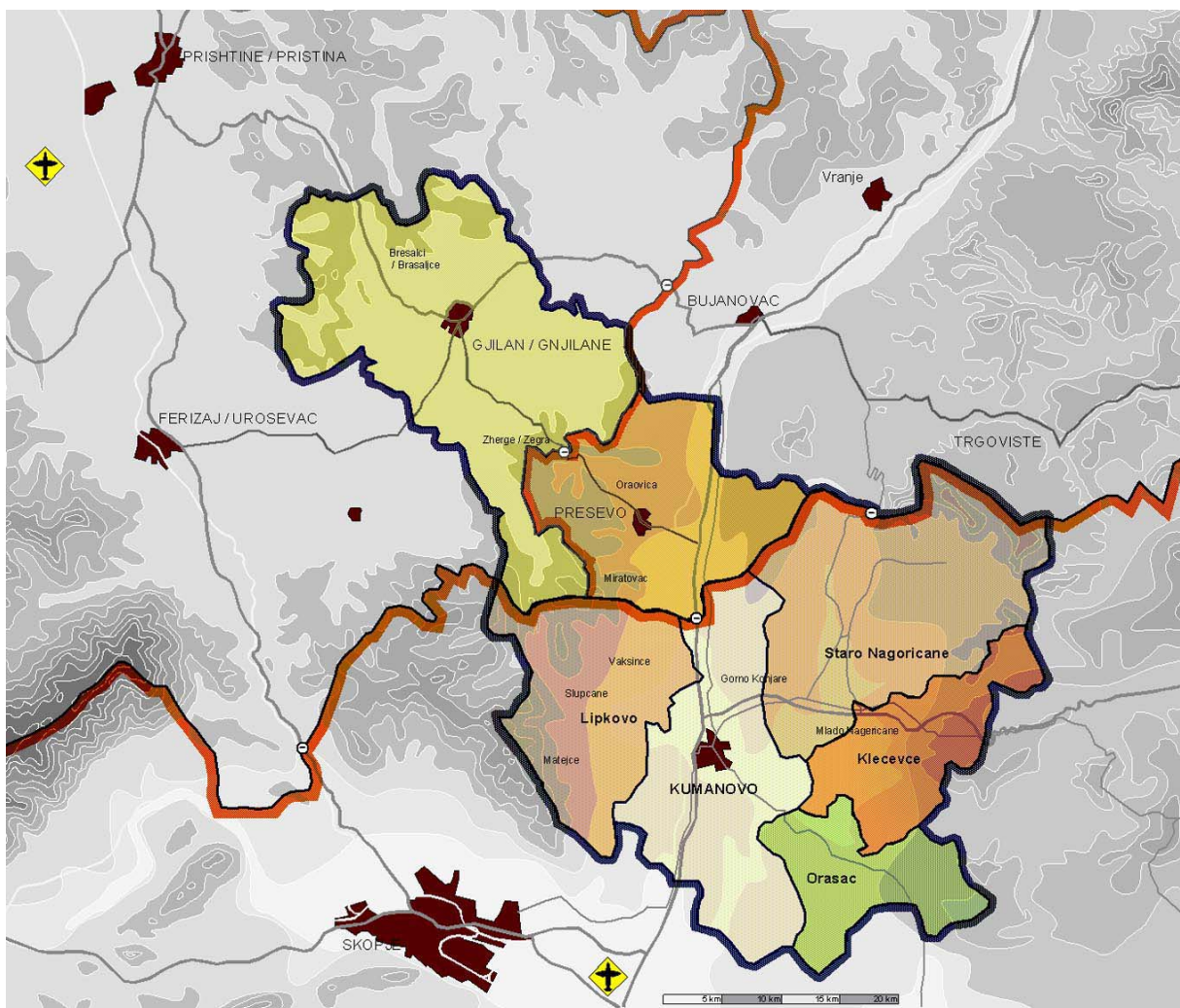
This is the development trap at the heart of the Western Balkans. Regions with this economic profile are not attractive to private investors. Nor do they generate significant revenues of their own to support public investments in development. Unless there is a concerted effort by central governments and their international partners to invest in overcoming the barriers to economic growth, the region will continue to fall further behind.

However, there are a few, isolated success stories which reveal important lessons about what is required to initiate development. A small number of private manufacturing ventures in the Kumanovo area have risen out of the ashes of socialist industries, taking advantage of the technological knowledge, skilled workforces and commercial contacts built up under the previous system. Their success is linked to Macedonia's transition programmes –

privatisation and liquidation of socially owned enterprises – which have enabled the new private sector to build on past efforts, rather than begin from scratch.

Each of the governments has a range of development policies and strategies in place. However, they are fragmented across different sectors, poorly coordinated between different agencies, and not linked to budgetary resources. There is an urgent need for integrated development planning, which recognises that the problems of agriculture, SOEs and the private sector are interrelated, and need to be addressed within a common development framework. Credible development strategies in the region must be based on solid analysis of existing obstacles and opportunities, building on trends which are already visible in particular places. Moreover, they must convert objectives into operational programmes matched with financial resources.

The problems facing this area are severe, but they are not qualitatively different from those which have been successfully tackled in new EU members and accession countries. The governments of the region, together with their international partners, would be well advised to begin applying EU development planning methodology as soon as possible, before social pressures once again build up to a dangerous level.



Source: insar Berlin

II. PROFILE OF A PERIPHERAL REGION

1. Where people live...

Though Presevo, Kumanovo and Gjilan are border regions, they are not geographically remote. The towns of Kumanovo and Gjilan lie only 35 and 50 km from their respective capitals, and both Presevo and Kumanovo lie on the highway connecting Belgrade with Thessaloniki. Yet there is a remarkable shortage of hard information about where people are, and how they live – a symptom of a lack of serious engagement with the economic and social problems of the region. We have compiled a picture through estimates based on the best available sources.

While Macedonia and Serbia conducted a census in 2002, the last reliable population data for Kosovo are from the 1981 census.¹ We estimate the region to have a population of some 278,000 people – roughly equivalent to a medium-sized Balkan city such as Ljubljana or Novi Sad.

Table 1: Population of the region²

Municipality	1981	2002					Index 2002/1981
		Total	Albanian	Serb	Maced.	Other	
Gjilan	84,085	~105,972	~94,299	~11,623	--	~50	126.03
Presevo	33,948	34,904	31,098	2,984	21	801	102.82
Kumanovo area	125,502	137,382	53,651	10,358	67,821	5,552	109.47
<i>Kumanovo</i>	<i>87,659</i>	<i>103,205</i>	<i>27,290</i>	<i>9,035</i>	<i>61,495</i>	<i>5,385</i>	<i>117.73</i>
<i>Lipkovo</i>	<i>21,586</i>	<i>27,058</i>	<i>26,360</i>	<i>370</i>	<i>169</i>	<i>159</i>	<i>125.34</i>
<i>Staro Nagoricane</i>	<i>8,713</i>	<i>4,258</i>	<i>1</i>	<i>920</i>	<i>3,331</i>	<i>6</i>	<i>48.87</i>
<i>Klecevice</i>	<i>4,614</i>	<i>1,609</i>	<i>--</i>	<i>24</i>	<i>1,583</i>	<i>2</i>	<i>34.87</i>
<i>Orasac</i>	<i>2,930</i>	<i>1,252</i>	<i>--</i>	<i>9</i>	<i>1,243</i>	<i>--</i>	<i>42.73</i>
Total	243,535	~278,258	179,048	24,965	67,842	6,403	114.26
In %		100.00	64.35	8.97	24.38	2.30	

The area is marked by its ethnic diversity, despite the conflicts of recent years. Around two-thirds of the population (180,000) are ethnic Albanians, making up a majority in the Kosovo and Southern Serbia areas, as well as in the Macedonian municipality of Lipkovo. There are 68,000 ethnic Macedonians, predominating in Kumanovo town and the three rural municipalities of Staro Nagoricane, Klecevice and Orasac. The 25,000 Serbs are present on all sides of the border as a minority. The remaining 6,400 people belong to other minorities, mostly Roma.

¹ Another census was conducted in 1991, but was largely boycotted by the Albanian population in Kosovo.

² Sources: Statistical Office (Macedonia), release 2.1.3.30, *2002 Census of population, households and dwellings, final data*; Republic Statistical Office (Serbia), *Communication No. 295*, Issue LII, 24 December 2002: "Final Results of the Census 2002, Population by national or ethnic groups, gender and age groups in the Republic of Serbia, by municipalities". Data for Gjilan are broad estimates derived from extrapolations of primary school enrolment figures (30,931 Albanians and 3,630 Serbs under 15) and data of the civil registry, World Bank LSMS, ARC reports on villages, the local Community Office and the Co-ordination Centre. 18,559 Albanian primary school pupils / divided by 9 school years = 2,062 per year x 15 = 30,930 Albanians under 16 years; on Kosovo average, this segment of the population makes up for 32.8 percent of the total population, leading to an estimate of 94,299 Albanians living in Gjilan. For estimates of Serbs see ESI, *The Lausanne Principle. Multiethnicity, Territory and the Future of Kosovo's Serbs*, Berlin/Pristina, 7 June 2004.

The area has three towns: Kumanovo with 76,275, Gjilan with around 60,000 and Presevo with 13,426 inhabitants. The population is therefore divided roughly equally between the urban and rural areas (see table 2).

Curiously, the area exhibits both overpopulation and depopulation in different parts. In the Kumanovo area, ethnic Macedonians and Serbs held most of the jobs created from the 1950s onwards in socially owned enterprises (SOEs) and the public administration. During the 1960s and 70s, they moved in such large numbers from the villages into the town that the three rural municipalities of Staro Nagoricane, Klecevce and Orasac became virtually depopulated. Their combined population fell from 27,117 in 1948 to 7,030 in 2002, a loss of three-quarters,³ leaving behind mainly the elderly and uneducated.

By contrast, with few jobs available to them in urban Kumanovo, the rural Albanian population depended on labour migration as a survival strategy. From the 1970s onward, some moved to Skopje or other big cities in search of work, and many others went as guest workers to Western Europe, particularly Switzerland, Austria and Germany. The remittances they sent back were vital to the survival of village communities. However, labour migration did not keep pace with high rates of population growth, and the Albanian villages continued to grow.

Table 2: Population in urban and rural areas⁴

Area	Urban	Rural	Rural %
Gjilan	~59,000	~46,972	44.3
Presevo	13,426	21,478	61.5
Kumanovo	76,275	26,930	26.1
Lipkovo	--	27,058	100.0
Staro Nagoricane	--	4,258	100.0
Klecevce	--	1,609	100.0
Orasac	--	1,252	100.0
Total	148,701	129,556	46.6

In Gjilan and Presevo, the pattern was different. Large-scale industrialisation began much later, in the 1970s in Gjilan and as late as the early 1980s in Presevo. Though ethnic Albanians had access to jobs in socialist industries, industrialisation was much less intensive, and did not lead to strong urbanisation.

As a result, Albanian villages in Lipkovo, Presevo and Gjilane are overpopulated, given the scarcity of employment and the low productivity of agriculture. Many families survived through labour migration, with young men working in Western Europe and sending remittances back to the village. According to the 2002 census, in addition to the 34,904 residents of Presevo municipality, another 12,846 are registered as “temporarily abroad”.

However, as migration policies in Western Europe have become stricter, the opportunities for labour migration have all but disappeared, depriving young Albanians of the traditional route

³ Census data from 1948 and 2002.

⁴ Sources: Statistical Office (Macedonia), release 2.1.3.30, Census of population, households and dwellings, final data; the Karpos settlement was included as an urban area; Republic Statistical Office (Serbia), Communication No. 295, Issue LII, 24 December 2002: “Final Results of the Census 2002, Population by national or ethnic groups, gender and age groups in the Republic of Serbia, by municipalities”; Estimates for Gjilan based on extrapolation of primary school pupil data.

to social and economic advancement. Across the region, the effects are being felt increasingly strongly.

2. ...and what they do

Of the 278,000 people living in the region, there are only 37,534 in registered employment. To this figure can be added those who are unregistered – particularly in small-scale agriculture. While individual farming is the most important single sector of the regional economy, it forms a grey zone almost entirely invisible to the state. In the absence of reliable data on the farm workers, if we assume that on average each farm provides the equivalent of a single full-time job,⁵ it would suggest that around 22,000 people are active on private farms.

Table 3: *Employment in the Kumanovo area, Gjilan and Presevo (2004)*⁶

Company	Kumanovo area	Gjilan	Presevo	Total
FORMAL EMPLOYMENT	17,839	16,483	3,212	37,534
Public Sector	5,070	4,455	1,405	10,930
Education	1,633	1,877	634	4,144
Health care	953	939	149	2,041
Municipal administration	78	383	183	644
Central administration	1,409	845	320	2,574
Local public companies	413	161	40	614
National public companies	584	250	79	913
(former) SOE Sector	3,795	2,082	546	6,423
Active companies	3,000	1,513	304	4,817
Defunct companies	795	462	242	1,499
Inactive companies	0	107	0	107
Private sector	8,974	9,946	1,261	20,181
ESTIMATE OF (INFORMAL) JOBS IN AGRICULTURE	11,120	8,000	2,969	22,089
TOTAL	28,959	24,483	6,181	59,623

This gives a figure of 34 percent of the working-age population in employment of some kind. This is a desperately low number – far below Bulgaria at 51 percent and not much more than half of the EU average of 63 percent. Presevo's annual GDP per capita in 2002 was €308 – only 20 percent of the Serbian average.⁷

While jobs are scarce all over the region, it is in the Albanian areas, where nearly one-third of the population is less than 15 years old, that the labour-market pressures are most desperate. In Gjilan alone, more than 2,000 pupils finish school every year, pressing onto a saturated labour market offering only 16,500 non-agricultural jobs.

⁵ For number of farms see table 6.

⁶ Sources: See detailed tables in annexes A, B and C.

⁷ Draft version of "Integrated Socio-Economic Development Plan" for Southern Serbia 2005-2007, Leskovac, March 2003, p. 23 (based on data provided by the Republican Bureau for Development).

Table 4: Age structure and employment (in percent)⁸

Municipality	0-14	15-64	Over 64	Employed as % of 15-64
Gjilan	32	62	6	37
Presevo	32	60	8	30
Kumanovo area	24	66	10	32
<i>Kumanovo</i>	22	69	9	n/a
<i>Lipkovo</i>	33	62	6	n/a
<i>Staro Nagoricane</i>	16	57	27	n/a
<i>Klecevice</i>	12	53	35	n/a
<i>Orasac</i>	11	51	38	n/a
Total	28	64	8	34
Bulgaria	16	68	16	51
EU 25	17	67	16	63

III. BACK TO SUBSISTENCE FARMING

Presevo, Kumanovo and Gjilane are predominantly agricultural. It is this fact, above all else, which holds them in poverty. In the former Yugoslavia, official support to agriculture was concentrated on the socialised sector – farmers’ collectives and socially owned agro-combines – while private farming was kept small and undercapitalised. In the post-socialist period, the socialised agricultural sector has all but disappeared, leaving behind the small, private farms. No serious measures have been taken by any of the governments to boost the productivity of private agriculture. On the contrary, there has been a steady decline in the sector, with less produced and less reaching the market. Increasingly, families in the rural areas are dependent upon subsistence agriculture to survive, with no real prospect of increasing their production.

The roots of rural underdevelopment lie well back in the socialist period. Yugoslavia began as a peasant society dominated by subsistence farming, particularly sheep breeding. At the end of the Second World War, three-quarters of the population was working the land.⁹ In Kumanovo, the most developed part of the region, not only the village population but also 60 percent of the urban population was engaged in agriculture, which provided 70 percent of local output.¹⁰

During the socialist period, various attempts to socialise agriculture were largely unsuccessful, leaving some 90 percent of agricultural land across the country in private ownership. However, socialist policies sought to repress capitalism in the rural economy by limiting the size of private farms (usually to 10 ha) and the employment of agricultural labour. Industrialisation and urbanisation were seen as the primary policy instruments for modernising the countryside. Many rural households acquired a source of wage income, and agriculture became increasingly a secondary activity.

Under these conditions, private farming did not generate the revenue to allow investment in new technology to increase productivity. As late as 1965, in the whole of Serbia there were

⁸ Sources: Macedonian and Serbian Censi 2002; for Gjilan, extrapolations from primary school enrolment for under the population under 15 and estimates derived from municipal and civil registry data for population over 64; European Commission, *A new partnership for cohesion. Third report on economic and social cohesion*, 2004, pp. 189 and 201.

⁹ John B. Allcock, *Explaining Yugoslavia*, London, Hurst, 2000, p. 65.

¹⁰ Metodi Petrovski, Petar Trajkovski, *Kumanovo* (monograph), Sобрание na Opstina Kumanovo/Nova Makedonia Skopje, ~1970, p. 151.

no more than 2,300 tractors in private ownership.¹¹ Private agriculture remained in a primitive state.

Farming on a larger scale was limited to a small number of agricultural SOEs. In the 1960s, the companies in Kumanovo and Gjilan engaged in farming, stock raising and food processing were unified into large agro-combines, which by the 1980s employed close to 2,000 workers each. These combines unified the food chain from crop cultivation (mainly wheat and vegetables) and animal husbandry (cattle, pigs, goats and turkeys) through to food processing. The combines included dairies, slaughterhouses and cool storage as well as wholesale and retail trade. Kumanovo even had a winery and fruit juice production. Smaller co-operatives, usually employing between 30 and 100 workers, operated in many villages of the region. Together with two tobacco processing factories and large bakeries in Kumanovo and Gjilan, the combines monopolised agro-processing in the region.

After the end of socialism, large-scale agriculture collapsed. The two large agro-combines disintegrated in the mid-1990s. “Agrokultura” in Gjilan, once employing some 1,800 workers, has entirely ceased production. The salaries of its 107 remaining workers are paid from revenues generated by renting out the company’s premises.¹² Kumanovo’s “ZIK” has been divided into a dozen parts in preparation for privatisation. There is no common management any more and – except for the dairy that has been successfully privatised – the units are in a dire state. The pork farm and slaughterhouse have shut down and the winery, juice production unit and cooling house appear to be close to a similar fate. The “orangerie” and a considerable part of the farm land is leased to private farmers on an annual basis, for cereals and vegetable growing. With such short time horizons, the tenants neglect good farming practices in order to extract as much as possible each season, resulting in decreasing yields with each passing year.

The two tobacco factories have seen a slow but constant decline. After unsuccessful privatisation attempts, they ceased to operate in the early years of the new century. The Kumanovo bakery entered bankruptcy proceedings in 2004, and the one in Gjilan survives only by running down its assets and stocks.¹³

Table 5: Food and agro-processing

Company	Location	Sector	1989	2004
1 ZIK Kumanovo (now split in 12 subsidiaries)	Kumanovo	Agriculture, animal breeding, milk, transport and trade	2,000	310
2 Agrokultura/Mladost Agricultural combine	Gjilan	Agriculture and agroprocessing	1,800	107
3 TKK Boro Petrushevski-Papuchar	Kumanovo	Tobacco and agriculture	849	0
4 Tobacco combine Gjilan	Gjilan	Agro processing	506	15
5 Zhitomel	Kumanovo	Mill and bakery	316	201
6 Zitopromet/Kualiteti	Gjilan	Mill and bakery	310	121
7 DIP	Presevo	Tobacco	70	65
Total			5,851	819

¹¹ *Statistical Yearbook of Yugoslavia 1998*, Belgrade, Federal Statistical Office, 1998, p. 206.

¹² In total, “Agrokultura” earns at least € 13,100 per month from renting out to not less than 10 private entrepreneurs.

¹³ The 2003 balance sheet would be clearly negative if depreciation would be taken into account. Furthermore, while the formal profit in 2003 amounted to € 18,037, the bakery’s stocks had been decreased by half or more than € 200,000 from 2002 to 2003.

The demise of socialist agriculture has affected not only the employees of the combines and the cigarette factories, but also thousands of tobacco growers and small-scale farmers that sold their produce to the combines for processing. While Presevo's tobacco farmers produced some 1,200-1,400 tons in 1989, output fell to 700 tons in 2000 and to 70 tons in 2004. The Kumanovo area's tobacco output of some 2-3,000 tons per year in the 1980s dropped slowly over the 1990s and drastically after 2002 to practically nothing in 2004.¹⁴ Except for small, private dairies and two slightly larger meat-processing companies, the region today has no agro-processing.

The collapse of large-scale, commercial agriculture leaves the small private farms of the socialist era as the main producers of agricultural output. In the Kumanovo area, there are a handful of larger farms up to 100 ha, mostly rented from ZIK and private owners, growing mainly cereals. Even the largest farms are family run, with no more than two or three workers and some seasonal labour at harvest time.

The rest of the agricultural sector appears to be small-scale family farming, producing very little for the market. There is little hard information about this end of the sector. We cannot say for sure how many farms there are, or calculate the average size. However, the limited data available suggests there may be around 22,000 farms across the region, averaging 3.48 ha.

Table 6: Cultivated land and estimated number of farms in the region¹⁵

Area	Cultivated land (ha)	Data on farms	Average size (ha)
Kumanovo area	53,964	11,120 holdings	4.85
<i>Kumanovo</i>	19,437	5,860	3.32
<i>Lipkovo</i>	7,238	2,484	2.91
<i>Staro Nagoricane</i>	13,093	1,478	8.86
<i>Klecevce</i>	7,360	767	9.60
<i>Orasac</i>	6,836	531	12.87
Gjilan	18,358	~8,000 agric. households	2.29
Presevo	4,532	2,969	1.53
Total	76,854	22,089	3.48

Although animal husbandry was never well developed in the area, it has declined steadily over the past two decades. According to national statistics, in Kumanovo between 1981 and 2002 the number of cattle decreased by 42 percent, pigs and poultry by 30 percent, and sheep by 71 percent.¹⁶ Across the Kumanovo area, there are fewer than 30 farmers with more than

¹⁴ ESI interviews with the managements of Duvanska Industrija Presevo (15 December 2004) and the Kumanovo tobacco combine TKK (17 December 2004).

¹⁵ Sources on arable land: Statistical office of the Republic of Macedonia, "Field crops, orchards and vineyards, 2003"; Statistical Office of Serbia, "Opstine u Srbiji", March 2004, p. 154; Ministry of Agriculture, Forestry and Rural Development, *Bi-Annual Administrative Survey 2004 on Crops and Animals*, March 2005 (Gjilan). Sources on agricultural holdings for the Kumanovo area: Census 1994, Book I, table 18; these figures are not available for the 2002 census as a special agricultural census is planned, but has not been conducted yet); for Gjilan: estimate derived from various estimates; for Presevo: Statistical Office of Serbia, "Opstine u Srbiji", March 2004, p. 154.

¹⁶ Sources: Statistical Office of the Socialist Republic of Macedonia, Census 1981, "Osnovni podatoci za domacinstva i stanovite po opstini", Statisticki Pregled 129, 1982; Census 1994, Book X, table 3 (livestock), pp. 27-31; Census 2002, Book II, table 14 (livestock), pp. 110-115.

10 cows.¹⁷ In Gjilan municipality, 11 farms have more than 40 goats, 4 farms have more than 200 sheep, and only one farm has more than 35 cattle.¹⁸ According to available data, the average farm in the region has a single cow, one or two sheep and a few hens.

Table 7: Animal stock in the Kumanovo area, Gjilan and Presevo¹⁹

Animal stock	Kumanovo area (2002)	Gjilan (2004)	Presevo (2002)	Total
Cattle	9,813	10,368	5,756	22,769
Sheep	28,812	7,211	1,779	35,491
Pigs	10,790	4,265	452	15,507
Poultry	89,934	94,170	41,056	175,990

Crop production has also fallen drastically. The following table shows that in the Kumanovo area, which has the largest farms in the area, the area under cultivation has decreased for all crops except wheat. However output is down even for wheat, indicating that per hectare yields have fallen substantially to around 40 percent of the EU average.²⁰ In Gjilan, there is only one farm planting more than 50 ha cereals and only one farm with more than 0.3 ha covered horticulture. No farm has more than 3 ha open horticulture.²¹

Table 8: Decline of crop output in the Kumanovo area 1989-2003 (with comparisons to Macedonia)²²

Crops	Ha cultivated 2003/1989		Output (tons) 2003/1989	
	Kumanovo area	Macedonia	Kumanovo area	Macedonia
Wheat	+16%	+1%	-26%	-28%
Maize	-41%	-22%	-67%	0%
Tobacco	-80%	-26%	-75%	-13%
Tomatoes	-21%	-18%	-49%	-4%
Peppers	-41%	-15%	-15%	+39%
Wine	-30%	-28%	-12%	+22%

Though these figures need to be treated with care, the evidence strongly suggests that agriculture across the Kumanovo/Presevo/Gjilan region is slipping backwards into a subsistence trap. With small plots and little mechanisation, family farms cannot compete on

¹⁷ ESI interview with Tome Cvetkovic, Macedonian Extension Service – Regional Centre Kumanovo, 27 September 2004.

¹⁸ Source: Ministry of Agriculture, Forestry and Rural Development, “Large farms by municipality”, Pristina, 2005.

¹⁹ Sources: Census 2002, Book II, table 14 (livestock), pp. 110-115 8 Kumanovo area; note that data obtained through agricultural support programmes suggest somewhat higher figures for cattle and sheep in the Kumanovo area); Ministry of Agriculture, Forestry and Rural Development, *Bi-Annual Administrative Survey 2004 on Crops and Animals*, March 2005 (Gjilan); Statistical Yearbook of Yugoslavia 2002, table 30.2., p. 442 (Presevo).

²⁰ The wheat yield in Kumanovo is 2.31 tons per hectare, below the Macedonian average of 2.64 tons: Ministry of Agriculture, Forestry and Water Economy, *Agriculture Report 2003*, p. 3. In the EU-25, the average yield is 5.93 tons: *Agriculture in the European Union – Statistical and Economic information 2004*, 4.1 Cereals, table 4.1.1.1 (data for 2002).

²¹ Source: Ministry of Agriculture, Forestry and Rural Development, “Large farms by municipality”, Pristina, 2005.

²² Sources: Statistical Office of the Socialist Republic of Macedonia, “Poljodelstvo, ovosarstvo i lozarstvo vo Republika Makedonija, 1989 god.”, statisticki pregled 202, 1990; Statistical Office of the Republic of Macedonia, “Field crops, orchards and vineyards 2003”, 2004.

the open market, and end up producing just for the family's own needs. There is no incentive and no funds to invest in increasing productivity. Unless there is a structural change in the agricultural sector, it will remain trapped at this low-level equilibrium.

Structural change would require a major effort on a number of fronts from government: land reform, extension services, credits, financial support for investments, the development of cooperatives for procuring inputs, transport and marketing, and so on. As discussed below, there are no such agricultural support programmes operational in Presevo or Gjilan, and very little in Kumanovo.

Yet even if a structural change towards commercial agriculture were to commence, the short-term effect would be to release low-productivity labour from the farms and add to the pressures on the labour market. Solutions to the rural development trap must therefore address agriculture as part of a coherent regional development strategy.

IV. DEINDUSTRIALISATION AND ITS SURVIVORS

Industrialisation in the former Yugoslavia was a highly politicised process. Investment decisions were made in a top-down fashion, often with little regard for economic or technical efficiency. While Kumanovo was selected for industrialisation right after the Second World War, Presevo and Gjilan were never a priority area for industrial development. The latter two eventually received a selection of SOEs, but industrialisation came late, lasting barely a generation before Yugoslav socialism went into terminal decline. Most of it has now disappeared.

Yet employment patterns and growth potential in the region turn out to be strongly influenced by this history of largely unsuccessful industrial development. Development never begins from a blank sheet of paper. It is about building on existing advantages – industrial capital, infrastructure, technology, skilled workers, business contacts and so on. In the border region, many of the advantages built up during the socialist era have been lost, due to a lack of effective transition strategies. However, the region's handful of successful companies have either been built from former SOEs, or from the skills and business contacts which they developed.

1. Stories of transition

During the socialist period, there were 94 SOEs, employing a total of 31,330 workers. Most of the workforce was concentrated in four sectors: metal processing (6,067), food and agro-processing (5,851), textiles (4,886) and leather (4,693). The flagship companies were the shoe manufacturer CIK in Kumanovo, with some 3,600 workers, and Kumanovo's steel pipe producer 11 October and Gjilan's textile giant Inteqj, employing some 2,400 workers each.

By 2004, there were only 6,423 workers left in former SOEs – a fall of 80 percent. Only 11 manufacturing companies across the region are still in business, and of these, all but three appear to be on a downward trajectory. Most are insolvent, struggling to bring their product to market or to pay their employees.

Table 9: Employment in the region's (former) SOEs²³

Sector	1989	2004
Kumanovo	18,530	3,795
Gjilan	10,537	2,082
Presevo	2,263	546
Total	31,330	6,423

Most of these surviving companies are in Kumanovo, which had the highest concentration of manufacturing. It is only in Kumanovo that there has been some success with privatisation, managing to attract new investment into the companies. The two most successful former SOEs, the steel pipe producer “11 October” and the textile company “Bibrok”, have both attracted foreign investors, and now account for more than half of the remaining manufacturing jobs in the region.

Table 10: Active (former) SOEs in manufacturing²⁴

Company	Location	Status	Sector	Empl. 1989	Empl. 2004
1 FZC 11 Oktomvri	Kumanovo	FDI	Steel pipes and profiles	2,400	1,044
2 Bibrok	Kumanovo	FDI	Textile	630	418
3 Jugoterm	Gjilan	SOE	Metal processing, radiators	453	218
4 Dimche Erebrica	Kumanovo	SC	Wood processing	800	185*
5 RJ Simpo (Vranje)	Presevo	SOE	Furniture	184	154*
6 30 Juli	Kumanovo	SC	Plastic processing	400	152*
7 Metalac/Celiku	Gjilan	SOE	Metal processing	358	124*
8 Zitopromet/Kualiteti	Gjilan	SOE	Agro processing/bakery	310	121*
9 1 Maj	Kumanovo	SC	Wood processing	200	96*
10 Buducnost	Presevo	SOE	Whitewash production	107	94*
11 Prosveta/Grafikos	Gjilan	SOE	Printing house	154	55*
Total				5,996	2,661

FDI = foreign direct investment; SOE = socially owned enterprise; SC = stock company

* operating with difficulties

With an annual turnover between €30 and 40 million and over a thousand employees, “11 October” is by far the region's biggest company and most important exporter. On average, ten lorries leave the factory every day. Nearly all of its annual production of 50-60,000 tons is exported, mostly to Germany, Italy and the UK.

Three important factors have contributed to the company's success: the successful identification of new markets, the reduction in the labour force, and foreign investment. The traditional markets for the company's products were in the Eastern Bloc. After 1990, the company managed to build on its limited knowledge of Western markets and reorient itself entirely towards the EU. It nonetheless faced a sharp drop in demand for its products. Unlike many other companies in the region, which retained their workforces at full capacity until they were unable to pay them, 11 October implemented a managed downsizing programme, reducing its labour force from 2,400 in the late 1980s to 1,044 today. It accomplished this

²³ Source: See detailed tables in Annex A.

²⁴ Source: See detailed tables in Annex A, ESI field research.

through a “technological surplus” scheme²⁵ and a policy of not replacing retiring workers. Modest salaries of €150-200 for an average worker also helped to keep labour costs low. In 2000, a 48 percent share in “11 October” was bought by the German company KUPBAL Baldinger.²⁶

The company manages to succeed in the European market because it produces a good product – steel pipes – at reasonable prices. The machinery from socialist times is good enough to meet European quality standards, and the company benefits from labour costs that are well below those in Western Europe. However, the company does not seem to have an active programme for investment in new technology, to enable it to boost productivity and expand its product mix. In the longer term, its future depends upon its ability to adapt to the needs of its customers.

The Bibrok textile company, located in Kumanovo’s industrial zone, has followed a similar pattern. It successfully reduced its workforce from 630 to 418. A majority stake of 56 percent was bought by an American investor of Serbian origin (*Retrospektiva INC – Beverly Hills*) in 1998 for €330,000. Originally, the company produced suit fabrics for the Yugoslav market, but now carries out piecework for US and German companies.

Though few of the former SOEs have been able to make the transition to successful private companies, it is clear that Macedonia’s privatisation programme is the reason why Kumanovo retains a stronger job market. Privatisation enabled those companies with sound management and a good product to adjust (by shedding labour) to the demands of the free market. Macedonia has also over the last years implemented a liquidation programme for decrepit SOEs, which is beginning to free their assets for use by the private sector.

By contrast, neither privatisation nor liquidation has yet taken place in Presevo or Gjilan. Neither new management nor capital had been brought into the companies, which continue to be managed along socialist lines. As a result, most of them have collapsed or are close to bankruptcy. The only successful SOE is a producer of radiators, Jugoterm, in Gjilan. Employing 218 workers, it sells across the region, mainly in Kosovo and Serbia. It has a brand name which was well known in the former Yugoslavia, and still offers a quality product at competitive prices. This is in large part a legacy of the socialist period, when the company was known as being reasonably well managed and equipped, with a minimum of overstaffing.

However, the lack of privatisation means that the company still operates as an SOE, led by a director elected through “workers’ council” elections. Like most companies in the socialist period, the management maximises short-term returns, rather than investing in the company’s future. Instead of setting aside funds for investment in urgently needed machinery, the management of Jugoterm prefers to pay workers high salaries, averaging €320-350.²⁷ It is no

²⁵ Workers sacked through the “technological surplus” scheme, common in Macedonia, were receiving 24 (later 12 and now only 8) salary payments by the company plus continued payment of 60% of their salaries until retirement age (later decreased to 40%). The scheme would preferably be applied to older workers of 55 years and older. As an alternative to the salary payments the company would offer workers to top up the remaining 40% in order to have former workers receive full salaries until retirement. As no new workers were employed since the early 1990s, by now the workforce is very old on average.

²⁶ KUPBAL bought the shares of “social capital” that were offered at the stock exchange by the privatisation agency for € 3,591,747.

²⁷ The three production lines are from 1977/8, 1981 and 1983. The first line has already ceased to operate. Investments since the war have been limited to roof repairs and a new machine for pipe radiators for €150,000 (the former one remained in the Serb-inhabited village of Budriga and is not accessible to the

coincidence that Kalabria, one of the largest distributors of Jugoterm radiators in Kosovo, is owned by the brother of Jugoterm's director.

In other words, there has been no effective transition strategy in the enterprise sector in Gjilan or Presevo. This is a disturbing finding. Transition is a time-bound process. The longer the old SOEs are left to drift, the less value they have to offer the private sector. Yet, as the next section shows, development and job creation depends critically on whether the assets, both physical and intangible, from the socialist sector can be utilised by the private sector.

2. Manufacturing in the new private sector

Since the end of socialism, a large number of new private companies have been registered around the region. However, most of the new private sector is in trade and small-scale services. Manufacturing makes up only a very small percentage of its activities. Apart from a handful of carpentry shops, dairies and bakeries serving the local market, we found only 13 new private manufacturing companies able to sell their product outside their immediate area. Their products include shoes, mineral water and soft drinks, furniture, bicycles, carpets and blankets, concrete elements and meat products. Together, these companies employ around 1,000 people.

Table 11: Private production companies that have markets outside the region²⁸

Company	Location	Sector	Market	Empl.
1 Tusevski	Kumanovo	Shoes	EU	200
2 LGB	Gjilan	Meat processing	National	120*
3 Bejta Comerc	Gjilan	Mineral water, gravel, glue	National	108
4 Sobim	Kumanovo	Bicycles	Balkan/national	100
5 Mobilerie e Kosoves	Gjilan	Furniture	National	78
6 Eksimor	Gjilan	Carpets and blankets	National/Balkan	62
7 Korp Projekt	Kumanovo	Concrete elements	National	60
8 Boss Cevli	Kumanovo	Shoes	Balkan	60
9 Fluidi	Presevo	Plastic bottles & soft drinks	National/Kosovo	50
10 Compact Group	Gjilan	Mineral water (& trade)	National	40
11 Boss M	Kumanovo	Shoes	Balkan	40
12 Fluidi	Gjilan	Plastic bottles & RC Cola	National/Serbia	35
13 Ekstramein	Kumanovo	Meat processing	National	35
Total				988

* The "LGB" sausage factory, located in Gjilan's former meat-processing SOE, employs 120 people, but out of these over 100 are former SOE employees that had to remain on the payroll due to the rent agreement with "Agrikultura" that rents out premises to "LGB".

The most important development success story in the region has been the emergence of a cluster of private companies in Kumanovo involved in shoe making. This cluster emerged from the ashes of the socialist giant, CIK, which once employed 3,600 people. Today, there

"Albanian" management of the company). There is continuous import of spare parts from Germany and Switzerland, amounting to at least €100,000 annually. The management admits that if depreciation is counted, the company is not profitable, and cannot be without a major external investor.

²⁸ Sources: ESI research and interviews with entrepreneurs of the region. Note that the largest private construction company in the region, "Hulusi Comerc" in Kumanovo, provides construction services in all of Macedonia.

are some 45 private companies in the shoe-making business, employing around 1,200 workers. They produce shoes for the national and Balkan market, as well as piecework for EU-based manufacturers. The cluster is now large enough to support sub-contracting within Kumanovo, as well as a market in inputs such as shoelaces, plastic parts for boots and special knives for cutting leather.

The story of Tusevski, the largest private shoemaker, is quite instructive. Tusevski started in 1992 with ten workers. Today it employs close to 200, and subcontracts to other companies employing at least another 200 workers. The company is located in the old industrial zone, in a building bought from the socialist metal factory KEN. The building has been adapted and is the most modern in the rather dilapidated industrial zone. The visitor is greeted by a well-maintained garden and flagpoles flying “Tusevski” flags.

A long-standing partnership with the German company Trettal has been crucial to the development of the company. The chief of production of Tusevski had worked for a large shoemaking SOE in Skopje called “Gazela”. When that company collapsed in the early 1990s, he came to Tusevski and brought with him his business contacts with Trettal. It was mainly due to this personal relationship that Trettal was willing to contract with an otherwise unknown, new private company. The German partner supplied machinery which Tusevski paid back gradually with finished products. When the German company closed down a few years later, Tusevski found new foreign partners, who now purchase 95 percent of its output.

Recently, the bankrupt SOE CIK was purchased by Korimpeks, a Macedonian company owned by an Italian businessman, for €630,000, as part of a joint venture with an Italian company. This deal emerged from a programme of support by the International Finance Corporation’s Southeast Europe Enterprise Development (SEED). SEED’s manager was apparently impressed by the shoe manufacturing cluster in Kumanovo, and arranged for a special credit line to support Italian companies investing in Macedonia. In October 2002, a delegation of Kumanovo shoemakers visited the Chambers of Commerce of Italy and Milan. The first credit was awarded to Formentini from Southern Italy to support a joint venture with Korimpeks to revive shoe production in the CIK facilities. Within a year, the new venture is expected to employ around 960 workers – a tremendous boost for the local economy.

There are a number of factors contributing to the success of the shoemaking cluster which are key to understanding the development prospects of the region. First, shoemaking in Kumanovo builds on a long tradition stretching back into the socialist period and beyond. (Kumanovo had 55 shoemakers in 1930.²⁹) The new companies have been able to build on the skills, both technical and managerial, and the business contacts developed by the socialist giant CIK. Because of CIK, there is a high school in Kumanovo which offers technical training in leatherworking, sending its pupils as interns into companies to acquire the skills needed for shoe manufacturing. In companies such as Tusevski, half of the employees are former CIK workers, and the other half are young people trained at this technical school. Without this base of skills, there is no reason why a successful cluster would emerge in Kumanovo.

Second, success breeds success. Kumanovo’s shoemakers have built up an effective network, meeting together regularly to address common problems. The Association of Macedonian Shoemakers, based in Kumanovo, aims to strengthen the cluster by undertaking joint marketing efforts and facilitating technical spillovers. In January 2005 a “shoemaking

²⁹ Dimitar Masevski, Miodrag Arsovski-Bolto, *Kumanovo. Prilozi za izucvanje na negovoto minato od praiistorijata do denes*, Kumanovo, 1996, p. 152.

technical centre” was opened with the aim of strengthening the shoe industry’s international competitiveness. Through measures such as these, a handful of successful enterprises can initiate a virtuous circle of industrial development.

Where there is no such resource base to build on, the obstacles to establishing new, private manufacturing businesses are substantial. We found only two examples across the whole region of new products able to compete in the wider market: bicycles and blankets. Both are produced by trading companies which began to produce their own goods to substitute for imports.

Sobim is a company belonging to the brothers Branislav and Marjan Angelovski, who began in business in the early 1990s with two clothing boutiques in downtown Kumanovo. One day they were offered five bicycles through a friend for a good price. They sold them quickly through their clothing shops, and ordered another 25. The following season, they ordered an entire container. The bicycle trade expanded rapidly, and by 1996 they abandoned the textile business altogether and focused exclusively on bicycles. In 1997, the brothers began to experiment with importing bicycle components and assembling them in Kumanovo. Soon they had constructed a production hall of 6700 m² in Karpos, a new small industrial zone on the northern outskirts of Kumanovo. By 2002, Sobim began to replace imported components with its own manufacturing. It now produces bicycle wheels with the help of two sophisticated Taiwanese robots, and operates a production line to paint bicycle frames. Today, Sobim employs 100 workers and produces around 85,000 bicycles annually, most of which are exported to Slovenia, Bosnia and Serbia.

Similarly, Ridvan Ismajli, the proprietor of Eksimor, started off in 1990 with a small trading company dealing mainly in textiles. It was only after the Kosovo conflict that Ismajli, a dynamic mechanical engineer in his mid-30s, started to import semi-finished carpets and blankets to be finalised in Gjilan. Today the company’s 62 workers produce about 1,000 blankets and 5,000 square metres of carpets per day, with an annual turnover of about €8 million. Some 20 percent of the turnover is still made through imports of finished products, including diapers, towels and fabrics. Back in 1993, Ismajli established a company in Istanbul in order to procure finished and later semi-finished goods. In 1996, he established another company in Serbia, employing 11 workers in Belgrade and Loznica, in order to compete better on the Serbian market. Today, two thirds of Eksimor’s products are sold in Kosovo, and the rest is exported, mainly to Serbia.

Paradoxically, these two, isolated success stories illustrate the difficulty of commencing with new production in the region, and why the private sector in general has shied away from production. First, even though the collapse of socialist industries has left behind a large number of idle production halls, both companies had to make major investments in constructing premises and paying for their connection to public infrastructure (electricity, water and waste water). This suggests a failure in transition strategy. Second, neither company was able to access credit on a commercial basis during their establishment phase. Interest rates were prohibitive, if banks were willing to lend at all. Only once the companies were well established were they able to access credit for working capital. Third, both companies relied on engineers from the SOE sector for their initial technical expertise. However, they faced a serious shortage of appropriately qualified young workers. Sobim, for example, has not recruited any graduates from the local technical school, preferring to train its workers on the spot. This represent a significant, additional cost for new businesses.

The obstacles facing new manufacturing businesses are therefore substantial, and it is not surprising that so few have succeeded. With a sluggish supply-side response, the business opportunities created by a company like Sobim (which would like to purchase additional components from Macedonian suppliers) have not been exploited. Unless more companies are able to cross the threshold into manufacturing, the private sector cannot hope to absorb the tremendous pressures building up on the labour market.

V. A PRIMITIVE SERVICE SECTOR

By far the majority of private companies in Kumanovo, Gjilan and Presevo are in trade and services, providing an estimated 80 percent of total employment in the private sector. Over the past 15 years, there has been a major shift in employment away from manufacturing and towards services, as in all Western economies. Yet the dynamics here are very different. The change has not been caused by the introduction of labour-saving technology and the development of a sophisticated knowledge economy. Rather, the collapse in manufacturing which accompanied the end of socialism led to a mushrooming of small and family businesses in retail and basic services. Their value-added is low, and the market is well and truly saturated. Unless there is income growth across the region, there is very little potential for this sector to expand.

In all three areas, post-war reconstruction fed a short-lived boom among private construction companies. However, construction activities declined sharply as reconstruction programmes came to an end.

Data on the private service is very limited. Many small companies have been established and disappeared again without deregistering, making the statistical data unreliable. For example, according to the statistical office, in December 2002 there were 7,248 companies in the Kumanovo area. However, the public revenue office maintained that no more than 2,200 were active, together with another 440 individuals registered as self-employed.³⁰

There is rather better data available on the private sector in Gjilan. According to the municipal directorate for economy, there were 10,027 employees in the private sector in 2004, of whom nearly two-thirds were in trade, 12 percent were tradesmen such as carpenters, locksmiths and bricklayers and another 10 percent in hospitality, leaving only 776 in manufacturing and 680 in construction.

Table 12: The predominance of services in Gjilan's private sector³¹

Shops	Workers
Trade	6,345
Restaurants, cafés, hotels	976
Tradesmen	1,250
Construction	680
Manufacturing	776
Total	10,027

³⁰ State Statistical Office, Soopstenie 6.1.2.61, December 2002; data provided by the Kumanovo branch office of the Public Revenue Office on 5 July 2004.

³¹ Source: Gjilan Municipality, Directorate for Economy, 2004. According to business registry data from November 2004 there are 9,946 people with a job in the private sector.

In Presevo, the municipal registry of sole traders gives a fair picture of the structure of the private sector. Out of a total of 262, the overwhelming majority (225) are in trade. The rest are cafés and restaurants, taxi drivers and tradesmen. Another 190 taxi drivers, shop keepers and tradesmen are, for tax reasons, registered in 7 craft cooperatives. In addition, there are 268 private companies registered at the court in Leskovac.

Table 13: “Samostalne radnje” in Presevo 2004³²

Activity	Nr.
Trade	225
Café/Bar/Restaurant	8
Cab drivers	5
Bakeries	4
Carpenters	4
Locksmiths	4
Bricklayers (“maistori”)	4
Plastic production	3
Construction (bagger work)	2
Mills	2
Car mechanic	1
Total	262

The private sector in all three areas is dominated by simple consumer services, with very little diversification. In downtown Kumanovo, the region’s largest urban centre, there are 766 shops and offices. Of these, nearly 500 are traders, with grocery stores, clothing and kiosks predominating. Another 115 are bars and restaurants. The balance of 154 are providing services, dominated by five basic types: hairdressers (30), lawyers and notaries (24), money changers (21), travel agencies (10) and photo studios (9).

Table 14: Service sector in downtown Kumanovo³³

Small businesses	Nr.
Shops	498
Cafés, fast-food, restaurants	114
Other services	154
<i>Hairdressers/barbers</i>	30
<i>Lawyers and notaries</i>	24
<i>Money exchanges</i>	21
<i>Travel agencies</i>	10
<i>Photographers</i>	9
Total	766

³² Source: Presevo municipal administration.

³³ Source: shops in Kumanovo’s main streets counted by ESI: 11 October street (from intersection with Karpos street to Done Bozinov street), Done Bozinov street (from 11 October st. to October Revolution st.), Oktober Revolution street (from Done Bozinov st. to Pionerska), Lenionova (from Done Bozinov to Ilindenska), Goce Delcev street (from 11 October st. to “III Makedonska udarna brigada”), III Makedonska udarna brigade street (from People’s revolution st. to Tode Mendol st.), Karl Marx st. (from 11 October st. to III Makedonska udarna Brigada), Ilindenska street, and three shopping centres (on 11 October street, on the main square and between Goce Delcev and Illindenska street).

Private business of this kind is not an engine of growth. It reflects the purchasing power of the local community. Once the market is saturated, it cannot grow further unless other economic development is taking place.

The other part of the service sector is of course the public administration. It represents the most stable component of employment since the demise of the socialist system. Note, however, that while public employment across the region has remained more or less stable since socialist times, state revenues have decreased substantially. This means that a larger proportion of the public budget is being spent on salaries, rather than government programmes.

Table 15: Public administration in Gjilan, Presevo, and Kumanovo³⁴

Sector	Kumanovo	Gjilan	Presevo	Total
Education	1,633	1,877	634	4,144
Health care	953	939	149	2,041
Municipal Administration	78*	383	183	644
Central Administration	1,409	845	~320	2,574
Municipal public companies	413	161	40	614
National public companies	584	250	79	913
Total	5,070	4,455	~1,405	10,930

* including the small municipal administrations of Lipkovo, St. Nagoricane, Klecevice and Orasac

VI. THE STATE OF DEVELOPMENT PLANNING

This review of development trends in Kumanovo, Gjilan and Presevo reveals a few tentative signs of development, against a background of two decades of continuous economic decline. If present dynamics continue, there is no real prospect of employment growth in the area keeping up with the number of young people pressing onto the labour market each year. This is a social time bomb in the making. Whatever measures are taken at the political level, it is very difficult to see the region stabilising without economic growth.

To summarise, the basic features of the regional economy are as follows:

- Commercial agriculture has declined sharply following the collapse of the socially owned agro-combines, leaving the vast majority of farmers producing at subsistence level. Development in the rural areas would require a major structural shift in agriculture towards private commercial farming. Yet even if this were to occur, the immediate effect would be to release labour from the land, adding to labour market pressures.
- The end of socialism has been accompanied by substantial deindustrialisation, as traditional industries have collapsed. Only a handful of former SOEs on the Macedonian side have successfully made the transition to private companies competing on the open market. A large share of the region's industrial capital remains locked up in defunct SOEs.
- The new private sector has been very slow to enter into production. The handful of success stories able to sell their products beyond their immediate locality have

³⁴ Sources: See detailed table in annex C.

emerged out of the ashes of socialist enterprises, depending on established technical skills and business contacts. Yet the difficulties of establishing new private industries from such a low base ensure that these developments remain very small in scale.

- Most of the new private sector is engaged in trade and basic services. This market is saturated, and has very little potential to generate more employment.

If this area is to break out of its underdevelopment trap, it will require a concerted effort from government to put in place the preconditions for development. The region needs integrated development strategies which approach agriculture and rural development, the transition of former socialist industries and support to the new private sector as different elements of the same development challenge.

Looking at the efforts of different government authorities, we see an emerging awareness of the need for regional development planning. However, the current approaches tend to be fragmented across multiple institutions and thematic areas, and are not supported with financial resources.

1. Local government initiatives

On principle, municipal government should have the clearest understanding of local conditions, and be most responsive to the needs of their communities. In EU development planning methodology, municipal and regional governments play a key role in identifying needs and in programming and managing development funds.

In Kumanovo, Presevo and Gjilan, however, the municipalities are so constrained by their lack of budgetary resources that their hands are largely tied. They offer very few programmes to support businesses or farmers, and have little if any input into central government programmes.

Table 16: *Municipal finances (2003, in €)*³⁵

	Presevo	Gjilan	Kumanovo	Lipkovo
Resident population	34,904	~105,972	103,205	27,384
Revenues	5,211,707	9,138,413	1,769,238	438,086
Municipal revenues	1,675,367	2,607,023	1,140,619	172,745
Transfers	3,536,340	6,531,390	628,619	265,341
Expenditure	5,054,018	9,138,413	1,675,090	344,212
Salaries and wages	587,971	4,438,603	233,244	131,165
Goods & services	457,612	2,042,382	841,817	117,406
Transfers & subventions	79,948	116,000	49,699	73,083
Capital investment	3,928,493	2,541,428	550,329	22,542
Mun. exp. per capita (€)	144.80	86.23	16.23	12.57

Per capita expenditure in the different municipalities varied from €13 in Lipkovo to €145 in Presevo in 2003. These figures, however, are not readily comparable. The municipal budget

³⁵ Sources: Presevo Municipality (rebalans 2003), Gjilan municipality and Kosovo General Budget 2003 (planned; slight differences between respective documents; reserves of € 300,611 are included in running costs and services;), Kumanovo municipality (Sluzben glasnik na opstina Kumanovo, Year XLIX, nr. 7, 18 March 2004), Lipkovo municipality (Predlog-Budget na edinicata na lokaln samouprava-Lipkovo za 2004 god. Note: 1€=70 Yugoslav Dinar; 1€=61 Macedonian Denar.

in Presevo received substantial additional support for reconstruction from the Republic of Serbia following the conflict, most of which has now come to an end. In Kosovo, grants from the central budget for education and health are channelled via the municipal budget. At present, Macedonia has the most centralised budgetary arrangements in the region, but is about to undertake a major decentralisation initiative.

Across all municipalities, however, the discretionary funds available for capital expenditure or development programmes are extremely low – as little as €0.80 *per capita* in Lipkovo. These limited funds are used for basic maintenance and essential investments in roads, water supply and sewage systems.

The only scope available to municipalities to increase their revenues in the short term is through charges on land, construction and infrastructure connections. However this is essentially self-defeating, as it amounts to a direct tax on new business initiatives.

As a result, the scope for implementing development programmes is small. Municipal development plans produced in recent years have tended to list broad development goals, without including operational programmes or budgetary resources. For example, the “Local Economy Development Strategy Plan” of Kumanovo from 2003 contains five broad goals: lower unemployment; improved quality of living; traffic infrastructure; tourism; and urban renewal.³⁶ The planned measures include the creation of business incubators, a small enterprise support fund, and new measures in education and training. However, these ideas are not developed in any detail, and no financial resources are identified.

Gjilan’s “Municipal Development Programme for 2004 to 2007” identifies development potential in three sectors: industry, agriculture/agribusiness and small-medium enterprises (SMEs), but fails to provide any practical measures of support. It simply refers to privatisation programmes planned by the central authorities.³⁷ A more recent “Local Economic Development Strategy 2005-2007” adds four new goals: an improved physical environment for business; improved infrastructure; a more responsive and professional municipal administration; and vocational training.³⁸ An effort is made to specify programmes supporting the four goals, including creating a one-stop shop for business registration, the creation of a municipal body to coordinate cooperation with the Diaspora, a new industrial zone, a business incubator and an agricultural loan scheme. Again, however, it is unclear who should finance these activities.

2. Central government policies

In all three jurisdictions, development policy is largely in the hands of central government. Over the past decade, all three governments have faced a compression of their tax revenues simultaneously with an increase in the social burden – both as a result of the steep industrial decline. This has left governments with a series of hard choices, forced to divide their limited resources between meeting their social obligations and investing in development.

During the 1990s, social needs largely won the battle over development spending. Governments sought to preserve employment in ailing companies through credits and loose budget constraints. As late as 2002, a report by the World Bank on Serbia notes:

³⁶ Municipality of Kumanovo, “Local Economy Development: Strategy Plan”, January 2003, pp. 8-14.

³⁷ Municipal Assembly Gjilan, *Program razvoja opština 2004-2007*, Gjilan, 2004, p. 97

³⁸ Municipality of Gjilan, *Local Economic Development Strategy 2005-2007*, p. 15.

“Although recorded unemployment increased by 2002 to over 27 percent, the level of adjustment in the labor market was disproportionately less than the decline in output, due to policies that prohibited layoffs. This placed severe financial stress on the enterprise sector, producing huge losses and substantial inter-enterprise arrears. Financing came from directed credit and depressed tariffs of the state-owned utilities, including the power company Elektroprivreda Srbije (EPS). The utilities, in turn, experienced severe financial difficulties, requiring continual bank financing and consumption of the capital stock. The purpose of these interventions was to limit the social impact of the shrinking economic base. In the end, these efforts failed and the poverty rate increased.”³⁹

For a number of reasons, not a single SOE in Gjilan or Presevo has been either privatised or liquidated. Delaying the transition has not prevented the demise of the companies, but has ensured that, by the time they finally collapse, there is often little left of value beyond the real estate. Even for the most promising SOE, Jugoterm in Gjilan, preserving the old management system has meant that a potentially successful company has been starved of much-needed investment. This represents a missed opportunity to preserve elements of the region’s industrial capacity.

There has been more progress in the Kumanovo area. The more successful SOEs have been privatised. For companies like 11 October and Bibrok, privatisation has attracted both better management and new investments. In the last couple of years, Macedonia has also begun to liquidate those companies that were unprofitable and could not be sold. This is a painful process, requiring the laying off of workers. However, it has the effect of freeing up industrial assets for use by the private sector – particularly production halls with infrastructure connections. As a result, it is only in Kumanovo that we can see new private manufacturing rising from the ashes of former socialist industries – particularly the shoemaking cluster. Nonetheless, Kiro Spandjev, chief of the sector for industry of the Macedonian Ministry of Economy, admits that Macedonia has yet to develop sectoral strategies or industrial policies. His sector employs just 13 people in two departments to analyse and restructure loss-making industries.⁴⁰

A more active transition strategy is therefore critical to the region. At present, the private sector is too weak to absorb redundant SOE workers. Transition of the SOEs therefore needs to be accompanied by measures to support the creation of alternative, private-sector employment.

The governments have recognised the need for a more dynamic approach to supporting the private sector. All three have prepared strategies for SME development, including reforming the legal framework and creating institutions to support SMEs. However, the resources are too limited to make any substantial impact. For example, the SME Department in the Macedonian Ministry of Economy has only four staff.⁴¹ A report from 2004 notes:

“A key problem remains that the Governments lacks the resources to implement the strategy commitments. For example, although the SME Agency is state funded, it receives little resource from the state budget (€50,000). €15,000 is

³⁹ World Bank, *Serbia and Montenegro. Public Expenditure and Institutional Review*, Volume II: Serbia, February 2003, p. 4.

⁴⁰ ESI Interview with Kiro Spandjev, Chief of Sector for Industry, 29 September 2004.

⁴¹ Pohl Consulting & Associates, *The SME Sector in the CARDS Countries. A Panorama at Country and Regional Level. Final Report*, 14 May 2004, p. 53.

earmarked for staff costs, with the remainder destined to support SME projects. This budget is not commensurate with the activities identified in the SME Strategy. FYR Macedonia will continue to depend on the international community for resources to promote small enterprise development. The MoE relies heavily on the EC, USAID, UNDP and World Bank to support SME activities.”⁴²

In Serbia, an SME strategy was adopted in January 2003 (“National Strategy for the Development of SMEs and Entrepreneurship”). Its two ambitious goals are to increase the number of SMEs from 240,000 to 400,000 and to create an additional one million jobs in SMEs. As in Macedonia, resources are scarce. The Republican Agency for the Development of SMEs and Entrepreneurship (ASMEE), established in 2001, receives € 170,000 from the state for its operational budget, but in 2003 this covered only some 20% of its projected expenses. The balance is being sought from donors and commercial revenue.⁴³ In Kosovo, a report notes that business centres “have largely developed on an ad hoc basis. None has achieved financial sustainability or is likely to do so. All rely on donor project funding to maintain their core activities.”⁴⁴ Strong reliance on donor funding means high volatility and insecurity of funding, making multi-annual programming impossible.

These poorly financed programmes have made little impact on the most important obstacles facing the private sector, such as expensive credit, poor infrastructure and municipal taxes which suppress new development. Furthermore, these SME strategies are rather abstract in nature, containing an undifferentiated set of measures for almost the entire enterprise sector. They are not based on an analysis of the particular constraints or opportunities facing private businesses, and are not responsive to opportunities such as the cluster of shoe manufacturers in Kumanovo.

Perhaps the only exception is an “Integrated Socio-Economic Development Plan” for Southern Serbia 2005-2007, financed by the European Agency for Reconstruction. It covers the two southernmost districts of Serbia, with a total of 469,000 inhabitants. A draft version from March 2005 contains a quite detailed analysis of regional trends and a series of concrete measures totalling €22 million. It is not yet clear, however, whether the respective financial resources have been identified.

Finally, there is a marked shortage of credible agricultural programmes aimed at helping rural families make the transition from subsistence to commercial farming. The traditional neglect of private farming under the socialist period continued throughout the 1990s. Agricultural policy in Serbia and Macedonia has consisted largely of subsidies and protective measures targeted at large-scale farming, which has in any case steadily declined in the region. Only recently has Serbia begun to introduce some specific programmes aimed at young farmers, while Macedonia has created some schemes which small family farms can access. In Kosovo, there is no real agricultural policy at all. While the Ministry of Agriculture has undertaken some useful analysis,⁴⁵ the resources allocated for agricultural programmes are negligible.

⁴² *Ibid.*, pp. 53/54.

⁴³ *Ibid.*, pp. 67 and 66.

⁴⁴ *Ibid.*, p. 93.

⁴⁵ Ministry of Agriculture, Forestry and Rural Development, *The Kosovo Greenbook: A Strategy for Sustainable Agricultural and Rural Development in Kosovo*, May 2003.

3. The need for regional development planning

This brief review of development policies suggests a number of common problems:

- There is a tendency to produce strategy documents in isolation from the budget process, without identifying financial resources. Unless governments make their programming choices by reference to a known resource envelope, they will not make the hard choices required to identify priorities. Strategies which are not anchored in the budget process are little more than statements of good intention.
- The three governments all face an overall shortage of budget resources to fund development programmes. Compressed revenues combined with large social obligations are both symptomatic of the development trap. There is a strong case for external assistance which both increases the resources available to the governments and encourages them to direct more of their own resources towards development programmes (along the lines of the EU's principle of 'additionality').
- All three governments have tended to produce a range of thematic strategies, rather than integrated development programmes. As a result, existing development spending is fragmented across different areas and institutions. There is little sign of productive cooperation between different levels of government.
- In Serbia and Kosovo in particular, there is a need for transition strategies which accelerate the privatisation and liquidation of SOEs, and which endeavour to make sure that their resources, both physical and intangible, are made available to the private sector.
- There is little sign of investments going into vocational training, to ensure that young workers acquire the skills needed by the new private sector.
- There is a real vacuum of policy for rural areas. There is no policy framework in place to address the return to subsistence agriculture and assist small farmers to produce for the market. Nor is there any broader concept of rural development planning. Structural change in agriculture will need to be accompanied by measures to create non-agricultural employment in rural areas.
- At present, development programmes are not anchored in a solid understanding of current realities. There is a marked shortage of hard information and analysis about present trends. This leads to development strategies which are frustratingly abstract, and which miss the chance to support positive dynamics such as those seen in Kumanovo.

This suggests that the governments in the Western Balkans need to rethink their current approach to development planning.

Though the challenges facing regions such as Kumanovo, Gjilan and Presevo are severe, they are not qualitatively different from those which are being successfully tackled in the new EU member states, or in accession countries such as Bulgaria. The EU offers a sophisticated development planning methodology which mobilises national resources, international assistance and the efforts of public institutions at all levels behind the goal of helping underdeveloped regions catch up, socially and economically. Through National Development

Plans and accompanying regional strategies, the EU approach ensures that the range of development efforts all fit within an integrated strategy, while differentiating according to the particular challenges and potential of individual regions.

With the Western Balkans heading for eventual EU membership, all of the countries of the region will need to learn the techniques of EU development planning eventually. It therefore makes sense for both governments and their international supporters to design their programmes according to the EU framework.

The sooner they begin to do so, the better for places like Kumanovo, Gjilan and Presevo. Otherwise, the benefits of Europeanisation may come too late to prevent social pressures from reaching a critical level.

VII. ANNEXES

Annex A: SOE employment by municipality (detailed lists)

Table A.1. Employment in (former) SOEs in the Kumanovo area

	Company	Founded	Sector	1989	2003	2004
	Active companies			7,761	3,258	3,000
1	FZC 11 Oktomvri	1952	Pipes	2,400	1,044	1,044
2	Bibrok	1954	Textile	630	418	418
3	Kozjak	1953	Construction company	680	388	388
4	ZIK Kumanovo (now split in 12 subsidiaries)	1960	Agriculture, animal breeding, milk, transport and trade	2,000	457	310
5	Dimche Erebrica	1947	Wood processing	800	185	185
6	30 Juli	1958	Plastic processing	400	228	152
7	1 Maj	1957	Wood processing	200	96	96
8	Makpetrol		Petrol	87	87	87
9	ZP Klechovce		Agriculture	163	86	86
10	Agrokumanovo	1967	Trading	93	79	79
11	ZZ Sloga		Agriculture	153	78	78
12	Stocharski Centar Todor Velkov		Domestic animals breeding	45	39	39
13	Autoservis		Formerly part of ZIK	60	58	23
14	ZZ Nikushtak		Agriculture	50	15	15
	In active bankruptcy			2,134	1,317	795
1	KIK	1946	Bricks and ceramics	250	203	203
2	Zhitomel	1944	Bread making	316	253	201
3	Biserka	1954	Services	230	201	201
4	Jug-Turist	1947	Transport	907	415	130
5	MIP 11 Noemvri (KEN)	1954	Metal processing	431	245	60
	In bankruptcy (inactive)			8,635	2,396	0
1	TKK Boro Petrushevski-Papuchar	1946	Tobacco and agriculture	849	411	0
2	FMK Iskra	1947	Metal processing	800	505	0
3	Kiro Fetak	1954	Textile	1,300	17	0
4	KPK Kumanovo	1958	Leather processing	803	281	0
5	Chik Kumanovo	1947	Shoe making	3,600	921	0
6	Polet	1970	Plastic and carton processing	208	133	0
7	Prosveta	1948	Publishing house	165	61	0
8	NAMA	1948	Trading	197	12	0
9	Tekstilpromet	1954	Trading	400	38	0
10	Agrosnabditel	1953	Trading	288	0	0
11	Nova Makedonia		Media	25	17	0
30	Total			18,530	6,971	3,795

Sources: Opstinski Komitet na SKM Kumanovo, Kumanovo, October 1990, section on economy; Sretko Ivanovski, Vlijanieto na ekonomsko-demografskite promeni vrz strukturata na rabotnata sila vo Kumanovo, Kumanovo, Makedonska Riznica, 2000, pp. 25-36; Health Fund; regional outlet of the Ministry of Economy; ESI research. The number of workers in 1989 was slightly higher (between 20,000 and 21,000), as in this list some small outlets of companies and shops are not included.

Table A.2. Employment in SOEs in Gjilan

	Company	Founded	Sector	1989	2004
	Active companies			3,318	1,513
1	Morava e Binces	1954	Construction	1,560	650*
2	Jugoterm	1978	Metal processing, radiators		218
2a	Jugoterm unit Budriga		Branch under Serb manag.	453	0
3	Kosovatrans		Transport, bus station	150	150*
4	Metalac/Celiku		Metal processing	358	124*
5	Zitopromet/Kualiteti	1975	Agro processing/bakery	310	121
6	Hotel Kristal		Gastronomy	95	61
7-	4 Serb Agricultural cooperatives		Silovo, "1 Maj" Pasjane, "Zarije Bujic", "Morava" Partes	59	59
10					
11	Prosveta/Grafikos	1954	Printing house	154	55*
12	Stanica zu unapredjenje poljoprivrede/stacioni Bujqesor		Egg production	145	41
13-	5 Albanian Agricultural cooperatives		Zheger, "Mirusha"...	30	30
17					
18	Pharmacy (formally POE)		Trade	4	4
	Companies living from renting out premises			4,983	462
1	16 November/28 Nentori		Trade	662	205
2	Inteqj	1958	Textiles	2,427	110
3	Agrokultura/Mladost Agricultural combine		Agriculture and agroprocessing	1,800	107
4	AMD/Drita		Driving school	42	17
5	Pomoravlje/Anamorava		Trade	42	14
6	Kosovosirovina/Hekurishte			10	9
	Completely Inactive companies			2,236	107
1	Qarkullimi		Trade	215	65
2	Tobacco combine	1945	Agro processing	506	15
3	Jedinstvo/Teuta		Textiles	79	10
4	Veterninary station (Albanian)		Veterinary services	10	6
5	Veterninary station (Serb)		Veterinary services		0
6	Ekonomia e pyeve		Forest administration	5	5
7	Cinema Gjilan		Cinema	4	4
8	Teknika Popullore		Schooling centre?	11	2
9	IBG Batteries	1976	Batteries	1,285	0
10	Bankkos		Bank	15	0
11	Makanizimi Pristina			10	0
12	Gjilan airport			6	0
13-	4 disbanded agric. Cooperatives			90	0
16					
40	Total			10,537	2,082

* operating with considerable losses

Sources: Kosovo Trust Agency, Municipality Gjilan, ESI research (visits to companies).

Table A.3. Employment in SOEs in Presevo

	Company	Founded	Sector	1965	1989	2004
	Active companies			222	355	304
1	RJ Simpo (Vranje)	1981	Furniture	--	184	154
2	Buducnost (whitewash prod.)	1965	Construction material	220	107	94
3	RJ Jedinstvo Vranje		Pass.-transport	--	13?	20?
4	Automotosavez Srbije		Techn. Inspection	--	27	15?
5	Apoteka Presevo		Pharmacy	--	10	10?
6	Veterinary station	bef. 1965	Veterinary	2	8	7
8	Jugobanka/Jugbanka		Finance	--	5	3
9	Dunav Osiguranje		Insurance	--	1	(1)
	Salaries more than 5 month late			394	342	242
1	OD Metal (earlier zanatsko kumunalno pred. "4 July")	bef. 1965	Metal processing	85	140	93
2	DP "7 July"	1970s	Plastic processing	--	92	68
3	DIP	1923	Tobacco	234	70	65
4	ZZ "Presevo"	bef. 1965	Agriculture	75	40	(16)
	Inactive companies			32	1,566	0
1	RJ Yumco (Vranje)	1980s	Textiles	--	450	--
2	DP Kristal (Zajecar)	1980s	Glass gravure	--	360	--
3	DP Euroflex (CIK Kumanovo)	1980s	Shoes	--	290	--
4	RJ Zavarivac (Vranje)	1980s	Metall processing	--	200	--
5	AD Grafoflex	1970s	Printing house	--	131	--
6	Bratstvo	bef. 1965	Trade	32	70	--
7	ZRO Elektrokontakt	1970s	Electronics (handicapped)	--	59	--
8	Osnovna Banka (Beobanka)		Finance	--	3	--
9	Investbanka Vranje		Finance	--	3	--
10	ZZ "Ostrovica"		Agriculture	--	--	--
11	ZZ "Poljoprodukt" (Vranje, only shops)		Trade	--	--	--
24	Total			648	2,263	546

Note:

Salaries late 2 months: ZZ Presevo, renting out to finance minimum salaries

Salaries late 3 months: Simpo, Buducnost

Salaries late 5 months: Metal

Salaries late 8 months: 7 July, DIP

No info on salaries: Automoto druztvo, Jedinstvo Vranje

Inactive, but renting out to pay guards, etc: Kristal, Elektrokontakt

DP Euroflex: Since Jan 2004 200 on monthly contracts by Italian; received 1-2 salaries, now stalled!

Out of 546 employed only 320 receive their salaries less than 4 months late.

In 1992 production stopped in: Kristal, CIK and Zavarivac (source: municipality).

Sources: T.P. Vukanovic, "Presevo" (Poseban otisak iz Vranjskog glasnika, knjiga II, iz 1966), Vranje, 1966, p. 24; "Informacija o problemima sa kojima se suocava privreda opstine Presevo I mere koje se moraju preduzeti u cilju prevazilazenja postojeceg stanja", Presevo, Skupstina Opstine Presevo – odeljenje za privredu, finansije, drustvene delatnosti i zajednicke poslove", January 2001; Trade Union, Presevo Municipality, ESI research and interviews.

Annex B: Private sector employment

Table B.1. Private sector in the Kumanovo area, Gjilan and Presevo (estimates)

	Kumanovo	Gjilan	Presevo	Total
Nr of workers	8,974	9,946	1,261	20,181
Nr of firms	~2,100	5,597	~720	~8,417

Sources:

- Kumanovo: Health Fund (data base on social security contributors; total minus SOE sector, public administration and pensioners; own calculation; state summer 2003; added growth estimate since 2003 of 1,000 jobs created in new private firms; in the same time some 3,200 jobs were lost in the former SOE sector).
- Gjilan: Kosovo Business Registry: out of 5,597 registered businesses 4,585 state their number of employees, totalling 9,946.
- Presevo: ESI estimate based on business registry for number of companies, figures for biggest private companies and broad estimates for the self-employed registered in co-operatives and remaining small private companies (see table below)

Table B.2. Employment in Gjilan private sector

Shops	Workers
Trade	6,345
Restaurants, Cafés, Hotels	976
Crafts	1,250
Construction	680
Manufacturing	776
Total	10,027

Source: Gjilan Municipality, Directorate for Economy, 2004. According to business registry data from November 2004 there are 9,946 people with a job in the private sector.

Table B.3. The private sector of Presevo (2004)

Nature of registration	Nr.	Workers (est.)
Private firms	268	737
Samostalne radnje	262	305
Members of co-operatives	190	220
Total	720	1,286

Sources: municipal administration (samostalne radnje and firms registered in Leskovac), individual co-operatives (members of co-operatives). The tax administration gives a figure of “about 700” companies and samostalne radnje. According to the Statistical Office of Serbia (Soopstenje 65, god. LIV, 13 April 2004) there are 920 samostalne radnje in Presevo (177 processing industry, 16 construction, 432 retail and whole sale trade and car mechanics, 71 hotels and restaurants, 141 transport, communication and storage, 6 financial services, 39 real estate, 6 health and social, 43 other), but his is in contradiction with all other data.

On the estimate of workers: We know that in the private sector there are 268 private companies registered with the court in Leskovac, 262 self-employed registered with the municipality and a further 190 or so self-employed organised in 7 co-operatives. This gives a number of some 720 businesses. Only very few of the self-employed have registered employees. We might assume that the 452 self-employed (comprising those registered individually and within co-operatives) employ some 50-100 people. More difficult is an estimate of employment in private companies, as these include bigger firms like Fluidi (50 employees) or Saba Belca (15), but also many small companies with none or 1-2 employees. As an approximation we can assume that the biggest 20 companies employ some 250 people (with Fluidi, Veli Trans, Saba Belca above an average of 10, but with a series of carpenters, bigger restaurants etc. at about 10, with some somewhat below). If we assume an average of 2 employees (director and 1 worker) for the remaining 243 companies, we arrive at an estimate of 737 (250 + 486). Adding an estimated 525 self-employed we get a total of 1,261 employed in the private sector.

Annex C: Public sector employment*Table C.1. Public administration in the Kumanovo area, Gjilan, and Presevo*

Sector	Kumanovo	Gjilan	Presevo
Education	1,633	1,877	634
Pre-school	70	49	--
Primary education	1,217	944	464
Secondary education	335	509	170
Other ("Serb educ.", special educ.)	11	353	--
Gjilan "Pedagogical Faculty"	--	22	--
Health care	953	939	149
Health house; medical centre	953	823	149
Other	--	116	--
Municipal Administration	78	383	183
Administration	78	276+13	101
Municipal civil registration centre	--	10	--
Culture/Cultural Centre	--	29	27
Radio/TV	9	8	7
Sport stadium	--	--	4
Pre-school/Education	--	13	44
Fire brigade	--	34	--
Central Administration	1,409	845	~320
MoF – Tax authority/revenue off.	62	46	23
MoF – uprava za javno placanja/ Treasury	--	3	6
Customs (Serbian side registered in Vranje)	70	--	--
Central Registry	9	--	--
Vehicle registration/driving lic./insp	--	30	--
Ministry of Economy	12	--	--
Ministry of transport, ... urbanism	23	--	--
Cadastre office (geodetska uprava)	43	--	11
Statistical Office	6	6	--
Ministry of Agriculture and Forestry	16	37	--
Agency for support of agriculture	7	1	--
Ministry of Labour and soc. Aff.	13	--	--
Centre for Social Works	22	23	10
Pensioner's home	29	--	--
Employment bureau	25	20+12	4
Pension Fund	29	17	1
Health Fund/Zavod na zdr zastita	29	--	5
Ministry of Health	4	7	--
Ministry of Education	6	12	--
Bureau of development of education	8	--	--
Ministry of Justice	41	--	--
District court	--	51	--
District prosecutors office	--	18	--
Municipal Court	130	41	39
Misdemeanor court	--	26	12
Prosecutors Office	25	18+1	6
Detention centre	--	88+14	--
Police	607	315+12	~200
Ministry of Defence	98	47	3
Agency for sport and young people	15	--	--
Ministry of Culture	3	--	--
Cultural centre	16	--	--
Archive	9	--	--
Library	13	--	--
Museum	18	--	--
Theatre	21	--	--
Municipal public companies	413	161	40
Waste	183	88	40

Water	190	73	
Water/waste + local road fund Lipkovo	11+4	--	--
Market administration	25	--	--
National public companies	584	250	79
Post	100		
Telecom	(privatised)	110	26
Electricity	214	157	25
Railways	82	--	8
Forest administration/maintenance	120	--	13
National oil industry (petrol st.)	(privatised)	--	7
JP za stopanisuvanje so stanben prostor	34	--	--
JP Makedonija Pat	34	--	--
Total	5,070	4,447	~1,405

* including the small municipal administrations of Lipkovo (22), St. Nagoricane (6), Klecevce (3) and Orasac (3).

Sources:

- Kumanovo: Municipal administration; outlets of central institutions, Health Fund data base.
- Gjilan: Ministry of Finance and Economy (Pristina), Abdul Brestovic (Director for economy and management, Gjilan municipality), Municipal Profile, KTA Water Sector policy App. 4.-1.
- Presevo: Municipal administration; Trade Union, various interviews and ESI research.